The new Alternative Minimum Tax (AMT)

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The Alternative Minimum Tax (AMT) system imposes a minimum level of tax on taxpayers who claim certain tax deductions, exemptions or credits to reduce the tax that they owe to very low levels. Under the AMT system, there is a parallel tax calculation that allows fewer deductions, exemptions, and credits than under the regular income tax calculation. If the amount of tax calculated under the AMT system is more than the amount of tax owing under the regular tax system, the difference owing is payable as AMT for the year.

Changes to the AMT came into effect in 2024 which include: raising the AMT rate, increasing the AMT exemption, and broadening the AMT base by limiting certain amounts that reduce taxes (such as exemptions, deductions, and credits.) Let's review how the AMT system works and look at some examples where the AMT may or may not arise, and some planning considerations for 2025.

The basics

Under the regular tax calculation, taxable income is calculated using deductions, exemptions and credits that are likely familiar to you. For example, 50% of capital gains are not taxed and the federal donation tax credit could reduce federal tax by up to 33% (for the highest income-earners) of the amount of charitable donations.

Adjusted taxable income

Under the AMT system, taxable income is recalculated using only deductions, exemptions and credits that are permitted for AMT purposes, as will be discussed below. This amount of taxable income under the AMT system is referred to as “adjusted taxable income.”

The AMT rate

Before 2024, AMT rules applied a flat 15% tax rate on adjusted taxable income. Starting in 2024, the government increased the AMT rate to 20.5%, which equals the rate for the second federal income tax bracket.

Provincial AMT

All provinces and territories also impose AMT, which is generally calculated as a percentage of the federal AMT. For the purposes of this report, we will ignore the provincial or territorial AMT.

The AMT exemption

The AMT exemption is the amount of adjusted taxable income below which AMT will not apply. It is available to all individuals and is intended to protect lower- and middle-income individuals from paying AMT.

Before 2024, there was a standard $40,000 AMT exemption. Starting in 2024, the government increased the AMT exemption to the start of the fourth federal tax bracket, which started at $173,205 for 2024. For 2025, the AMT exemption is $177,882.

Because of this exemption, very few Canadians will pay AMT under the 2024 rules, and even high-income Canadians may not pay AMT if their only sources of income are fully taxable employment, professional or business income.

Tax deductions

Before 2024, most common deductions were permitted in calculating adjusted taxable income for AMT. Starting in 2024, the AMT base was broadened by disallowing 50% of certain deductions, including: employment expenses (other than those incurred to earn commission income), moving expenses, child care expenses, interest and carrying charges[1] incurred to earn income from property, limited partnership losses of other years, and non-capital loss carryovers.

Tax credits

Non-refundable tax credits are those that can be used to reduce tax payable, but cannot generate a tax refund if no taxes are payable. For instance, the charitable donations tax credit and the medical expenses tax credit are non-refundable. Before 2024, most non-refundable federal tax credits could be applied against the AMT. Starting in 2024, only 80% of the donation tax credit and 50% of most other non-refundable tax credits, such as the basic personal amount (BPA), are allowed when calculating the AMT.

Let’s review some examples that compare 2024 federal taxes payable under the regular tax calculation and the AMT calculation.

[1] Pursuant to a proposed amendment to the AMT rules, the 50% limitation will also apply to the deduction of investment counsel fees.

Example 1: High-income earner

Abigail expects to earn $400,000 of employment income in 2024. The following table shows her tax calculations.

Item	Regular tax calculation	AMT calculation
Employment income	$400,000	$400,000
CPP deduction[2]	(838)	(419)
AMT exemption	n/a	(173,205)
Taxable income / Adjusted taxable income	**$399,162**	**$226,376**
Tax at graduated rates / 20.5%	$107,439	$46,407
Basic personal amount	(2,123)	(1,062)
CPP, EI and Canada employment amounts	(855)	(427)
Regular tax / minimum tax	**$104,461**	**$44,918**
AMT	**n/a**	**$0**

Source: Tax Templates Inc.

Regular tax calculation: Employment income of $400,000 is included and a deduction of $838 is claimed for enhanced CPP contributions, resulting in taxable income of $399,162. Using graduated tax rates and, after claiming the basic personal amount (BPA), CPP amount, EI amount and Canada employment amount, her tax is $104,461.

AMT calculation: Employment income of $400,000 is included in Abigail's adjusted taxable income and 50% of the deduction for enhanced CPP contributions ($419) is claimed. The AMT exemption of $173,205 is deducted, leaving adjusted taxable income of $226,376 and minimum tax of $46,407 (at 20.5%). After claiming 50% of the BPA, CPP amount, EI amount and Canada employment amount, minimum tax is $44,918.

Since the regular tax ($104,461) is more than the minimum tax ($44,918), Abigail has no AMT payable.

Canadian dividends

Canadian corporations pay tax on their income and can then distribute the after-tax income to shareholders. Under the regular tax system, dividends received by individuals from Canadian corporations are effectively taxed at a lower rate, to compensate for corporate taxes paid by the corporations. The dividend income is "grossed-up," meaning it is increased so that it's roughly equal to the corporation's pre-tax income, and a dividend tax credit is allowed, which roughly equals the corporation's tax on that income. Under the AMT rules, both the gross-up and tax credit on Canadian dividends are ignored.

Interestingly, eligible dividends alone, even at large amounts, will not generate any AMT as of 2024. This is because the total tax (using the progressive graduated rates) on taxable dividend income above $173,205 is always higher than the total tax (at 20.5%) under the AMT rules.

[2] Some amounts of CPP deducted from employment income and remitted to CRA result in a tax credit, and some result in a deduction from taxable income.

Example 2: Eligible dividends

Suppose Bruno earns $400,000 of eligible dividends from Canadian companies. The following table shows his tax calculations.

Item	Regular tax calculation	AMT calculation
Eligible dividends	$400,000	$400,000
Gross-up (38% for eligible dividends)	152,000	0
AMT exemption	n/a	(173,205)
Taxable income / Adjusted taxable income	**$552,000**	**$226,795**
Tax at graduated rates / 20.5%	$157,875	$46,493
Basic personal amount	(2,123)	(1,062)
Dividend tax credit	(82,909)	0
Tax / Minimum tax	**$72,843**	**$45,431**
AMT	**n/a**	**$0**

Source Tax Templates Inc.

Regular tax calculation: The $400,000 of eligible dividends is grossed-up by 38% ($152,000), so taxable dividends of $552,000 are included in Bruno's income. Using graduated tax rates, regular federal tax is $157,875, which is then reduced by the BPA and the federal dividend tax credit of $82,909. Bruno, therefore, has regular tax of $72,843.

AMT calculation: The actual amount of eligible dividends of $400,000 is included in Bruno's adjusted taxable income. The AMT exemption of $173,205 is deducted, leaving Bruno with adjusted taxable income of $226,795 and, after claiming 50% of the BPA, minimum tax of $45,431.

Since the regular tax ($72,843) is higher than the minimum tax ($45,431), Bruno has no AMT payable.

Capital gains and losses

Under the regular tax system, only 50% of capital gains are included in income, and when calculating adjusted taxable income under the AMT rules, 100% of capital gains are included. Previously, 80% of capital gains were included in income for AMT purposes.

Before 2024, 80% of capital losses, non-capital losses and Allowable Business Investment Losses (ABILs) that were carried forward from a previous year were deducted in AMT calculations. Starting in 2024, only 50% of capital losses, non-capital losses, and ABILs are deductible under the AMT rules when carried forward from a prior tax year. As 100% of capital gains are included in adjusted taxable income for AMT purposes, the capital loss carryforward only offsets 50% of a capital gain for AMT purposes.

Starting in 2024 high amounts of capital gains realized in a year may give rise to AMT for individuals who pay tax at the top federal tax rate of 33%, since the capital gains rate under the regular calculation will be 16.5% (50% of the top federal rate of 33%) and the AMT rate as of 2024 is higher, at 20.5%.

Example 3a: Capital gains

Suppose Chandra sells capital property on November 1, 2024 with a fair market value (FMV) of $500,000 and an adjusted cost base (ACB) of $100,000, so there is a $400,000 capital gain. The following table shows her tax calculations.

Item	Regular tax calculation	AMT calculation
Taxable capital gains at 50% inclusion rate / 100% inclusion rate	$200,000	$400,000
AMT exemption	n/a	(173,205)
Taxable income / Adjusted taxable income	**$200,000**	**$226,795**
Tax at graduated rates / 20.5%	$43,585	$46,493
Basic personal amount	(2,271)	(1,136)
Regular tax / minimum tax	**$41,314**	**$45,357**
AMT	**n/a**	**$4,043**

Source: Tax Templates Inc.

Regular tax calculation: Half (50%) of capital gains ($200,000) are included in Chandra’s taxable income. Using graduated tax rates and claiming the BPA, her tax is $41,314.

AMT calculation: All of Chandra’s total capital gains ($400,000) are taxable. The AMT exemption of $173,205 is deducted, leaving her with adjusted taxable income of $226,795. Applying the 20.5% tax rate and claiming 50% of the BPA, minimum tax of $45,357 arises.

Since minimum tax ($45,357) is higher than the regular tax ($41,314), Chandra's AMT is $4,043.

Example 3b: Capital losses carried forward

As with Example 3a, Chandra sells capital property on November 1, 2024 with a FMV of $500,000 and an ACB of $100,000, so there is a $400,000 capital gain. She also had an unclaimed capital loss of $200,000 in 2020, so she has an unapplied $100,000 net capital loss (being the applicable 50% portion) carried forward. The following table shows her tax calculations.

Item	Regular tax calculation	AMT calculation
Taxable capital gains at 50% / 100% inclusion rate	$200,000	$400,000
Net capital losses of other years	(100,000)	(100,000)
AMT exemption	n/a	(173,205)
Taxable income / Adjusted taxable income	**100,000**	**126,795**
Tax at graduated rates / 20.5%	17,427	25,993
Basic personal amount	(2,271)	(1,136)
Regular tax / minimum tax	**15,156**	**24,857**
AMT	**n/a**	**$9,701**

Source: Tax Templates Inc.

Regular tax calculation: In this example, half (50%) of the capital gain ($200,000) is included in Chandra’s taxable income as a taxable capital gain. There is also a deduction of $100,000 for the capital loss carryforward. As a result, taxable income is $100,000 and Chandra’s tax (using graduated tax rates), after claiming the BPA, is $15,156.

AMT calculation: All of Chandra's total capital gains ($400,000) are included in income, offset by a deduction of $100,00 for the capital loss carryforward and the AMT exemption. As a result, adjusted taxable income is $126,795 and Chandra's minimum tax (at 20.5%), after claiming 50% of the BPA, is $24,857.

Since the minimum tax of $24,857 is higher than the regular tax of $15,156, Chandra's AMT is $10,701.

Lifetime capital gains exemption

When an individual sells property that qualifies for the lifetime capital gains exemption (LCGE), the capital gain may be partially or completely sheltered from tax. This can occur when an individual sells shares of a qualified small business corporation (QSBC), or qualified farm or fishing property. Before 2024, 80% of capital gains were included in adjusted taxable income for AMT calculations and the rate for the LCGE was 50%. Starting in 2024, 100% of capital gains are included in adjusted taxable income and the rate for the LCGE is 70%.

Example 4: Capital gains on property eligible for the LCGE

Dovid expects to sell the shares of his private company (which have a nominal ACB) for a gain of $1,000,000 in 2024. The corporation is a QSBC so Dovid can claim the LCGE.[3] The following table shows his tax calculations.

Item	Regular tax calculation	AMT calculation
Taxable capital gains	$500,000	$1,000,000
Lifetime capital gains deduction	(500,000)	(700,000)
AMT exemption	n/a	(173,205)
Taxable income / Adjusted taxable income	**$0**	**$126,795**
Tax at graduated rates / 20.5%	$0	$25,993
Basic personal amount	0	(1,062)
Regular tax / minimum tax	**$0**	**$24,931**
AMT	**n/a**	**$24,931**

Source: Tax Templates Inc.

Regular tax calculation: Only 50% of capital gains, or $500,000, are included in Dovid's income. Claiming the LCGE of $500,000 leaves no taxable income so he has no tax.

AMT calculation: The full amount of capital gains on shares eligible for the LCGE ($1,000,000) is included in Dovid's adjusted taxable income. The LCGE of $700,000 and the AMT exemption of $173,205 are deducted, leaving adjusted taxable income of $126,795. Using a rate of 20.5%, after claiming the BPA, the minimum tax would be $24,931.

Since the minimum tax under the AMT calculation ($24,931) is more than tax under the regular calculation ($0), Dovid's AMT is $24,931.

[3] Under proposals in the 2024 Federal budget, the LCGE increased to $1,250,000 (from $1,016,836) for dispositions as of June 25, 2024. The LCGE will be indexed to inflation after 2025. On January 31, 2025, the government announced that this proposal would be maintained, and the CRA will continue to administer this higher limit.

Donations of publicly-listed securities

Under the regular tax system, donors who make in-kind donations to a registered charity of publicly-listed shares, and units or shares of mutual funds or segregated funds, get a tax receipt equal to the FMV of the securities being donated (and can claim a non-refundable donation tax credit). They also pay no tax on capital gains on the donated securities.

Before 2024, this zero inclusion rate for capital gains on publicly-listed securities that were donated in-kind also applied for AMT purposes. Starting in 2024, 30% of capital gains on these securities is included in adjusted taxable income under the AMT rules. In addition, starting in 2024, only 80% of the donation tax credit is permitted for AMT purposes. High-income donors generally won't pay AMT no matter the size of a cash donation if they earn primarily (self-)employment or rental income. A donation of publicly-listed securities, however, could trigger AMT.

Example 5: Donation of publicly listed securities

Suppose Eugene has publicly-listed securities with a FMV of $500,000 and an ACB of $100,000, so there is a $400,000 accrued capital gain. He makes an in-kind donation to a registered charity of 15% of the securities (with FMV of $75,000, ACB of $15,000, and a $60,000 capital gain). He sells the remaining 85% of the securities (with FMV of $425,000, ACB of $85,000 and a $340,000 capital gain). The following table shows his tax calculations.

Item	Regular tax calculation	AMT calculation
Taxable capital gains on donated securities	$0	$18,000
Taxable capital gains on sold securities at 50% inclusion rate /100% inclusion rate	170,000	340,000
AMT exemption	n/a	(173,205)
Taxable income / Adjusted taxable income	**$170,000**	**$184,795**
Tax at graduated rates / 20.5%	$34,982	$37,883
Donation tax credit	(21,722)	(17,378)
Basic personal amount	(2,355)	(1,177)
Regular tax / minimum tax	**$10,905**	**$19,328**
AMT	**n/a**	**$8,423**

Source: Tax Templates Inc.

Regular tax calculation: No capital gains on donated securities, and $170,000 of taxable capital gains on sold securities are included in income. Using graduated tax rates, federal tax is $34,982. After subtracting the donation tax credit of $21,722 (for the $75,000 donation) and the BPA, Eugene's tax is $10,905.

AMT calculation: For AMT, 30% of capital gains on donated securities ($18,000) and 100% of capital gains on sold securities ($340,000) are included in income. The AMT exemption of $173,205 is deducted. At a rate of 20.5%, federal tax on $184,795 of adjusted taxable income is $37,833. After claiming 80% of the donation tax credit ($17,378) and 50% of the BPA, minimum tax is $19,328.

Since the minimum tax ($19,328) is $8,423 more than the regular tax ($10,905), Eugene's AMT is $8,423.

Employee stock options

When an employee exercises a stock option, a stock option benefit (equal to the difference between the exercise price and the FMV of the securities) is included as employment income. For qualifying options, an employee can claim a stock option deduction equal to 50% of the benefit.[4] This effectively means that only 50% of the benefit is taxed (similar to capital gains) at marginal rates.

Before 2024, 20% of the stock option benefit could be deducted when calculating adjusted taxable income. Starting in 2024, 100% of the benefit is included in adjusted taxable income.

Example 6: Employee stock options

Suppose that Farid exercises stock options to acquire publicly-listed shares at a total exercise price of $100,000. The total FMV of the publicly listed shares is $500,000, so the stock option benefit is $400,000. Assume that all of these options qualify for the stock option deduction.

The following table shows the tax calculations.

Item	Regular tax calculation	AMT calculation
Stock option benefit	$400,000	$400,000
Stock option deduction (50% / 0%)	(200,000)	0
CPP deduction	(838)	(419)
AMT exemption	n/a	(173,205)
Taxable income / Adjusted taxable income	**$199,162**	**$226,376**
Tax at graduated rates / 20.5%	$43,344	$46,407
Basic personal amount	(2,123)	(1,061)
CPP, EI and Canada employment amounts	(855)	(428)
Regular tax / minimum tax	**$40,364**	**$44,918**
AMT	**n/a**	**$4,554**

Source: Tax Templates Inc.

Regular tax calculation: The $400,000 stock option benefit is included in Farid’s income and a 50% stock option deduction of $200,000 can be claimed. A deduction for CPP enhanced premiums ($838) is also claimed. Using graduated tax rates on taxable income of $199,162, tax is $43,344 and, after claiming the BPA, CPP amount, EI amount and Canada employment amount, Farid’s tax is $40,364.

AMT calculation: The full $400,000 stock option benefit is included adjustable taxable income. Deductions are taken for 50% of CPP enhanced premiums ($419) and the AMT exemption of $173,205, leaving adjusted taxable income of $226,376. Using a rate of 20.5%, tax would be $46,407 and, after claiming 50% of the BPA, CPP amount, EI amount and Canada employment amount, Farid’s tax is $44,918.

Since minimum tax under the AMT calculation ($44,918) is more than tax under the regular calculation ($40,364), AMT is payable.

Predictably, other than deductions and credits for CPP, EI and the Canada employment amount, the results of the AMT calculation are the same as in Example 3a, where Chandra sold capital property with a fair market value (FMV) of $500,000 and an adjusted cost base (ACB) of $100,000, realizing a $400,000 capital gain.

[4] To qualify for this deduction, among other requirements, the option price cannot be less than the FMV of the securities at the time the option was granted. For CCPCs, options will also qualify if the employee was dealing at arm’s length with the employer, and the shares are held for at least 2 years after being acquired. For options granted after July 1, 2021, there may be a limit to the availability of the stock option deduction. For employee stock options issued to residents of Quebec, the stock option deduction is reduced to 25 percent of the benefit. For more information on the taxation of stock options, see our report: Employee stock options.

AMT carryover

If you pay AMT, it can be used to offset tax arising under the regular tax system, to the extent that it exceeds AMT, for the following 7 calendar years. Figure 1 may help to estimate the taxable income that would be needed in 2025 to recover AMT paid in the prior 7 years.[5]

Figure 1: Taxable income at various levels of federal tax, if only the BPA is claimed

AMT carryover that may be claimed	2025 taxable income
$10,000	$75,977
$20,000	$124,758
$30,000	$161,101
$40,000	$229,021
$50,000	$316,511

Source: CIBC and Tax Templates Inc.

To recover each $10,000 of AMT above $50,000, you would need an extra $80,000[6] of taxable income in a year. For example, to recover $70,000 of AMT that was paid in 2024, you'd need taxable income of $476,511[7] in 2025.

Example

Let's assume Susan paid $40,000 of AMT in 2024. Figure 1 shows that in 2025, she could recover AMT of $40,000 if Susan has taxable income of $229,021. Another way to recover AMT of $40,000 would be if Susan has $75,977 of taxable income in at least 4 of the following 7 years (from 2025 to 2031) so she'd recover $10,000 of AMT in each of the 4 years (using 2025 calculations).

In our view, most taxpayers should be able to recover AMT paid within the following 7 years. As a result, it may be best in most cases to view AMT as a prepayment of that future tax, rather than as an additional tax. The exception to this may be a situation where someone realizes a one-time event, such as a significant capital gain on publicly-traded shares with an in-kind donation, so there will be minimal income, and minimal regular tax, going forward. In such a case, careful planning may be necessary, such as creating taxable income in those 7 years, perhaps through RRSP or RRIF withdrawals, or other means.

Conclusion

While the new AMT rules that were applicable starting in 2024 are expected to affect very few taxpayers, this report shows that there are some situations in which AMT could apply. For example, you may be at risk of paying some AMT starting in 2024 if you sell shares for a significant capital gain, claim the LCGE on the sale of qualifying shares or property, exercise employee stock options, or make a significant charitable gift in conjunction with realizing income that is taxed at lower rates (such as donating publicly traded securities in-kind).

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[5] Indexation of federal tax brackets and credits, including the BPA, in years after 2025 has not been considered and could materially affect the amount of taxable income that is required to generate the amounts of federal tax that are shown in the table.

[6] Calculated as $10,000 ÷ (33% − 20.5%).

[7] Calculated as $316,511 + ($70,000 − $50,000) ÷ $10,000 × $80,000.

If you have taxable income above $173,205 in 2024 ($177,882 in 2025), be sure to speak with your tax professional to see how AMT could affect your situation. And, keep in mind that if you do have to pay AMT, you'll most likely be able to recover it in the 7-year AMT carryforward period.

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