



Wealth
Management

the Navigator



INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Aaron Fennell, MBA, CFA
Portfolio Manager & Investment
Advisor
Tel: 416-313-6397
aaron.fennell@rbc.com

RBC Dominion Securities
181 Bay Street, Suite 2350
Toronto, ON M5J 2T3
www.aaronwfennell.com

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 are a high-income earner who is philanthropic, some of these changes may significantly affect you and the charities you support. 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.

Changes to AMT were proposed in the government's 2023 federal budget. The proposals were amended and confirmed in the 2024 federal budget and then passed into law on June 20, 2024. These changes to AMT are effective as of January 1, 2024. Additional amendments were proposed on August 12, 2024, with respect to flow-through shares and the deduction of investment counsel fees but would have to be re-introduced by the new government and passed into law to be effective. For more information on these proposed amendments, please ask your RBC advisor for the article discussing how the AMT rules may impact individuals.

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 receive a donation tax receipt for the full fair market value of the security. 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 accrued on the donated security in your taxable income. As such, you may have included donating securities in-kind in your charitable giving plan.

However, when calculating AMT, you need to include 30% of the capital gain realized on the in-kind donation of the security in adjusted taxable income (ATI). In addition, you can only claim 80% of the donation tax credit in determining your AMT liability.

On August 12, 2024, the previous Liberal government proposed further amendments to AMT related to in-kind donations of a flow-through class of property. These proposals are not yet law and requires re-introduction by the newly elected government. Therefore, the Canada Revenue Agency (CRA) is not administering this proposal. This provision, if enacted, ensures that you include only 30% of the "true" capital gain in ATI for AMT purposes on the in-kind donation of a flow-through class of property. The "true" capital gain is the proceeds received that is more than your original cost amount of the flow-through class of property.

To illustrate the potential tax impact of the changes to AMT related to charitable donations, 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.

When you donate a publicly listed security in-kind to a registered charity, you receive a donation tax receipt for the full fair market value of the security. With this receipt, you may choose to claim a donation tax credit, which would reduce your regular taxes payable for the year.

Examples

Example 1

Let's compare your estimated federal tax liability with your estimated 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.

	Regular federal tax calculation	2025 federal AMT calculation
Interest income	\$ 400,000	\$ 400,000
Taxable capital gain on in-kind donation (0% / 30%)	-	\$ 30,000
Taxable income / ATI	\$ 400,000	\$ 430,000
AMT basic exemption	-	\$ (177,882)
Net adjusted taxable income	-	\$ 252,118
Federal tax (at graduated rates) / AMT (at 20.5%)	\$ 106,773	\$ 51,684
Donation tax credit* (100% / 80%)	\$ (49,500)	\$ (39,600)
Other non-refundable tax credit** (100% / 50%)	\$ (2,108)	\$ (1,054)
Federal tax / AMT	\$ 55,165	\$ 11,030
Additional tax due to AMT	-	\$ 0

* 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.

** Other non-refundable tax credit is the basic personal amount.

In this example, you wouldn't have an AMT liability but you would owe \$55,165 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.

	Regular federal tax calculation	2025 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%)	-	\$ 30,000
Taxable income / ATI	\$ 401,000	\$ 480,000
AMT basic exemption	-	\$ (177,882)
Net adjusted taxable income	-	\$ 302,118
Federal tax (at graduated rates) / AMT (at 20.5%)	\$ 107,103	\$ 61,934
Donation tax credit* (100% / 80%)	\$ (49,500)	\$ (39,600)
Other non-refundable tax credit** (100% / 50%)	\$ (2,108)	\$ (1,054)
Dividend tax credit (15.0198% / NIL)	\$ (41,455)	-
Federal tax / AMT	\$ 14,040	\$ 21,280
Additional tax due to AMT	-	\$ 7,240

* 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.

** Other non-refundable tax credit is the basic personal amount.

In this example, since the minimum tax of \$21,280 is greater than the regular tax of \$14,040, you'd have an AMT liability and owe \$21,280 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 does not qualify for the LCGE. You also wish to donate securities in-kind, valued at \$975,000 with a nominal ACB.

	Regular federal tax calculation	2025 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%)	-	\$ 292,500
Taxable income / ATI	\$ 1,300,000	\$ 2,592,500
AMT basic exemption	-	\$ (177,882)
Net adjusted taxable income	-	\$ 2,414,618
Federal tax (at graduated rates) / AMT (at 20.5%)	\$ 403,773	\$ 494,997
Donation tax credit* (100% / 80%)	\$ (321,750)	\$ (257,400)
Other non-refundable tax credit** (100% / 50%)	\$ (2,108)	\$ (1,054)
Federal tax / AMT	\$ 79,915	\$ 236,543
Additional tax due to AMT	-	\$ 156,627

* 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.

** Other non-refundable tax credit is the basic personal amount.

Since the minimum tax of \$236,543 is greater than the regular tax of \$79,915, you'd have an AMT liability and owe \$236,543 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 great cause 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.



**Wealth
Management**

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Wealth Management Financial Services Inc. (RBC WMFS), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)* and Royal Mutual Funds Inc. (RMFI). *Member – Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, RBC DI or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ®/™ Trademark(s) of Royal Bank of Canada. Used under licence. © Royal Bank of Canada 2025. All rights reserved.