Wealth Management
& Capital Markets Perspective

Wealth Management
Dominion Securities

For the clients of Grimes Handscomb Asset Management of RBC Dominion Securities | Fall 2023

How could the proposed changes to alternative minimum tax (AMT) affect my charitable giving?

As the result of the AMT proposals announced in the 2023 Federal budget, high-income earners may be re-evaluating their personal charitable giving plans including reviewing what assets to give, how much to give, and when the donation should be made. This article explains the current AMT regime, the proposed changes that could affect charitable giving, and the planning you may wish to consider that may help minimize the tax impact of the proposed changes.

What is AMT?

The AMT provisions in the Income Tax Act have been in effect since 1986. 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 that these taxpayers pay at least a minimum amount of tax. Consequently, you are 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 are required to pay AMT, it may be recoverable over the next seven years. As such, it is often seen as a prepayment of taxes.

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 proposed changes that may affect my 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

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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 proposed AMT calculation, not only is the donation tax credit halved, but also 30% of the capital gain realized on the donation of the security in-kind is included in income for the purposes of calculating your AMT liability. These proposed changes are expected to come into force on January 1, 2024.

AMT carryforwards

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 becomes 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 the proposed AMT

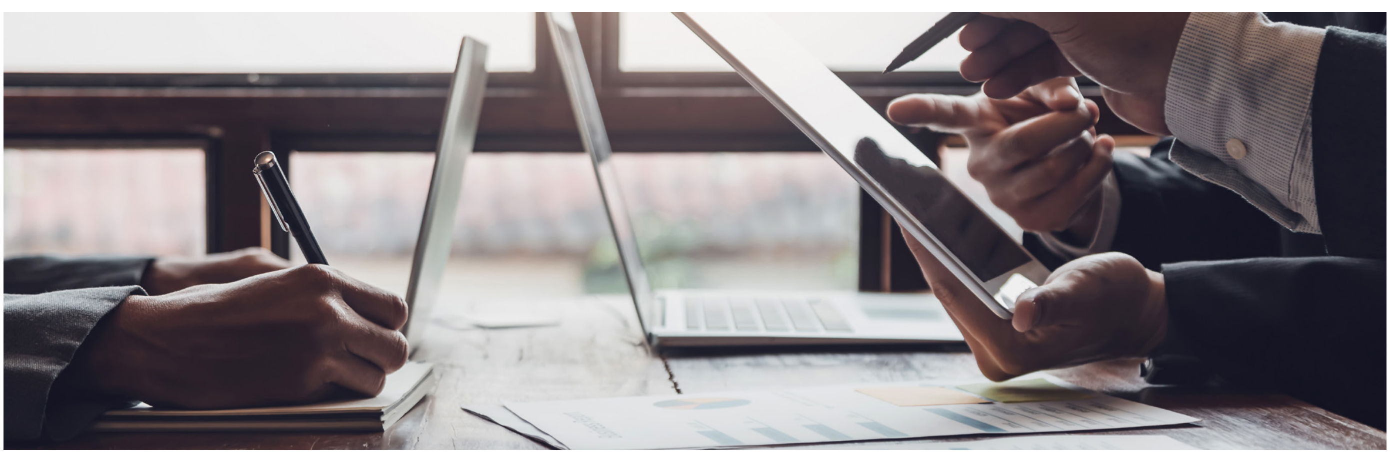
Donating in 2023:

- If you donate in 2023 and are able to claim the full donation tax credit, you will not be affected by the proposed changes to AMT. However, if you donate in 2023 but carryforward any amount of the donation, the proposed changes to AMT may affect your ability to fully benefit from the donation tax credit in future years.
- If you would like to make a larger than normal donation in 2023 in hopes of avoiding these proposed changes but are uncertain on which charity to make your donation to, consider speaking to us about whether setting up an RBC Charitable Gift Fund would be a good solution for you. A donation to your own RBC Gift Fund would allow you to receive the tax benefits of the donation this year and decide later which charities to grant to.

Donating in 2024 (assuming the proposed changes become law):

- 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 are 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 the proposals.

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



A narrowing path

by Jim Allworth

- **There continues to be a (diminishing) possibility the S&P 500 and perhaps other developed markets could post new highs in the next few months. As long as faith in a so-called soft landing for the U.S. economy can be supported by some plausible rationale, we think an ever-narrowing path to higher ground will remain open.**
- **However, beneath the surface the spending power and confidence of the U.S. consumer are under pressure, compressed by depleted savings, high and rising interest rates, a growing unwillingness of banks to lend, and rising energy costs. Next year is likely to feature a more challenging landscape for both the economy and equity markets.**

After a rewarding 10-month upward advance into July, the S&P 500 Index, as well as European and Japanese markets, entered a correction/consolidation phase that has been playing out into the often seasonally weak fall period. These markets appear increasingly oversold. A rebound rally is likely to develop in the coming weeks, in our view, and the possibility of the S&P 500 putting in a new high can't be ruled out.

However, the probability of reaching a new high is diminishing, in our opinion, and depends more on technical market factors than on fundamentals. In particular, the advance-decline (A/D) line for the S&P 500, a measure of market breadth and participation, touched a new all-time high in the summer. Often, but not always, the S&P 500 itself could be expected to join the A/D line in new high ground. But that would require a strengthening of the soft landing (i.e., no recession) case for the U.S. economy.

Faith that the post-pandemic economic expansion has further to run in the U.S. has been the fuel that has driven most markets higher, periodic pullbacks notwithstanding. Ever since the Fed began raising interest rates and dismantling quantitative easing programmes, the forecasting community has been grouped into one expecting a soft landing and another looking for a hard one.

Equity views

The debate continues. The soft landing proponents have recently been taking heart from some moderately better-than-expected economic data, including employment conditions that have refused so far to weaken.

There is also a line of thinking which argues that the fact the U.S. economy is apparently still growing means that it is not about to fall into recession. This group points to the respectable 2.1% annualised real GDP growth posted in Q2, and if more comfort is needed, to the 4.9% estimate for Q3 generated by the Atlanta Fed's widely watched GDPNow model. This model is useful, but pinpoint accuracy is not intended to be one of its features — the average error of its predictions is +/- 1.2 percentage points.

It's also worth noting that the Atlanta Fed's process is not finished yet for this quarter and won't be until the September data releases have all been reported through late October. And there are, in fact, two other regional Fed banks which publish "nowcasting" forecasts (i.e., using current data, including big data, to predict economic trends as they happen): the St Louis Fed's estimate for Q3 growth currently stands at 1.6% while the New York Fed's is at 2.1%. Average the three models and you're looking at 2.9%.

The real GDP growth rates in each of the quarters positioned just prior to the onset of every recession back through to the 1950s ranged between +9.3% and -2.9%. The average was +2.4%, but we find no compelling central tendency in evidence. It would seem that the growth rate in one quarter has very little useful to say about the likelihood of a recession arriving in the next.

We are more persuaded by the historical record, which reveals that the progressive tightening of credit conditions by way of a long succession of Fed rate hikes accompanied by a multi-quarter boosting of bank lending standards has never been a recipe for avoiding a recession. Rather, those factors have always preceded or been part of a hard landing.

Those restrictive conditions are present and have been building for more than a year. We expect their effect to be more keenly felt by the economy and stock market through some extended part of next year. Of course, there can always be a first time, but planning on being let off easy when the historical probabilities point toward a more challenging outcome doesn't seem like the prudent course to us.

For now, we recommend remaining sufficiently committed to stocks to take advantage of what we regard as a diminishing possibility of reaching a new high in the coming few months. However, we believe investors should consider limiting individual stock selections to companies they would be content to own through a recession, which, in our view, is the most probable economic outcome in the coming quarters. For us, that means high-quality businesses with resilient balance

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sheets, sustainable dividends, and business models that are not intensely sensitive to the economic cycle.

Perhaps the most compelling reason for focusing on resilient, high-quality businesses is that the headwinds which appear to be gathering will, in our view, run their course and probably fully dissipate later next year. Equity markets typically have anticipated the start of a new economic expansion several months before it gets underway. In our opinion, portfolios that have held their value to a better-than-average degree will be best-equipped to take advantage of the opportunities that are bound to present themselves at that positive turning point when it arrives.

RBC Race for the Kids

On a beautiful sunny Saturday morning in September, Karen and Aurelia participated in the annual **RBC Race for the Kids**. With over 7,500 participants, the event raised more than $2.5 million for the Family Navigation Project at Sunnybrook Hospital. What started as a single race in New York in 2009, RBC Race for the Kids has grown into a series of 25+ events that take place around the world. More than 360,000 participants have raised over $82 million for youth charities, with a focus on kids and youth mental health causes.

Thank you to Karen and Aurelia for participating and helping to raise funds for a worthy cause!

Introducing... Ziyu Chen

Ziyu - or Zee as he prefers to be called - has been with RBC for over six years and recently joined the Grimes Handscomb team. Zee graduated with an honours degree in Finance from York University, and holds both the Chartered Investment Manager (CIM) and Personal Financial Planner (PFP) designations. As an Associate Advisor, Zee provides critical support in areas related to the researching of investment opportunities, and the execution of our portfolio recommendations. When not at work, Zee and his family enjoy exploring the great outdoors in and around Toronto. When left to his own devices, he can also be found on an outdoor basketball court perfecting his jump shot.

Welcome to the team Zee!

Benchmarks

Equity market 12-month trailing return (for month ending September 30, 2023)	
S&P/TSX composite total return index	9.5%
S&P 500 total return (C$)	19.4%
S&P 500 total return (U$)	21.6%
DJIA total return (C$)	17.0%
DJIA total return (U$)	19.2%
Nasdaq composite price return (C$)	22.7%
Nasdaq composite price return (U$)	25.0%

RBC CM Canadian bond market indices 12-month trailing return (for month ending September 30, 2023)	
Short-term index	1.6%
Intermediate-term	-1.6%
Three-month T-Bill (C$)	4.2%
Three-month T-Bill (U$)	4.5%