Intelligence MEMOS

From: Alexandre Laurin and Nicholas Dahir

To: The Hon. Chrystia Freeland, Minister of Finance

Date: January 8, 2024

Re: **Charities Fall Victim to Federal Tax-the-Rich Plan**

The end of 2023 last week marked the likely end of full tax relief for some charitable giving. The federal government has yet to table its legislation for reforming the alternative minimum tax (AMT), but if it sticks to its Budget 2023 commitment, tax relief for charitable giving will be curtailed for some high-income filers in 2024.

Donating to charities can lower taxes. The charitable tax credit lowers taxes by about half of the amount of donations in excess of $200. And, donated accrued capital gains from gifts of publicly listed securities are exempted from taxable income.

All taxpayers can fully benefit from these tax provisions, regardless of their AMT status. But the proposed AMT would limit the exemption to 70 percent of capital gains from the donations of publicly listed securities, and cut the charitable donations tax credit in half.

The AMT is computed alongside the regular tax, and filers must pay whichever amount is higher. The proposed changes to the AMT, according to the federal government, are aimed "to ensure the wealthiest Canadians pay their fair share of tax." Most notably, the new AMT calculations would come with a simultaneous increase in both the minimum tax rate (to 20.5 percent from 15 percent), and the basic amount of income excluded from tax (to $173,000 from $40,000), while capital gains would be fully included in taxable income.

Relatively few people are subject to the AMT now and fewer would be subject to it if the proposed changes are passed – we estimate fewer than 40,000 people. The reformed AMT burden will fall largely on those with occasionally large capital gains, according to our C.D. Howe Institute analysis of the expected fiscal and behavioural consequences of the proposed AMT reforms. Almost 80 percent of the revenue raised from the reformed AMT would come from filers reporting over $500,000 in capital gains income in a year, and for those filers the likelihood of being caught by the reformed AMT jumps to 80 percent – nearly triple compared with the existing system.

Almost all AMT payers would earn more than $300,000 in gross income, and almost all of them would also report charitable donations. If the AMT is implemented as planned and based on current donation patterns, we estimate that about 10 percent of all reported charitable donations, and almost half of all the donations of publicly listed securities, will be affected by the reduced tax incentives for charitable giving.

One would think that reducing tax relief for charitable giving under the AMT would generate substantial revenues, but this is not the case. We estimate that these donations-related provisions generate only about 8 percent of AMT revenues, amounting to approximately $60 million in 2024.

Charitable giving is known to respond significantly to tax incentives. When tax incentives raise (or lower) the after-tax cost of a donation, individuals often give less (or more). This means that some big donors will likely change their giving behaviour in response to the new AMT.

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A version of this Memo first appeared in The Globe and Mail.