

CORPORATE TAX PLANNING

MAPLE LEAF SHORT DURATION FLOW-THROUGH LIMITED PARTNERSHIP



Tax Planning Option For Saskatchewan Corporations Using a \$100,000 Investment Example

When a Maple Leaf Short Duration Flow-Through Limited Partnership allocates CEE to a corporate limited partner resident in Saskatchewan, the limited partner will be entitled to add the amount allocated to its "cumulative CEE account". Such a limited partner with a balance in its cumulative CEE account can use, at its option, up to 100% of that balance to reduce its taxable income from any source in the year of allocation, and carry that balance forward for use in the next or future years. An amount can be carried forward in a cumulative CEE account indefinitely and will not disappear when the limited partner sells its limited partnership units.

When the limited partnership units, mutual fund shares or other securities received in exchange for the limited partnership units are sold, the corporate limited partner typically will realize a capital gain equal to the sale price of the units or securities, as the case may be, less the adjusted cost base thereof and any costs of disposal. Half of any such capital gain will be taxable to the corporate limited partner and the other half will be added to its capital dividend account, which can be paid out to Canadian resident shareholders tax-free.

For example, consider a Saskatchewan corporation with manufacturing and processing income in 2015 from an active business that is in excess of the small business limit. Such income would be subject to tax at a combined federal and Saskatchewan rate of 25%. The corporation might invest \$100,000 in limited partnership units in 2015 and have \$100,000 of CEE allocated to it for that year. If prior to that time it had a cumulative CEE account of NIL, it would then be entitled to deduct the entire \$100,000 balance in its cumulative CEE account from its income in 2015 thereby generating tax savings of \$25,000. The actual benefit will be lower to the extent a corporation's income in the year the deductions are claimed is less than the small business limit.

There are other ways a corporation could reduce its taxable income, such as by paying additional salary to its shareholder-manager(s). Also, there may be negative tax consequences to a corporation holding too many investment assets. In particular, this may be a problem if there is a possibility that an owner-manager might sell the business in the foreseeable future by way of a share sale. Both of these issues amongst other things should be discussed with the corporation's tax advisor before investing in units of the limited partnership.

As with all investment decisions, the decision to invest in a resource limited partnership should be based primarily on the merits of the investment rather than on the expected tax benefits. For information and examples relating to other provinces of Canada, please visit the Tax Advantages portion of our website at www.MapleLeafFunds.ca/shortduration.

For Further Information www.MapleLeafFunds.ca

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