

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. **Interest Rate:** Maintain a 6% loan interest rate for the whole duration of the strategy. Do not reduce this rate in any part of the projection, including footnotes or supplemental schedules.
2. **Policy Performance:** Illustrate the policy's investment return (dividend scale rate) at 1% below today's rate for the whole duration of the strategy.
3. **Tax Rate:** Use a 26% income tax rate (active income) for interest and premium deductions instead of 50.17% (passive income).

Please also highlight the **annual cash flow requirement before applying any proposed tax credits**, to allow for a clear evaluation of the actual financial commitment.

In addition, clarify how the interest deductibility is being applied in this strategy and **specifically confirm in writing how this treatment complies with current CRA rules**.

Under **Income Tax Act paragraph 20(1)(c)**:

Interest on borrowed money is only deductible if it is used for the purpose of earning income from a business or property. Specifically excluded is interest on borrowed funds 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.

If you believe your proposed structure qualifies for deductibility despite this provision, please clearly outline the mechanism or structure being used and **confirm in writing** that it is fully compliant with current CRA rules in light of the new amendments to GAAR.

Finally, since **tax deductibility cannot be guaranteed** and is a lifetime element of the strategy, please include a **second version of the illustration assuming a 0% deduction rate**, in the event that CRA denies the tax treatment.

This information is necessary to properly assess the financial risks and long-term costs associated with the proposed plan.