2017 tax changes

What changes can be made after 2016 to contracts governed under the tax rules in place before January 1, 2017?

Effective January 1, 2017, a number of changes will be made to tax rules affecting life insurance contracts following a series of measures adopted in the 2012 federal budget.

Contracts governed under the current tax rules, meaning the rules in place before January 1, 2017, will be grandfathered, **UNLESS** specific changes are made on or after January 1, 2017, in which case the new tax rules will then apply to these contracts.

Changes that may cause the loss of grandfathering

Owners may preserve their rights under the current tax rules in certain cases, even after 2016.

Here is how we will handle change requests to contracts governed under the current tax rules, that will either be approved by underwriting after 2016 or have an effective date after 2016.

Traditional life insurance contracts, governed under the current tax rules

Traditional life insurance refers to all life insurance other than universal life.

Change made after 2016	Handling of requests and impact on grandfathering
Addition of a life insurance coverage **Addition of an insured person**	A request to add a life insurance coverage or an insured on an in-force contract will result in a loss of grandfathering. The contract will be subject to the new tax rules. Please note that the Child Rider is considered an additional benefit and not a life insurance coverage.
Conversion of term life insurance to permanent life or universal life insurance	If the contract contains only one coverage, a new contract will be issued. Else, if the contract contains more than one coverage, you will have to specify on the policy change without evidence of insurability form if the conversion should be completed within the same contract or not. • If the change is made within the same contract, the contract will lose its grandfathered rights and be subject to the new tax rules. • If a new contract is issued, it will be governed under the new tax rules. The original contract, if still in-force, will keep its grandfathered rights and will continue to be governed under the current tax rules.
Change from a joint contract to individual contracts	The resulting new contracts will be governed under the new tax rules.

It may be in your clients' best interest to keep their grandfathered rights. A detailed analysis of their needs and situation will help you determine whether it would be best to make certain changes within their current contract or if it is preferable to apply for a new contract.

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Universal life insurance contracts, governed under the current tax rules

Change made after 2016	Handling of requests and impact on grandfathering
Addition of any coverage **Addition of an insured person**	**Given that since September 15, 2016** it is no longer possible to add an insured person or a coverage on a universal life insurance contract governed under the current tax rules, a new contract has to be issued.
Universal life insurance conversion requests for term insurance riders within the same universal life contract **Exchange of a Term 10 rider to a Term 20 rider within the same universal life contract**	**Given that since September 15, 2016** it is no longer possible to convert or to exchange a term life insurance rider within the same contract, a new contract has to be requested, for a conversion product available at that time. Please note that an exchange does not make a contract lose its grandfathered rights. The new contract that is created following the exchange will therefore be governed under the current tax rules.
Change of death benefit option	We will only accept requests to change the death benefit option when the net amount at risk requested is the same or lower. The change will therefore not impact grandfathered rights.
Change in cost of insurance type	We will only accept changes to a cost of insurance type that has a longer duration. The change will therefore not impact grandfathered rights. For example, a request to change from YRT cost of insurance to a Level T100 cost of insurance type will be possible and the contract will continue to be governed under the current tax rules.
Change from a joint contract to individual contracts	The resulting new contracts will be governed under the new tax rules.

Important!

When a change is made to a contract that results in a loss of grandfathering, the entire contract is subject to the new tax rules.

Changes that do not cause the loss of grandfathering

The following change requests do not cause the loss of grandfathered rights:

- Additions, on traditional life insurance contracts, of additional benefits or benefits other than life insurance benefits (as an example, addition of a critical illness insurance benefit);
- Additions without evidence of insurability (exercising an insurability benefit option, increase of insurance amount on Term 10 indexed or when the death benefit option, on universal life, is Indexed, automatic increases due to the insurance amount adjustment option on universal life);
- Change of owner, payor or beneficiary;
- Change to non-smoker rates;
- Change to the billing premium (for universal life insurance policies);
- Division of a multi-life policy into individual policies;
- Exchange of a Term 10 to a Term 20 or a Term 70;
- Exercising the reduced paid-up option (for whole life insurance policies);
- Improving a risk classification;
- Partial withdrawal;
- Policy loan;
- Reduction of insurance amount;
- Reinstatement of a policy initially governed under the current tax rules;
- Removal of a benefit;
- Removal of an insured;
- Revision of rating.

If certain conditions are met, it is possible that a contract approved by underwriting during the first quarter of 2017 be also governed by the current tax rules (to that end, please refer to the document **Administrative rules**).

For more information, go to **beneva.ca**

This document is intended to provide an overview of changes stemming from the federal budget; it is not meant to be exhaustive. For more detailed information on the tax changes that will be taking effect on January 1, 2017, please consult Section 148 of the Income Tax Act, in addition to Parts III and IV of the Income Tax Regulations.

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