Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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How the alternative minimum tax (AMT) rules may impact charitable giving

Since 2023, the government has introduced a number of changes to AMT which may have broadened its impact on high-income earners. If you're a high-income earner who's philanthropic, some of these changes may significantly affect you and the charities you support for tax years after 2023. These new rules may cause you to re-evaluate your personal charitable donation plans, including reviewing what assets to donate, how much to give, and when to give.

What is AMT?

AMT has been in effect since 1986 and is intended to prevent high-income individuals (and certain trusts) from significantly lowering their taxes by using certain tax preferences or incentives. Tax preferences or incentives are specific items that reduce your taxable income or tax liability, such as claiming certain exemptions like the lifetime capital gains exemption (LCGE), earning tax-preferential income like capital gains or benefiting from charitable donations. Consequently, you're required to compute your tax liability by calculating your regular tax and AMT. You pay either the regular tax or the AMT, whichever is higher. The AMT calculation allows fewer deductions, exemptions and tax credits than the regular income tax rules. 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 more details on the AMT rules, ask your RBC advisor for an article on how AMT impacts individuals.

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?

When you donate a publicly listed security in-kind to a registered charity, you get a donation tax receipt for the fair market value of the security at the time the charity receives it. With this receipt, you

may choose to claim a donation tax credit, which would reduce your regular taxes payable for the year. Donating in-kind also allows you to avoid including any capital gain triggered on the donation of the security in your taxable income by claiming a zero capital gains inclusion rate. With that in mind, you may have included donating securities in-kind in your charitable giving plan.

However, when calculating AMT, you don't get to exclude the entire capital gain. Instead, you need to include 30% of the capital gain realized on the in-kind donation of the security (other than a flow-through share class of property) in adjusted taxable income (ATI). If the donated security is a flow-through class of property, since only gains above your original cost qualify for the zero capital gains inclusion rate, you only need to include 30% of this portion of the capital gain in ATI. In addition, you can only claim 80% of the donation tax credit in determining your AMT liability.

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

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Examples

Example 1

Let's compare your estimated federal tax liability with your estimated federal AMT liability, assuming you earn $400,000 of interest income and want to donate publicly listed securities in-kind, valued at $150,000. The securities have an adjusted cost base (ACB) of $50,000 so that the accrued capital gain is $100,000.

	2026 federal regular tax calculation	2026 federal AMT calculation
Interest income	$400,000	$400,000
Taxable capital gain on in-kind donation (0% / 30%)	$0	$30,000
Taxable income / ATI	**$400,000**	**$430,000**
AMT basic exemption		($181,440)
Net adjusted taxable income		**$248,560**
Federal tax (at graduated rates) / AMT (at 20.5%)	$105,976	$50,955
Donation tax credit[1] (100% / 80%)	($49,500)	($39,600)
Other non-refundable tax credit[2] (100% / 50%)	($2,076)	($1,038)
Federal tax / AMT	**$54,400**	**$10,317**
Additional tax due to AMT		**$0**

1 Example ignores the first $200 donation at the lowest federal tax rate and assumes a federal donation tax credit rate of 33% for the full donation amount.
2 Other non-refundable tax credit is the basic personal amount.

In this example, you wouldn't have an AMT liability, but you would owe $54,400 in regular federal tax.

Example 2

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.

	2026 federal regular tax calculation	2026 federal 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%)	$0	$30,000
Taxable income / ATI	**$401,000**	**$480,000**
AMT basic exemption		($181,440)
Net adjusted taxable income		**$298,560**
Federal tax (at graduated rates) / AMT (at 20.5%)	$106,306	$61,205
Donation tax credit[3] (100% / 80%)	($49,500)	($39,600)
Other non-refundable tax credit[4] (100% / 50%)	($2,076)	($1,038)
Dividend tax credit (15.0198%)	($41,455)	N/A
Federal tax / AMT	**$13,275**	**$20,567**
Additional tax due to AMT		**$7,292**

3 Example ignores the first $200 donation at the lowest federal tax rate and assumes a federal donation tax credit rate of 33% for the full donation amount.
4 Other non-refundable tax credit is the basic personal amount.

In this example, since the minimum tax of $20,567 is greater than the regular tax of $13,275, you'd have an AMT liability and owe $20,567 in federal taxes.

Example 3

In our final example, let's assume you earned $300,000 of interest 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 doesn't qualify for the LCGE. You also want to donate securities in-kind, valued at $975,000 with a nominal ACB.

	2026 federal regular tax calculation	2026 federal AMT calculation
Interest income	$300,000	$300,000
Taxable capital gain from sale of business (50% / 100%)	$1,000,000	$2,000,000
Taxable capital gain on in-kind donation (0% / 30%)	$0	$292,500
Taxable income / ATI	**$1,300,000**	**$2,592,500**
AMT basic exemption		($181,440)
Net adjusted taxable income		**$2,411,060**
Federal tax (at graduated rates) / AMT (at 20.5%)	$402,976	$494,267
Donation tax credit[5] (100% / 80%)	($321,750)	($257,400)
Other non-refundable tax credit[6] (100% / 50%)	($2,076)	($1,038)
Federal tax / AMT	**$79,150**	**$235,829**
Additional tax due to AMT		**$156,679**

5 Example ignores the first $200 donation at the lowest federal tax rate and assumes a federal donation tax credit rate of 33% for the full donation amount.
6 Other non-refundable tax credit is the basic personal amount.

Since the minimum tax of $235,829 is greater than the regular tax of $79,150, you'd have an AMT liability and owe $235,829 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, whichever is sooner. 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 not be able to fully recover your AMT credit if you claim the same types of exemptions, deductions and credits or have the same type of tax-preferential income 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 corporation make the donation. This is because AMT is applicable to individuals and not to corporations. In addition, 100% of the capital gains from the donation of publicly listed securities are added to the corporation's capital dividend account (CDA) and can be paid tax-free to you as a capital dividend to the extent the CDA is positive.
- AMT doesn't apply on death. As such, donations made through your graduated rate estate will not be affected by AMT.

The changes to AMT may create an additional tax liability for those with charitable intentions. With proper planning, you can still support a cause or charitable organization that's meaningful to you and make a difference 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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