

# Armstrong

— Financial Services —

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## 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 questionable **tax credits that are used to offset that debt.** Under the new GAAR rules, these credits are at serious risk of being denied. CRA now has broader authority to reassess strategies like IFAs, especially where one of the primary purposes of the loan is to generate a tax deduction.

The entire plan rests on assumptions that are not 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.

Any one of these risks will, in reality, differ significantly from what is being pitched and will materially impact the outcome. Together, they create a fragile and potentially costly long-term commitment. We have advised many clients—some of whom are happy to share their experience—who exited the strategy at a loss once the lifetime cash flow requirements became clear. **What they experienced was starkly different from what was promised during the sales pitch.** “Free” was not free after all.

A basic, guaranteed insurance policy can provide the same protection—**without leverage, tax exposure, or moving parts**—and often costs less than the interest payments required by an IFA.

We've attached a simple request you can send to the promoter of the plan, asking for revised projections using more realistic inputs (which are not even worst-case scenarios). I'd gladly review the updated numbers with you and offer a second opinion.

Sincerely,  
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Armstrong Financial Services  
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# Financed Life Insurance (IFA) - Illustration Revision

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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 5.95% 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 our client is expected to assume the risk associated with these variables, providing the requested illustrations will help us better evaluate the potential costs of the proposed strategy.

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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.*