

Position: Not Deductible

Reasons: Denied by wording of paragraph 20(1)(c).

2000-005146

J. P. Dunn

Attention: XXXXXXXXXX

November 2, 2000

Dear Sirs:

Re: Interest Deductibility - Funds Borrowed to Purchase a Life Insurance Policy

We are writing in response to your correspondence of October 6, 2000 in which you had requested the views of Canada Customs and Revenue Agency with respect to the deductibility of interest on funds borrowed which are used to purchase a universal life insurance policy.

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.

We trust that this is the information which you require.

for Director
Financial Industries Division
Income Tax Rulings Directorate
Policy and Legislation Branch