



Brief in support of PearTree Financial Services Ltd (“PearTree”) pre-budget recommendations to the Standing Committee on Finance

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1. Historically the fiscal cost of tax incentives and the resultant economic and social benefits are examined independent of one another. While tax costs can be projected and tracked the offsetting tax recoveries and the value of the social benefits are not equally obvious. Government has long advocated for understanding both the costs and benefits of tax incentives as fundamental in determining the term sustainability or expansion of tax incentive programs.
2. PearTree is uniquely positioned to assist the government in determining the direct economic value and associated tax costs of the flow-through share program including the net tax cost of Mineral Exploration Tax Credits (“METC”). Moreover we know how to determine the net tax cost including tax recoupment and benefits of expanded philanthropy associated with the donation of flow-through shares.
3. PearTree carries on business at the nexus of exploration finance and major gift philanthropy within the rubric of and appreciation for the tax shelter rules contained in the Income Tax Act of Canada (“ITA”). As a result of this convergent skillset we know how to efficiently gather the data and conduct the analysis to determine both the costs and benefits of these programs.
4. The ITA mandates that the subscription and donation of flow-through shares is a class of registered tax shelter known as a ‘gifting arrangement.’ In a model akin to a clinical trial – where all the data has already been collected and classified – the government has the information with which we can readily track the tax costs and recoupments among a sample group of up to 600 geographically diverse Canadian taxpayers who subscribe for and donate flow through shares.
5. Government can determine the tax costs of the flow-through share investments, the tax recoveries including the METC recoveries, the tax cost and recoveries associated with the donation of the shares. In addition, by examining the same data sources we can determine flow-through investment and donation levels prior to and after adoption of the PearTree approach in meeting philanthropic goals.
6. All the data is readily available to conduct the analyses set out above. A list of sample flow through subscribers can be assembled from tax forms filed by PearTree - T5003 “Statement of Tax Shelter Information.” Once a sample of subscribers is determined, the methodology includes an examination of:
 - Claimed Exploration Expenses – T1 General Tax Return – Box 224
 - Allowable METC – Form 2038 - Box 6717
 - Allowable charitable donations – Schedule 9 – Box 340
 - Claimed Total Federal Tax Credits – Schedule 1 Box 349
 - Claimed Total Federal Investment Tax Credits – Schedule 1 Box 412
7. Similarly exploration capital raised through the issuance of flow-through shares is reported by the issuer exploration companies in their ITA filings including the T101 Summaries. Funds raised by junior mining companies have to be spent on a short list of prescribed expenditures made up largely of labour.

The flow-through regime has been operating for more than four decades. CRA and the issuer community are well versed in asking for and receiving granular data on use of funds. Tax recovery calculation is very straight forward.

8. The final area in the determination of the tax cost and tax recoveries with respect to the funds received by the charities. This data is readily available through ITA filings and basic financial statement review. PearTree has canvassed some of the charities and mining issuers with whom we have working relationships to determine the level of support in providing case study analyses setting out use of funds and taxable activities. Case study participants will not be a limiting factor in conducting the study.

9. Debit & Credit Analysis – the analyses proposed above do not take into account any downstream economic or tax benefits. Those studies have been conducted by NRCAN as recently as 2007 and respectively ought to be updated. What we are proposing is a very direct debit credit analysis. A flow-through subscriber claims a deduction and credit at a cost to the treasury. The mining exploration company spends the funds on taxable expenditures such as labour thus recouping tax on the labour. What is the net cost? The charity receives shares which are immediately monetized providing a donation receipt and thus a tax loss to the treasury. The charity disburses the funds in hiring staff to deliver the social good provided by the charity. What is the tax recovered by the treasury when staff is paid and tax levied on payroll.

10. The bottom line – As previously mentioned, PearTree has line of sight into convergent data which when analysed holistically will provide absolute plain and discrete disclosure of the tax cost and tax benefits of the flow-through regime and the associated METC program and their utility in advancing philanthropic funding. PearTree is prepared to allocate the human resources in assisting the government which we estimate to be approximately 70 hours of time. We believe that the government time in preparing this analysis and report will not exceed 200 hours.