

What is the Alternative Minimum Tax and Why am I Paying It?

The alternative minimum tax (or AMT) is exactly as it sounds – it is an alternative method to calculate your taxes owing in Canada. This tax is often applicable when you have claimed a preferential tax deduction like the [capital gain deduction](#) / [capital gain exemption](#) and flow through shares or have preferential tax rates due to credits, such as dividend tax credits.

Each year, your tax owing is calculated under the normal method, which considers the preferential tax deductions and credits. This number is then compared to a second calculation where you don't receive these same deductions and credits, but your tax is calculated at a lower tax rate. For most instances, the normal calculation will result in more tax owing. When the second calculation results in a higher amount owing, you will pay this higher amount. The difference between the regular tax owing and the second calculation is the AMT.

When you are subject to the AMT, this should be viewed as a prepayment of future tax. Over the next seven years, you can recover this amount paid against your regular tax. In order to recover this AMT in the future, you would have to be taxable in future years, thus if you do not have income in these years, or are not otherwise taxable, this AMT will be lost.

Normally, most Canadians are not subject to the AMT. However, you should be prepared for this tax if you are benefiting from tax deductions or credits. For example, if you used your capital gain deduction (shelters capital gains on qualified farm property, qualified fishing property, and qualified small business corporation shares), bought flow-through shares, and other tax shelters, have limited partnership losses, or received a large percentage of your income as dividends, you may be subject to the AMT.

If not previously considered, the AMT can be a nasty surprise when you are having your tax return prepared. For instance, if you were to utilize your full \$750,000 capital gain deduction while having little other income, you would have AMT of approximately \$35,000 - \$40,000, depending on your province of residence. Although this can be fully recovered over time, the tax payment can impact your cash flow.