Armstrong
Financial Services

Impact of Bill C-59 on Immediate Financing Arrangements (IFAs)

Bill C-59, which received Royal Assent on June 20, 2024, significantly expands **GAAR**, increasing CRA's ability to challenge tax deductions and recharacterize transactions. IFAs, which rely on **interest deductibility and collateral loans**, are now at serious risk of CRA reassessment, retroactive taxation, and penalties.

Key Risks to IFAs Under the New GAAR Rules

- **Interest Deductibility at Risk** – CRA now has broad authority to determine whether the loan would exist independently of the insurance policy. While IFAs are marketed as financial planning tools, their viability hinges entirely on tax deductions—without them, the strategy is unsustainable. If CRA concludes that the loan is merely an extension of the policy rather than serving a bona fide business purpose, interest deductibility can be denied, collapsing the entire structure. The result? A policyholder stuck with massive debt and no tax relief, turning a planned strategy into an unsustainable liability.
- **Loan Recharacterization** – CRA now has expanded authority to recharacterize collateral loans as taxable policy loans, instantly subjecting them to taxation at the highest marginal rates. If CRA determines that the loan would not exist without the policy, it can argue that the structure is merely a disguised policy loan engineered to avoid taxation. The result? Loan proceeds once assumed tax-free can be retroactively taxed at the highest rates, creating an immediate liability and exposing the policyholder to unexpected costs.

CRA shut down the 10-8 leveraged insurance strategy in 2013 on similar grounds—IFAs now face the same risk. With CRA's expanded power to deny deductions and recharacterize loans, the strategy collapses without tax benefits, leaving policyholders exposed to long-term debt and tax liabilities. Given rising scrutiny on tax-driven strategies, anyone considering an IFA should seek a formal CRA opinion before proceeding.

Sincerely,
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