CORPORATE TAX PLANNING

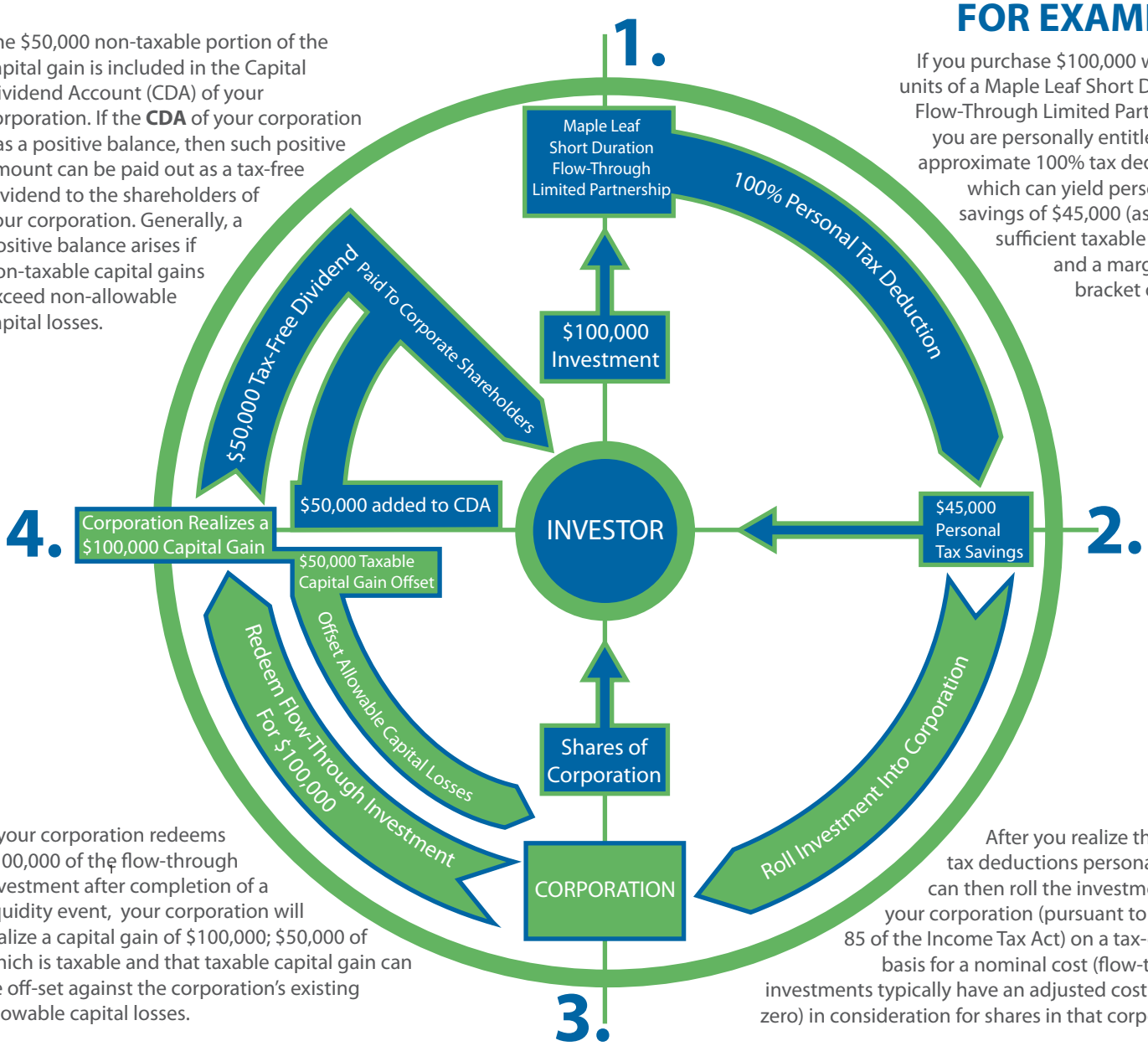
MAPLE LEAF SHORT DURATION FLOW-THROUGH LIMITED PARTNERSHIPS

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

The $50,000 non-taxable portion of the capital gain is included in the Capital Dividend Account (CDA) of your corporation. If the **CDA** of your 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.

FOR EXAMPLE:

If you purchase $100,000 worth of units of a Maple Leaf Short Duration Flow-Through Limited Partnership you are personally entitled to an approximate 100% tax deduction, which can yield personal tax savings of $45,000 (assuming sufficient taxable income and a marginal tax bracket of 45%).



If your corporation redeems $100,000 of the flow-through investment after completion of a liquidity event, 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.

After you realize the initial tax deductions personally, you can then roll the investment into your corporation (pursuant to section 85 of the Income Tax Act) on a tax-defered basis for a nominal cost (flow-through investments typically have an adjusted cost base of zero) in consideration for shares in that corporation.

Please see reverse for a tax planning example ❯

Tax Planning to Shelter Capital Gains and Provide Tax-Free Dividends

If you own a taxable Canadian company that has capital losses, it may be possible may be able to structure a transaction that mitigates or even eliminates the inherent capital gains tax associated with the disposition of flow-through investments, and further provide tax-free dividends to shareholders through your corporation's **CDA**.

Consider the following:

If you purchase $100,000 worth of units of a Maple Leaf Short Duration Flow-Through Limited Partnership you are personally entitled to an approximate 100% tax deduction, which can yield 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 can then roll the investment into your corporation (pursuant to section 85 of the Income Tax Act) on a tax-defered basis for a nominal cost (flow-through investments typically have an adjusted cost base of zero) in consideration for shares in that corporation.

If your corporation then redeems $100,000 of the flow-through investment after completion of a liquidity event, 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 CDA of the corporation. If the CDA 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.

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

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