2017 tax changes

Who would benefit from preserving or obtaining a contract governed under the current tax rules?

Following a series of measures adopted in the 2012 federal budget, a number of changes will be made to tax rules affecting life insurance contracts, effective January 1, 2017. Products offered after this date will conform to the new tax guidelines.

Contracts approved by underwriting and dated by December 31, 2016 will be governed by the current tax rules. In addition, 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**). Otherwise, they will be subject to the new tax rules.

Who would benefit from preserving or obtaining a contract governed under the current tax rules?

A detailed review of life insurance needs and financial objectives will provide insight to determine if it is in the client's best interest to consider options before 2017. **Here are a few considerations before the new rules start.**

Objective	Consideration
Insure multiple lives under one universal life insurance contract	The multi-life policy option is no longer available for the SSQ Universal life product since September 15, 2016.
Accumulate significant tax-sheltered savings within a universal life policy	Over the entire life of the policy, the possible tax-sheltered accumulation amount is generally greater now than what it will be in 2017.
Distribute tax-free dividends to shareholders	Upon the death of an insured whose beneficiary is a private corporation, the death benefit, minus the adjusted cost basis (ACB), can be added to the capital dividend account (CDA) and then paid out as a tax-free dividend. Since the ACB is generally lower under the current tax rules, the amount that can be added to the CDA is higher under the current tax rules.
Borrow using a policy assignment as a collateral security/guarantee	If the interest on the loan is tax deductible, it is possible that another amount, be it the minimum between the insurance premium and the net cost of pure insurance (NCPI), could also be deductible. Since the NCPI is generally higher under the current tax rules, the possible deduction is even more appealing now. However, if the insured is given a rated premium at the time the contract is issued, the NCPI will possibly be higher under the new tax rules.
Receive prescribed annuity payments	The taxable portion of the prescribed annuity payments is currently less than it will be under the new tax rules.

If your client is considering a disposal in the future, of a policy that has accumulated a cash value, either by making withdrawals, policy loans or simply surrendering the policy, a policy governed under the new tax rules will offer the advantage of a lower taxable amount. However, it is important not to overlook the importance of protecting insurability in the interim.

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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MIND0234A (2023-08)