How a capital gain increase nearly wounded our junior mining industry

written by Peter Nicholson | March 4, 2025

In the world of 2025, and an election looming, coordination between sectors has never been more important

Ever since the Liberals announced a capital gain increase in the last Federal Budget, much has been said about its impact on business and everyday Canadians.

The rise from 50% to 66% on capital gains above $250,000 for individuals – and on dollar one for corporations – was blasted from top to bottom, from concerns about the economy and our global competitiveness, to the sale of the family cottage.

Nobody gave too much thought to mining.

Surely, a capital gain increase wouldn't jeopardize this segment of the economy? In particular – Canada's much-publicized Critical Mineral Exploration Strategy?

Sadly, that's exactly what it did.

With an upcoming election, threats of tariffs from America, and a deferral to January 1st, 2026, on the capital gain increase now in effect, it appears that political candidates of all stripes agree this legislation should be axed.

Nevertheless, Canada came within a whisper of adopting measures that could have badly wounded our country’s junior mining industry.

I should know, because I had a front-row seat.

Since 2006, my firm, WCPD (an acronym for Wealth, Creation, Preservation & Donation), or WEALTH for short, has specialized in Structured Flow-Through Shares.

Flow-Through Shares have been in our tax code starting in 1954, offering a 100% tax deduction for every dollar invested. However, the high risk associated with these shares meant the investment appetite was limited, even among high-taxed Canadians.

Structured Flow-Through shifted the landscape completely.

Rather than keep the shares – subject to a mandatory four-month hold – our clients sell them immediately to a liquidity provider at a discount, effectively de-risking the entire transaction. At the end of the day, our clients can earn a good rate of return, when you combine the proceeds of the sale with the Flow-Through Share deduction, provincial credits, and now a 30% Federal tax credit (equal to a 60% tax deduction) for exploration involving critical minerals.

Often, our clients are philanthropic. Rather than earn an after-tax profit, they donate the shares to a charity of their choice, which in turn sells them to the liquidity provider. By doing so, they unlock a second 100% tax deduction (your standard charitable tax receipt). By combining all of these tax deductions and credits, our clients can bring the cost to donate down from 50 cents to give a dollar, to as low as one penny.

The result? Industry wide, well over a billion dollars have been raised for Canadian charities via Structured Flow, and billions more of junior mining exploration. In fact, Structured Flow has become the dominant source of funding for all exploration in Canada, with some estimates pegging it at north of 85% market share for Structured Flow.

But here's the rub – Flow-Through Shares have a zero Adjusted Cost Base (ACB), meaning that when you sell them, even at a loss, it triggers a capital gain.

We immediately knew the cap gain increase would have a huge impact on junior mining. Our firm – along with one of our friendly competitors – sprang into action. The Mining Association of Canada, thanks to the leadership of CEO Pierre Gratton, added additional support.

Just two years prior, in the 2022 Federal Budget, the government had identified 31 minerals essential for technology, renewable energy and our national security. The Liberals introduced the 30% Federal tax credit for exploration involving these minerals, along with billions in infrastructure investment.

Since then, it's hard to go a day without a headline somewhere about critical minerals.

In a standard year, the Structured Flow-Through market will provide around $1 billion or more in junior mining financing. In 2023, approximately 30% of the market were corporations. Under the new tax rule, however, the capital gain jumps to 66% on dollar one, effectively killing this transaction. Put simply, the math no longer worked. As for individual buyers, the impact would be felt for larger buyers– purchasing $1 million of Flow-Through or more.

All in, the capital gain increase could have killed around 40% of all junior mining financing via our structure.

To Finance’s credit, they were receptive to the news and willing to help. Finance did not fully grasp how much a 66% capital gain increase would impact the Flow-Through financing model and their critical mineral exploration policy.

Another topic of discussion was Alternative Minimum Tax, or AMT.

AMT sets a minimal amount of tax every Canadian must pay, despite any tax deductions available. Whereas in 2023, our clients could buy around 30% of their income, that figure had recently dropped to just 20%, once again limiting how much Structured Flow, and financing, we could provide.

Fortunately, Finance agreed to restore AMT back to 2023 levels in a public announcement mid-August 2024. Now the concern is implementing Finance’s intentions with a Liberal leadership race and prorogued Parliament.

In a way, the capital gain scare has been a positive. It opened the door to broader communication, and a less siloed approach to policy and doing business.

Much has already been written on the need for more coordination, investment and efficiencies in our mining sector, if we have any hope of reaching our critical mineral targets.

Capital gains and AMT are just the tip of the iceberg. There are myriad ways we could be making Canada more robust and competitive in the junior mining space.

Perhaps, with the election coming, this experience can serve as a wake-up call – a new spirit of collaboration. We cannot afford closed doors any longer. The world of 2025 has never been more competitive, or less certain. To meet the challenges of tomorrow, we need a united Canada.