Repurposing flow-through shares to promote innovation

May 13, 2025

On April 28, 2025, the Canadian electorate re-elected the Liberal Party to a fourth consecutive term. One of the proposed tax measures contained in the Liberal Party election platform (the Election Platform) was the expansion of the current flow-through share tax regime to innovative industries, such as artificial intelligence, quantum computing, biotechnology and advanced manufacturing.

Currently, mining, oil and gas and renewable energy corporations may enter into flow-through share agreements with investors to effectively transfer the tax deductions associated with qualifying exploration and development expenses from the corporation to the investor. This transfer of tax deductions from the corporation to the investor benefits the (i) corporation by reducing its cost of capital since flow-through shares are normally issued at a premium to common shares, and (ii) investor by providing them with an immediate return on their investment equal to the tax savings associated with their deduction of the transferred deductions in computing their taxable income. As a result, resource corporations get greater access to capital and investors get a lower risk investment.

The Election Platform contains a number of proposals that focus on innovation, emerging industries, and Canadian startups. As it relates to the latter, the Election Platform noted the Liberal Party's intent to incentivize investment in innovation, particularly with respect to Canadian startups, by extending the flow-through share regime to the Canadian startup ecosystem. Under this proposal, corporations engaged in artificial intelligence, quantum computing, biotech and advanced manufacturing would be permitted to issue flow-through shares in respect of eligible research and development expenses. The intent of the proposal is to accelerate the growth of innovative Canadian startup businesses by giving them greater access to capital.

Unfortunately, the Election Platform is light on technical details. No legislation has been proposed and no timeline has been announced.

Takeaways:

1. Innovative Canadian startup corporations may soon be able to source capital through flow-through share agreements.

2. Investors familiar with the tax benefits of flow-through shares may soon have investment opportunities outside of the resource sector.
3. Startup flow-through share limited partnerships are likely to be established to facilitate investment in innovative Canadian startups, like commonly seen in the mining sector, and could be used by private equity firms to enhance investor returns on early-stage investments.

For more information on this topic, please contact any of the key contacts listed below.

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