Is the Alternative Minimum Tax a Paper Tiger?

Gilles N. Larin and Marie N. Jacques*

PRÉCIS

Le but de cet article est d'évaluer en termes qualitatifs et quantitatifs l'effet de l'impôt minimum de remplacement sur les contribuables assujettis. Dans un document de consultation publié en 1985, le ministère des Finances s'était penché sur l'opportunité d'introduire une telle mesure. Tout en présentant les divers moyens techniques disponibles pour mettre en vigueur un impôt minimum sur les particuliers, le ministère ne prenait pas clairement position à savoir si un mécanisme de ce genre était opportun. C'était une attitude assez étonnante, compte tenu des informations présentées dans le document démontrant qu'un très petit nombre de contribuables réussissaient à maintenir simultanément pendant plusieurs années un profil élevé de revenus et un fardeau fiscal minime.

L'impôt minimum de remplacement (IMR) sur le revenu des particuliers introduit par le Québec est très similaire à celui introduit par le gouvernement fédéral. La principale différence est au niveau de l'exemption de base, qui est plus élevée au Québec si le contribuable investit dans certains abris fiscaux choisis. Il n'y a pas de système similaire ailleurs dans le monde, sauf aux États-Unis. Dans ce pays, le système comporte néanmoins des différences très significatives, particulièrement au niveau des reports dans le temps. D'autres pays ont tenté de bloquer les tentatives de manipuler le système fiscal, mais ont choisi d'autres moyens, qui peuvent dans certains cas être qualifiés d'impôt minimum détourné.

Les données statistiques utilisées dans l'étude proviennent des déclarations provinciales de contribuables québécois. Nous croyons cependant que la portée des conclusions s'applique aussi bien au système

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* Gilles Larin, PhD, is a professor and Marie Jacques, LLB, MFisc, an associate professor in the multidisciplinary Institut de recherche en fiscalité de l'Université de Sherbrooke. Professor Larin also teaches in the Department of Economics, at the same university.

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fédéral, compte tenu des ressemblances fondamentales entre les deux mécanismes. Les données sont tirées de toutes les déclarations d'impôt des contribuables assujettis à l'IMR pour la première fois en 1988. Nous avons analysé les déclarations d'impôt de ces contribuables à travers le temps. Le résultat le plus frappant auquel nous arrivons est qu'en moyenne, pour les trois-quarts de ces contribuables, le pourcentage de l'IMR qu'ils avaient payé en 1988 et qu'ils n'avaient pas récupéré à la fin de 1991 se situait à moins de 8 pour cent. De plus, les contribuables à revenu très élevé ont tendance à récupérer en moyenne plus rapidement que les autres contribuables l'IMR qu'ils ont payé à un point dans le temps.

Compte tenu de l'inefficacité de l'IMR tel qu'il existe, nous proposons de donner plus de mordant à cette mesure ou d'abolir ce système et de le remplacer par un autre mécanisme qui permettra d'extraire des poches des contribuables un minimum d'impôt jugé socialement acceptable.

ABSTRACT

This article presents a qualitative and quantitative assessment of the effect of the alternative minimum tax (AMT) on Quebec individual taxpayers. In 1985 the federal Department of Finance published a white paper on the subject that, while it illustrated the various options to consider in introducing a minimum tax, presented no formal recommendation for or against such a system. This was surprising given the evidence adduced in the white paper that only a very small number of taxpayers succeeded in maintaining over the years both high incomes and low taxes.

The province of Quebec simultaneously introduced an AMT that is very similar to the federal AMT. The main difference is in the level of the basic exemption, which is higher in Quebec, provided that the taxpayer channels money into selected tax shelters. No similar system exists in the rest of the world, except in the United States. There are, however, some striking differences between the Canadian and US AMTs, especially in the area of carryovers. Other countries have developed alternative means of countering their taxpayers' tax reduction strategies, but some of those devices can be considered quasi minimum taxes.

The statistics developed in this study come from the provincial returns of Quebec taxpayers. This does not in our opinion limit our conclusions to the Quebec system, as there are many more similarities than differences between the Canadian and Quebec systems. The data are derived from the tax returns of individuals who paid AMT for the first time in 1988. We then tracked the tax returns of individuals within this cohort over time. Our key result is that for 75 percent of these individuals, on average less than 8 percent of the AMT paid in 1988 had not been recovered by the end of 1991. Moreover, when compared with lower income taxpayers, very high-income individuals tended to recover the AMT they had previously paid at a faster pace.

Given the apparent inefficiencies in devising a genuine minimum tax, we propose that this paper tiger's teeth should be sharpened. If we lack the political courage to do so, we should abandon this device and look for an alternative means of extracting from taxpayers a minimum tax that can be considered socially acceptable.

Introduction

The alternative minimum tax system introduced by both the Canadian and Quebec governments in 1986 has received little scrutiny in the tax literature. Our intention in this article is to remedy this situation by offering a qualitative and quantitative assessment of the effects of this tax on Quebec taxpayers. The article is divided in four parts. Part one is the introduction. Part two reviews the discussion paper on the AMT released by the federal Department of Finance in 1985. Part three presents the fundamental technical aspects of the Canadian and Quebec AMTs, complemented by some numerical illustrations. In that section we also survey the basic structure of the US legislation on AMT, and point out some important similarities and differences between our comparative legislations. We then present a schematic survey of some of the tools devised by other countries to cope with attempts by taxpayers to reduce their burden. Part four offers a quantitative evaluation of the effects of the Quebec AMT on its taxpayers. This part of the article uses unique unpublished data supplied by the Quebec Department of Revenue, the Ministère du Revenu du Québec (MRQ). We hope to convince readers that the AMT is largely a paper tiger and that it deserves the often-heard criticism that it is a political tax.

The Department of Finance Discussion Paper

The Department of Finance released a policy study in May 1985, a few months after the election of the conservative government.[1] In contrast with similar discussion papers produced by the department in earlier years, the argument seems at times unfocused, as if the authors could not clearly decide whether the facts should lead them to build a case for or against a minimum tax on personal income. The clearest example of this apparent ambiguity is the punch line, or lack thereof, following the statistical analysis of high-income taxpayers who had paid little or no taxes over a number of years. As the following review of the methodology developed by the department will indicate, there seemed to be surprisingly few long-term tax dropouts when the same taxpayers were followed over several consecutive years. This should certainly have raised questions about the wisdom of devising an AMT. Yet the discussion paper skirts around the issue, focusing instead on the factors involved in lowering or eliminating taxes for high-income individuals.

The Statistical Method

The single most important event that triggered the Finance study was the yearly public outcry over the large number of high-income Canadian taxpayers who had succeeded in completely avoiding taxes in any given year. Each year, the release of this information, derived from tables presented in Revenue Canada's annual publication *Taxation Statistics*, received extended coverage in the national press. For example, the 1985 edition of

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[1] Canada, Department of Finance, Budget Papers, *A Minimum Tax for Canada*, May 1985.

that publication showed 8,102 taxpayers each with a total income in 1983 of $50,000 or more who had non-taxable returns.[2] Even more galling seemed to be the 259 non-taxable returns within the subgroup of 14,844 taxpayers each with a total income in that year of $200,000 or more.[3] Incidentally, the latest edition of that publication shows the same phenomenon: there were 550 non-taxable returns within the group of taxpayers with an income (in current dollars) in 1990 of $200,000 or more. Since there were 56,810 taxpayers in that group, that non-taxable proportion is 1 percent.[4] Because we will be looking at Quebec statistics in the empirical section of this study, we observe the same trend in Quebec as well: there were 36 non-taxable returns in the $200,000-and-over bracket in 1990, out of a total of 7,731 taxpayers in that sub-group, a proportion that is roughly similar, at 0.5 percent.[5]

Tax practitioners are aware, of course, that total income is a somewhat inaccurate measure of economic power, as it can over- or underestimate a taxpayer's command over resources in that year. This was the first issue addressed by the discussion paper. Its authors attempted to reconstruct from the tax returns a measure of income that was closer to the concept of economic income as developed by Haig and Simons[6] in the United States several decades ago, and pursued by the Carter report in Canada in the 1960s.[7] The notion of adjusted gross income presented in the Finance discussion paper was therefore as follows:

Adjusted gross income

equals

Total assessed income on the T1 tax return

plus

- exempt portion of capital gains,
- capital cost allowance on multiple unit residential buildings (MURBs),
- Canadian exploration expense,
- exempt scholarship income, and
- unspecified minor exemptions and deductions

minus

- dividend gross-up, and
- carrying charges to the extent of investment income.[8]

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[2] Revenue Canada, Taxation, *Taxation Statistics*, 1985 ed. (Ottawa: Supply and Services, 1985), table 2, 38-61, at 60-61.

[3] Ibid.

[4] Revenue Canada, Taxation, *Taxation Statistics*, 1992 ed. (Ottawa: Supply and Services, 1992), table 2, 95-119, at 119.

[5] Ministère du Revenu du Québec, *Portrait de la fiscalité des particuliers au Québec: Statistiques 1990* (Québec: MRQ, 1993), 131, table 4.

[6] R. Murray Haig, *The Federal Income Tax* (New York: Columbia University Press, 1921); and Henry C. Simons, *Personal Income Taxation* (Chicago: University of Chicago Press, 1938).

[7] Canada, *Report of the Royal Commission on Taxation* (Ottawa: Queen's Printer, 1966).

[8] Adapted from *A Minimum Tax for Canada*, supra footnote 1, at 3-4.

As the discussion paper suggests, this adjusted measure of income is an imperfect proxy for economic income: it fails to consider a number of other adjustments that are desirable, but unmanageable. For example, the question of accrued but unreported gains raises intractable choices of timing considerations for the reporting of income, and it was decided to drop that issue from the list of adjustments.[9] The notion developed by the Department of Finance is similar to the notion of "expanded income" derived in a similar context by the IRS in the United States.[10] It should also be noted that, in quantifying elements of economic income using the information available on tax returns, there are not only practical difficulties but theoretical difficulties as well. As suggested in a previous Finance discussion paper and elsewhere, there is often an unknown amount of corporate tax behind the residual dividend income received by a shareholder, which raises questions about the appropriateness of the adjustment to such income via the dividend gross-up and tax credit system. Errors in this adjustment can be further compounded if the tax at the corporate level ends up being effectively transferred to the corporation's customers or to its labour force, which would remove or at least reduce the need for integrating the corporate and personal income taxes.[11]

The authors of the discussion paper wanted to determine if the combination of high income with low income taxes was a transient or durable phenomenon. The best way to answer that question was through an analysis of the tax returns of a selected cohort of taxpayers over several years. Two important assumptions were made: (1) a high-income taxpayer was defined as one having an "adjusted" income of $50,000 or more, measured in constant 1979 dollars, in any of the eight experimental years; and (2) the experimental years were 1972 through 1979. The important observations gleaned from the tax returns are summarized in table 1.

As shown in table 1, a surprising proportion of high-income taxpayers are in this situation only temporarily: one-quarter of the high-income filers in 1979 had lower incomes for all the other years under study. Only 100 taxpayers maintained high incomes over at least four years and also avoided paying income taxes, and no taxpayer maintained this winning combination over most of the period. Given the administrative burdens and the uncertainties related to a minimum tax system, one wonders why the government did not simply move to restrict some or all of the tax preferences that were in existence at that time.[12]

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[9] Ibid., at 5-6.

[10] United States, Internal Revenue Service (Spring 1993), 12 *Statistics of Income Bulletin* 31.

[11] See, inter alia, Canada, Department of Finance, *Account of the Cost of Selective Tax Measures* (Ottawa: Supply and Services, 1985); Roger S. Smith, *Tax Expenditures: An Examination of Tax Incentives and Tax Preferences in the Canadian Federal Income Tax System*, Canadian Tax Paper no. 61 (Toronto: Canadian Tax Foundation, 1979); and Richard A. Musgrave, Peggy B. Musgrave, and Richard M. Bird, *Public Finance in Theory and Practice*, 1st Canadian ed. (Toronto: McGraw Hill Ryerson, 1987).

[12] The tax community reaction to the discussion paper and the expected implementation of a minimum tax system was very negative. See Donald R. Hugget, "A Minimum Income

(The footnote is continued on the next page.)

Table 1 Recurrence of High Income and Low Taxes over the Period 1972 Through 1979

	Number of individuals
1) Total number of high-income taxpayers in 1979	163,120
2) Number of taxpayers from line 1 with high incomes in each year between 1972 and 1979	39,100
3) Number of taxpayers from line 1 with high income only in 1979	37,940
4) Number of non-taxable taxpayers from those in line 1	3,860
5) Number of taxpayers in line 4 with high income and no taxes in four or more of the experimental years	100
6) Number of taxpayers in line 4 with high income and no taxes over seven or more years	0

Source: Rearranged from Canada, Department of Finance, Budget Papers, *A Minimum Tax for Canada*, May 1985, 9-10.

What Is an "Excessive" Use of Tax Preferences?

There are four possible techniques to counter what is perceived as excessive use by the taxpayer of tax preferences. The first solution is to repeal or amend the offensive measures. This tackles the problem directly, but invites strong negative reaction from the lobbying groups who initially pushed for the adoption of such measures, and from taxpayers who have not yet benefited from them. The federal government opted for one of the three other more circuitous methods, and implemented an alternative minimum tax (AMT). It rejected the other two methods, which are an add-on minimum tax (similar in principle to an excise tax on tax preferences) and a dollar cap on tax preferences in any given year. None of the indirect solutions is satisfactory; they end up leaving the tax incentives in the Income Tax Act,[13] while penalizing the taxpayer for attempting quite legally to exploit those tax-planning opportunities that the government does wish to encourage. In this sense, the argument that the AMT does not attack any tax preference in particular, but counters an "abusive" or aggressive tax-planning strategy, is less than candid. It would be wiser to include sunset provisions in any enacted tax incentive, and to require an interim evaluation of the program before its expiry date, which would be reported in the budget papers and subject to public scrutiny.

It can safely be assumed that all tax incentives were enacted with good intentions and with the hope that, in benefiting from the measure, taxpayers would bring about the desired economic effects. Consider the following examples: (1) society wishes to reduce government aid to senior citizens and considers it important to offer incentives to save for retirement; (2) MURBs were set up at a time when construction activity was slow and

[12] Continued . . .
Tax," in *Report of Proceedings of the Thirty-Seventh Tax Conference*, 1985 Conference Report (Toronto: Canadian Tax Foundation, 1986), 10:1-16.

[13] RSC 1952, c. 148, as amended by SC 1970-71-72, c. 63, and as subsequently amended (herein referred to as "the Act" or "ITA").

there was a shortage of rental units; (3) pride in our Canadian culture and our local talent convinced us of the need to protect the Canadian (and Quebec) film industry; (4) the special treatment of stock option purchase agreements in a Canadian controlled private corporation (CCPC) was intended to benefit management performance in small business by providing better financial incentives for managers; (5) the exempting of some percentage of capital gains allowed an indirect if unsatisfactory compensation for the fact that nominal gains may be wiped out or reversed by price increases. Equally valid arguments could be made for most if not all the elements that ended up being the target of the discussion paper and of the AMT enacted by the federal and Quebec governments. If a taxpayer has enough funds to allocate to several programs the government wishes to encourage, can this be considered abusive?

The Quebec Position

The Quebec Department of Finance did not produce a discussion paper on a minimum tax for Quebec. However, the last budget speech of the Parti Québécois government before provincial elections were held in 1985 preempted the federal government and proposed a dollar ceiling on tax preferences.[14] The Liberal government subsequently elected decided to harmonize its legislation with the federal choice of an AMT, when that legislation was presented to Parliament late in 1985.

THE FUNDAMENTALS OF THE ALTERNATIVE MINIMUM TAX LEGISLATION

The Canadian and Quebec Legislations

Introduction

The Quebec alternative minimum tax (QAMT) is essentially similar to the AMT at the federal level. Some aspects are, however, unique to the Quebec legislation. The three most important are the AMT rate differential, the greater tolerance in Quebec of some tax-planning strategies that are specifically targeted as important to Quebec, and tax credits that either exist only in the Quebec Taxation Act,[15] or are available at the federal but not at the provincial level. Both legislations feature the same basic AMT computation and carryover mechanism.[16]

Rates

The AMT rate is 17 percent at the federal level, and 16 percent in Quebec, for the period 1988 to 1992. The provincial rate is 20 percent in 1993. The

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[14] Québec, Ministère des Finances, Budget Papers, *1985-1986 Budget: Budget Speech*, April 23, 1985, appendix A, 21-22.

[15] RSQ, c. I-13, as amended (herein referred to as "the TA").

[16] The basic charging provisions in the Canadian legislation are to be found in division E.1, sections 127.5 to 127.55, and section 120.2 of the Act. The similar references to the Quebec legislation are to be found in the TA, book V.1, sections 776.42 to 776.65 and sections 752.12 to 752.16.

federal surtax is added onto the AMT. In the case of Quebec taxpayers, the federal rate must be reduced by the Quebec tax abatement of 16.5 percent.

The Quebec Strategic Economic Investment Account

A taxpayer who invests in tax shelters unique to Quebec is given preferential treatment for purposes of determining regular Quebec income taxes. These tax shelters represent a variety of activities that the Quebec government wishes to encourage. Preferential treatment is extended also to the determination of Quebec AMT. For the purposes of the QAMT, these shelters are grouped under a banner called the Quebec strategic economic investment account, known under its acronym in the French language as CISE (compte d'investissement stratégique pour l'économie). From a technical point of view, such investments trigger an AMT exemption level that is higher than the basic exemption. The benefit is not unlimited, however, since the amount of the additional exemption beyond the basic $40,000 may not exceed 15 percent of total income. For the purposes of this additional exemption only, total income is defined to exclude any taxable capital gains deducted in that year. The elements in the CISE account are[17]

- régime d'épargne-actions (REA),
- sociétés de placements dans l'entreprise québécoise (SPEQ),
- régime d'investissement coopératif (RIC), and also
- additional deductions related to Quebec mining resources, R & D, and films.

In the 1993 budget, the Quebec government announced that, for the purposes of computing the AMT, the CISE account would be terminated in 1994.[18] Although these tax shelters will thus cease to lead to a lower amount of AMT, they will nevertheless survive for the purposes of regular Quebec income tax.

Tax Credits

Some tax credits exist only at the federal level. An example is the investment tax credit, which can be deducted from part I tax, but not from AMT, because it is considered a tax preference. The Quebec tax act does not provide for such a credit. On the other hand, some Quebec tax credits have no federal equivalent. An example is the refundable 10 percent tax credit for R & D. The net result of these differences is that the AMT tax bill is likely to be lower in Quebec.[19]

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[17] For a discussion of the particulars of these shelters, see Robert Morin and Marc Papillon, *Impôt sur le revenu des particuliers et des corporations 1993-94* (Sherbrooke and Trois Rivières: les Éditions Mérin, 1993); and René Huot, *Recueil fiscal 1993-94* (Ste-Julie: les Éditions Thourène, 1993).

[18] Québec, Ministère des Finances, *Budget 1993-1994*, May 20, 1993, appendix A, 34.

[19] For a discussion of these issues, see Canada, Department of Finance, *Report of the Advisory Committee on Federal-Provincial Tax Collection Agreements*, submitted to the minister of finance, January 15, 1992 (Ottawa: Supply and Services, 1992), 49.

Basic Mechanics of the AMT

The purpose of the AMT legislation in this country is to reduce the number of taxpayers who lower their tax bills in an "excessive" fashion by using too many tax expenditures. From a technical point of view, this is achieved by requiring a separate computation. The taxpayer must modify his taxable income as computed by ordinary taxpayers and adjust it upward to reflect the offensive tax preferences. A flat exemption of $40,000 is subtracted from this new "adjusted" taxable income, and the result is taxed at a flat rate. A basic credit is subtracted and the result becomes the taxpayer's AMT tax liability for the year. It should be noted that under this computation the dividend tax credit is not allowed. However, the removal of the dividend gross-up from adjusted taxable income results in a symmetrical treatment of the integration of corporate and personal taxes. If the result of all these adjustments yields a total greater than the regular tax liability, tax is due according to this alternative computation.[20]

The taxpayer may, however, be refunded in future years the additional burden created by a prior-year AMT.[21] A tax carryback is not allowed. The carryforward is available for seven years in the future, but can be used only to reduce regular income tax in any of those seven years. In other words, if the taxpayer's regular tax in a future year exceeds the AMT computation applicable in that year, he can obtain a credit for an earlier year's AMT, up to that amount. Uncredited amounts can be claimed in a later year within the time limit, using the same guidelines. He may not, however, claim a carryforward in any year in which his AMT burden exceeds his regular tax burden. In contrast to the system in the United States, there are no other restrictions to the carryforward mechanism. The US system is briefly explained in a later section of this article. We also comment on legislation elsewhere that shows affinities to our own tax policy.

Examples of the AMT Carryforward Mechanism

The simplest way to understand the technical underpinnings of the federal and provincial AMT, particularly the carryforward mechanism, is to elaborate a few examples. We have deliberately postulated simple assumptions concerning the composition of income, the number and pattern of tax preferences used, and the structure of credits.[22] We assume the 1992 tax rules remain unchanged for all subsequent years. Tables 2 and 3 show the detailed calculations for two possible scenarios.

As mentioned above, the Act allows AMT paid in one year to be carried over to the following seven years. Because there are no other significant restrictions to the refund, paying some AMT in one year is roughly equivalent

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[20] For the details of the computations and comments on an example, see R.E. Beam and S.N. Laiken, *Introduction to Federal Income Taxation, 14th ed., 1993-1994* (North York, Ont.: CCH Canadian, 1993), chapter 10, 477-82.

[21] ITA section 120.2, and TA sections 752.12 to 752.16.

[22] Detailed computations were made using the T1-TP1 interactive program developed by Informatrix 2000. Outside of Quebec, this program is known as TaxPrep.

to granting an interest-free loan to the government. In most circumstances, a taxpayer has no interest in postponing the recovery of an amount of AMT previously paid, since this is money owed to him, and it yields a zero rate of return while in the hands of the government. There might be some exceptional cases where this might not be true. One simple case would be a choice dictated by tax-planning considerations. For example, a taxpayer might have undeducted business losses from earlier periods for which the carryforward period is about to expire. If the taxpayer is in the first year following the year in which he paid AMT, it might be wiser to claim those losses now and delay recovering his AMT to a later year. All relevant factors should of course be studied before deciding upon either course of action.

Timing of Recovery

Two categories of situations come to mind to explain AMT not recovered. The first involves a deliberate postponement by the taxpayer. The taxpayer may consider that some tax shelters in the year of potential recovery are too good to be missed, and he expects only inferior shelters in following years. He might thus decide to invest as much as he could to bring his part I tax to zero, but not enough to trigger an AMT in that year. Since his part I tax is zero, no recovery is possible. This situation is relatively unlikely, however, as the non-triggering of AMT would suggest that the income of such a taxpayer would probably be not much in excess of the AMT exemption of $40,000, making him an unlikely candidate for aggressive tax sheltering. A more likely situation might be a taxpayer with substantial undeducted amounts of RRSP contributions[23] who chooses to deduct them in the year of potential recovery, resulting in the crowding out of the recovery.

The second category of cases involves an involuntary postponement of recovery by the taxpayer. We have illustrated two such cases—case 1 (in table 2) and case 2 (in table 3) below.

Case 1: AMT in year 1 and subsequent business losses. In this situation, shown in table 2, the taxpayer's income in 1992 is made up of (1) employment income ($125,000); (2) dividends of $4,000 from a Canadian corporation, which are grossed up by 5/4 to yield a taxable amount of $5,000; (3) capital gains ($50,000), of which the taxable portion is 75 percent, yielding $37,500; and (4) a retiring allowance of $150,000. His total income is $317,000. Part I tax allows him a tax-free transfer of his retiring allowance to an RRSP.[24] It is also presumed that he has access to the taxable capital gains deduction for the full amount, which brings his taxable income to $167,500.

[23] Element A in the formula in ITA paragraph 146(1)(g.1) and its TA equivalent.

[24] ITA paragraph 60(j.1) and TA section 339(d.1). A likely scenario would be the employee who is eligible to the maximum of $3,500 for each year of service before 1989, in which he was a participant in an RPP. He would be eligible to this amount because the employer contribution was not vested in him. For 1989 and subsequent years, the amount allowed is $2,000. He would have 44 years of service, of which 41 would be counted for the maximum.

Table 2 Case 1: Calculation for a Quebec Taxpayer with AMT in 1992, Subsequent Business Losses, and No Recovery in Subsequent Years up to 1996

	1992		1993		1994		1995		1996	
	Federal	Provincial	Federal	Provincial	Federal	Provincial	Federal	Provincial	Federal	Provincial
					dollars					
Part I taxable income										
Income from employment	125,000	125,000								
Taxable dividends	5,000	5,000								
Net business income			-5,000	-5,000	-3,000	-3,000	5,000	5,000	15,000	15,000
Taxable capital gains	37,500	37,500								
Retiring allowance	150,000	150,000								
Equals total income	317,500	317,500	-5,000	-5,000	-3,000	-3,000	5,000	5,000	15,000	15,000
Deductions[a]	150,000	152,554								
Equals net income	167,500	164,946	0	0	0	0	0	0	0	0
Deductions[b]	37,500	37,500								
Equals taxable income	130,000	127,446	0	0	0	0	0	0	0	0
Minimum tax computation										
Add:										
Retiring allowance	150,000	150,000								
Non-taxable portion of capital gains	12,500	12,500								
Subtract:										
20 percent of taxable dividends	1,000	1,000								
Equals adjusted taxable income	291,500	288,946								
Subtract basic exemption	40,000	40,000								
Equals net adjusted taxable income (NATI)	251,500	248,946								
Gross minimum amount[c]	42,755	39,831								
Subtract basic minimum tax credit	1,404	1,362								

(Table 2 is concluded on the next page.)

Table 2 Concluded

	1992		1993		1994		1995		1996	
	Federal	Provincial	Federal	Provincial	Federal	Provincial	Federal	Provincial	Federal	Provincial
	dollars									
Equals minimum amount	41,351	38,469								
Subtract regular income tax before surtax	31,191	27,331								
Minimum tax payable (to be carried forward)	10,160	11,138								
Total income tax payable[d]	37,831	38,469								
Minimum tax carryover			0	0	0	0	0	0	0	0

[a] Retiring allowance of $150,000 is transferred to an RRSP under ITA 60(j.1) and equivalent provincial tax law. [b] Capital gains deduction under ITA 110.6 and equivalent Quebec tax law. [c] 17 percent of NATI at the federal level, and 16 percent of NATI at the Quebec level. Note that the deductions that appear in the provincial computation include those related to employment income, RRQ (Régime des rentes du Québec), and UIC. The federal level allows no employment deduction, and the other items are tax credits instead of deductions. [d] For federal purposes: income tax + surtax – Quebec tax abatement.

Source: Calculations by the authors.

For AMT purposes, his modified taxable income must reinclude the retiring allowance ($150,000) and the non-taxable portion (1/4) of his capital gains ($12,500). The $1,000 dividend gross-up must be subtracted. The 17 percent AMT rate is applied to the resulting modified taxable income. Tax credits are deducted. A comparison of AMT due ($41,351 at the federal level and $38,469 at the provincial level) and part I tax ($10,160 and $11,138, respectively) shows that the available carryovers are $10,160 and $11,138, respectively.

This taxpayer is then presumed to go into business in 1993, and his only source of income over the period through 1996 is from that business. He incurs losses in 1993 and 1994 and small profits in 1995 and 1996. Since he pays no part I taxes in any of those years, he cannot recover his 1992 AMT.

Case 2: AMT in year 1 and deductible capital gains later. In case 2 (table 3), the taxpayer realizes a capital gain of $400,000 on the sale of the shares of his small business corporation (SBC). This capital gain is eligible for the special taxable capital gains deduction.[25] His other source of income is a dividend of $4,000. His total income is the sum of the following amounts: 3/4 (that is, the taxable portion) of his capital gains of $400,000, plus the grossed-up dividend, which equals $5,000. His taxable income is low enough that the personal tax credits wipe out part I tax. For AMT purposes, he must reinclude the non-taxable portion of the capital gains (1/4 of $400,000), and deduct the dividend gross-up. He must pay federal and provincial AMT.

In subsequent years, the taxpayer's only source of income is from capital gains realized on the disposition of other stocks. We assume a capital gain of equal value ($25,000) in each year. We also assume that he had not claimed any deduction for capital gains in years before 1992, in which case the gains for 1993 through 1996 are fully eligible. The result is that the AMT carryover cannot be claimed because part I tax is zero for each of these years.

Other Cases

There are further possibilities that might make it impossible to claim the AMT carryover. We worked out two scenarios (cases 3 and 4), which we will only highlight here.

Case 3 shows a taxpayer with a rental loss related to a MURB, substantial employment income, and some dividend income. His total income shows a loss. AMT is triggered in 1992. In subsequent years, the taxpayer has employment and rental income. However, he has pre-1992 undeducted business losses that he claims in those years, with the result that his taxable income is zero in each subsequent year. Since he pays no regular taxes, he is not entitled to recover the AMT he paid in 1992.

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[25] ITA subsections 110.6(1), (2.1), and (14) and TA sections 726.6, 726.6.1, and 726.7.1.

Table 3 Case 2: Calculation for a Quebec Taxpayer with AMT in 1992, Deductible Capital Gains Later, and No Recovery in Subsequent Years up to 1996

	1992		1993		1994		1995		1996	
	Federal	Provincial	Federal	Provincial	Federal	Provincial	Federal	Provincial	Federal	Provincial
					dollars					
Part I taxable income										
Taxable dividends	5,000	5,000								
Taxable capital gains	300,000	300,000	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750
Equals total income	305,000	305,000	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750
Deductions	0	0								
Equals net income	305,000	305,000	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750
Deductions[a]	300,000	300,000	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750
Equals taxable income	5,000	5,000	0	0	0	0	0	0	0	0
Minimum tax computation										
Add:										
Non-taxable portion of capital gains	100,000	100,000	6,250	6,250	6,250	6,250	6,250	6,250	6,250	6,250
Subtract:										
20 percent of taxable dividends	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Equals adjusted taxable income	104,000	104,000	5,250	5,250	5,250	5,250	5,250	5,250	5,250	5,250
Subtract basic exemption	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Equals net adjusted taxable income (NATI)	64,000	64,000	0	0	0	0	0	0	0	0
Gross minimum amount[b]	10,880	10,240								
Subtract basic minimum tax credit	1,097	1,362								
Equals minimum amount	9,782	8,878								
Subtract regular income tax before surtax	0	0	0	0	0	0	0	0	0	0
Minimum tax (to be carried forward)	9,782	8,878								
Total income tax payable[c]	8,609	8,878	0	0	0	0	0	0	0	0
Minimum tax carryover			0	0	0	0	0	0	0	0

[a] Taxable capital gains deduction. [b] 17 percent of NATI at the federal level and 16 percent of NATI at the provincial level. [c] For federal purposes: after surtax and less Quebec tax abatement.

Source: Calculations by the authors.

In case 4, the taxpayer incurs AMT in 1992. In subsequent years, his only source of income is from taxable dividends. Depending on the amount of the dividends, it might be a few years before the carryforward can be recovered. This is because the dividend tax credit lowers part I tax. Everything else being equal, however, the recovery would be faster for Quebec income taxes relative to the federal level, because the tax credit is smaller in Quebec.

These simple cases should be kept in mind in studying the tables presented in the final section of the article, particularly table 13. While theoretically the AMT credit may be available, circumstances might prevent the taxpayer from claiming it as quickly as he might wish. He might also voluntarily postpone claiming the credit.

The US AMT Legislation

Introduction

In the United States, the AMT applies to individuals and trusts, as is the case in Canada and Quebec. In that country, however, it also applies to estates and corporations. The computation is similarly structured: the taxpayer must compute his alternative minimum taxable income (AMTI) and subtract the applicable exemption. AMTI is a two-step process. The first part involves "adjustments" to taxable income. For example, a taxpayer who used fast writeoffs for depreciation purposes under the modified accelerated cost recovery system (MACRS) must add back an adjustment obtained from the compulsory alternative computation, called "modified MACRS," which is less generous. Another adjustment is the compulsory adding back of most passive activity losses.

The second part involves "tax preferences items." The taxpayer is forced to add back some tax preferences available under the regular income tax computation. For example, interest on tax-exempt bonds, net of expenses, must be included. Percentage depletion over the taxpayer's adjusted cost basis must also be added back. For individuals, form 6251 lists 20 "adjustments" and 8 "tax preference items."

The size of the exemption varies according to the status of the taxpayer. The residual is multiplied by the applicable tax rate, which in 1992 was 24 percent for non-corporate taxpayers and 20 percent for corporations. Applicable tax credits are then subtracted, and the result yields the "tentative" AMT tax liability. AMT is payable if that amount exceeds the regular tax liability. The form to be completed by corporations is form 4626.

Key Differences

First, in the US system, the exemption level is not a flat amount. Instead, it is phased out progressively with increases in the taxpayer's income.[26] The exemption level is reduced by 25 cents for each dollar of AMTI in excess of a threshold. This threshold varies according to the status of the

[26] Internal Revenue Code of 1986, as amended (herein referred to as "IRC"), section 55(d).

taxpayer. For example, it is $112,500 for single taxpayers and $75,000 for married taxpayers filing separate returns. The corporation's threshold is an AMTI of $150,000. This introduces an implicit progressivity into the AMT system.

Second, minimum tax paid in one year can be carried forward indefinitely as a credit against regular tax liability, whereas there is a time limit of seven years in Canada and Quebec.[27]

Third, there is a restriction to the amount of minimum tax credit that is available for the carryforward provision. In the case of the individual taxpayer, the amount allowed is the result of a computation on form 8801. The scale-down is accomplished by restricting the prior year minimum tax credit to "adjusted net minimum tax."[28] In simple terms, the purpose of this adjustment is to disallow credit for that portion of minimum tax paid in earlier years that can be traced to a specific category of adjustments and tax preferences.

This can be best understood by pointing out that some preferences and adjustments refer only to a deferral of regular tax liability, which the AMT cancels out by requiring the addback. Other preferences and adjustments involve, not a deferral of regular tax, but a complete elimination of regular tax liability, since tax is permanently forgiven. Deferral-type elements include, among others, addbacks because of the denial, for AMT purposes, of instalment sales of certain properties and incentive stock option benefits. Exclusion-type elements include, among others, the standard deduction, the deduction for state and local income taxes as well as property taxes, and tax-exempt interest on specified bonds.

Thus "adjusted minimum tax" is a computation that removes from the minimum tax of a prior year the portion that is related to exclusion-type adjustments and preferences. The result is that the credit for AMT from prior years is restricted to AMT paid because of deferral-type addbacks. This is strikingly different from the Canadian and Quebec legislations, which impose no such restrictions. It is also more in line with the underlying philosophies of a minimum tax on personal income.

In short then, the alternative minimum tax system in the United States has more punch than the one in Canada. On the one hand, it is more flexible, since the taxpayer suffers from no time limitation in claiming eligible carryovers. On the other hand, some tax preferences are harder hit than their equivalent in Canada, because their reinclusion in the AMT base with no carryover provisions leads to a genuine minimum tax, and not just to an interest-free loan to the government by the taxpayer.

Other Forms of Quasi Minimum Taxes Around the World

A country's tax system is unique in that it reflects its economic and legal culture. There is, however, one thread common to all taxation systems:

[27] IRC section 53.

[28] IRC section 53(d)(1)(B)(i).

Table 4 Quasi Minimum Taxes in Europe, 1992

Country	Annual tax on business net worth: applicable to Enterprises	Annual tax on business net worth: applicable to Corporations	Annual tax on individual net wealth	Other wealth tax excluding property taxes
Austria	x	x	x	—
Belgium	—	—	—	—
Bulgaria	—	—	—	x
Czech and Slovak Federal Republic	—	—	—	x
Denmark	—	—	x	—
Finland	x	x	x	—
France	—	—	x	—
Germany	—	x	x	—
Gibraltar	—	—	—	—
Greece	—	—	—	—
Guernsey	—	—	—	—
Hungary	—	—	—	—
Iceland	x	x	x	—
Ireland	—	—	—	x
Isle of Man	—	—	—	—
Italy	x	x	—	—
Jersey	—	—	—	—
Luxembourg	x	x	x	—
Monaco	—	—	—	—
Netherlands	—	—	x	—
Norway	—	—	x	x
Poland	—	—	—	—
Portugal	—	—	—	—
Russia	x	x	—	—
Spain	—	—	x	—
Sweden	—	—	x	—
Switzerland	—	x	—	x[a]
United Kingdom	—	—	—	—

— not applicable.

[a] Net wealth taxes at the level of cantons and municipalities.

Source: International Bureau of Fiscal Documentation, *European Tax Handbook 1993* (Amsterdam: IBFD, 1993).

taxpayers will always try to find ways to avoid taxes, whatever form they take. Nowhere else have we found minimum taxes similar to the Canadian or US model. Inasmuch as the AMT can be considered as a means to limit some excessive tax juggling, one can try to find legislation in other countries that attempts to impose a levy to counter typically aggressive taxpayer behaviour in those countries. Tables 4, 5, and 6 outline the various taxes that can be construed as minimum taxes around the world.

In our somewhat simplistic classification, we identify three broad categories of government intervention in this arena, which we identify under the headings of tax preferences restrictions, attempts at redistribution, and administrative countermeasures. These categories are not mutually exclusive.

Table 5 Quasi Minimum Taxes in Africa, 1992

		Applicable to		Computation applies on		Form		
Country	Reference point	Individuals	Corporations	Percentage of turnover	Other mode	Minimum charge	Tax rate(s)	Exceptions
Benin	profits	x	x	x		x		x
Burundi	profits	—	x	x		x		x
Burkina	profits	x	x	x		x		x
Cameroon	profits	x	x	x		x		x
Central African Republic	profits	x	x	x		x		x
Congo	profits		x	x		x		—
Gabon	profits	x	x	x		x		x
Ivory Coast	profits		x		x	x[a]		x
Malawi	income	x	x		x		x[b]	x
Morocco	profits		x	x			x	x
Niger	profits	x	x	x			x	
Nigeria	profits		x	x	x		x	x
Senegal	profits		x	x		x		x
Sierra Leone	income	x	x		x	x		x
Togo	profits		x	x			x	x
Tunisia	—	x	x	x			x	x
Zaïre		x	x			x		x

— unspecified.

[a] If tax loss situation. [b] If tax loss situation for corporations and individuals, and if tax liability is below a threshold for individuals.

Source: International Bureau of Fiscal Documentation, *African Tax Systems* (Amsterdam: IBFD) (looseleaf).

Table 6 Quasi Minimum Taxes in Latin America, 1992

Country	Annual tax on business net worth: applicable to		Annual tax on individual net worth
	Individual enterprises	Corporations	
Bolivia	x	x	—
Costa Rica	x	x	—
Ecuador	x	x	—
El Salvador	x	x	x
Guatemala	x	x	—
Mexico	x	x	—
Nicaragua	x	x	x
Peru	x	x	x
Uruguay	x	x	x

— not applicable.

Source: International Bureau of Fiscal Documentation, *Taxation in Latin America* (Amsterdam: IBFD) (looseleaf).

Restricting the Use of Income Tax Preferences

The purpose of the AMT structure in North America is to offset excessively generous incentives that, for some reason, cannot be attacked directly. It tries to counter taxpayer planning with counterplanning, and involves continuous tinkering with the tax Act in order to plug unforeseen loopholes. The taxpayer can still reduce his tax bill if he has access to good tacticians.

Attempts at Redistribution

Some countries have not tried to restrict the use of tax preferences, and have attempted instead to use non-income-related taxes to redistribute a minimum amount of money away from taxpayers who have successfully exploited the tax system. Annual wealth taxes on individuals serve this purpose, although they can also serve as a necessary complement to inheritance and gift taxes.[29] As illustrated in table 4, several European countries impose an annual tax on net wealth. The rate is always low, at around 1 percent. The base is a form of net wealth. There usually is a tie-in with the level of income tax paid, and there are various exemptions and deductions. When there is a tie-in with the income tax, the purpose is invariably to prevent the excessive taxation of individuals. In such cases, taxpayers

[29] There has been a renewed interest in some form of wealth tax in Canada, at least in the academic community. See in particular Roger S. Smith, *Personal Wealth Taxation: Canadian Tax Policy in a Historical and an International Setting*, Canadian Tax Paper no. 97 (Toronto: Canadian Tax Foundation, 1993). See also, in the special issue of *Canadian Public Policy* on the role of wealth taxes in Canada: Denis Kessler and Pierre Pestieau, “The Taxation of Wealth in the EEC: Facts and Trends” (September 1991), 17 *Canadian Public Policy* 309-21; Richard Bird, “The Taxation of Personal Wealth in International Perspective,” ibid., at 322-34; contrast these views, however, with the fairly negative opinions expressed in another paper in the same issue: Robert D. Brown, “A Primer on the Implementation of Wealth Taxes,” ibid., at 335-50. For a US perspective, see Henry J. Aaron and Alicia H. Munnel, “Reassessing the Role for Wealth Transfer Taxes” (June 1992), 45 *National Tax Journal* 119-43.

with large regular income tax and net wealth tax bills are likely to obtain a rebate on their net wealth tax burden. Therefore, since it is unlikely that a taxpayer with a low income tax bill in relation to his income will qualify for a rebate, it can be argued that the net wealth tax can be considered as a quasi minimum tax.[30] The table also shows which countries tax other forms of wealth. Some tax business net worth at the individual and corporate level, while others tax only corporate net worth. However, since this article deals with minimum taxes only at the individual level, the issue of whether those taxes can also be considered as quasi minimum taxes will be left unanswered here.[31]

Administrative Countermeasures

Some countries have insufficient auditing facilities to investigate taxpayer strategic tax planning. This is often related to inaccurate accounting systems, to strong non-resident control over local corporations, or to situations showing tax losses while financial results show profits. To limit the tax drain, countries have tried to target assets or some other proxy to extract a minimum contribution from the taxpayer. As table 5 shows, many African countries levy a tax based on turnover. Sometimes the tax is payable irrespective of profits; sometimes the tax structure will take profits into account. Another type of tax is the tax on business net worth, which targets assets. This type of tax is prevalent in Latin America and in some European countries, as shown in table 6. In relation to our individual AMT, the net worth tax appplicable to unincorporated businesses is the closest, if a distant, cousin; it is often the only way to obtain funds from businesses that are profitable, but for which the income tax system has created large undeducted losses. Again the rate of these taxes is usually low, and there are many types of exceptions to the basic structure. The table also shows, for reference purposes, those countries that tax corporate net worth. For reasons explained in the previous section, we do not explore this question further in this article.

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[30] In France, for example, the 1993 assessment is such that the aggregate income tax and net wealth tax may not exceed 85 percent of the adjusted normal income of the preceding year. If it does, the net wealth tax must be reduced. Suppose the following facts: the taxpayer's adjusted gross income in 1992 is $500,000, his income tax is $120,000, and his 1993 net wealth tax is $400,000. If there were no adjustments, the combined burden would be $520,000. However, the ceiling of 85 percent of adjusted gross income limits the combined burden to 85 percent of $500,000, or $425,000. The taxpayer is thus allowed to reduce his wealth tax burden to the extent of the difference—$520,000 less $425,000, or $95,000. The wealth tax after adjustments is therefore $305,000, not $400,000. Most European countries where an annual net wealth tax is levied allow such an adjustment, or one that is of broadly similar application (Denmark, Finland, the Netherlands, Norway, Spain, and Sweden). For more detail, see International Bureau of Fiscal Documentation, *European Tax Handbook 1993* (Amsterdam: IBFD, 1993). The above example is ibid., at 121.

[31] Two authors have already suggested in the Canadian context that part V1 tax (the tax on the financial capital of financial institutions) and part I.3 tax (the large corporations tax) have features equivalent to minimum corporate taxes. See David Holland and Alain Castonguay, "The Corporate Income Tax: Preliminary Results on the Impact of Tax Reform," in *Report of Proceedings of the Forty-Third Tax Conference*, 1991 Conference Report (Toronto: Canadian Tax Foundation, 1992), 20:1-18, at 20:17. It should be noted, however, that these particular taxes are related more closely to a tax on gross than on net assets.

An Evaluation of the AMT

Introduction

The Department of Finance had no illusions about the money the federal government could expect to collect from the AMT. While the tax was at the planning stages, it was estimated that between 4,900 and 7,100 taxpayers would be affected under one likely plan, and that tax receipts would rise in year 1 by between 35 and 54 million dollars (in 1982).[32] To put these numbers in perspective, there were over 15 million tax returns in Canada in that year, and the federal government collected some 26 billion dollars in personal income taxes.[33] AMT receipts would thus represent less than 0.25 percent of income tax collections.

There has been no further official discussion of the AMT since it was adopted, which makes it difficult to assess its value as a tax policy instrument. There are several questions that require quantitative investigation, but access to taxation returns is a prerequisite. It should be pointed out that because there were long delays in obtaining access to the data, and because cost considerations were a deterrent, we were unable to investigate the Department of National Revenue database of personal income tax statistics. We were, however, granted access to unique information collated to our specifications by the Quebec Department of Revenue (the MRQ).

The only public information on the AMT paid and the number of assessed taxpayers is contained in the official publications of Revenue Canada.[34] This information is deficient for an in-depth study, since it supplies a mere snapshot of what happens in any given year. Also, no information is presented on the amount of AMT paid in a previous year and then recovered by the taxpayer. There are nevertheless some useful data that can be gleaned. For example, 11,930 Canadian taxpayers paid AMT in 1990, to the tune of 44.3 million dollars. The data for Quebec are not provided in the MRQ publication, but unpublished information shows a total of 2,336 AMT taxpayers with a bill of 5.9 million dollars for the same year. In the same year, 4,204 Quebec taxpayers claimed a recovery of AMT totalling 16.4 million dollars.[35] This information is of limited value, since the recovery cannot be related to the specific year in which AMT was assessed. We did obtain from Revenue Canada some aggregate information on the cash flow of AMT paid and carried over, which is presented in table 7. While these statistics are interesting, they remain incomplete because they fail to connect the carryover to the specific year in which the AMT was paid.

The table reveals that 50 percent of the AMT paid from 1986 to 1989 had been recovered by the end of 1990. One must not compare the respective totals for the same year, because AMT paid in one year is not eligible

[32] Supra footnote 1, at 32-33.

[33] (June 1989), *Quarterly Economic Review* table 62.

[34] Revenue Canada, Taxation, *Taxation Statistics*, annual (Ottawa: Supply and Services).

[35] *Taxation Statistics*, supra footnote 2, table 4, 110-21, at 119; and MRQ unpublished information.

Table 7 Number of Canadian Taxpayers Paying Alternative Minimum Tax, Number Claiming an Amount Carried Over, and Respective Dollar Values, 1986 to 1990

Year	Number paying AMT	Number claiming a carryover	Amounts of AMT paid	Amounts of AMT carried over
			thousands of dollars	
1986	22,080	na	79,468	na
1987	39,500	12,010	147,946	25,886
1988	19,340	31,840	93,801	83,870
1989	19,330	23,450	93,153	71,684
1990	11,930	25,040	44,262	25,040
1) Total paid, 1986 to 1989			414,368[a]	
2) Total carried over, 1987 to 1990				206,480[b]
AMT carried over, as a percent of AMT paid: [(2)/(1)] × 100				49.8
Net receipts: [(1) – (2)]				207,888

na not applicable.

[a] Total paid 1986 to 1989. [b] Total carried over 1987 to 1990.

Source: The statistics on the carryover are unpublished and were obtained from the Statistical Services Division of Revenue Canada, Taxation. The information for AMT paid is taken from Revenue Canada, Taxation, *Taxation Statistics* (Ottawa: Supply and Services), various years.

for a carryforward claim until the following year, if all other conditions are satisfied. This is why we compare two blocks of years, with a one-year lag at each end. On this basis, the federal government netted under 208 million dollars over a four-year period, but this can only be an imprecise figure, since it is impossible to determine what portion will be eligible for a credit in a later year. It was not possible to obtain similar information for Quebec, since the data for 1986 and 1987 were not computer accessible.

In any case, obtaining a tentative answer to how the carryover effectively operates requires more than cross-section data: the best procedure involves tracking a cohort of taxpayers over time. For reasons explained earlier, we worked with Quebec rather than Canadian data. It was thus necessary to identify those taxpayers who paid AMT in a base year and to track their characteristics over the following years. Our main preoccupations were the following. First, how often can a Quebec taxpayer maintain over time both a high-income profile and low taxes? Second, is there a specific pattern in the tax shelter structure used by taxpayers assessed under the AMT, compared with the rest of the population? What in this context has been the relevance of the targeting of CISE deductions by the Quebec government? Third, is a taxpayer more likely to pay AMT on a regular basis over the years, or is he more likely to be assessed only once? Finally, and perhaps more important, from a tax policy perspective on designing the AMT, how fast is the AMT recovered?

The Data Base

Our original intention was to track a sample of taxpayers who had paid AMT in the first year the tax was set up—1986. However, because taxpayer returns for 1986 and 1987 are kept on tape rather than on computer files, it would have been prohibitively costly to search through the data for those years. As a result, we had no option but to use 1988 as our base year. We worked, not with a sample of tax returns, but with the entire population of AMT filers. The advantage was, of course, that there could be no sampling errors, but the disadvantage was that some detail was unavailable, since information could be extracted only from what is stored in the database. Because the MRQ computing facilities store all the information presented in the tax return, but only some of the information contained in supplementary documents, such as annexes or forms, it would not have been cost-efficient to go back to a specific tax return and completely rebuild it in computer-accessible format. The fact that our base year is 1988 does create one important advantage: that was the year in which the CISE account was created.

There were 4,134,153 tax returns filed in Quebec in 1988, 2,959,822 of which were taxable. Out of the 2,685 Quebec taxpayers who paid AMT totalling 14.3 million dollars in 1988, we were able to determine that 1,529 were first-time payers. Their AMT bill totalled 8.6 million dollars. We tracked this subgroup of 1,529 taxpayers over the following three years, since the latest information available is for 1991.[36]

We created adjusted real income brackets for these taxpayers, using a definition similar to the one used by the Department of Finance, as explained in the second section of this article. (The definition is not identical, however, because we have taken into account some tax measures that did not exist in the time period covered by the Department of Finance paper. We also took into account some elements that are unique to Quebec. None of these adjustments create significant problems in comparing Quebec and federal income brackets.)[37]

Results

High-Income Profile

We define a high-income Quebec taxpayer to be one whose economic income was in excess of $100,000 in 1988, and who paid AMT for the first time in that year. Out of the 1,529 first-time AMT payers in 1988, 1,100 fit this description. Surprisingly, only 188 of these taxpayers (17 percent) succeeded in keeping their real economic income in excess of $100,000 in each year from 1988 to 1991. Fewer than 20 percent of these 188 taxpayers paid AMT in the following years. This would indicate that most of these taxpayers are not consistently aggressive in seeking tax shelters.

[36] All the statistics in this section are unpublished. They were tabulated to our specifications by the MRQ.

[37] Real income is obtained by indexing 1988 total income to the consumer price index for the province of Quebec. Adjusted income, which we call economic income in the tables, is computed as follows: total income less the dividend gross-up, plus the non-taxable portion of capital gains, less recapture of Quebec stock savings plan (QSSP) deductions, less transfers to an RRSP, less carrying expenses to the extent of investment income, less deductions for unemployment insurance (UIC) paid back.

For another 585 taxpayers out of the 1,100 (53 percent of the group), real economic income was far below $100,000 in each of the following years. Indeed, their average real economic income varied between $36,000 and $48,000 over that three-year period. None of the 1,100 taxpayers we focused on succeeded in maintaining a high income and avoiding regular taxes over the entire period.[38]

While these numbers may not reflect what happens for high-income taxpayers at large, they suggest that the incidence of high income is frequently a transitory phenomenon. It would also appear that aggressive tax planning is not pursued by the majority of high-income taxpayers. In those cases, the AMT is likely to be too blunt an axe, and some form of income averaging should be allowed in applying the AMT computation.

Preferred Tax Shelters

Table 8 shows basic information on Quebec taxpayers who paid AMT for the first time in 1988, broken down by economic income brackets. The average economic income in our group was slightly over $250,000, which exceeded total income (as measured on the tax return) by about $45,000. Most of these taxpayers (770 out of 1,529) had an economic income in excess of $200,000, their average economic income was over $400,000, and their average total income for taxation purposes was around $300,000. While economic income exceeds total income for taxpayers in that income bracket, and for the two lower income groups in the table, the reverse is true for taxpayers with economic income under $100,000: their economic income was about one-half their total income. This is because of the uneven way in which the income adjustments hit taxpayers in different groups. For example, the removal of the gross-up is likely to reduce economic income below total income for taxpayers with important dividend income, while important capital gains are likely to have the opposite effect.

Table 8 also shows, though indirectly, that shelters were important for taxpayers in all income groups, since their average taxable income for regular income tax purposes is well below income however defined.[39] A substantial portion of the taxpayers in our target group (422 out of 1,529) invested money in MURBs, Canadian films, or Canadian resources, and there was a fairly even presence of taxpayers from all income groups in those shelters. Almost 60 percent claimed carrying expenses averaging $2,473, which indicates that these taxpayers borrowed heavily to finance their investments, including those in shelters. Quebec tax shelters in the CISE account were sought after by roughly one-third of the taxpayers in our target group. They deducted on average half the amounts claimed for the Canadian tax shelters mentioned previously. Nevertheless the amount

[38] None of this information is presented in table form in the article. We also computed how many taxpayers maintained a high-income profile for two years and for three years in the four-year period, but have not presented that information, to keep the article short.

[39] A complementary explanation might of course be that large losses were experienced by these taxpayers.

Table 8 Selected Features of Quebec Taxpayers Paying AMT for the First Time in 1988, According to Economic Income in That Year

	Measurement unit	Economic income: Under $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 and over	Total
Number of taxpayers		371	195	193	770	1,529
Average total income	$	95,875	125,110	144,840	304,131	210,661
Average economic income	$	54,546	125,612	171,932	404,263	254,543
Average taxable income	$	32,040	36,994	37,477	84,261	59,657
Selected tax shelters[a]						
Number of taxpayers claiming		93	109	64	156	422
Average amount claimed	$	5,746	21,327	16,881	11,643	12,108
Carrying expenses						
Number of taxpayers claiming		227	141	109	396	873
Average amount claimed	$	1,520	3,530	2,921	2,553	2,473
Amount in the CISE account[b]						
Number of taxpayers claiming		148	111	63	213	535
Average amount claimed	$	5,857	14,874	7,017	3,905	6,163
Taxable capital gain deduction						
Number of taxpayers claiming		97	109	153	717	1,076
Average amount claimed	$	2,634	22,779	64,045	185,009	104,798
Average income tax paid						
Part I tax	$	4,919	5,817	6,285	17,553	11,568
Additional amount due to AMT	$	2,212	2,608	2,764	8,752	5,626
Total	$	7,131	8,425	9,049	26,305	17,194

[a] Includes the following amounts: (1) share of losses due to CCA on certain Canadian films; (2) share of CCA that creates or increases rental losses (MURBs); (3) Canadian resource expenses. [b] Compte d'investissement stratégique pour l'économie. For details, see text at footnote 17.

Source: Special tabulation, Direction des études, des recherches et de la statistique, MRQ, September 1993.

they claimed was on average twice the amount claimed by *all* Quebec taxpayers at large using this deduction.[40]

The most important shelter was the taxable capital gains deduction: 70 percent of the target group claimed this deduction. The average value of the deduction was over $100,000, and the amount increased greatly with income. Indeed, for taxpayers in the $200,000-and-over income category, this represented an average deduction of $185,009. What these statistics suggest is that there are two categories of taxpayers who claim this deduction. The first category is probably made up of taxpayers who sold qualified farm property, or shares in their eligible small business corporation, and benefited from the higher capital gains deduction ceiling applicable to dispositions of such property. These taxpayers are likely to have high economic incomes only in the year of disposition, which may explain why economic income falls to a much lower level in later years. The second category is probably made up of taxpayers whose economic income is more stable, and who periodically realise capital gains, most of which is eligible to the lower limit.

The last elements in the table show that the AMT does catch taxpayers who have used tax shelters. The average AMT paid by these taxpayers amounted to $5,626. What is surprising is the relatively low amount of AMT paid by taxpayers in the upper income range. While their average economic income was over $400,000, they paid extra taxes because of the AMT to the tune of less than $9,000. This would suggest that good advice was received by these taxpayers, to optimize income sources and investment in tax shelters. It would be interesting to compare how high-income AMT payers fare under the US system, where more items are caught in the AMT net, but this information is not available to us.

Economic Versus Total Income

Table 9 illustrates the extent to which economic income differs from total income for our target group. Our objective is to trace the effect of this

[40] According to the 1988 edition of *Portrait de la fiscalité des particuliers au Québec* (supra footnote 5, at 133), 95,686 Quebec taxpayers claimed a total deduction of $277.3 million related to the CISE account in 1988, which yields an average amount of $2,900. The most popular deduction was for the QSSP, which makes up 41 percent of the deductions claimed ($113 million). Almost 90,000 Quebec taxpayers contributed to the QSSP. However, according to unpublished information, the most popular deduction in dollar terms for our target group was not the QSSP. Out of the 1,529 taxpayers in our target group of first-time AMT payers in 1988, there was a total of 535 taxpayers who showed one or more deduction listed in the CISE account, the total dollar value of which was $9.4 million for that group, which yields an average CISE deduction of $6,163 for the entire target group. Also, 386 taxpayers in our target group claimed QSSP deductions totalling $954,224, which represents roughly 10 percent of the total dollar value of the CISE deductions claimed by the group. The combined value of the basic and additional deduction for Quebec film productions represented the most important portion of their CISE deduction, accounting for 82 percent of their total CISE deduction. Only 150 of these taxpayers were involved in the basic deduction, and 136 claimed the additional deduction. To put these numbers in perspective, there were over 7,000 Quebec taxpayers claiming deductions related to Quebec films in that year.

Table 9 Percentage Difference Between Total and Economic Income in 1988 for Quebec Taxpayers Paying AMT for the First Time in 1988

		Economic income											
		Under $100,000, percentage difference			$100,000-$150,000, percentage difference			$150,000-$200,000, percentage difference			$200,000 and over, percentage difference		
Total income[a]	Unit	Negative or nil	1-50%	Over 50%	Negative or nil	1-50%	Over 50%	Negative or nil	1-50%	Over 50%	Negative or nil	1-50%	Over 50%
Under $100,000													
Number of taxpayers		154	68	**		25	14			**			
Average total income	$	76,067	43,634	**		92,368	78,956			**			
Average economic income	$	44,690	45,601	**		122,055	128,737			**			
Average AMT	$	1,431	1,641	**		1,523	2,815			**			
$100,000 to $150,000													
Number of taxpayers		108			72	61			119	**		14	**
Average total income	$	117,988			128,202	115,953			126,148	**		145,007	**
Average economic income	$	55,381			123,055	130,153			172,506	**		207,279	**
Average AMT	$	2,728			2,674	1,986			1,830	**		3,404	**
$150,000 to $200,000													
Number of taxpayers		34			**			34	25			167	**
Average total income	$	167,838			**			177,224	164,986			174,641	**
Average economic income	$	69,341			**			169,059	170,965			236,598	**
Average AMT	$	5,363			**			3,448	4,391			3,392	**
$200,000 and over													
Number of taxpayers		**			**			**			50	521	11
Average total income	$	**			**			**			302,627	350,030	405,548
Average economic income	$	**			**			**			276,463	471,964	665,655
Average AMT	$	**			**			**			6,203	10,485	26,446

** confidential data.

[a] As defined on the tax return. This measure differs from the notion of income as defined by Statistics Canada.

Source: Special tabulation, Direction des études, des recherches et de la statistique, MRQ, September 1993.

adjustment through the income distribution. The table should be read from left to right. Horizontal totals are not presented, however, as that would allow confidential details to be implicitly revealed on some of the lines. For each total income class on the left-hand side of the table, we show whether using the notion of economic income results in taxpayers moving to a lower or higher income bracket under this alternative definition. Taxpayers may remain within the same income bracket under both definitions. For example, the coincidence of the "$100,000 to $150,000" blocks would leave a total of 133 (that is, 72 + 61) taxpayers unaffected by the change in definition. However, the actual value of economic income may be higher or lower than total income for all taxpayers, irrespective of whether taxpayers remain in the same bracket, or whether they are bumped to a different one. Again, using the same example, economic income is either lower than or equal to total income for 72 taxpayers, and economic income exceeds total income by a margin of between 1 and 50 percent for the other 61 taxpayers. The average value of both dollar figures is presented in the table, along with the average AMT paid. The exact number of cases in which economic income is less than total income cannot be determined for taxpayers off the diagonal, as there are several cells containing confidential information, but a rough guess is that there are about three times as many cases where the reverse is true. For taxpayers on the diagonal, economic income exceeds total income in 686 cases, while the opposite applies in only 310 cases. Adding up the number of taxpayers on the diagonal of the table, irrespective of the size of the spread between the two measures of income, reveals that the income distribution is insensitive to the income definition used for two-thirds of the taxpayers in our target group.[41]

On average, there is only one income category where a large difference between the two income measures can be observed: analysis shows that for the subgroup of taxpayers in the $200,000 total income group, average economic income is 30 percent higher than total income. In the other income categories, the difference ranges from 2 to 17 percent.[42] This observation should not be construed as implying that such adjustments are too small to be worth the effort. Indeed, the numbers allow us to pinpoint the ripple effect of the adjustments and to better understand the vertical and horizontal inequities involved in relying on total income as a measure of economic well-being.

Taxpayer Versus Combined Spousal Income

We tried to determine to what extent the economic income of the married taxpayers in our target group is boosted by the incomes of their spouses. This would be relevant if family income were an important consideration in determining the appropriate tax level. For cost reasons, however, we were unable to determine the spouse's economic income. Therefore, table

[41] These numbers are obtained by adding the relevant totals in the appropriate cells.

[42] Note that these percentages cannot be inferred directly from the table as shown, because, for reasons explained in the text, we have not presented the totals.

10 illustrates the extent of the differences between the taxpayer's total income (presented in the first column) and combined spousal income. This table is organized along the same lines as the previous one. Horizontal totals are absent for similar reasons.

There are slightly fewer than 1,200 married taxpayers in our group, or about three-quarters of the total. Adding the spouse's income leaves the married taxpayer in the same income group in approximately 70 percent of the cases. The number can be read off the diagonal, for reasons identical to the ones explained in the previous section, although the exact total cannot be determined for reasons of confidentiality. Combined income is much higher in about 26 percent of the cases. The most obvious situations are in the $200,000-and-over category: while the combined income of spouses leaves them in this income class because it is unconstrained, there are 67 cases where average combined income is double the taxpayer's average income. In another 331 cases in this income group, the spouse's income adds about $40,000 to the family kitty.

Inasmuch as family income is a better measure of economic well-being, it might be argued that using this measure to apply the AMT would be more equitable. For example, the AMT exemption could be reduced on a sliding scale that would be based on the combined income of spouses, or on the pattern of the income distribution between spouses. This would not be revolutionary, since family income is already used in other sections of the Income Tax Act. We would, however, advise against any move to a family definition of income at this stage, because the Income Tax Act and its Quebec equivalent contain too many inconsistencies in the decision to include or exclude spousal income in the design of tax policy.

Sex and Age Breakdown of AMT Paid

Given the labour market in Canada, it should come as no surprise that the proportion of women in our group of first-time AMT payers in 1988 is only 15 percent, as can be computed from table 11. Middle-aged men and women (age groups 35 to 64) make up the bulk of the group, and they paid 80 percent of the AMT collected. There is only one age group for which the economic income of women in our target group exceeded the economic income of men: the average income of the 24 women whose ages range from 25 to 34 was $324,000, while that of the 108 men in that age group was only $280,000.

Overall there are no appreciable sex-related differences with respect to average AMT paid. Nor does age appear to be an important factor in terms of the average amount of AMT paid, although this is quite different when the total dollar values are considered, both for age and sex.

Income Distribution of AMT Paid

Table 12 breaks down the amounts of AMT paid according to economic income brackets. It can be observed that most of the AMT was paid by taxpayers in the upper income groups. Indeed, there were 770 taxpayers from our target group in the $200,000-and-over income bracket (50 per-

Table 10 Percentage Difference Between Total Income and Combined Spousal Total Income in 1988, for Married Quebec Taxpayers Paying AMT for the First Time in 1988

		Combined spousal income											
		Under $100,000, percentage difference			$100,000-$150,000, percentage difference			$150,000-$200,000, percentage difference			$200,000 and over, percentage difference		
Total income[a]	Unit	Negative or nil	1-50%	Over 50%	Negative or nil	1-50%	Over 50%	Negative or nil	1-50%	Over 50%	Negative or nil	1-50%	Over 50%
Under $100,000													
Number of taxpayers		37	54	**		43	24			14			12
Average total income	$	68,571	71,591	**		91,485	64,630			79,881			81,901
Average combined spousal income	$	68,329	83,933	**		112,731	123,287			169,619			312,942
Average AMT	$	1,696	900	**		1,524	1,611			3,215			4,180
$100,000 to $150,000													
Number of taxpayers					54	120			69	13			39
Average total income	$				122,119	117,914			133,948	105,941			124,591
Average combined spousal income	$				122,023	133,047			160,928	182,249			276,352
Average AMT	$				2,234	2,530			2,688	2,151			2,100
$150,000 to $200,000													
Number of taxpayers					**			37	74			69	26
Average total income	$				**			173,569	167,550			181,317	168,053
Average combined spousal income	$				**			173,569	182,139			218,342	389,745
Average AMT	$				**			4,610	3,115			4,389	3,755
$200,000 and over													
Number of taxpayers											77	331	67
Average total income	$										335,747	347,563	334,249
Average combined spousal income	$										335,659	384,602	681,116
Average AMT	$										9,798	10,362	9,429

** confidential data.

[a] As defined on the tax return. This measure differs from the notion of income as defined by Statistics Canada.

Source: Special tabulation, Direction des études, des recherches et de la statistique, MRQ, September 1993.

Table 11 Sex and Age Breakdown in 1988 of Quebec Taxpayers Paying AMT for the First Time in 1988

	Men			Women			Both		
		Average			Average			Average	
Age	No. of taxpayers	AMT paid	Economic income	No. of taxpayers	AMT paid	Economic income	No. of taxpayers	AMT paid	Economic income
		dollars			*dollars*			*dollars*	
Under 25[a] . .	15	8,118	314,011	11	6,281	250,456	26	7,340	287,123
25 to 34	108	5,044	279,293	24	5,521	324,021	132	5,131	287,426
35 to 44	297	5,430	260,925	50	5,673	223,015	347	5,465	255,462
45 to 54	356	6,370	285,280	60	5,542	261,857	416	6,251	281,902
55 to 64	389	5,595	230,287	52	4,517	168,734	441	5,468	223,029
65 and over .	131	4,934	244,045	36	4,976	209,690	167	4,943	236,639
Total	1,296	5,687	258,858	233	5,287	230,544	1,529	5,626	254,543

[a] Includes unspecified year of birth.

Source: Special tabulation, Direction des études, des recherches et de la statistique, MRQ, September 1993.

cent of the total), and they paid almost 80 percent of the total AMT collected.[43] One can also glean from the table that an AMT bill of $5,000 or more was paid by almost 40 percent (568 taxpayers) of the individuals in our target group in 1988. In fact, most of them (460, or 81 percent) were in the $200,000-and-over income bracket. The average AMT paid by these 568 taxpayers with a bill in excess of $5,000 was $12,000.

Looking at the table from another angle, more than 60 percent of the target group paid on average an AMT of under $1,800.[44] From yet another point of view, an AMT of under $500 was paid by 15 percent of the taxpayers in the group. Such information suggests that the AMT was a substantial tax for a fairly small group of individuals, and an annoyance for a lot more. Perhaps another form of tax should be devised for the most aggressive group of taxpayers, and the rest of the taxpaying public could be spared the intricacies of the AMT.

Multiple AMT Assessment and Recovery of AMT

The last table in this article attempts to answer two crucial questions. First, is a taxpayer who pays AMT in one year likely to be caught in its net in a later year, or is it more likely to be a one-time shot? Second, how quickly can the taxpayer recover the AMT he paid in a previous year?

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[43] Obtained by multiplying 770 taxpayers by the average value of $8,752 they paid. This yields $6,739,040. The total AMT collected from our target group in 1988 is obtained by multiplying 1,529 taxpayers by the average AMT paid ($5,626), which yields $8,612,154. Dividing both aggregate figures yields 78.3 percent.

[44] Obtained by subtracting the product of the average dollar value ($12,142) paid by 568 taxpayers with an average bill of more than $5,000, which yields $6.9 million, from the total AMT paid (1,529 taxpayers multiplied by the average value of $5,626, which yields $8.6 million). This result is then divided by the number of taxpayers (1,529 less 568, or 961) with an AMT bill of less than $5,000, which yields the average value given in the text.

Table 12 Income Distribution Breakdown of AMT Paid in 1988 by Quebec Taxpayers Subject to AMT for the First Time in 1988 (Economic Income Definition)

	Economic income									
	Under $100,000		$100,000-$150,000		$150,000-$200,000		$200,000 and over		Total	
Average AMT slices	Number of taxpayers	Average AMT paid, $	Number of taxpayers	Average AMT paid, $	Number of taxpayers	Average AMT paid, $	Number of taxpayers	Average AMT paid, $	Number of taxpayers	Average AMT paid, $
Under $200	45	82	20	100	15	119	24	88	104	92
$200 to $499.99	54	289	26	346	10	327	29	353	119	320
$500 to $999.99	58	733	30	767	33	712	16	765	137	739
$1,000 to $1,499.99	39	1,216	20	1,222	20	1,240	28	1,261	107	1,233
$1,500 to $2,499.99	75	1,921	31	1,963	52	1,894	55	2,048	213	1,953
$2,500 to $4,999.99	56	3,404	34	3,268	33	3,203	158	3,803	281	3,588
$5,000 and over	44	8,562	34	8,182	30	9,197	460	12,969	568	12,142
Total	371	2,212	195	2,608	193	2,764	770	8,752	1,529	5,626

Source: Special tabulation, Direction des études, des recherches et de la statistique, MRQ, September 1993.

Table 13 presents the time flow of the unclaimed balance in the taxpayer's AMT account with the Quebec Department of Revenue. This account is kept by the MRQ from information contained in the taxpayer's TP-1 and in form TP-776.42. For brevity's sake, we refer to it as the non-recovered amount of AMT in the table.

Table 13 breaks down the information for four economic income brackets.[45] We present four cases under each bracket. Each case represents a range of percentage values obtained when the 1991 balance in the AMT account is divided by the amount of AMT paid for the first time in 1988 by our target group. For example, the heading 0.01 to 49.99 percent refers to taxpayers in the 1988 income bracket under consideration who have from 0.01 to 49.99 percent of the AMT they paid in 1988 still sitting in government coffers at the end of 1991.[46]

To take a specific case, there were 119 taxpayers with a 1988 economic income of under $100,000 who had been assessed for the first time in that year (line 1). They paid an average AMT of $3,348 (line 2). On average, virtually no subsequent AMT was paid by these taxpayers in later years (lines 3, 6, and 9). On average, one year later (line 5), $1,411 out of the average AMT paid by these 119 taxpayers had not been recovered. This represents 42.1 percent of the 1988 AMT paid (line 15). By the end of 1990, the unrecovered amount had fallen to $428 (line 8). At the end of 1991, only $216 of their 1988 AMT had not been recovered. The ratio of $216 to the initial total of $3,348 is 6.5 percent (line 17).

The average economic income of these 119 taxpayers was almost constant over the next three years, and they stayed in the same income group. We wish to emphasise that the column headings in the table refer to the percentage value applicable at the end of 1991 only. In other words, the percentage of AMT not recovered at the end of 1989 or 1990 may not fall between 0.01 and 49.99 percent. In those years, taxpayers could have been in a different percentage category, had we tried to use that kind of breakdown. However, we felt this procedure would have been unduly cumbersome.

To summarize, the information on the speed of recovery of the AMT through time is presented in lines 15 to 17. These lines show the fraction of 1988 AMT that remains unrecovered as time goes by.[47] As indicated in the previous paragraph, lines 3, 6, and 9 indicate the amount of AMT, if any, paid on average in 1989, 1990, and 1991 by the taxpayers under each column heading. Note that our computations of the recovered amount of

[45] We also tabulated the data for total income brackets, but have not presented those tables here.

[46] Throughout the rest of the text, the end of 1991 refers to the end of the 1991 taxation year for the taxpayer.

[47] We used a simple programming technique using first in, first out principles to determine how the taxpayer claimed his credit. The carryover works under the same accounting rules as a loss carryover, to make sure that the seven-year limitation is observed by the taxpayer.

Table 13 Time Flow of AMT Not Recovered in 1991, as a Percentage of 1988 AMT[a]

	1988 economic income under $100,000				1988 economic income from $100,000 to $150,000			
	Nil	0.01% to 49.99%	50% to 99.99%	100%	Nil	0.01% to 49.99%	50% to 99.99%	100%
1) Number of taxpayers	73	119	14	115	45	62	10	46
				dollars				
2) Average AMT paid in 1988	1,819	3,348	3,106	1,127	2,389	2,873	2,623	2,065
3) Average 1989 AMT paid	642	36	763	136	2,162	121	161	109
4) Average 1989 recovery of 1988 AMT	1,110	1,937	102	0	947	1,937	389	0
5) Average amount not recovered at the end of 1989: [(2) – (4)]	709	1,411	3,004	1,127	1,442	936	2,234	2,065
6) Average 1990 AMT paid	2	4	55	6	593	85	157	69
7) Average 1990 recovery of 1988 AMT	703	983	185	0	1,116	468	16	0
8) Average amount not recovered at the end of 1990: [(5) – (7)]	6	428	2,819	1,127	326	468	2,218	2,065
9) Average 1991 AMT paid	50	0	0	81	58	41	843	1
10) Average 1991 recovery of 1988 AMT	6	212	467	0	326	208	282	0
11) Average amount not recovered at the end of 1991: [(8) – (10)]	0	216	2,352	1,127	0	260	1,936	2,065
12) Average 1989 economic income	58,930	54,725	37,291	55,222	175,394	113,934	98,148	82,329
13) Average 1990 economic income	63,894	52,293	37,716	49,067	116,629	111,269	77,856	71,431
14) Average 1991 economic income	59,926	52,696	35,788	50,942	101,512	114,072	113,512	56,510
				percent				
15) 1988 AMT not recovered in 1989 as a % of 1988 initial total: [(5)/(2)]	39.0	42.1	96.7	100.0	60.4	32.6	85.2	100.0
16) 1988 AMT not recovered in 1990 as a % of 1988 initial total: [(8)/(2)]	0.3	12.8	90.8	100.0	13.6	16.3	84.6	100.0
17) 1988 AMT not recovered in 1991 as a % of 1988 initial total: [(11)/(2)]	0.0	6.5	75.7	100.0	0.0	9.0	73.8	100.0
				thousands of dollars				
18) Total AMT paid in 1988	132.8	398.4	43.5	129.6	107.5	178.1	26.2	95.0
19) Total 1988 AMT not recovered, 1989	51.8	167.9	42.1	129.6	64.9	58.0	22.3	95.0
20) Total 1988 AMT not recovered, 1990	0.4	50.9	39.5	129.6	14.7	29.0	22.2	95.0
21) Total 1988 AMT not recovered, 1991	0.0	25.7	32.9	129.6	0.0	16.1	19.4	95.0

(The table is continued on the next page.)

Table 13 Continued

	1988 economic income from $150,000 to $200,000				1988 economic income $200,000 and over			
	Nil	0.01% to 49.99%	50% to 99.99%	100%	Nil	0.01% to 49.99%	50% to 99.99%	100%
1) Number of taxpayers	37	76	10	45	114	462	52	59
				dollars				
2) Average AMT paid in 1988	1,992	2,438	5,498	2,148	4,866	9,431	11,178	7,052
3) Average 1989 AMT paid	1,941	12	676	454	1,631	80	226	220
4) Average 1989 recovery of 1988 AMT	1,230	1,686	960	0	3,349	5,302	1,310	0
5) Average amount not recovered at the end of 1989: [(2) – (4)]	762	752	4,538	2,148	1,517	4,129	9,868	7,052
6) Average 1990 AMT paid	779	121	389	99	525	19	32	0
7) Average 1990 recovery of 1988 AMT	534	494	187	0	1,350	2,540	1,240	0
8) Average amount not recovered at the end of 1990: [(5) – (7)]	228	258	4,351	2,148	167	1,589	8,628	7,052
9) Average 1991 AMT paid	123	38	198	1	320	49	0	119
10) Average 1991 recovery of 1988 AMT	228	162	34	0	167	817	679	0
11) Average amount not recovered at the end of 1991: [(8) – (10)]	0	96	4,317	2,148	0	772	7,949	7,052
12) Average 1989 economic income	151,988	91,637	68,479	51,896	182,429	109,939	62,037	90,259
13) Average 1990 economic income	127,039	95,794	88,370	44,117	133,717	87,638	44,754	55,298
14) Average 1991 economic income	100,662	68,873	28,836	33,772	100,270	76,949	41,950	65,422
				percent				
15) 1988 AMT not recovered in 1989 as a % of 1988 initial total: [(5)/(2)]	38.3	30.8	82.5	100.0	31.2	43.8	88.3	100.0
16) 1988 AMT not recovered in 1990 as a % of 1988 initial total: [(8)/(2)]	11.4	10.6	79.1	100.0	3.4	16.8	77.2	100.0
17) 1988 AMT not recovered in 1991 as a % of 1988 initial total: [(11)/(2)]	0.0	3.9	78.5	100.0	0.0	8.2	71.1	100.0
				thousands of dollars				
18) Total AMT paid in 1988	73.7	185.3	55.0	96.7	554.7	4,357.1	581.3	416.1
19) Total 1988 AMT not recovered, 1989	28.2	57.2	45.4	96.7	172.9	1,907.6	513.1	416.1
20) Total 1988 AMT not recovered, 1990	8.4	19.6	43.5	96.7	19.0	734.1	448.7	416.1
21) Total 1988 AMT not recovered, 1991	0.0	7.3	43.2	96.7	0.0	356.7	413.3	416.1

(The table is concluded on the next page.)

Table 13 Concluded

	1988 economic income, all income groups combined				
	Nil	0.01% to 49.99%	50% to 99.99%	100%	Total
1) Number of taxpayers	269	719	86	265	1,339
			dollars		
2) Average AMT paid in 1988	3,229	7,119	8,209	2,782	5,549
3) Average 1989 AMT paid	1,494	69	358	204	401
4) Average 1989 recovery of 1988 AMT	2,048	4,072	966	0	2,660
5) Average amount not recovered at the end of 1989: [(2) – (4)]	1,181	3,047	7,243	2,782	2,889
6) Average 1990 AMT paid	429	33	53	31	113
7) Average 1990 recovery of 1988 AMT	1,023	1,887	803	0	1,270
8) Average amount not recovered at the end of 1990: [(5) – (7)]	158	1,160	6,440	2,782	1,619
9) Average 1991 AMT paid	176	39	121	62	76
10) Average 1991 recovery of 1988 AMT	158	596	524	0	385
11) Average amount not recovered at the end of 1991: [(8) – (10)]	0	564	5,916	2,782	1,233
12) Average 1989 economic income	143,551	99,210	62,956	67,163	99,447
13) Average 1990 economic income	110,992	84,688	52,529	53,496	81,734
14) Average 1991 economic income	89,583	75,282	47,743	52,217	71,821
			percent		
15) 1988 AMT not recovered in 1989 as a % of 1988 initial total: [(5)/(2)]	36.6	42.8	88.2	100.0	52.1
16) 1988 AMT not recovered in 1990 as a % of 1988 initial total: [(8)/(2)]	4.9	16.3	78.5	100.0	29.2
17) 1988 AMT not recovered in 1991 as a % of 1988 initial total: [(11)/(2)]	0.0	7.9	72.1	100.0	22.2
			thousands of dollars		
18) Total AMT paid in 1988	868.6	5,118.6	706.0	737.2	7,430
19) Total 1988 AMT not recovered, 1989	317.7	2,190.8	622.9	737.2	3,869
20) Total 1988 AMT not recovered, 1990	42.5	834.0	553.8	737.2	2,168
21) Total 1988 AMT not recovered, 1991	0.0	405.5	508.8	737.2	1,652

[a] Income distribution of the time flow of non-recovered 1988 AMT for Quebec taxpayers subject to AMT for the first time in 1988 (economic income definition). This table records the situation at the end of 1991, and the percentage breakdown in the table headings is valid only for 1991. For 1989 and 1990, the percentage applicable to the taxpayers in the group may vary.

Source: Special tabulation, Direction des études, des recherches et de la statistique, MRQ, September 1993.

AMT excludes any amount paid in those years.[48] Lines 18 to 21 present the total dollar figures for non-recovered AMT over the period; these statistics are useful from the point of view of government, since they trace the cash flow of the AMT.

It should be pointed out that there are only 1,339 taxpayers in this table, instead of the original 1,529. We were not able to keep track of some taxpayers over the entire four-year period. Some taxpayers died, for example, while others left the province.

Several interesting facts emerge from the table. First, an examination of the net cash flow of 1988 AMT paid and subsequently recovered by our target group reveals that, on average, almost 78 percent of what had been paid had been recovered by the end of 1991.[49] While the statistics are not comparable, this recovery ratio is 50 percent higher than the one presented under a different method in table 7.

Second, disaggregating the data shows that 269 taxpayers, or 16 percent of the target group, had entirely recovered their AMT three years later.[50] Another 54 percent (719) had recovered between 50 and 100 percent within that period. The average fraction this latter group recovered within one year was 57.2 percent.[51] Perhaps the numbers on line 17 are the most revealing: at the end of 1991, there was an unclaimed balance that ranged from nil to 7.9 percent of the 1988 value for 74 percent of the taxpayers in our target group.[52] For most of our target group then, the AMT is not much more than a temporary annoyance.

Third, of the taxpayers with a nil balance in 1991, the 114 individuals with income over $200,000 were the quickest to recover: by the end of 1989, they had already claimed 69 percent of the AMT they had paid the previous year.[53] This is particularly worrisome when one considers that these were the taxpayers with the largest AMT bill (see line 2 and the discussion above in the section on the income distribution of AMT paid). This performance was unmatched by taxpayers in the same percentage recovery subgroup whose income put them in other brackets. These very-high-income taxpayers were also the taxpayers in that subgroup with the sharpest drop in economic income in 1989: on average these taxpayers

[48] It would also have been possible to compute the net position of the taxpayer with respect to the cumulative net amount of AMT and carryover during the period. However, we felt that this alternative computation was less satisfactory, since the addition of each year in the picture also delays the theoretical recovery by another year, because of the seven-year carryover limit applicable to amounts paid in any given year.

[49] Obtained from the last column of table 13 by subtracting line 21 from line 18 and dividing by line 18.

[50] See the last page of table 13, first column, lines 1 and 21.

[51] Obtained by computing the following from line 15, column 2: 100 percent less the unrecovered percentage of 42.8 percent.

[52] We add the 269 and 719 taxpayers in the first two columns of line 1 and divide by the total number of taxpayers (1,339), which yields 73.8 percent.

[53] Obtained either by subtracting line 15 from 100 percent, or dividing line 4 by line 2.

were the only ones in the subgroup who fell out of the economic income category they were in the previous year.[54] They also had the sharpest income drop over the three-year period from 1989 to 1991.

Fourth, analysis of the second category of taxpayers (those with an unclaimed balance in 1991 of between 0.01 and 49.99 percent of the 1988 AMT) shows that the unrecovered fraction was much closer to zero than to 50 percent. Indeed, one observes that the largest group (462, or 35 percent of the total in the target group) is made up of taxpayers whose income is $200,000 and over. These 462 taxpayers succeeded in getting back 83 percent of what they paid after a lapse of only two years.[55] The next year, their unrecovered portion was only 8.2 percent.

Fifth, in combining the two headings not yet discussed, it can be observed that only a small group of taxpayers (351, or 26.2 percent of the target group) had a high (50 to 99.99 percent) unrecovered fraction of the AMT they paid in 1988, or had recovered nothing (the 100 percent column); by the end of 1991, 86 taxpayers out of the total in our target group had still not recovered an average of 72 percent of their 1988 bill, and 265 had recovered nothing.[56] Most of the taxpayers whose unrecovered fraction was between 50 and 99.99 percent were in the $200,000-and-over income bracket (52 out of 86), and theirs was the only income class in which economic income drops year after year. Also, these taxpayers have incomes well below the bracket they fell in for the base year. Perhaps part of the explanation for the slow recovery is that the taxable income of these taxpayers in further years is too small to earn much in the way of carryover credit.

Finally, and by way of adding to the previous paragraph, it is surprising to observe that by the end of 1991, there are 265 taxpayers who have not been able to claim a penny of the AMT paid in 1988, which amounted on average to $2,782. These taxpayers are spread over all four income groups, with larger concentrations at both extremes of the income range. From the small average amounts of AMT paid in 1989, 1990, and 1991 by these taxpayers, it is likely that most of them were technically in a position to claim a carryover, unless their taxable income was zero for reasons alluded to in the earlier section of the article on the carryforward mechanism.[57] However, we are unable to determine the seriousness of such an explanation from the data in the table. Strictly on the basis of economic income levels, however, this explanation can be convincing in only a few cases. One wonders to what extent those taxpayers or their accountants were negligent in claiming their due.

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[54] Their 1989 economic income was just over $180,000 (see line 12).

[55] Obtained for this subgroup by subtracting line 16 from 100 percent.

[56] See line 17 on the last page of the table, under the columns 50 to 99.99 percent, and 100 percent, respectively.

[57] We have computed that only 17 taxpayers out of this group of 265 paid AMT again in one year or more between 1989 and 1991.

On the basis of the statistical analysis in this section, we cannot but conclude that the AMT as structured in Canada is a tax that imposes genuine hardships on few of the taxpayers it targets.[58] For the small group of high-income taxpayers with substantial AMT bills, much of it is recovered fairly quickly. For a larger proportion of taxpayers, it is a minor irritant, and recovery is also prompt on average. Finally, some taxpayers may be unwitting victims of the bureaucratic jungle.

Conclusion

Our study indicates that the Canadian AMT system suffers from some deficiencies. First, when compared with the US system, it is on balance overly generous; lessons should be taken from the US experience, and we should restrict the carryover to a limited number of tax preferences involving only a deferral of income. Second, virtually no other country in the world has adopted such a device to counter aggressive tax planning. Canada should consider leaving taxpayers to struggle unfettered through the tax maze, and then introducing an annual tax on net wealth. Third, the Quebec AMT seems to have succeeded fairly well in convincing taxpayers to invest in CISE protected tax shelters. This provision will, however, cease to be applicable in the AMT computation in 1994. Fourth, although the AMT does have some teeth, they are dull: taxpayers are on average successful in recovering the tax fairly quickly. If we are not willing to sharpen the tiger's teeth, we should have the political courage to dispatch it promptly. Finally, some taxpayers are probably penalized in that they do not claim the credit they are due. Accountants should always determine whether their clients have paid AMT in a previous year.

[58] While we have not presented the data here, we tabulated the information with 1989 as a base year—that is, focusing on first-time AMT payers in 1989. The pattern is essentially similar to that in table 13. It is therefore highly unlikely that the data for 1988 could be singled out as not representative.