Armstrong
Financial Services

Re: Insurance Memo - Before You Commit to "Free" Insurance

The "free" insurance strategy you're being pitched—commonly called an "Immediate Financing Arrangement" (IFA), or "Zero Cost Insurance" —is, in reality, **a ballooning debt that requires lifetime interest payments until death.**

It only appears low-cost because of **tax credits used to offset the interest**—credits that may not stand under the new GAAR rules. CRA now has broader authority to reassess strategies like IFAs, particularly where one of the main purposes of the loan is to generate a tax deduction.

The entire plan relies on assumptions that can not be guaranteed:

- **Tax credits** that may not be accepted and could be retroactively denied
- **Policy performance** that assumes high returns despite a long-term decline in dividend scales
- **Interest rates** that are illustrated as fixed and low, even though actual borrowing costs are subject to variable prime rates.

Even one of these assumptions not holding true can significantly alter the outcome. Taken together, they create a fragile structure with long-term financial implications. We've advised clients—some willing to share their experience—who exited the strategy at a loss once the ongoing cash flow requirements became clear. **Their reality differed sharply from what was initially presented.** In the end, "free" wasn't free at all.

A straightforward, guaranteed insurance policy can offer the same protection—without the complexity of leverage, tax exposure, or moving parts—and often at a lower cost than the interest payments alone on an IFA.

We've included a simple request you can share with the promoter, asking for revised projections based on more conservative (yet reasonable) assumptions. I'd be happy to review the updated figures with you and provide a second opinion.

Sincerely,
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Financed Life Insurance (IFA) - Illustration Revision

To make an informed decision based on reasonable assumptions, please revise the "financed life insurance policy" illustration with the following three adjustments:

1. Use a tax rate of 26% (active income) instead of 50.17% (passive income) for deductions.
2. Maintain the outstanding interest debt rate at 6% for the entire strategy duration.
3. Assume the policy's investment return (dividend scale rate) will perform at 1% lower than today's rate for the entire strategy duration (current -1%).

Please emphasize the **annual cash flow requirement (before proposed tax credits)** to help us better evaluate the upfront annual financial commitment.

Additionally, please clarify how the tax credits have been integrated into the proposal and provide written confirmation that they fully comply with CRA guidelines, which seem to contradict this approach (see CRA correspondence below). Since the tax application cannot be guaranteed and is a lifetime component of your plan, please illustrate the scenario where the CRA rejects these tax credits by adjusting point 1 above to reflect a 0% tax rate for deduction purposes.

If the client is expected to bear the risks tied to these variables, it is only responsible to evaluate a reasonable range of potential outcomes using realistic assumptions.

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Canada Revenue Agency (CRA) correspondence 2000-005146:

The deductibility of interest for income tax purposes is governed by paragraph 20(1)(c) of the Income Tax Act, which allows a deduction for interest on borrowed money used for the purpose of earning income from a business or property. ***Specifically excluded from eligibility for deduction, however, is interest on borrowed money used to acquire a life insurance policy.*** *Accordingly, if money is borrowed to purchase a life insurance policy, the interest paid or payable on those borrowed funds is not deductible for income tax purposes.*