

Taking stock in our participating life insurance offering

We've earned our position as a market leader in participating life insurance. Building on our long history of strength, we're investing time and resources to remain competitive. We'll look at short- and long-term solutions in product design and how we can enhance the performance of the dividend scale interest rate, while maintaining our top-ranked investment quality and potential for innovation. We expect both current and future policyholders to benefit from this investment into our future.

Participating life insurance products should be assessed on more than non-guaranteed illustrated values. As an industry, we need to look at things such as investment mix and the quality of assets (for example, risk versus return), the participating life insurance account's historical experience, consistency in managing the participating life insurance account and transparency in disclosing these details.

This will be one of the first tangible examples of looking at product development from a client-centric perspective.

A senior executive team has been assembled to bring focus in the short term to finding areas to enhance the performance of the dividend scale interest rate, and to understand the implications and consequences of any potential changes. For example,

the application of participating life insurance in your client's high-net-worth diversified portfolio

must be protected. The investments we make in product development will not only benefit future clients; given the long-term nature and pooling of investment experience, policies written previously or today may benefit.

Longer term, we're looking at our product design and potential for innovation. This will be one of the first tangible examples of looking at product development from a client-centric perspective. What are consumers really looking for today and down the road? We're focused on understanding what customers want, and what you need to fulfill their planning needs. We're excited about where this discovery will take us.

We wanted to share with you the focus we're bringing to this core part of our offering. Some solutions may be more involved and take longer, but we're also focusing on ways to improve the way you do business today.

Updated Individual asset diversification tool

A new feature has been added to the *Individual asset diversification* tool.



Clients now have the option to

include a lump-sum or annual deposit, or a combination of the two.

This update allows you to customize the report even more to your clients' needs and their ability to make premium payments. Clients select what works best for them and you can show how insurance fits with their plans.


FIND IT

Access the tool on Canada Life RepNet™ under Products and tools > Life insurance > Sales strategies > Individual.

Improved advisor summary helps explain policy decision and cost

Explaining underwriting decisions to your clients just got simpler – so has creating illustrations to match the actual policy.

When you receive a policy for a client, the advisor summary now gives you more detail about the decision and the insured people. The additional details are right there in your policy package, together with the policy and the policy details page. This means you don't have to look through previous emails or letters to find the information you need for your conversation with your client.

 **FIND IT** Take a look at examples of old and new advisor summaries on RepNet under Home > News > Products > Life insurance.

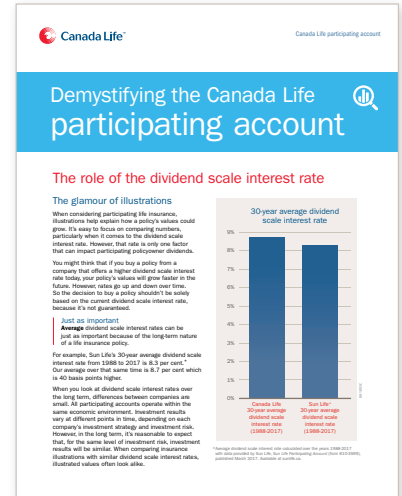
Inforce illustration software coming for participating life insurance policies issued Jan. 1, 2017 or later

As we wrap up 2017, we say “happy anniversary” to G3 policies! We also plan to say “hello” to inforce illustration capabilities for G3 participating life insurance policies and take stock of our product position one year after Life17 and the tax legislation changes.



We understand the importance of being able to run inforce illustrations on demand. We'll release this new capability for G3 participating life insurance policies on the new Concourse software later this year. Until then, if your policy has passed its first anniversary, please continue to contact the Client Service Centre for an inforce illustration.

Updated: Demystifying the Canada Life participating account



▲ Use this updated *Demystifying the Canada Life participating account* (form 46-9264) brochure to help clients understand the role of the dividend scale interest rate on policy values, and why it's only one factor that can impact participating policyowner dividends. It also helps clients understand the importance of looking at the long-term rather than short-term performance.

FIND IT

This brochure can be found on the RepNet home page under Marketing materials > Life insurance > Marketing catalogues > Participating life insurance catalogue. The print version can be ordered from Supply.

P CANADA LIFE Platinum Symposium

NASHVILLE 2018

April 9-12, 2018 | Loews Vanderbilt Hotel

Redesigned fund overview and performance website

New look and feel to support client conversations


We've modernized the fund overview and performance website by focusing on your user experience. Enhancements include intuitive site navigation, simplified language and professional fund profile pieces. We made these changes as part of our recent transition from the Thomson Reuters Lipper platform to Fundata Canada Inc.

It's now easier to identify top performing funds with search criteria based on what's important to you. Easily compare fund attributes and performance by narrowing your results even further by selecting your top investment choices as favourites.

Using plain language and highlighting fund information that ties into the planning conversation, fund profiles have been redesigned with the client in mind. This information can be easily viewed online, as a PDF or shared with your client in the way they want to consume it and consistent with how you conduct your business.

Find information faster and in fewer steps than before – the fund overview and performance website is now another way to access the Fund Facts regulatory documents.



 **FIND IT** See these improvements for yourself by visiting canadalife.fundata.com.

[NEWSBRIEFS]

New mailbox for Tax/MDRT and Accounting

The Contracts and Compensation accounting team has introduced a new mailbox:

Tax/MDRT & Accounting, Canada Life –
Tax_MDRT&Accounting@canadalife.com.

Please email this mailbox for any of the following related inquiries:

Tax

- T4A slip reprints
- Garnishments
- Tax-earning investigations

Million Dollar Round Table (MDRT)

- Qualification letters
- Inquiries to calculations

Accounting

- Income – payment, reserve account, special electronic fund transfers and redirections
- Commission statements, with the exception of policy-specific inquiries

[NEWSBRIEFS]



All Canada Life™ product solutions centres and the offices listed to the right are closed on **Friday, March 30, 2018** for Good Friday.

Holiday hours – Good Friday

OFFICE	CLOSED
Individual Insurance	<ul style="list-style-type: none"> Client Service Centres in London and Regina Individual Insurance New Business in Toronto Individual Insurance Claims in London Individual Insurance Client Service and New Business in Regina and Montreal Individual Insurance Client Service, New Business and Claims in Winnipeg
Contracts and Compensation	<ul style="list-style-type: none"> Toronto office
Individual Wealth Management	<ul style="list-style-type: none"> Client Service Centre in London Wealth Management Administration in London Wealth Management Administration in Montreal Toronto Stock Exchange (TSX) and FundSERV The holiday will not be a trade or settlement date. Operations will resume the following business day.
Processing business through FundSERV	<ul style="list-style-type: none"> Canada Life segregated funds can be entered on FundSERV on the holiday, but will be processed through FundSERV with a trade date of the next business day. For more information, call your regional marketing consultant.
Service Desk	<ul style="list-style-type: none"> Regular hours (6:30 a.m. to 6 p.m. CT) will resume the following business day.

WE'RE HERE TO HELP.

FOR MORE INFORMATION, CONTACT YOUR MGA, BRANCH OFFICE OR PRODUCT SOLUTIONS CENTRE.

Please direct all comments and inquiries to: Kristyn_Cieszynski@canadalife.com

Newslink is for information purposes only and should not be construed as legal or tax advice. Every effort has been made to ensure its accuracy, but errors and omissions are possible. Individual circumstances may vary and specific legal and tax advice is recommended. The information presented is based on current tax legislation. Future tax changes and market conditions may affect this information. Newslink is for advisors. It is not intended for use with clients.

In Quebec, advisor refers to a financial security advisor for individual insurance and segregated funds policies and to an advisor in group insurance/annuity plans for group products.

Repline: 1-888-724-3680

Lifeco Service Desk (for RepNet tech support): 1-800-475-7001

RepNet: <https://repnet1.canadalife.com>

Web: canadalife.com

British Columbia PSC: 604-685-7364 | 1-800-663-0413

Mid-West PSC: 403-266-8912 | 1-888-578-8083

GTA/Ontario PSC: 416-552-3100 | 1-877-594-1100

Quebec/Atlantic PSC: 514-874-0868 | 1-800-361-0860

Transferring a life insurance policy from a corporation to a shareholder

When a corporation transfers a life insurance policy to a shareholder, there are tax consequences to both the corporation and shareholder. The resulting tax consequences depend on many factors, including whether the shareholder is an individual or a corporation, the tax attributes of the policy, whether the shareholder paid anything for the policy or if it was transferred as a dividend-in-kind.

Does the policy need to be transferred?

Before transferring the policy, carefully consider whether it actually needs to be transferred. The two most common reasons why someone would want their corporation to transfer out a policy on their life are:

1. The corporation is to be sold
2. Its business has ceased and its only remaining asset is the policy

If significant tax consequences result from transferring the policy, the business owner may consider other options. These could include:

- Selling the corporation's business assets so the corporation's ownership doesn't change
- Transferring the policy as a dividend-in-kind to a connected corporation
- Selling the corporation with the policy but acquiring and retaining life insurance shares, or
- Keeping the corporation in good standing until the insurance proceeds are paid out (in cases where the business has ceased)

The business owner's professional tax advisor should consider each of these options.

Transferring a policy out of a corporation

If the policy needs to be transferred, it's necessary to look at the tax consequences to both the corporate policyowner and shareholder.¹

TAX CONSEQUENCES TO THE CORPORATION

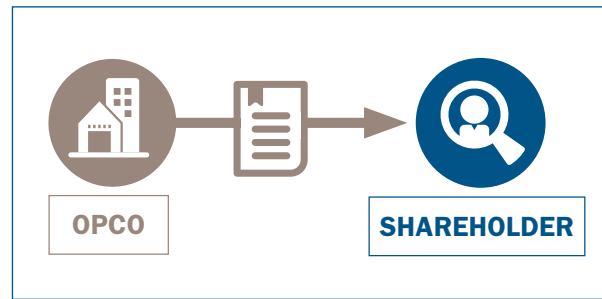
Many of the tax implications for a corporate policyowner (and some of those for the shareholder as discussed below), which result from the transfer of the policy to a shareholder are determined by subsection 148(7) of the *Income Tax Act* (the "Act"). Pursuant to this provision, the corporation's transfer price for tax purposes (the proceeds) is deemed to be the greatest of the following:

1. Fair market value (FMV) of the consideration given for the policy
2. Policy's cash surrender value (CSV)
3. Policy's adjusted cost basis (ACB)

continued

If the deemed proceeds exceed the policy's ACB, then any excess over the ACB is a taxable policy gain and treated as passive income of the corporation. This formula is straightforward, but there are some common situations where its application needs clarification:

- **As a dividend-in-kind** – A corporation transfers the life insurance policy as a dividend to a shareholder. In many cases, transferring the policy as a dividend-in-kind may produce the best tax result for both the corporate transferor and, as discussed below, the transferee shareholder. Where the policy is transferred as a dividend-in-kind, no consideration is involved so the proceeds are based on the greater of the policy's ACB and CSV.² A dividend-in-kind may also provide the corporation with the opportunity to regain refundable taxes paid on passive income.
- **Pursuant to a share redemption** – Where a corporation transfers a policy as payment for the redemption price of shares, the FMV of consideration given for the policy is the amount the shareholder is entitled to from having their shares redeemed (the aggregate redemption amount).
- **To an employee** – In most cases, the transferred policy is considered a bonus, or other form of remuneration. As a result, for tax purposes the proceeds to the employer is an amount equal to the FMV of the policy, less any consideration paid by the employee. The corporation may deduct for tax purposes an amount equal to the policy's FMV as an employee taxable benefit, less any amount paid by the employee.



Tax consequences to an individual shareholder

TRANSFERS FOR NO VALUE

If the shareholder didn't pay anything for the policy, or paid less than FMV, a taxable shareholder benefit under subsection 15(1) of the Act may arise. The benefit amount would be equal to the policy's FMV, less any amount paid by the shareholder for the policy. Taxable shareholder benefits are treated as regular income. The corporate transferor isn't entitled to a corresponding tax deduction equal to the taxable shareholder benefit amount.

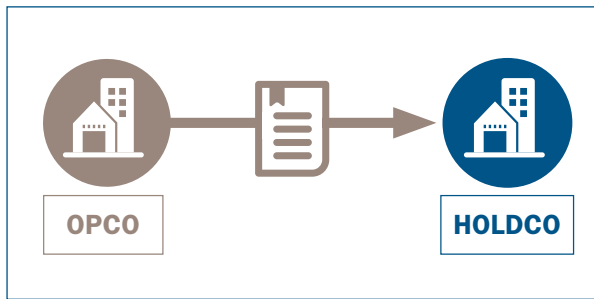
The new ACB of the policy to the shareholder is generally an amount equal to the policy's FMV less any consideration given by the shareholder for the policy. In particular, the ACB is determined by the sum of the following two components:

1. The deemed proceeds received by the corporate transferor – meaning it will be an amount equal to the greatest of the FMV of the consideration given for the policy, policy's CSV and ACB.
2. The excess of the FMV of the policy over the figure from previous calculation, that's treated as a taxable shareholder benefit.³

TRANSFER AS DIVIDEND-IN-KIND

If the policy is transferred as a dividend-in-kind, the policy's FMV will be included in the shareholder's income and subject to tax at more favourable dividend tax rates⁴, rather than personal marginal tax rates. The ACB of the policy to the individual shareholder would be equal to policy's FMV.⁵





Tax consequences to the corporate shareholder

TRANSFERS FOR NO VALUE

If the corporate shareholder didn't pay anything for the policy, or paid less than FMV, a taxable shareholder benefit under subsection 15(1) of the Act may arise. The benefit amount would be equal to the FMV of the policy, less any amount paid by the shareholder for the policy. The policy's ACB to the corporate shareholder is calculated in the same manner described above in the case of the individual shareholder.

TRANSFER AS DIVIDEND-IN-KIND

Where the policy is transferred as a dividend-in-kind, the corporate shareholder may potentially receive the policy as a tax-free inter-corporate dividend if the corporate shareholder is connected to the policyowner. The income to the shareholder – on receipt of the policy as a dividend-in-kind – is an amount equal to the policy's FMV. Corporate dividend recipients that are "connected" to the corporate transferor will be able to claim an offsetting deduction, resulting in a tax-free dividend.⁶ Corporations are connected if they're under common control or if the dividend recipient owns more than 10 per cent of the votes and value of the dividend payor.

A tax professional should consider the application of subsection 55(2) of the Act whenever a corporate-owned policy is transferred as a dividend-in-kind to another corporation. It's a broad and complex anti-avoidance rule that can change the tax-free character of an inter-corporate dividend into a taxable capital gain.

The policy's ACB to the corporate shareholder would be equal to the deemed proceeds received by the corporate transferor – meaning it will be an amount equal to the greater of the policy's CSV and ACB.⁷

FMV of a life insurance policy

A common theme so far has been that the life insurance policy's FMV is an important figure for these types of transactions. As a general rule, insurers don't provide the FMV for life insurance policies. Consulting actuaries specializing in policy valuations provide this service for a fee ranging from \$1,000 to \$2,500 per policy. Determining the FMV of a life insurance policy involves many variables. The policy FMV will typically be an amount somewhere between its CSV and insurance payout (death benefit). According to *Information Circular 89-3*, the Canada Revenue Agency (CRA) considers the following factors in valuing a life insurance policy: CSV; policy's loan value; face value; state of health and life expectancy of the insured; conversion privileges; replacement value and policy terms, such as term riders; and, double indemnity provisions.

Example – moving a policy from a subsidiary corporation to a shareholder

Let's look at the details of Kristy's structure which ties in all these rules:

Kristy owns a holding company (Holdco), which owns an operating company (Opco) carrying on a thriving sports agency business. The business will soon be bought by a larger competitor. Opco owns a universal life insurance policy on Kristy's life that she would like to keep. Opco purchased the policy several years ago and it has a very competitive annual premium with a \$1 million insurance payout, ACB of \$60,000, CSV of \$10,000 and a FMV of \$100,000. Her marginal tax rate is 46 per cent for non-eligible dividend income and 52 per cent for regular income.

CONTINUED NEXT PAGE →

Kristy wants to simplify her estate planning by owning the policy personally, so her tax advisor gives her two options for dealing with the policy:

1. Opco transfers the policy to her for no consideration – taxable benefit, personal tax cost \$52,000⁸ – no tax cost to Opco.
2. Opco transfers the policy as a dividend-in-kind to Holdco and Holdco subsequently transfers the policy to her as a dividend-in-kind – personal tax cost \$46,000 – no tax cost for either Opco or Holdco.

Either option requires a valuation of the policy. Kristy chooses the second option which has the lowest tax cost. As a consolation, her tax savings from using the lifetime capital gains exemption on the sale will more than offset her tax costs from receiving the policy personally.⁹ The following table shows the tax consequences of each transfer:

	Option 1	Option 2	
	Opco transfer to individual for no consideration (\$)	STEP 1 Opco dividend-in-kind to Holdco (\$)	STEP 2 Holdco dividend-in-kind to individual shareholder (\$)
Starting ACB	60,000	60,000	60,000
Proceeds	60,000	60,000	60,000
Policy gain	0	0	0
Income inclusion for recipient	100,000	100,000	100,000
Tax cost (52 per cent regular income/46 per cent dividend income)	52,000	0	46,000
Initial ACB to shareholder	100,000	60,000	100,000

1. At the time of writing, there isn't a mechanism in the *Income Tax Act* that permits a tax-deferred transfer (a rollover) of a life insurance policy to or from a corporation.

2. CRA document 2016-0671731E5, dated June 7, 2017.

3. 2003 CALU Conference, Question 4, CRA document 2003-0004275, dated June 9, 2003.

4. The "grossed-up" amount of the dividend is included in the shareholder's income.

5. Subsection 148(7) and see CRA document 2000-0056205, dated April 10, 2001.

6. Subsection 112(1) of the Act.

7. CRA document 2000-0056205, dated April 10, 2001.

8. Subsection 246(1) of the Act may give rise to the income inclusion in this case because she isn't a direct shareholder. Alternatively, Holdco may have an income inclusion pursuant to either subsections 15(1) or 56(2) of the Act.

9. Each option results in Kristy personally owning shares that she'll sell to the buyer. To access the capital gains exemption, an individual must sell a "qualified small business corporation share" (subs. 110.6(1) of the Act). The capital gains exemption is unavailable where a holding company sells shares of an operating company to a buyer.

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. This information is provided by The Canada Life Assurance Company and is current as of January 2018.

Canada Life™ has Wealth and Tax Planning Consultants located across Canada as a resource for your technical tax and estate planning questions related to your complex case work. Contact your product solutions centre to learn more about working with a Wealth and Tax Planning Consultant.