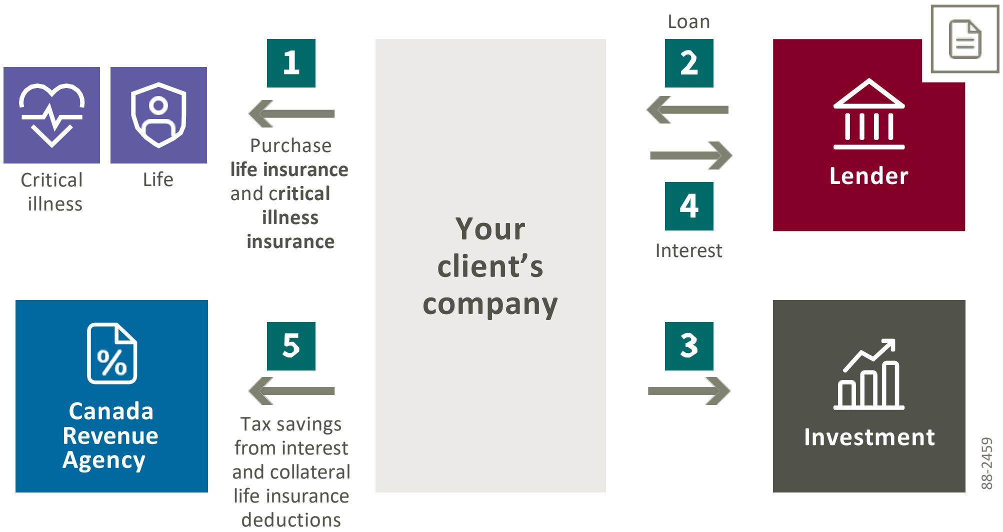
# IFA protection with CI insurance

Use the immediate financing arrangement (IFA) protection with critical illness insurance (CI) strategy with your business owner clients to keep their company's capital invested while also getting life and critical illness coverage.




## How does it work?

1. Your client's company diverts its cash flow or redirects investment dollars into a life insurance policy and critical illness policy with a return-of-premium on death rider over a set number of years (at least 15 years for the critical illness policy).
2. Each year that the company pays insurance premiums, it obtains a loan from a third-party lender (bank or credit union) to replace the funds that were used for this purpose. The life insurance policy's cash value, and potentially other assets, are used as collateral (movable hypothec in Quebec).
3. The company uses the loan in its business or to purchase investments.
4. The company pays the loan interest to the lender.
5. If this arrangement is structured properly, the company may obtain two tax deductions relating to the interest payments and the collateral life insurance deduction.

### If critically ill

If the business owner is diagnosed with a covered critical illness, a tax-free[1] benefit is paid to their company[2] and may be used to fund the loan interest payments, the company's life insurance premiums, or to cover daily costs. CI insurance benefits are not eligible for a capital dividend account (CDA) credit[3].

### On death

If the business owner dies, the insurance death benefit can pay off the loan and any amount left over is paid to their company as the beneficiary of the life insurance policy. The CI return-of-premium on death benefit is not eligible for a CDA credit. Generally, the life insurance death benefit less the policy's adjusted cost basis credits the company's CDA.

## Considerations

This material is for information purposes only and should not be construed as providing legal or tax advice. Reasonable efforts have been made to ensure its accuracy, but errors and omissions are possible. All comments related to taxation are general in nature and are based on current Canadian tax legislation and interpretations for Canadian residents, which is subject to change. For individual circumstances, consult with your legal or tax professional.

Collateral loans involve risk. They should only be considered by sophisticated investors with high risk tolerance and access to professional advice from a lawyer and accountant. The terms or future availability of collateral loans cannot be guaranteed. The loan or line of credit must be negotiated between the policyowner and the lender. It is subject to the lender's financial underwriting and other requirements. The policyowner should have enough income and capital to cover the interest and loan repayment, as well as the insurance premium.

Interest deductibility cannot be guaranteed. For Quebec income tax purposes investment expenses (which includes interest on loans that were used to purchase non-registered investments) are only deductible up to the actual amount of taxable investment income earned during a particular year. Investment expenses greater than the taxable investment income in a year may be carried back three years or carried forward indefinitely to offset taxable investment income.

If you experience a covered condition as defined in the critical illness policy and receive a lump-sum benefit, the insurance policy ends. With the return-of-premium on death rider, if the critical illness insurance policy is still active when you die, your beneficiary receives all premiums you've paid into the policy, tax-free. Current tax legislation doesn't address return-of-premium at death benefit and therefore they aren't specially treated as taxable income. The Canada Revenue Agency hasn't provided specific guidance on whether the return-of-premium at death benefit is tax-free.

This information is provided by The Canada Life Assurance Company and is current as of March 2021.

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[1] Provided the policy is an accident and sickness policy for tax purposes. The Canada Revenue Agency and Revenue Quebec have not provided a formal ruling regarding the tax treatment of critical illness insurance policies which include return of premium benefits. The tax treatment of optional return of premium benefits is subject to interpretation.

[2] If the critical illness benefits are subsequently paid to the employee (key person) or shareholder, the amount paid will generally be taxable to the recipient either as an employee or shareholder benefit or a dividend.

[3] Amounts paid to the corporation cannot be distributed on a tax-free basis.

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