Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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How alternative minimum tax (AMT) could affect your charitable giving

The government originally proposed a number of changes to alternative minimum tax (AMT) in the 2023 federal budget that significantly affected philanthropists and the charities they supported. It left high-income earners re-evaluating their personal charitable giving plans, which may have included reviewing what assets to give, how much to give, and when to donate. As part of the 2024 federal budget, the government introduced an amendment which lessened the impact of AMT on charitable giving. This article explains how the changes to AMT affect charitable giving as well as the planning you may wish to consider to help minimize the tax impact of the changes.

While these legislative changes have now received royal assent, the government has stated that additional consequential amendments would be made to AMT to reflect the new capital gains inclusion rate. As such, the AMT rules may still be subject to change.

What is AMT?

AMT is a parallel tax calculation that applies to certain high-income taxpayers who may otherwise pay little or no tax because of the deductions, exemptions and credits they claim under the regular tax system. AMT is designed to ensure these taxpayers pay at least a minimum amount of tax.

Consequently, you're required to compute your tax liability by calculating your regular tax and AMT for federal tax purposes. You pay either the regular tax or the AMT, whichever is the highest. If you're required to pay AMT, it may be recoverable over the next seven years. As such, it's often seen as a prepayment of taxes. For further information on the AMT rules, please ask your RBC advisor for an article on AMT.

You may also be subject to provincial/territorial AMT. For many provinces/territories, provincial/territorial AMT is calculated as a percentage of federal AMT. This article focuses on federal AMT.

What are the changes that may affect the tax benefits of charitable giving?

Under the regular tax calculation, you receive a donation tax receipt for the full value of the security when you donate a publicly listed security in-kind to a registered charity. With this receipt, you may choose to claim a donation tax credit, which would reduce your taxes payable for the year. Donating in-kind also allows you to avoid including any capital gain accrued on the donated security in your taxable income. As such, you may have included donating securities in-kind in your charitable giving plan.

Under the 2023 proposals, 30% of the capital gain realized on the donation of the security in-kind was to be included in income and the donation tax credit was halved for the purposes of calculating your AMT liability.

Under the 2024 amendments, it remains that 30% of the capital gain realized on the donation of the security in-kind is included in income, but now 80% of the donation tax credit is allowed for the purposes of calculating your AMT liability.

One other point to note is that under the changes originally proposed in the 2023 budget, generating a significant amount of capital gains (i.e., liquidating investments in order to donate cash) would trigger AMT because the new federal AMT rate of 20.5% was more than the regular top federal rate on capital gains of 16.5% (33% x 50% inclusion). However, with the increased capital gains inclusion rate announced in the 2024 budget, the regular top federal tax rate will increase to 22% (33% x 66.67% inclusion) on capital gains over $250,000. As such, it's less likely that a large capital gain realized on or after June 25, 2024, will trigger AMT, assuming no further amendments are made to the current AMT rules with respect to capital gains.

To illustrate the potential tax impact of the changes to AMT, the following are some examples. Be sure to consult with your qualified tax advisor for a more in-depth discussion on how these rules may affect your specific situation.

Examples

Let's compare your estimated federal tax liability with your estimated AMT liability, assuming you earn $400,000 of employment income and want to donate publicly listed securities in-kind, valued at $300,000. The securities have an adjusted cost base (ACB) of $100,000 so that the accrued capital gain is $200,000.

Under the regular tax calculation, you receive a donation tax receipt for the full value of the security when you donate a publicly listed security in-kind to a registered charity.

	Regular tax calculation	2024 AMT calculation
Employment income	$ 400,000	$ 400,000
Taxable capital gain on in-kind donation (0% / 30%)	-	$ 60,000
Taxable income / Adjusted taxable income	**$ 400,000**	**$ 460,000**
AMT exemption		$ (173,000)
Net AMT taxable income		**$ 287,000**
Federal tax (at graduated rates) / AMT (at 20.5%)	$ 107,646	$ 58,835
Donation tax credit* (100% / 80%)	$ (99,000)	$ (79,200)
Other non-refundable tax credits** (100% / 50%)	$ (2,740)	$ (1,370)
Federal tax / AMT	**$ 5,906**	**$ 0**
Additional tax due to AMT		**$ 0**

* Example assumes a federal donation tax credit rate of 33% for the full donation amount.

** Other non-refundable tax credits include the basic personal amount, the base CPP and EI amount, and the Canada employment amount.

In this example, you would not have an AMT liability but you'd owe $5,906 in regular federal taxes.

In our next example, let's assume you earn $200,000 in eligible dividend income from Canadian companies, realize $250,000 in capital gains, and want to donate publicly listed securities in-kind, valued at $150,000. The donated securities have an ACB of $50,000 so that the accrued capital gain is $100,000.

	Regular tax calculation	2024 AMT calculation
Eligible dividends (grossed up by 38% / not grossed up)	$ 276,000	$ 200,000
Taxable capital gain (50% / 100%)	$ 125,000	$ 250,000
Taxable capital gain on in-kind donation (0% / 30%)	$ -	$ 30,000
Taxable income / Adjusted taxable income	**$ 401,000**	**$ 480,000**
AMT exemption		$ (173,000)
Net AMT taxable income		**$ 307,000**
Federal tax (at graduated rates) / AMT (at 20.5%)	$ 107,976	$ 62,935
Donation tax credit* (100% / 80%)	$ (49,500)	$ (39,600)
Other non-refundable tax credits** (100% / 50%)	$ (1,950)	$ (975)
Dividend tax credit (15% / 0%)	$ (41,455)	-
Federal tax / AMT	**$ 15,072**	**$ 22,360**
Additional tax due to AMT		**$ 7,288**

* Example assumes a federal donation tax credit rate of 33% for the full donation amount.

** Other non-refundable tax credits include the basic personal amount, the base CPP and EI amount, and the Canada employment amount.

In this example, since the minimum tax of $22,360 is greater than the regular tax of $15,072, you'd have an AMT liability and owe $22,360 in federal taxes.

In our final example, let's assume you earned $300,000 of employment income and also sold your business, realizing a capital gain of $2,000,000 on the sale. For simplicity's sake, let's assume that the sale does not qualify for the lifetime capital gains exemption. In addition, let's assume that $250,000 of the capital gain will be included in income at 50% and the remaining $1,750,000 will be included at 66.67%. You also wish to donate securities in-kind, valued at $975,000 with a nominal ACB.

	Regular tax calculation	2024 AMT calculation
Employment income	$ 300,000	$ 300,000
Taxable capital gain from sale of business (50% & 66.67% / 100%)	$ 1,291,725	$ 2,000,000
Taxable capital gain on in-kind donation (0% / 30%)	-	$ 2,292,500
Taxable income / Adjusted taxable income	**$ 1,591,725**	**$ 2,592,500**
AMT exemption		$ (173,000)
Net AMT taxable income		**$ 2,419,500**
Federal tax (at graduated rates) / AMT (at 20.5%)	$ 500,915	$ 495,998
Donation tax credit* (100% / 80%)	$ (321,750)	$ (257,400)
Other non-refundable tax credits** (100% / 50%)	$ (2,740)	$ (1,370)
Federal tax / AMT	**$ 176,425**	**$ 237,227**
Additional tax due to AMT		**$ 60,802**

* Example assumes a federal donation tax credit rate of 33% for the full donation amount.

** Other non-refundable tax credits include the basic personal amount, the base CPP and EI amount, and the Canada employment amount.

Since the minimum tax of $237,227 is greater than the regular tax of $176,425, you'd have an AMT liability and owe $237,227 in federal taxes.

AMT carry-forwards

If you're subject to AMT, you can carry forward the difference between the AMT you paid and your regular income tax liability as a tax credit for seven years, or until it's used up. This AMT tax credit can be used to offset your future regular taxes, to the extent your regular tax liability exceeds your AMT liability in future years. In this sense, AMT is like a prepayment of tax.

If you don't have sufficient regular taxes payable in the next seven years, your AMT credit will expire and become a permanent tax. You may have an issue recovering your AMT if you claim the same types of exemptions, deductions and credits every year.

Strategies to minimize the impact of AMT

- Instead of making one large donation, consider spreading out your donations over a number of years. This strategy may be especially useful if you sell capital property (such as securities or real estate) and are able to receive the sale proceeds over the same number of years.
- Consider whether you're able to adjust the types of income you earn in the year you make a significant donation. For example, withdrawing funds from your RRSP/RRIF, or drawing a salary or bonus from your corporation may be preferable to realizing capital gains in the year you make a large donation. This is because non-tax preferred income sources (such as salary income) minimize the impact AMT may have.
- Instead of making your donations personally, consider having your holding company make the donation. This is because AMT is applicable to individuals and not to corporations.
- AMT does not apply on death. As such, donations made through your estate will not be affected by AMT.

As with any donation, you should consult with a qualified tax advisor to ensure you're aware of any income tax ramifications, and that the gift is being made in a tax-efficient manner.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

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