



Changes to the Alternative Minimum Tax as Proposed in Budget 2023



The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report estimates the impact of changes to the Alternative Minimum Tax (AMT) proposed in Budget 2023. Some high-earning individuals and trusts have enough tax credits, deductions and other tax incentives that their income tax as a percentage of their income is lower than that of other taxpayers. The AMT aims to ensure that higher-income taxpayers pay at least a base rate of tax.

Budget 2023 proposed changes to the AMT that would make the highest-income earners pay a greater proportion of the total AMT revenue.

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Highlights

Budget 2023 proposed changes to the Alternative Minimum Tax (AMT).

The AMT is an alternative tax calculation meant to ensure that high-income individuals and trusts do not pay a disproportionately small amount of tax relative to their income compared with other taxpayers.

The estimated net revenue from these changes is \$2.6 billion over five years.

The changes are expected to shift the tax burden to higher-income individuals. However, the same shift is not expected for trusts.

Summary

Some high-earning individuals and trusts can claim tax credits, deductions and other tax incentives that result in the income tax they pay being low compared with that paid by lower-income taxpayers. The aim of the Alternative Minimum Tax (AMT) is to ensure that higher-income taxpayers pay at least a base rate of tax, even after claiming tax credits, deductions and other tax preferences. These individuals and trusts calculate their tax payable the “normal” way, as well as the AMT way, and they pay the higher amount of tax calculated.

Budget 2023 proposed changes to the AMT, with the goal of shifting a greater proportion of the total AMT burden to high-income taxpayers. The changes would come into effect in January 2024.¹

PBO estimates that the net revenue from these changes will be \$2.6 billion over five years. The majority would come from individual taxpayers rather than from trusts.

Among individuals, more of the tax burden of the AMT would be expected to shift to higher-income earners than before the changes. The reverse would be true for trusts—trusts with lower incomes would face a higher burden.

Summary Table 1

AMT fiscal impact (\$ millions)

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Net cost	-142	-574	-603	-636	-669	-2,623

Source:

Office of the Parliamentary Budget Officer.

Notes:

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.

Introduction

Some high-earning individuals and trusts can claim tax credits, deductions and other tax incentives that result in the amount of income tax they pay being low compared with that paid by lower-income taxpayers. The aim of the Alternative Minimum Tax (AMT) is to ensure that higher-income taxpayers pay at least a base rate of tax. These individuals and trusts calculate their tax payable the “normal” way, as well as the AMT way, and they pay the higher amount of tax calculated.

Other countries also have AMTs. For example, the United States first introduced an AMT in 1969, which was before Canada first adopted the AMT in 1986.

Canada’s AMT has not been modified substantially since it came into effect. In Budget 2023, the government proposed changes to the AMT system. The government’s stated intent was for an even greater share of the total AMT revenue to be paid by the highest earners. The government’s calculations predict that the changes would increase AMT revenue by \$3.0 billion over the 2024–2028 taxation years. The changes would come into effect in January 2024.

PBO conducted its own analysis of the revenue expected from the AMT changes, for both individuals and trusts. Where possible, PBO also provided analysis on expected revenue by income bracket, the number of AMT payees and other relevant statistics.

This report is structured as follows: the first section details the data and methodology used to calculate the AMT for individuals and trusts. The second section presents the main results. Appendix A provides more detail about how the AMT would be distributed between income brackets before and after the changes.

How does the Alternative Minimum Tax work?

Individuals and trusts generally complete their tax return on a yearly basis and under certain circumstances must also determine their Alternative Minimum Tax (AMT) amount.² While the tax rate under the AMT (15%) is lower than the top personal income tax rate (33%), the calculation of adjusted taxable income on which the AMT is applied does not allow taxpayers to claim most tax preferences normally available under the regular tax regime (such as the Political Contribution Tax Credit and the inclusion of only half of capital gains in income). After calculating the tax owed under each regime, the taxpayer pays the higher of the two. If the AMT is higher, the taxpayer can carryover the difference between AMT paid and the normal income tax as a credit towards their income tax payable for up to seven years.

Budget 2023 proposed changes to the AMT regime such that the tax base used for AMT would include a higher share of total income. As well, the federal AMT tax rate would rise from 15% to 20.5%.

For eligible taxpayers, there is an amount of income that is excluded from the calculation.³ The exclusion amount is currently \$40,000, but Budget 2023 proposed raising it to \$173,000.⁴

These changes are intended to increase income tax revenue and shift an increasing share of the AMT to high-income taxpayers.

Data

Individuals

For this analysis, PBO used Statistics Canada's Social Policy Simulation Database/Model (SPSD/M) (version 30.0) for the incomes, deductions and tax credits of high-income individuals. There are some limitations of using the SPSPD/M database for this purpose.⁵ First, SPSPD/M's original source of income data is the Canadian Income Survey, which does not contain sufficiently large samples of high-income earners to be representative. To correct this, the variables related to incomes, deductions and tax credits are imputed in SPSPD/M to better match with T1 administrative data, wherever possible. However, each deduction or credit was imputed individually without accounting for potential correlation with other variables. Due to these data limitations, some of the variables relevant to AMT in SPSPD/M sometimes show significant differences with the actual values.

To improve the accuracy of SPSPD/M and mitigate some of these limitations, PBO obtained the actual counts and averages for a list of variables from the Canada Revenue Agency (CRA) for filers with taxable income of \$100,000 and above.⁶ For each variable, PBO obtained the counts and averages of applicable individuals within the following taxable income brackets:

- intervals of \$50,000 for those with taxable incomes between \$100,000 and \$499,999
- intervals of \$250,000 for those with taxable incomes between \$500,000 and \$999,999
- intervals of \$500,000 for those with taxable incomes between \$1,000,000 and \$1,999,999
- top interval for those with taxable incomes above \$2,000,000.

For some variables, data was suppressed due to an insufficient number of individuals within the brackets. In some of these cases, PBO was able to

obtain the same summary statistics grouped into larger income brackets. In addition, the total number of individuals that paid AMT in past years was obtained from CRA's T1 Final Statistics.⁷

Trusts

SPSD/M does not include data on trusts. Variables related to the incomes, deductions and credits used in AMT calculations for trusts were also obtained from the CRA. The information available for trusts was more limited than that for individuals because there were smaller numbers of trusts compared to individuals, leading to additional data suppression. Moreover, many variables were only available for two income brackets: \$100,000 to \$499,999 and \$500,000 and above.

Additional publicly available statistics on trusts were obtained from the CRA's website.⁸

Methodology

Individuals

To estimate the revenue impacts of the AMT changes on individuals, PBO first adjusted the SPSPD/M database to better match the information provided by CRA. Adjustments were done on SPSPD/M variables that showed significant differences with CRA data and represented large dollar values. The adjustments aimed to match the SPSPD/M counts and averages for each of these variables with the CRA data for each corresponding taxable income bracket, wherever possible. In addition, the income tax brackets and the AMT exemption amount were grown using PBO's internal Consumer Price Index (CPI) projections.

After creating the adjusted database, PBO simulated Budget 2023's AMT changes in SPSPD/M. Even with the database adjustments, SPSPD/M tended to underestimate the number of individuals subjected to AMT in the past.

As a result, the projected revenue was further scaled by the ratio of individuals subjected to AMT in SPSPD/M compared with that in CRA's T1 Final Statistics in 2018—the reference year for the SPSPD/M database.

Typically, when there are changes to the tax system, some affected individuals change their behaviour to minimize the amount of tax they pay. This is especially true of higher-income individuals, who likely have access to professionals who help them minimize their taxes. Behavioural changes may include changing the timing or extent of asset sales or claiming credits or deductions. To account for this behavioural response, the SPSPD/M output was reduced by 20%.

SPSPD/M allows projections until the calendar year 2027. The projected revenues and AMT taxpayer counts for 2028 were extrapolated using their respective average growth rates from 2024–2027.

Trusts

SPSPD/M does not include data on trusts. Therefore, a different methodology was used to estimate the effect of the AMT changes on tax revenue.

PBO created a model based on the T3 Trust Income Tax and Information Return, and the T3 Schedule 11 and T3 Schedule 12 forms. Available data obtained from CRA were used to simulate the average filer's return for various years and income brackets. For each year of historical data, the normal and AMT amounts were calculated both for the status quo and with the proposed changes to the AMT system.⁹ Using growth rates and averages calculated from the historical data, relevant figures were projected forward to 2027–28 to calculate the expected changes in tax revenue. The output was then adjusted for inflation using PBO CPI projections. Lastly, the numbers were adjusted based on historical data to account for additional types of trusts being excluded from paying AMT under the proposed rules.

PBO assumed that 50% of the calculated increase in revenue would be lost due to a behavioural effect. Some trusts are likely to plan more aggressively than individuals to minimize their taxes. Depending on the type of trust, this planning may have tax revenue implications that span years. This assumption has a relatively small impact on the net cost of the proposed changes since trusts represent only 3% of total additional AMT revenue before taking into account behavioural impacts.

The AMT changes will come into effect for the 2024 tax year. Because the changes were announced during the 2023 tax year, it is possible that some trusts could modify their behaviour in 2023 to minimize their overall tax burden. The extent of this behavioural effect is unclear, and as such, it was not estimated in this report.

Results

Revenue

Table 1
AMT fiscal impact (\$ millions)

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Static cost (individuals)	-172	-698	-738	-781	-827	-3,217
Behavioural response (individuals)	34	140	148	156	165	643
Net cost (individuals)	-138	-559	-590	-625	-661	-2,573
Static cost (trusts)	-8	-30	-26	-21	-16	-101
Behavioural response (trusts)	4	15	13	11	8	50
Net cost (trusts)	-4	-15	-13	-11	-8	-50
Total net cost (individuals + trusts)	-142	-574	-603	-636	-669	-2,623

Source:
Office of the Parliamentary Budget Officer.

Notes:
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.

As presented in Table 1, PBO expects that the AMT changes in Budget 2023 will raise nearly \$2.6 billion in total revenue from individuals and \$50 million from trusts, from fiscal year (FY) 2023–24 to FY 2027–28. Since the measure will take effect at the beginning of 2024, it will have a smaller effect on revenues in FY 2023–24. Afterward, the revenues generated by this measure will increase steadily, by about 5% per year until FY 2027–28.

Among the trusts expected to begin paying AMT under the new rules, the estimated growth rate of AMT tax is lower than the estimated growth rate of normal tax. Therefore, the gap between AMT and normal tax is projected to narrow, which explains the declining revenue from trusts over the projection horizon.

Distribution

The AMT changes have the potential to shift a significant share of the burden towards high-income individuals. However, this shift is estimated to be different between individuals and trusts.

Individuals

Table 2

Number of AMT payers (individuals)

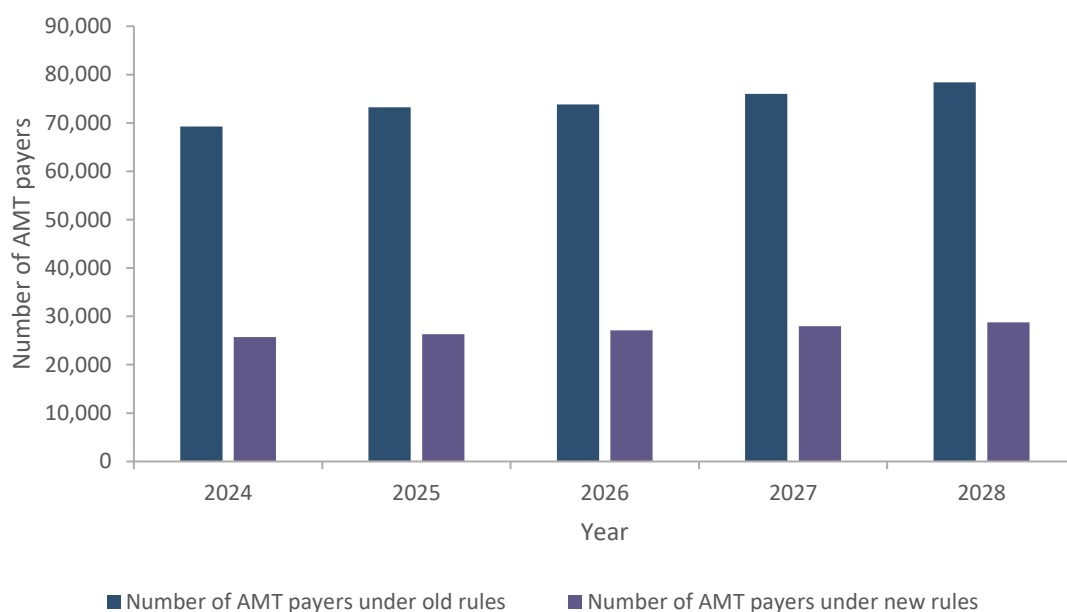
Year	2024	2025	2026	2027	2028
Number of AMT payers under pre-Budget 2023 rules	69,234	73,219	73,803	75,993	78,390
Number of AMT payers under new rules	25,693	26,348	27,129	27,959	28,758
Change in number of AMT payers	-43,541	-46,871	-46,674	-48,034	-49,632

Source:
Office of the Parliamentary Budget Officer.

Under the AMT rules before Budget 2023, approximately 69,000 individuals would be subjected to the AMT in tax year 2024, gradually increasing to 78,000 in 2028. This number is expected to decline drastically under the new rules, by approximately 44,000 to 50,000 individuals per year. After the Budget 2023 changes, approximately 26,000 individuals would be subject to the AMT in 2024, with that number gradually increasing to 29,000 in 2028. Most of this reduction would be concentrated among those with total incomes under \$200,000, because of the much higher AMT exclusion amount (\$173,000). In addition, there would be an increase in the number of AMT payers with incomes over \$400,000, due to the disallowing of various exemptions, deductions, and credits. More details are discussed in Appendix A.

Figure 1

Number of AMT payers under new and old rules (individuals)



Textual description:

This figure shows a projection of the number of individuals subject to the AMT under the old rules and the new rules for tax years 2024 to 2028. Under the old rules, approximately 69,000 individuals would be subjected to the AMT in tax year 2024, gradually increasing to 78,000 in 2028. Under the new rules, approximately 26,000

individuals would be subject to the AMT in 2024, with that number gradually increasing to 29,000 in 2028.

Source:

Office of the Parliamentary Budget Officer.

Trusts

The trust analysis examined the average effect across a group of trusts, and individual trusts may differ from the average. For this reason, estimates of the number of trusts that would be affected by the AMT measures were not calculated. Moreover, data linking trust beneficiaries to their respective trusts were not available.

Because there was less data available on trusts than on individuals, the only distributional analysis possible is to compare the two available income brackets.

For trusts, the \$40,000 exclusion threshold applies only to Graduated Rate Estates (GREs) and Qualified Disability Trusts (QDTs). Under the new rules, GREs would be exempt from paying AMT. Therefore, the increase in the exclusion threshold would only affect QDTs. In terms of total federal tax payable by all types of trusts, QDTs are estimated to represent only a small percentage.¹⁰ Therefore, changing the exclusion threshold will not impact the distribution of tax revenue among the income brackets of trusts as much as it changed the distribution among individuals.

Historically, a large proportion of QDTs have had taxable incomes below the future exclusion threshold (\$173,000). Therefore, in general, these trusts are expected to pay reduced or no AMT under the new rules.¹¹ They would still pay any tax owed under the normal tax calculation.

Table 3

Net cost by income group (trusts) \$ millions

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Income of \$100,000 to \$499,999	-4	-15	-13	-10	-8	-50
Income of \$500,000 and above	-0.03	-0.1	-0.1	-0.1	-0.1	-1
Total	-4	-15	-13	-11	-8	-50

Source:

Office of the Parliamentary Budget Officer.

Note:

Totals may not add due to rounding.

PBO was able to separately estimate the effect of the AMT changes on trusts that already paid AMT and those that did not.

In past years, the lower bracket (\$100,000 to \$499,999) had a higher number and proportion of trusts that paid AMT than the higher bracket (\$500,000 and above). This trend is projected to continue.

In both income brackets, the average trust that was already paying AMT is estimated to pay a larger amount of AMT under the new rules.

For trusts that were not already paying AMT and that are not QDTs:

- For trusts in the lower bracket: PBO estimates that the average normal federal tax rate is similar to the future AMT rate (20.5%). Therefore, trusts will not necessarily begin paying AMT instead of normal tax because of the change of the AMT rate from 15% to 20.5% alone, but rather because of the expanded AMT tax base.
- For trusts in the higher bracket: PBO estimates that the average trust that does not pay AMT already has a normal federal tax rate a few percentage points above the future 20.5% AMT rate. PBO calculates that even with the expanded AMT tax base, the average trust would pay

more tax under the normal tax calculation than through the AMT calculation. As such, PBO estimates that there will be no increase in tax revenue from this group of trusts.

The PBO calculations were based on averages. As such, some trusts may end up paying more or less AMT than the average.

In the higher bracket, data were suppressed for confidentiality reasons, as only a small number of trusts have paid AMT since 2015. In some years, either none or only a few paid AMT, resulting in data suppression.¹² The result is a potential underestimation of the AMT that would be paid by trusts in the higher bracket.

More details are available in Appendix A.

Sources of uncertainty

There are significant sources of uncertainty in the projection.

Despite the database adjustments made by PBO, there is considerable uncertainty about the correlations between different variables in the SPSPD/M database.

Variables in SPSPD/M do not always match perfectly with the concepts required in AMT calculations. For example, some AMT-related credits and deductions are not represented in SPSPD/M, and some SPSPD/M variables combine multiple deduction items, not all of which are relevant to AMT. This may cause some overestimation or underestimation of AMT taxable income, depending on the situation.

The adjustment factor used for the AMT population was based on data from before the Budget 2023 rule changes, and this ratio may change after the new rules take effect.

Growth rates of relevant variables, such as demographics, incomes, credits and deductions, may differ from those assumed in the SPSPD/M database.

There is also a high degree of uncertainty on how the minimum tax carryover amounts and their usage would be affected by these changes.¹³

Finally, there is considerable uncertainty as to the magnitude of the behavioural response, as the literature on behavioural responses under similar policy changes is scarce. There are many potential behavioural effects, and it is difficult to quantify them. For example, some individuals may choose to realize more capital gains in 2023 than they had previously planned to avoid potential AMT obligations in 2024 or later.¹⁴

Appendix A: Further distributional analysis

Individuals

Table A1

AMT fiscal impact (\$ millions) by total income bracket, fiscal years 2023-24 to 2027-28

Fiscal Year	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Minimum-\$200,000	24	101	112	112	112	462
\$200,001-\$250,000	12	47	49	51	57	216
\$250,001-\$300,000	8	33	36	38	40	154
\$300,001-\$350,000	4	15	18	22	26	84
\$350,001-\$400,000	2	9	11	13	15	50
\$400,001-\$450,000	0	-1	1	3	5	7
\$450,001-\$500,000	-2	-8	-7	-5	-2	-24
\$500,001-\$750,000	-24	-97	-95	-94	-100	-411
\$750,001-\$1,000,000	-14	-58	-63	-68	-68	-272
\$1,000,001-\$1,500,000	-25	-103	-111	-115	-113	-468
\$1,500,001-\$2,000,000	-17	-67	-69	-75	-89	-317
\$2,000,001-maximum	-105	-429	-471	-507	-543	-2,055
Total	-138	-559	-590	-625	-661	-2,573

Source:

Office of the Parliamentary Budget Officer.

Note:

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).

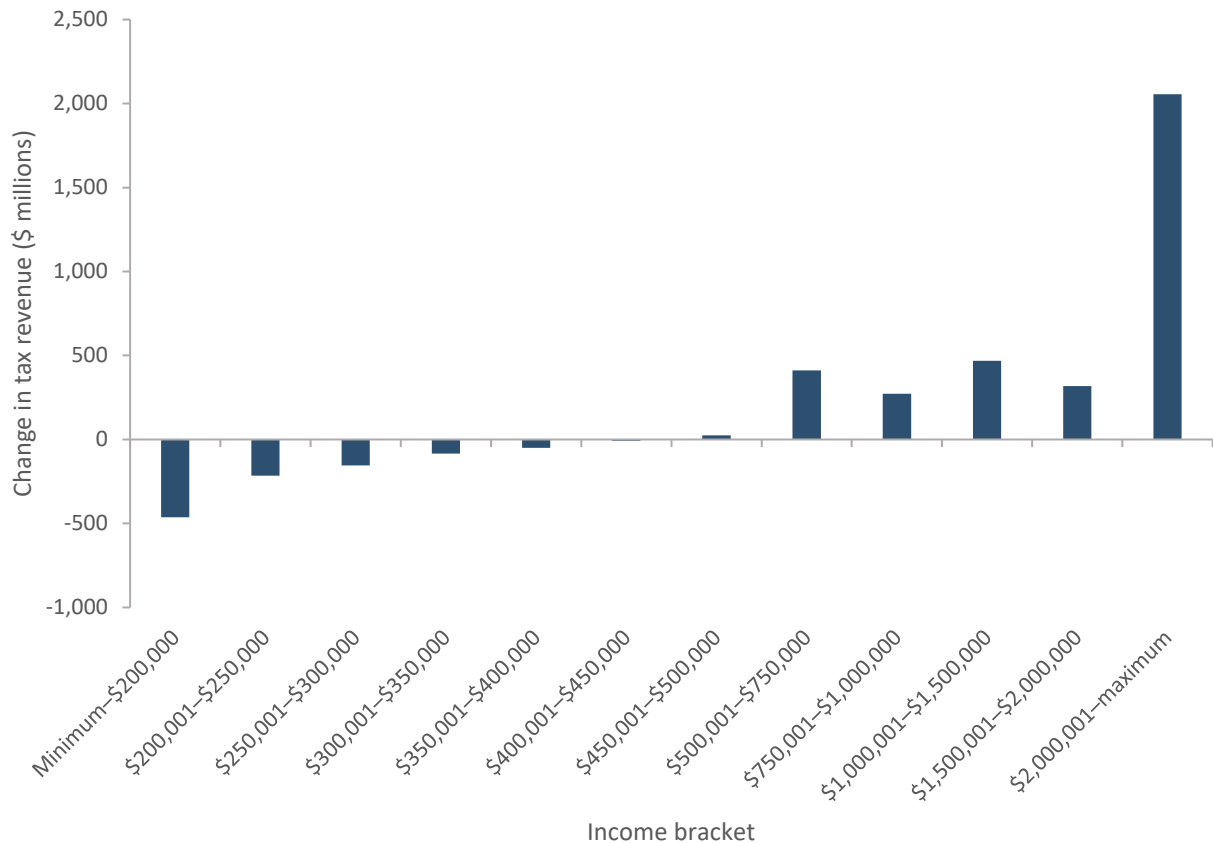
Totals may not add due to rounding.

In general, the Alternative Minimum Tax (AMT) changes in Budget 2023 have shifted AMT obligations towards individuals with higher incomes. After these changes, those with total incomes above \$300,000 would contribute approximately 98% of the total AMT paid by individuals, and those with total incomes above \$1 million would contribute approximately 70% of the total AMT paid by individuals. Because the AMT exemption amount would be raised from \$40,000 to \$173,000 in 2024 (and indexed to the CPI thereafter), individuals making under \$400,000 - \$450,000 would generally pay less AMT than before. This reduction is especially significant for individuals making under \$300,000—from FY 2023–24 to FY 2027–28, around \$828 million less revenue would be collected from these individuals under the new AMT rules compared with the pre-Budget 2023 rules.

On the other hand, individuals with extremely high incomes would have much higher AMT obligations than before the Budget 2023 changes. In general, individuals making over \$450,000 would face higher AMT obligations than before. This is especially pronounced for those with total incomes above \$2 million—from FY 2023–24 to FY 2027–28, approximately \$2 billion more revenue would be collected from these individuals under the new AMT rules.

Figure A1

Total change in tax payable by total income bracket, fiscal years 2023-24 to 2027-28



Textual description:

This figure shows the total change in tax payable from Fiscal Year 2023-24 to 2027-28 by total income bracket. The new AMT rules would reduce the total AMT payable from individuals with less than \$400,000 total income. This is especially significant for individuals with total incomes under \$300,000, where around \$828 million less tax would be collected from them because of the changes. The new AMT rules would increase the total AMT payable from individuals with more than \$450,000 total income. This is especially significant for individuals with total incomes over \$2 million, where over \$2 billion of additional tax would be collected under the new rules.

Source:

Office of the Parliamentary Budget Officer.

Table A2

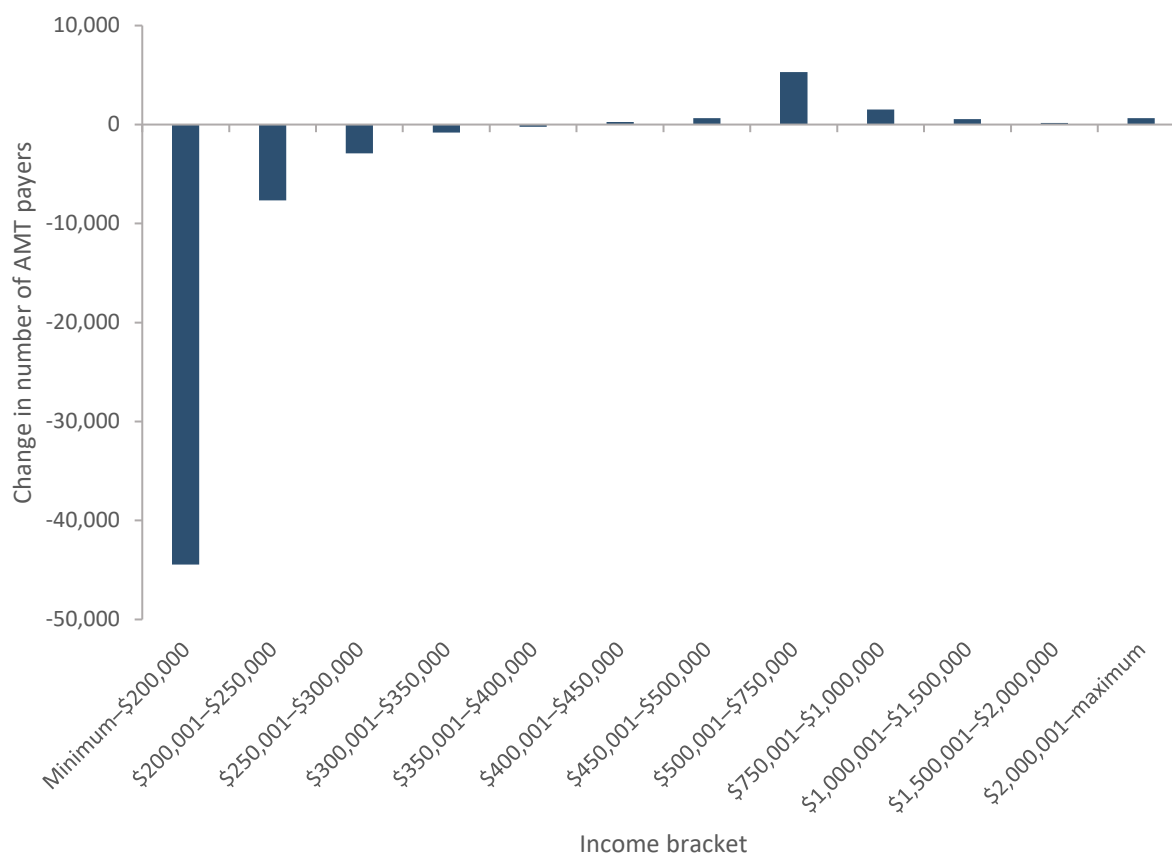
Number of AMT payers by total income bracket after the new measure, tax years 2024 to 2028

Year	2024	2025	2026	2027	2028
Minimum–\$200,000	552	442	450	543	559
\$200,001–\$250,000	962	879	804	721	742
\$250,001–\$300,000	2,245	2,133	1,909	1,742	1,791
\$300,001–\$350,000	1,992	2,083	2,173	2,237	2,301
\$350,001–\$400,000	2,088	1,915	1,904	1,835	1,887
\$400,001–\$450,000	1,803	1,654	1,944	2,003	2,060
\$450,001–\$500,000	1,728	1,925	1,782	1,886	1,939
\$500,001–\$750,000	8,525	8,850	8,868	8,916	9,171
\$750,001–\$1,000,000	2,557	2,919	3,430	3,843	3,953
\$1,000,001–\$1,500,000	1,507	1,654	1,822	1,963	2,019
\$1,500,001–\$2,000,000	639	722	770	882	907
\$2,000,001–maximum	1,095	1,172	1,273	1,388	1,427
Total	25,693	26,347	27,130	27,957	28,756

Source:
Office of the Parliamentary Budget Officer.

Figure A2

Average change in annual number of AMT payers from the new measure (individuals)



Textual description:

This figure shows the average change in number of AMT payers per year over the period of 2024-2028. As a result of the new rules, there are less AMT payers among individuals with total incomes under \$400,000. The group with the largest decrease is those with total incomes under \$200,000: there would be around 44,000 less AMT payers each year under the new rules. For those with total incomes over \$450,000, there would be 8,860 more AMT payers each year under the new rules.

Source:

Office of the Parliamentary Budget Officer.

Trusts

Table A3a

Net cost by type of payer: income of \$100,000 to \$499,999

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Did not pay AMT pre-change	-4	-15	-13	-10	-8	-49
Paid AMT pre-change	-0.1	-0.2	-0.2	-0.2	-0.2	-1
Total	-4	-15	-13	-10	-8	-50

Table A3b

Net cost by type of payer: income of \$500,000 and above

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Did not pay AMT pre-change	0	0	0	0	0	0
Paid AMT pre-change	-0.03	-0.1	-0.1	-0.1	-0.1	-1
Total	-0.03	-0.1	-0.1	-0.1	-0.1	-1

Table A3c

Net cost by type of payer: total

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Did not pay AMT pre-change	-4	-15	-13	-10	-8	-49
Paid AMT pre-change	-0.1	-0.3	-0.4	-0.4	-0.4	-2
Total	-4	-15	-13	-11	-8	-50

Source:

Office of the Parliamentary Budget Officer.

The majority of the fiscal impact from trusts comes from trusts that began paying AMT after the changes.

Notes

¹ On August 4, 2023, the Department of Finance released a [draft legislation of the proposal](#).

² For a [list of the most common situations where taxpayer may have to pay minimum tax](#) see the Government of Canada's website. These criteria would change once the new AMT rules take effect in 2024.

³ Under the old rules, all individuals subject to AMT are eligible for the basic exemption while for trusts, only Graduated Rate Estates (GRE) and Qualified Disability Trusts (QDT) are eligible. Under the proposed rules, GREs are no longer subject to the AMT and thus, only individuals and QDTs will still be eligible for the basic exemption.

⁴ This basic exemption was \$40,000 before the proposed change and was not indexed to inflation. The new rules would set the basic exemption equal to the amount at which the fourth tax bracket starts, which is \$165,430 in tax year 2023. This amount is indexed each year and is expected to increase to about \$173,000 in tax year 2024.

⁵ This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO), and the responsibility for the use and interpretation of these data is entirely that of the PBO.

⁶ [Information Request IR0683](#).

⁷ [Canada Revenue Agency: T1 Final Statistics](#).

⁸ [Canada Revenue Agency: T3 Trust statistics](#).

⁹ The word “normal” refers to non-AMT taxes, for which all trusts have to fill out the form, even if they do not have to fill out the AMT form.

¹⁰ Based on PBO calculations, using publicly available historical data from the CRA website.

¹¹ Due to a lack of data, more specific analysis of QDTs was not possible. These types of trusts were taken into account in the more aggregate trust calculations.

¹² Based on the data, this would most likely mean that there were fewer than 10 trusts paying AMT in a given year, which makes it difficult to determine whether these trusts will be affected by the changes.

¹³ If a taxpayer pays AMT in a given year, they can calculate the difference between the AMT amount and the tax that would be owed if using the normal tax calculation from that year. This is referred to as the “AMT carryover amount.” For the next seven years, if the payer pays normal tax in a given year, they can use the AMT carryover amount to reduce the amount of tax they owe. The AMT changes are expected to modify how much AMT carryover payers will use. However, because of a lack of data and uncertainty as to behavioural responses to the AMT changes, it is unclear how carryover amounts will change. As such, AMT carryover was only modelled based on historical amounts and did not account for potential changes caused by the new measure.

¹⁴ PBO observed a similar income-shifting effect among top income earners when the top bracket’s marginal tax rate (for regular income tax) was increased from 29% to 33% in 2016. In 2015, tax revenue increased by \$5.6 billion because individuals shifted some income forward before the increase in tax rates, which also resulted in \$4.0 billion lower tax revenues in 2016. Assuming similar patterns of income shifting, the impact of these effects would be much smaller for the AMT changes since only a small subset of overall taxpayers would be affected. However, the magnitudes of potential income-shifting effects are highly uncertain.

RP-2324-012-S_e

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