Alternative minimum tax: What's changing for 2024?

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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.

In the 2023 Federal Budget, the government announced that "to better target the AMT to high-income individuals," several changes would be made to the rules for calculating the AMT, beginning in 2024. The changes 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.) The government indicated that under the new AMT rules, more than 99% of the AMT paid by individual Canadians would be paid by those who earn more than $300,000 per year, and 80% of the total AMT paid would be paid by those earning over $1 million per year.[1] The government estimated that the changes to the AMT rules would generate $3 billion in revenues over the 5-year period starting in 2024.

Let's review how the AMT system works, the proposed changes, some examples where the AMT may or may not arise, and some planning considerations.

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

The current (2023 and prior years') AMT rules apply a flat 15% tax rate on adjusted taxable income. For 2024, the government has proposed to increase 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 AMT.

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[1] Department of Finance, Budget 2023, page 189.

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. Currently, there's a standard $40,000 AMT exemption.

Starting in 2024, the government will be increasing the AMT exemption to the start of the fourth federal tax bracket. That bracket starts at $165,430 for 2023, and the 2023 Federal Budget estimates that the amount will increase to $173,000 for 2024.[2]

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 source of income is fully taxable employment, professional or business income.

Let's review some examples that compare 2024 federal taxes payable under the regular tax calculation, the current AMT calculation (if the AMT rules were not changed), and the new AMT calculation (using the proposed AMT rules that would be applicable as of 2024).[3]

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	Current AMT calculation[4]	New AMT calculation
Employment income	$400,000	$400,000	$400,000
AMT exemption	n/a	(40,000)	(173,000)
Taxable income / Adjusted taxable income	**$400,000**	**$360,000**	**$227,000**
Tax at graduated rates[5] / Minimum tax at 15% / 20.5%	$107,745	$54,000	$46,535
AMT	n/a	$0	$0

Source: CIBC and Tax Templates Inc.

Regular tax calculation: Employment income of $400,000 is included in Abigail's taxable income. Using graduated tax rates, her tax is $107,745.

New AMT calculation: Employment income of $400,000 is still included in Abigail's adjusted taxable income. The AMT exemption of $173,000 is deducted, leaving adjusted taxable income of $227,000, and minimum tax of $46,535 (at 20.5%).

Since the regular tax ($107,745) is more than the minimum tax ($46,535), Abigail has no AMT payable.

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2 The start of the fourth bracket at $173,000 in 2024 implies an estimated indexation factor of 4.58% for 2024. For consistency, this factor is used to index all the brackets for 2024 in the calculations (see Footnote 5).

3 Throughout the various examples in this report, we've assumed that the only tax credits claimed are the dividend tax credit and the donation tax credit, when applicable.

4 Under current rules, the AMT exemption of $40,000 is deducted, and the rate for calculating minimum tax is 15%.

5 As per Footnote 2, an annual indexation factor of 4.58% is used, so 2024 federal tax brackets, amounts and rates would be as follows:

Tax bracket	Taxable income over	Taxable income not over	Tax rate
First	$0	$55,801	15.0%
Second	$55,801	$111,600	20.5%
Third	$111,600	$173,000	26.0%
Fourth	$173,000	$246,459	29.0%
Fifth	$246,459	n/a	33.0%

Details of the AMT base

Deductions

Currently, most common deductions are permitted in calculating adjusted taxable income for AMT. Starting in 2024, the AMT base will be 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 incurred to earn income from property, limited partnership losses of other years, and non-capital loss carryovers.

Non-refundable 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. Currently, most non-refundable federal tax credits can be applied against the AMT. Starting in 2024, the government is proposing that only 50% of most non-refundable tax credits be allowed when calculating the AMT.

One exception is the dividend tax credit. 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 current AMT rules, both the gross-up and tax credit on Canadian dividends are ignored. This will continue to be the case under the new AMT rules in 2024.

Interestingly, eligible dividends alone, even at large amounts, will not generate any AMT under the new AMT rules. This is because the average tax rate (using the progressive graduated rates) on taxable income above $173,000 is at least 20.68% under the regular tax calculation, which is higher than the AMT rate of 20.5% under the new AMT rules.

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	Current AMT calculation	New AMT calculation
Eligible dividends	$400,000	$400,000	$400,000
Gross-up (38% for eligible dividends)	152,000	0	0
AMT exemption	n/a	(40,000)	(173,000)
Taxable income / Adjusted taxable income	**$552,000**	**$360,000**	**$227,000**
Tax at graduated rates / 15% / 20.5%	$157,905	$54,000	$46,535
Dividend tax credit (federal)	(82,909)	(0)	(0)
Tax / Minimum tax	$74,995	$54,000	$46,535
AMT	n/a	$0	$0

Source: CIBC and 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 $157,905, which is then reduced by the federal dividend tax credit of $82,909. Bruno, therefore, has regular tax of $74,995.

New AMT calculation: The actual amount of eligible dividends of $400,000 is included in Bruno's adjusted taxable income. The AMT exemption of $173,000 is deducted, leaving Bruno with adjusted taxable income of $227,000, and minimum tax of $46,535 (at 20.5%).

Since the regular tax ($74,995) is higher than the minimum tax ($46,535), 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 current AMT rules, 80% of a capital gain is included. Starting in 2024, 100% of capital gains will be included in adjusted taxable income.

Under the current AMT rules, 100% of net capital losses that are carried forward from a previous year, and 100% of Allowable Business Investment Losses[6] are deducted in AMT calculations. Under the new AMT rules, only 50% of these losses would be deductible.

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 rate of 33%, since the capital gains tax rate under the regular calculation is 16.5% (50% times 33%), and the AMT rate in 2024 is higher, at 20.5%.

Example 3a: Capital gains

Suppose Chandra sells capital property 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	Current AMT calculation	New AMT calculation
Taxable capital gains (50% / 80% / 100%)	$200,000	$320,000[7]	$400,000
AMT exemption	n/a	(40,000)	(173,000)
Taxable income / Adjusted taxable income	**$200,000**	**$280,000**	**$227,000**
Tax at graduated rates / Minimum tax at 15% / 20.5%	$43,603	$42,000	$46,535
AMT	n/a	$0	$2,932

Source: CIBC and Tax Templates Inc.

Regular tax calculation: Half (50%) of capital gains ($200,000) is included in Chandra's taxable income. Using graduated tax rates, her tax is $43,603.

New AMT calculation: The full amount (100%) of capital gains ($400,000) is included in Chandra's adjusted taxable income. The AMT exemption of $173,000 is deducted, leaving her with adjusted taxable income of $227,000. Applying the 20.5% tax rate, minimum tax of $46,535 arises.

Since minimum tax ($46,535) is $2,932 higher than the regular tax ($43,603), Chandra's AMT is $2,932.

6 An allowable business investment loss (ABIL) can happen when you sell shares or debt of a small business corporation for a loss. Unlike capital losses, which can only be deducted against capital gains, an ABIL may be deducted against all sources of income and may be carried forward for up to 10 years, after which it becomes a capital loss, which may be carried forward indefinitely.

7 In the current AMT calculation, 80% of capital gains is included in adjusted taxable income.

Example 3b: Capital losses carried forward

As with Example 3a, Chandra sells capital property 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. 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.[8] The following table shows her tax calculations.

Item	Regular tax calculation	Current AMT calculation	New AMT calculation
Taxable capital gains (50% / 80% / 100%)	$200,000	$320,000	$400,000
Net capital loss carried forward	(100,000)	(160,000)	(100,000)
AMT exemption	n/a	(40,000)	(173,000)
Taxable income / Adjusted taxable income	**$100,000**	**$120,000**	**$127,000**
Tax at graduated rates / Minimum tax at 15% / 20.5%	$17,431	$18,000	$26,035
AMT	n/a	$435	$8,604

Source: CIBC and Tax Templates Inc.

Regular tax calculation: Half (50%) of capital gains ($200,000) is included in Chandra’s income. The net capital loss of $100,000 that is carried forward can be deducted, leaving taxable income of $100,000. Using graduated tax rates, the tax is $17,431.

New AMT calculation: The full amount (100%) of capital gains ($400,000) is included in Chandra’s income and the net capital loss of $100,000 that is carried forward can be deducted. The AMT exemption of $173,000 is deducted as well, leaving adjusted taxable income of $127,000. Applying the 20.5% tax rate, minimum tax is $26,035.

Since minimum tax ($26,035) is $8,604 higher than the regular tax ($17,431), Chandra’s AMT is $8,604.

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. Under the current AMT rules, 80% of capital gains are included in adjusted taxable income for AMT calculations and the rate for the LCGE is 50%. Under the new AMT rules, 100% of the capital gains will be included in adjusted taxable income and a deduction may be claimed for 7/5 of the LCGE that is claimed in the regular tax calculation.

[8] Net capital losses of other years are divided by the applicable rate for the year in which they arose, then multiplied by the rate for the current year. A $100,000 net capital loss carried forward from 2020 would first be divided by the 2020 applicable rate of 50%, resulting in a $200,000 capital loss. For regular tax calculations, the 2023 applicable rate is 50% so a $100,000 ($200,000 times 50%) net capital loss can be deducted. For 2023 AMT calculations, the allowable rate is 80%, so $160,000 ($200,000 times 80%) can be deducted. For 2024 AMT calculations, the allowable rate is 50%, so $100,000 ($200,000 times 50%) can be deducted.

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.[9] The following table shows his tax calculations.

Item	Regular tax calculation	Current AMT calculation	New AMT calculation
Taxable capital gain (50% / 80% / 100%)	$500,000	$800,000	$1,000,000
LCGE (50% / 50% / 70%[10])	(500,000)	(500,000)	(700,000)
AMT exemption	n/a	(40,000)	(173,000)
Taxable income / Adjusted taxable income	**$0**	**$260,000**	**$127,000**
Tax at graduated rates / Minimum tax at 15% / 20.5%	$0	$39,000	$26,035
AMT	n/a	$39,000	$26,035

Source: CIBC and Tax Templates Inc.

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

New AMT calculation: The full amount (100%) 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 (7/5ths of the $500,000 in the regular tax calculation) and the AMT exemption of $173,000 are deducted, leaving adjusted taxable income of $127,000. Using a rate of 20.5%, the minimum tax would be $26,035.

Since the minimum tax under the AMT calculation ($26,035) is more than tax under the regular calculation ($0), Dovid's AMT is $26,035.

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 not only get a tax receipt equal to the FMV of the securities being donated (and can claim a non-refundable donation tax credit), but they also do not pay tax on capital gains on the donated shares.

Currently, this zero inclusion rate for capital gains on in-kind donations of publicly traded securities also applies for AMT purposes. Starting in 2024, the government is proposing that 30% of capital gains on publicly listed securities that are donated in-kind would be included in adjusted taxable income under the new AMT rules.

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.

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9 For 2023, the maximum LCGE is $971,190 for QSBC shares, and is $1 million for qualified farm and fishing property. As per footnote 2, an annual indexation factor of 4.58% has been used, so the maximum LCGE for QSBC shares would be $1,015,631 in 2024.

10 LCGE claimed in the regular tax calculation, times 7/5ths.

Item	Regular tax calculation	Current AMT calculation	New AMT calculation
Taxable capital gains on donated securities (0% / 0% / 30%)	$0	$0	$18,000
Taxable capital gains on sold securities (50% / 80% / 100%)	170,000	272,000	340,000
AMT exemption	n/a	(40,000)	(173,000)
Taxable income / Adjusted taxable income	**$170,000**	**$232,000**	**$185,000**
Tax at graduated rates / 15% / 20.5%	$34,993	$34,800	$37,925
Donation tax credit (100% / 100% / 50%)	(21,722)[11]	(21,722)	(10,861)
Tax / Minimum tax	$13,271	$13,078	$27,064
AMT	n/a	$0	$13,793

Source: CIBC and Tax Templates Inc.

Regular tax calculation: No capital gains on donated securities and 50% of capital gains on sold securities ($170,000) are included in taxable income. Using graduated tax rates, federal tax on $170,000 of taxable income is $34,993. After subtracting the donation tax credit of $21,722 (for the $75,000 donation), Eugene's tax is $13,271.

New AMT calculation: Unlike the current AMT calculation, 30% of capital gains on donated securities ($18,000) and 100% of capital gains on sold securities ($340,000) are included in income for the new AMT calculation. The AMT exemption of $173,000 is deducted. At a rate of 20.5%, federal tax on $185,000 of taxable income is $37,925. Only 50% of the donation tax credit is allowed under the new AMT rules, resulting in a donation tax credit of $10,861 (50% of the $21,722 allowed in the regular tax calculation), and minimum tax of $27,064.

Since the minimum tax ($27,064) is $13,793 more than the regular tax ($13,271), Eugene's AMT is $$13,793.

Employee stock options

When an employee exercises an employee 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.[12] This effectively means that only 50% of the benefit is taxed (similar to capital gains that are only 50% taxed) at marginal rates.

Under the current AMT rules, 20% of the stock option benefit can be deducted when calculating adjusted taxable income. For 2024, it is proposed that 100% of the benefit will be included in adjusted taxable income under the new AMT rules.

Example 6: Employee stock options

Suppose that Farid exercises 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.

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[11] Calculated as ($200 times 15%) plus ($74,800 times 29%). The donation tax credit rate of 33% does not apply, since there is no taxable income over $246,459 (the top bracket for 2024, when indexed as per Footnote 2).

[12] 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.

Item	Regular tax calculation	Current AMT calculation	New AMT calculation
Stock option benefit (100%)	$400,000	$400,000	$400,000
Stock option deduction (50% / 20% / 0%)	(200,000)	(80,000)	(0)
AMT exemption	n/a	(40,000)	(173,000)
Taxable income / Adjusted taxable income	**$200,000**	**$280,000**	**$227,000**
Tax at graduated rates / Minimum tax at 15% / 20.5%	$43,603	$42,000	$46,535
AMT	n/a	$0	$2,932

Source: CIBC and 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. Using graduated tax rates on taxable income of $200,000, Farid's tax is $43,603.

New AMT calculation: The $400,000 stock option benefit is included adjustable taxable income but no stock option deduction can be claimed. The AMT exemption of $173,000 is deducted, leaving adjusted taxable income of $227,000. Using a rate of 20.5%, minimum tax would be $46,535.Since the minimum tax under the AMT calculation ($46,535) is more than tax under the regular calculation ($43,603), Farid's AMT is $2,932.

Predictably, the results of the new AMT calculation are the same as in Example 3, 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.

AMT carryover

If you pay AMT, it can be used to offset tax arising under the regular tax system for the following 7 calendar years. Figure 1 shows that if an individual paid $10,000 in AMT at some point in the prior 7 years (between 2017 through 2023), this AMT could be fully recovered in 2024 as long as that individual had at least $75,229 of taxable income in that year (assuming no further preference items).

Figure 1 may also help to estimate the taxable income that would be needed to recover 2024 AMT.[13]

For example, one way to recover AMT of $100,000 would be to have $382,959 of taxable income in one of the next 7 years. Another way to recover AMT of $100,000 would be to have $121,385 of taxable income (with federal tax of $20,000) in 5 of the next 7 years.

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

Federal tax	Taxable income	Federal tax	Taxable income
$10,000	$75,229	$60,000	$261,747
$20,000	$121,385	$70,000	$292,050
$30,000	$159,846	$80,000	$322,353
$40,000	$195,445	$90,000	$352,656
$50,000	$229,557	$100,000	$382,959

Source: CIBC and Tax Templates Inc.

[13] Indexation of federal tax brackets in years after 2024 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.

The reality is that 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 significant capital gain, perhaps on the sale of a business, 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 start 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 in 2024 if you sell shares for a significant capital gain, claim the LCGE on sale of qualifying shares or property, exercise employee stock options, or make a significant charitable gift (such as donating publicly traded securities in-kind) after 2023.

Be sure to speak with your tax professional to see how AMT could affect your situation in 2024, and, if appropriate, consider triggering a gain, exercising employee stock options or making your charitable gift in 2023, when the current AMT rules may result in no (or lower) AMT.

And, keep in mind that if you do have to pay AMT (either under the current rules or the new rules), you'll most likely be able to recover any AMT given the 7-year AMT carry forward period.

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