Armstrong
Financial Services

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

Bill C-59 received Royal Assent on June 20, 2024. This legislation expands the General Anti-Avoidance Rule (GAAR), lowering the threshold for tax avoidance scrutiny and introducing a 25% penalty where GAAR applies. These changes have significant implications for Immediate Financing Arrangements (IFAs), which may now face heightened CRA scrutiny.

Key Considerations Under the Expanded GAAR:

- **Purpose of the Loan:** The CRA may assess whether the loan would exist independently of the insurance policy. If structured primarily to achieve a tax benefit rather than serving a bona fide economic purpose, it could be challenged.
- **Reliance on Tax Credits:** The expanded GAAR increases the risk that tax credits—often a core component of IFA models—may be denied. The 2013 shutdown of the 10-8 strategy is a precedent suggesting IFAs could face similar treatment.
- **Economic Substance vs. Legal Form:** Even if an IFA meets the technical deductibility requirements, the CRA could argue that the structure lacks economic substance and is designed primarily for tax avoidance. This can be demonstrated by showing that the policy collapses absent the tax credits, meaning its viability is entirely dependent on receiving those deductions.
- **Financial Sustainability:** IFAs require long-term exposure to variable interest rates, ongoing requalification risks, and reliance on tax credits. Any challenge under GAAR could lead to retroactive taxation, significantly impacting the strategy's overall viability.

Bill C-59 represents a broader shift in tax policy, strengthening anti-avoidance measures and reinforcing the CRA's authority to challenge aggressive tax planning strategies. Given these developments, policyholders should carefully assess the long-term feasibility of IFAs in the new tax environment.

Sincerely,
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