



## TAX TALK

### Getting prepared for the tax changes governing your life insurance policy

By John McKay, Executive Vice-President and Actuary, PPI

New rules beginning January 1, 2017, will affect the taxation of Canadian life insurance policies. If you are considering changes to existing insurance policies or the purchase of permanent insurance, you may want to review your overall estate planning and insurance needs with your advisor before the new regulations are in place.

#### How the rules work today

Here's how the current rules work: when you purchase a permanent life insurance policy, you don't pay tax on the income earned on the funds within that policy. This sheltering can help make the insurance more affordable. Virtually all permanent life policies sold in Canada qualify for this exempt tax status.

Insurance companies monitor the status of the policy and will notify you, or automatically implement your previously selected remedy, if the policy would otherwise lose its exempt status. For example, the fix could be to increase the death benefit or return some of the cash value to you.

The current rules to calculate a policy's tax exempt status have been in place since 1982, so Canada's Department of Finance is updating them to reflect more recent actuarial (or risk) assumptions and to ensure consistency across all insurance companies and all products. Generally, policies issued before January 1, 2017 will be grandfathered; however, in certain circumstances, grandfathered status can be lost after 2016.

#### Impact of updated regulations

The new rules will allow for more sheltering in the first decade of a policy and less over the long term, with the impact felt most by the holders of certain Universal Life insurance policies. The rules will also mean:

- Single premium policies will be a thing of the past
- Surrender charge amounts will no longer provide additional tax exempt room
- The minimum period over which you will be able to prepay policy premiums will be 8 years

How you build your policy's fund value makes a difference to its exempt status. Your advisor can help you determine how to schedule your deposits to ensure you have the right coverage in place, build value for your heirs and maximize the tax effectiveness of your policy.

*John McKay is a Fellow of the Canadian Institute of Actuaries and a member of the PPI Planning Services group of lawyers, accountants and actuaries, who provide tax and estate planning expertise and support to help advisors build customized insurance solutions for high net-worth clients.*

## **About PPI**

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