

Budget 2024 Update to the Alternative Minimum Tax



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Budget 2024 introduced amendments to the Alternative Minimum Tax (AMT) calculation originally proposed in Budget 2023. Budget 2024 will allow 80 per cent of charitable donations to be excluded from the AMT tax base (up from the originally proposed 50 per cent). It will also allow certain new deductions and credits and certain previously disallowed credits to be eligible for the AMT carry-forward. In addition, it will include AMT exemptions for Employee Ownership Trusts and certain trusts for the benefit of Indigenous Groups.

The amendments are assumed to have been in effect as of January 1, 2024.

The Parliamentary Budget Officer (PBO) estimates a decrease of \$598 million in income tax revenues from 2023-24 to 2027-28.

5-Year Cost

\$ millions

Fiscal year	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Cost from individuals	33	133	131	129	127	553
Cost from trusts	2	9	10	11	12	45
Total cost	36	142	141	140	139	598

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

Estimation and Projection Method

The PBO used Statistics Canada's Social Policy Simulation Database/Model (SPSD/M) (version 30.2) for the incomes, deductions, and tax credits of high-income individuals. In addition, PBO obtained detailed counts and averages for a list of relevant variables from

the Canada Revenue Agency (CRA) for tax filers with over \$100,000 taxable income as well as those with \$100,000 total income.¹ These data were used to adjust the SPSPD/M database to improve their accuracy for high-income individuals. Additional publicly available data on AMT carryover usage were obtained from CRA's T1 Final Statistics.

PBO estimated the fiscal impacts of the AMT changes on individuals using SPSPD/M. For variables in the SPSPD/M database that showed significant differences compared to the data provided by CRA, adjustments were performed to match the SPSPD/M counts and averages with the CRA data for each corresponding total income bracket, wherever applicable. The income tax brackets and the AMT exemption amount were grown using PBO's internal Consumer Price Index (CPI) projections. Since the increase in exemption rate for the donation tax credits is expected to incentivize additional donations (and increased utilization of charitable donation tax credits), PBO included an additional cost to account for this behavioural impact. The magnitude of additional donations was estimated using a tax price elasticity of -0.7, based on the lower-bound estimate from a Finance Canada (2016) study. Furthermore, the decreased AMT obligations under the new rules are expected to reduce the amount of AMT carryover claimed in future years. Therefore, PBO created a model to also account for the cost savings resulting from the changes in AMT carryover utilization behaviour.

To estimate fiscal impacts from the AMT changes on trusts, PBO created a model based on the T3 Trust Income Tax and Information Return, and the T3 Schedule 11, Schedule 11A and Schedule 12 forms. Available data obtained from CRA were used to simulate the average filer's return for various years and income brackets. Publicly available CRA trust data were also used.

For each year of historical data, the normal and AMT amounts were calculated both under the changes proposed in Budget 2023 and the further changes proposed in Budget 2024. The numbers were then adjusted based on historical data to account for additional types of trusts being excluded from paying AMT under the proposed rules.

For both individuals and trusts, PBO models considered the Budget 2024 change to the capital gains inclusion rate on non-AMT taxes. This costing represents only the impacts of the Budget 2024 changes to the AMT rules, with the Budget 2024 capital gains inclusion rates changes already included in the baseline.²

Sources of Uncertainty

There is some uncertainty in the historical values of the income, deduction, and tax credit variables in SPSPD/M for high-income individuals, particularly in the correlation between the

different variables. In addition, variables in SPSPD/M do not always match with the concepts required in AMT calculations. Growth rates of relevant variables, such as demographics, incomes, credits, and deductions, may also differ from those assumed in SPSPD/M. An increase in AMT exemption rate on charitable donations is expected to increase the total amount of donations, which will increase the total cost of this measure due to the higher usage of charitable donation tax credits. There is high uncertainty in the magnitude of this cost increase, due to a wide range of tax elasticities on donations reported in literature. Finally, there is significant uncertainty in how the usage of AMT carryover will be affected by this measure.

For trusts, due to a lack of data, the PBO was not able to include all Budget 2024 AMT changes in its calculations. However, given that the change in trust AMT revenue due to Budget 2024 is dramatically smaller than the change in individual AMT revenue, the lack of data for trusts is not expected to greatly impact the overall results.

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Data Sources

Incomes, Deductions, and Tax Credits Related to AMT Calculations

SPSPD/M Version 30.2, CRA Information Request IR0791

AMT Carryover Usage

[CRA T1 Final Statistics](#)

Tax Price Elasticity of Donations

[Department of Finance Canada \(2016\)](#)

Various AMT data

Canada Revenue Agency, through [Information Request IR0791](#)

Consumer Price Index projections

PBO Economic and Fiscal Outlook – October 2024 (Internal projections)

Further trust data

Canada Revenue Agency

¹ Data was obtained through [Information Request IR0791](#).

² The inclusion rate change, as articulated in Budget 2024, was assumed to come into effect on June 25, 2024.

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