

Excerpt from the Ways and Means Motion to Amend the Income Tax Act, as presented to the House of Commons by the Honourable Paul Martin, Minister of Finance, October 18, 2000

“Flow-Through Shares

That the definition "investment tax credit" in subsection 127(9) of the Act be amended to provide a 15 per cent non-refundable investment tax credit to an individual (other than a trust) for expenses

- (a) incurred by a corporation after October 17, 2000 and before 2004,*
- (b) renounced in favour of the individual (directly, or indirectly through a partnership of which the individual is a member) pursuant to a flow-through share agreement made after October 17, 2000,*
- (c) incurred in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence or location of a mineral resource described in paragraph (a) or (d) of the definition "mineral resource" in subsection 248(1) of the Act, and*
- (d) that would be described in paragraph (f) of the definition "Canadian exploration expense" in subsection 66.1(6) of the Act, if that paragraph were read without the words "digging test pits and preliminary sampling" in subparagraph (iv) thereof,*

and that the individual's cumulative Canadian exploration expense at any time in a taxation year be reduced by the amount of this credit claimed for a preceding taxation year.”

Illustration of New Tax Credit vs. the “Bonus Deduction” Concept

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|---|-------------------|-----------------|-----------------|-----------------|--|
| Investor incurs "Grass roots" Exploration Expenses | \$1,000.00 | | | | |
| Investor receives new Tax Credit @ 15% | \$150.00 | | | | |
| Federal Tax Rates for different investors | 29% | 26% | 22% | 16% | |
| <i>1) Federal tax reduction from current Flow-Through Share (FTS) deduction plus new tax credit</i> | | | | | |
| Value of new tax credit to FTS investor | \$150.00 | \$150.00 | \$150.00 | \$150.00 | |
| Value of current federal tax deduction for FTS investor | \$246.50 | \$221.00 | \$187.00 | \$136.00 | |
| Total net federal tax reduction from FTS deduction and new tax credit | \$396.50 | \$371.00 | \$337.00 | \$286.00 | |
| <i>2) Federal tax reduction from current FTS deduction and the “bonus deduction” concept</i> | | | | | |
| Year 1.... 40% bonus deduction | \$406.00 | \$364.00 | \$308.00 | \$224.00 | |
| Year 2.... 30% bonus deduction | \$377.00 | \$338.00 | \$286.00 | \$208.00 | |
| Year 3.... 20% bonus deduction | \$348.00 | \$312.00 | \$264.00 | \$192.00 | |

- Notes: 1) Shows the impact of measures contained in the October 18, 2000 *Ways and Means Motion*.
 2) For comparative purposes, shows the impact of a hypothetical “Bonus Deduction” approach.