

This publication is provided as a guide only. It is not intended as a substitute for *the Taxation Act, 2007* and Regulations.

Purpose	The Ontario Focused Flow-Through Share (OFFTS) Tax Credit is intended to stimulate mineral exploration in Ontario and to improve access to capital for small mining exploration companies.
Definition of flow through shares	Flow-through shares are an expense for shares transaction governed by an agreement between the issuing company and the investor, as defined in subsection 66(15) of the federal <i>Income Tax Act</i> (ITA).
The OFFTS tax credit	<p>The Ontario Focused Flow-Through Share Tax Credit:</p> <ul style="list-style-type: none"> • provides eligible individual shareholders with a refundable tax credit of five per cent of eligible Ontario expenses • harmonizes with the federal government's existing 100 per cent bonus deduction,¹ and its 15 per cent investment tax credit created in October, 2000 • applies rules and structure similar to the federal flow-through share (FTS) Canadian Exploration Expenses (CEE) program (some changes to federal definitions have been made). <p>Individuals who qualify for the federal tax credit, and who purchased shares from a mining exploration company after October 17, 2000, will be able to claim the Ontario tax credit.</p> <p>Corporations, and corporate partners, cannot claim the OFFTS tax credit.</p>
Expiration of the credit	Unlike the federal credit, which expired at the end of 2003, the Ontario credit is not designed to automatically expire.

Eligibility

Eligible individual	<p>To be eligible for the OFFTS tax credit, you must:</p> <ul style="list-style-type: none"> • have purchased eligible flow-through shares in accordance with section 66 of the federal ITA • be subject to Ontario income tax for the taxation year in which the credit is being claimed • be an individual, other than a trust, who is resident in Ontario on December 31 of the taxation year.
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Partnerships	An eligible individual may claim the credit either alone, or as a member of a partnership. A partner's share of expenses under a flow-through share agreement is the amount incurred by the partner at the end of the fiscal year of the partnership.
Estates	Estates are also eligible to claim the credit on the final return of a deceased taxpayer.
Bankruptcy	Bankruptcy returns follow the federal investment tax credit rules: <ul style="list-style-type: none"> • Pre-bankruptcy returns are allowable • In-bankruptcy returns are not allowable • A claim for post-bankruptcy and subsequent year returns is only allowable if the individual has been discharged from bankruptcy by the end of the bankruptcy year.
Eligible mining exploration company	To be eligible for the OFFTS tax credit, you must have purchased flow-through shares in a corporation that: <ul style="list-style-type: none"> • is a principal-business corporation, as defined in subsection 66(15) of the federal ITA, whose principal business is exploring for or mining minerals, and • has a permanent establishment in Ontario at the time the expenditures are incurred. A 'permanent establishment' is defined in subsection 1(1) of the <i>Taxation Act, 2007</i>.

Expenses

Eligible Ontario exploration expenses	For the OFFTS program, eligible Ontario expenses must be: <ul style="list-style-type: none"> • incurred by a corporation in Ontario after October 17, 2000 • described in paragraph (f) of the definition 'Canadian exploration expense' in subsection 66.1(6) of the federal ITA, if in that paragraph, any reference to 'Canada' reads as 'Ontario' • renounced in favour of the individual (directly, or indirectly through a partnership of which the individual is a member), according to a flow-through share agreement made after October 17, 2000 • incurred while conducting mining exploration activity from or above the surface of the earth, for determining the existence or location of a 'mineral resource', described in paragraph (a) or (d), subsection 248(1) of the federal ITA.
Examples of eligible expenses	Eligible expenses include: <ul style="list-style-type: none"> • costs incurred in prospecting, carrying out geological, geophysical or geochemical surveys, drilling by rotary, diamond, percussion or other methods, trenching, or digging test pits and preliminary sampling • direct expenses related to labour and field supervision • contractor's and consultant's fees, supplies and equipment rental

- indirect expenses, to the extent allowed as CEE, for:
 - transportation of supplies
 - shipment of samples, assays and chemical analyses of samples
 - food and lodging
 - mobilization and demobilization of equipment and crew within the Province of Ontario
 - certain overhead costs related to carrying out the project, but not head office costs
 - determining the existence, location, extent or quality of a mineral resource
 - 'specified sampling', to the extent that the weight of each sample does not exceed 15 tonnes, and the total weight of all samples (other than samples that are less than one tonne in weight) collected for any one mineral resource in a calendar year, by any person or partnership or combination of persons and partnerships, does not exceed 1,000 tonnes
 - a mineral resource, as defined in section 248(1) of the federal ITA, includes a base of precious metal deposit, but does not include a coal deposit or a bituminous sands deposit or oil shale deposit.
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**Examples
of ineligible
expenses**

The following are not considered eligible Ontario Exploration Expenses:

- a Canadian development expense, as defined in subsection 66.2(5) of the federal ITA
- an expense related to a mine that has come into production, or to a potential or actual extension of such a mine
- a Canadian 'exploration and development' overhead expense, as defined in the regulations to the ITA
- an outlay or expense included in the capital cost of the taxpayer's depreciable property of a prescribed class
- the cost of purchasing or leasing certain seismic data, including data acquired from a person who did not perform the work or who previously sold the data, and data which resulted from work performed more than one year before the cost was incurred
- expenses incurred in relation to an oil or gas well
- the taxpayer's share of any outlay or expense incurred by a partnership
- the legal and financial costs of dealing with the financing, or other items such as property payments.

Tax credit calculation**Calculating
the credit**

In addition to the federal 100 per cent flow-through deduction and the 15 per cent tax credit, an eligible individual will also receive a 5 per cent OFFTS tax credit.

The Ontario credit will be used to reduce the Ontario tax payable only. Any unused amount will be refunded. The amount of the OFFTS tax credit in a tax year will reduce the balance in an individual's cumulative federal Canadian Exploration Expense pool in the year following the tax credit claim.

Example

A taxpayer who makes a \$1000 investment receives a 15 per cent federal credit of \$150 and, in addition, a 5 per cent OFFTS tax credit of \$50.

How to apply for the credit

How to apply

To qualify for the OFFTS tax credit, you must:

- complete Form ON479, Ontario Credits, included in the T1 general income tax and benefit return for the year in which the credit is claimed
- complete Form T1221, Ontario Focused Flow-Through Share Resources Expenses for 2001 and Subsequent Years (Individuals)
- obtain Form T101 Statement of Resource Expenses, or Form T5013 Statement of Partnership Income, from the mining exploration company that issues the share(s), setting out the amount of qualifying Canadian exploration expenditures renounced by the company to the holder of the share(s) in the taxation year.

You must submit these three forms with your federal T1 personal income tax return.

Filing electronically

If you are filing electronically, keep all your documents.

More information

To obtain the most current version of this publication, or additional information, visit our website at ontario.ca/revenue and enter 575 in the find page field at the bottom of the webpage or contact the Ministry of Revenue at:

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