mapleleaf
SHORT DURATION
FLOW-THROUGH

tax planning

FOR CORPORATIONS

A Unique Flow-Through Share Tax Planning Strategy for Individuals that own taxable Canadian Companies

Example:

If you own a taxable Canadian company you may be able to structure a transaction that:

1. **Shelters capital gains**
2. **Provides tax free dividends**

If you own a taxable Canadian company and it has capital losses, it may be possible to mitigate or possibly eliminate the inherent capital gains tax associated with the disposition of flow-through investments and also provide tax free dividends to shareholders through your corporation's Capital Dividend Account.

Consider the following:

If you purchase $100,000 of units in Maple Leaf Short Duration Flow-Through Limited Partnership personally, you are thereby entitled to take the 100% tax deduction personally yielding personal tax savings of $45,000 assuming sufficient taxable income and a marginal tax bracket of 45%. After you realize the initial tax deductions personally, you then roll the investment (pursuant to section (85)1 of the income tax –tax deferred) at a nominal adjusted cost base (flow-through investments typically have an adjusted cost base of zero) into your corporation in consideration for shares in that corporation. Then, if your corporation sells or redeems the flow-through investment for $100,000, your corporation will realize a capital gain of $100,000, $50,000 of which is taxable and that taxable capital gain can be off-set against the corporation's existing allowable capital losses. Further, the $50,000 non-taxable portion of the capital gain is included in the Capital Dividend Account of the corporation. If the Capital Dividend Account of the corporation has a positive balance, then such positive amount can be paid out as a tax free dividend to the shareholders of your corporation. Generally, a positive balance arises if non-taxable capital gains exceed non-allowable capital losses.

Conclusion:

A $100,000 investment can provide $45,000 of tax savings to the individual purchaser and the taxable capital gains on disposition may be off-set by existing allowable capital losses of your corporation. Further, you may have an opportunity to realize tax free dividends through your corporations CDA account.

Assumptions:

1. Individual is in a 45% tax bracket and alternative minimum tax does not apply.
2. The investment is worth the same when sold as when purchased.
3. The corporation has a positive balance in its capital dividend account prior to the distribution of dividends.
4. The corporation has a December 31st year end.

For Further Information

www.MapleLeafFunds.ca

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