

Alternative Minimum Tax

First introduced in 1986, the Alternative Minimum Tax (“AMT”) is a parallel tax calculation for individuals (and many trusts) which calculates an alternate taxable income that allows fewer deductions, exemptions, and tax credits than under the ordinary income tax rules.

The AMT calculation applies a flat 20.5% tax rate on this adjusted taxable income with a standard exemption amount (\$173,205 per individual in 2024 and indexed annually; expected to be \$177,882 for 2025) instead of the normal progressive rate structure. A taxpayer ultimately pays the AMT or regular tax, whichever is highest. Additional tax paid as a result of the AMT can generally be carried forward for seven years and can be credited against regular tax to the extent regular tax exceeds AMT in future years. The AMT does not apply in the year of death.

The AMT is designed to ensure that high income earners pay a minimum amount of income tax each year and cannot artificially reduce their taxable income through excessive use of deductions or credits. However, as initially highlighted in its 2021 Election Platform, the Liberal government was concerned that the previous AMT regime was not achieving this policy objective. Therefore, in its 2023 Federal Budget – and subsequent announcements¹ – several changes were proposed to the AMT calculation, with the stated goal of better targeting high-income individuals by broadening the AMT Base, further limiting tax preference items and increasing the AMT tax rate. As these changes were formally enacted and effective for 2024, this report highlights key design features of the new AMT regime, including what has changed, and provides examples where the AMT may apply.

How is AMT calculated?

The AMT regime imposes a complex calculation that adjusts the “ordinary” taxable income of an individual (or trust) by limiting deductions, exemptions, and tax credits that would otherwise be allowed for regular tax purposes, and applying a minimum tax rate over a threshold amount. In theory, the calculation would apply to all individuals, although only taxpayers with higher gross incomes (especially those claiming substantial deductions, exemptions or credits) would be subject to AMT.

In simplified terms, the AMT is determined by a formula that operates as follows:

$$A \times (B - C) - D = E$$

AMT	AMT	AMT	AMT	AMT
Rate	Income	Exemption	Credits	Amount

Where:

- A: the AMT Rate;**
Is multiplied by the difference between
- B: AMT Income;** and
- C: the AMT Exemption.**
This amount is reduced by
- D: AMT Credits**
To determine
- E: the AMT Amount.**

If the AMT Amount is greater than the regular tax calculation, then AMT is paid. The AMT in excess of regular tax can generally be carried forward for seven years and can be credited against regular tax to the extent regular tax exceeds AMT in those years.

The AMT is calculated federally, and a companion “provincial AMT” is separately calculated in all provinces and territories, typically as a simple percentage of the Federal AMT.

What has changed to the AMT calculation for individuals effective 2024?

As previously noted, legislative amendments originating from the 2023 Federal Budget resulted in several changes to the AMT calculation, with the stated goal of better targeting high-income individuals. Accordingly, beginning in 2024, there are significant changes to each of the components of the formula, as follows:

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| <p>A</p> <p>The AMT Rate increased from 15% to 20.5%.</p> | <p>B</p> <p>AMT Income, the “base” upon which AMT is determined, was broadened, as highlighted in the section below.</p> | <p>C</p> <p>The AMT Exemption, essentially a deduction for AMT purposes that prevents the AMT from applying to lower-income individuals, increased from a flat \$40,000 to an indexed amount pegged to the fourth Federal marginal tax bracket (\$173,205 for 2024.)</p> | <p>D</p> <p>AMT Credits, which generally mirror the most common non-refundable tax credits for regular tax purposes (such as the basic personal amount and medical expense tax credit), will be reduced from 100% of the credit to only 50% for AMT purposes. However, some exceptions apply, such as the donation tax credit, which will be limited to 80% of the receipted amount (instead of 50%, as originally proposed), for AMT purposes.</p> |
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What are the key changes to the calculation of AMT Income?

AMT Income is determined in a similar manner to an individual’s regular income tax calculation, albeit with some significant differences in the percentage applied to the amount included, deducted, or excluded from income for AMT purposes. For example, although only 50% (or potentially 2/3, after June 24, 2024) of a capital gain realized (e.g., on the sale of a publicly-traded security) is included in income for regular tax purposes, 100% of the capital gain is now included in income for AMT purposes (an increase from 80% prior to 2024).

The following list, while not exhaustive, highlights some of the key percentages used for regular tax purposes in comparison with the previous and new AMT percentages:

	Regular Income	Previous AMT	New AMT
Income inclusions			
Capital gains – General	50%	80%	100%
Capital gains – Lifetime capital gains exemption	0%	30%	30%
Capital gains – Donated publicly-traded securities	0%	0%	30%
Employee stock option benefits	50%	80%	100%
Deductions from income			
Moving expenses	100%	100%	50%
Child care expenses	100%	100%	50%
Interest and financing expenses incurred to earn income from property	100%	100%	50%
Non-capital loss carryovers	100%	100%	50%

	Regular Income	Previous AMT	New AMT
Tax Credits			
Most non-refundable tax credits (e.g., medical, basic personal tax credit)	100% of credit available	100% of credit available	50% of credit available
Donation Tax Credit	100% of credit available	100% of credit available	80% of credit available
Dividend Tax Credit – Eligible/non-eligible	100% of credit available	0%*	0%*
*No credit available for AMT purposes; however, dividends are reflected in AMT income at actual amount (without gross-up).			

Example scenarios

The combined effect of the above changes to AMT income inclusions, the AMT Rate and AMT Credits, will result in a number of scenarios where the AMT will now apply when it did not before. While this effect will be largely offset for most individuals due to the increased AMT Exemption, individuals who receive a significant portion of their income in a particular year from preferential sources (such as Canadian dividends or pre-June 25, 2024 capital gains) will be most impacted, especially those who can claim significant deductions or credits to reduce their regular income tax otherwise payable. This is particularly true for charitable high-income earners who donate securities, since the recent changes will reduce the donation tax credit to 80% and increase the inclusion rate to 30% (vs. 0% previously) of capital gains incurred when donating publicly-traded securities, for the purposes of the AMT calculation in 2024, and thereafter.

For example, take the case of an individual who realizes a \$2,000,000 capital gain (prior to June 25, 2024), with no other source of income, who then chooses to donate \$200,000 of publicly-traded securities (with a \$100,000 adjusted cost base).

Scenario 1:

	“Regular” Tax	Previous AMT Calculation	New AMT Calculation
Capital Gains – Total	\$2,000,000	\$2,000,000	\$2,000,000
Less: Exclusion (50%/20%/0%)	(\$1,000,000)	(\$400,000)	-
Capital Gains – Taxable	\$1,000,000	\$1,600,000	\$2,000,000
Donation of Securities			
Market Value of Gifted Securities	\$200,000	\$200,000	\$200,000
Less: Cost	(\$100,000)	(\$100,000)	(\$100,000)
Capital Gain	\$100,000	\$100,000	\$100,000
Less: Exemption for Gifts (100%/100%/70%)	(\$100,000)	(\$100,000)	(\$70,000)
Capital Gain for Tax Purposes	-	-	\$30,000
AMT Exemption	N/A	(\$40,000)	(\$173,205) ²
Taxable Income/AMT Income	\$1,000,000	\$1,560,000	\$1,856,795

	"Regular" Tax	Previous AMT Calculation	New AMT Calculation
Federal Tax at "Normal" Rates (15%/20.5%)	\$305,716	\$234,000	\$380,643
Less: Donation Tax Credit (100%/100%/80%)	(\$65,964)	(\$65,964)	(\$52,771) ³
Less: Other Tax Credits (100%/100%/50%) ⁴	(\$2,123)	(\$2,123)	(\$1,062)
Federal Tax / Minimum Tax ⁵	\$237,629	\$165,913	\$326,810
Federal Minimum Tax in Excess of "Normal" Tax	N/A	-	\$89,181

Under this scenario, the changes to the AMT would result in over \$89,000 in additional Federal tax, whereas previously the AMT wouldn't have resulted in any additional taxes in excess of the "regular" tax. However, if the capital gain in this scenario was realized after June 24, 2024, such that most of the gain was subject to a 2/3 capital gain inclusion rate, AMT would not apply (as the regular tax would be higher due to the increased capital gains inclusion rate, which exceeds the Federal AMT rate).⁶

However, more modest income earners who make donations of securities shouldn't be subject to the new AMT, such as the following scenario, where an individual earning \$200,000 of employment income, donates \$20,000 of appreciated securities (with a \$10,000 cost base).

Scenario 2:

	"Regular" Tax	Previous AMT Calculation	New AMT Calculation
Employment Income	\$200,000	\$200,000	\$200,000
Donation of Securities			
Market Value of Gifted Securities	\$20,000	\$20,000	\$20,000
Less: Cost	(\$10,000)	(\$10,000)	(\$10,000)
Capital Gain	\$10,000	\$10,000	\$10,000
Less: Exemption for Gifts (100%/100%/70%)	(\$10,000)	(\$10,000)	(\$7,000)
Capital Gain for Tax Purposes	-	-	\$3,000
AMT Exemption	N/A	(\$40,000)	(\$173,205) ²
Taxable Income/AMT Income	\$200,000	\$160,000	\$29,795
Federal Tax at "Normal" Rates (15%/20.5%)	\$43,343	\$24,000	\$6,108
Less: Donation Tax Credit (100%/100%/50%)	(\$5,772)	(\$5,772)	(\$4,618) ³
Less: Other Tax Credits (100%/100%/50%) ⁴	(\$3,129)	(\$3,129)	(\$1,565)
Federal Tax/Minimum Tax⁵	\$34,442	\$15,099	-
Federal Minimum Tax in Excess of "Regular" Tax	N/A	-	-

How does AMT apply to trusts?

Generally, the AMT rules apply to trusts that are not “exempt trusts” in much the same manner as they do for individuals, with a key difference being that most trusts are not eligible for the AMT Exemption.

Exempt trusts are excluded from the application of the AMT. They generally consist of registered plans (such as RRSPs), various investment funds (such as mutual fund trusts), as well as certain alter ego and joint partner trusts.⁷ Beginning in 2024, graduated rate estates have been added to the list of exempt trusts, which should reduce the complexity of post-mortem tax planning and compliance for executors.

Also, while not an exempt trust, qualified disability trusts will have access to the expanded “basic exemption” (i.e., \$173,205 per individual in 2024 and indexed annually; expected to be \$177,882 for 2025) that is otherwise only available to individuals.

However, trustees of other (non-exempt) trusts, such as family trusts, will need to consider if their trust will have exposure to the AMT due to the broadening AMT income base. For example, interest expense was previously 100% deductible for regular and AMT purposes, but will (generally) be only 50% deductible for AMT purposes in 2024, and later years. Therefore, a family trust, including those holding a prescribed rate loan, may have AMT Income under the recent changes. Consequently, an AMT liability may arise, even though the trust has allocated all of its regular income to beneficiaries to be taxed in their hands.

What planning should be considered if there is potential for AMT exposure?

While the changes outlined can increase the incidence (and impact) of AMT to many higher-income Canadians, particularly where significant deductions (such as the lifetime capital gains exemption) are claimed, there are some key points to remember:

- The AMT Exemption is \$173,205 per individual in 2024 (indexed annually; expected to be \$177,882 for 2025) – which will mitigate the concern for most low-to-modest income individuals, in most years;
- The AMT does not apply to corporations – so higher-income taxpayers with existing investment holding companies may wish to consider making their charitable donations (of cash or securities) through their corporation and/or controlling the amount and type of income they receive personally from their corporation to take into account possible AMT;
- The AMT also does not apply in the year of death – so affected donors may wish to consider charitable bequests in their Will;
- If AMT is payable in a particular year, it may be recovered in the following seven years, particularly in future years where sufficient non-preferential sources of income (such as interest or employment income) will be earned, or lower deductions/credits will be claimed;
- For discretionary trusts that have an AMT exposure, consider (in consultation with your tax advisor) leaving some income to be taxed in the trust instead of fully allocating to the beneficiaries, in order to avoid AMT or to leave sufficient funds in the trust to pay the AMT liability.

Seek advice

The main takeaway is to better understand how these important changes to the AMT may affect you and/or your family trust (i.e., whether AMT is potentially applicable in your specific situation), and if so, whether it can be recovered in the seven-year carryforward period. Given the complexity of the AMT, it is recommended that you work with your tax advisor to prepare a ‘pro-forma’ tax calculation each year to determine the potential application (and future recoverability) of the AMT in your particular situation.

Please contact your BMO Private Wealth professional if you have any questions about your wealth planning.



¹ The Federal government subsequently released further proposed changes to the AMT legislation in August 2024 to remove limitations on claiming resource expense deductions in full, which is expected to increase the attractiveness of flow-through shares for both investors and issuers. Please consult with your tax advisor for the current status of this legislation and the potential impact to your particular situation.

² The basic AMT exemption increased from \$40,000 in 2023 to the start of the second-highest Federal tax bracket – which is \$173,205 in 2024 (and is expected to be \$177,882 for 2025).

³ 80% of regular donation tax credit. For regular tax purposes, the Federal donation tax credits are valued at 15% of the first \$200 of gifts, and 33% of the remainder, where taxable income exceeds the top marginal tax bracket. Note that annual donation claims are limited to 75% of net income (100% in the year of death).

⁴ Other tax credits includes only the basic personal amount in Scenario 1, and the basic personal amount, as well as the CPP, EI and Canada Employment amounts in Scenario 2.

⁵ Only the Federal AMT is presented for illustration purposes. All provinces and territories impose a minimum tax and, in most provinces, the provincial AMT component is represented as a percentage of the Federal AMT.

⁶ Since the new flat AMT rate for 2024 of 20.5% exceeds the top Federal regular tax rate on capital gains subject to a 50% inclusion rate (i.e., $16.5\% = 33\% \times \frac{1}{2}$), many individuals with large capital gains who claim offsetting deductions, exemptions or credits to substantially reduce their regular tax liability may be subject to the AMT in 2024 (as illustrated). However, the potential higher capital gains inclusion rate of 2/3 will lessen the likelihood of AMT applying in these scenarios after June 24, 2024, since the top Federal regular tax rate on capital gains will increase to 22% (i.e., $33\% \times \frac{2}{3}$ inclusion rate), which exceeds the new flat AMT rate of 20.5%.

⁷ Alter-ego and joint partner trusts may be exempt from the AMT in the year that a deemed disposition arises on death pursuant to 104(4) of the Income Tax Act.

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