

**2012 FEDERAL BUDGET UPDATE
EXPANDED AMENDMENTS, NO CHANGE TO TIMEFRAME...YET****THE ISSUE**

Last Spring, the Federal Budget announced that changes were coming to the *Income Tax Act* (the "Act") to address inequities caused by the evolution of life insurance products and increases in life expectancy. At that time, the focus was primarily on the policy exemption test and investment income tax, and targeted policies issued after 2013.

Eight months later we still await the draft legislation. Yet it has been busy behind the scenes. The Department of Finance has cast a wider net, proposing changes that will affect other aspects of life insurance taxation, and thus making a complex piece of law even more intricate.

The one thing that hasn't changed is the deadline. January 2014 remains the target date for enacting amendments. While it's reasonable to anticipate that the deadline will be extended, it's impossible to determine how far...one month, six months, one year?

This Viewpoint outlines the expanded proposals and what may lie ahead.

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**WESTWARD'S VIEWPOINT****Budget Life Insurance Amendments Expanded**

The March Federal Budget proposed amendments to the **exempt test formula** that reaffirmed the government's commitment to support tax exempt life insurance and the principle of **grandfathering** tax changes affecting life insurance. The amendments reflect some of the recommendations made by the Conference for Advanced Life Underwriting (CALU) years ago to update a formula untouched since the 1980s, despite the emergence of new products and an improvement in Canada's mortality rate.

Our April 10, 2012 Viewpoint listed the amendments, but noted that their impact could not be measured until later in the year when Finance releases specific details about the changes. Indeed, since March, the Department has conducted an extraordinarily inclusive legislative development process by consulting with CALU and the Canadian Life and Health Insurance Association (CLHIA) - organizations representing financial advisors and life insurance companies respectively.

Draft legislation is still months away, and more changes are now under consideration, including the following:

- **Standard health risks** and their impact on a policy's adjusted cost basis (ACB) and net cost of pure insurance (NCPI).
- **Anti avoidance measures** to disqualify the exempt status of policies that abuse the rules.
- **Multi-life policies** and the appropriate amount of cash value that can be paid out tax free with each mortality death benefit.
- **"10/8" type rate-linked collateral loans** and the possibility of reducing the tax benefits of these arrangements.
- **Prescribed annuity tables** updated to reflect longer life expectancies which increases the taxable portion of prescribed annuities.

Since March, we've been in a wait-and-see position until Finance releases draft legislation. It's reassuring that Finance is consulting with CALU and CLHIA before it drafts the legislation. This should result in a more circumspect review of the issues, although one thing is certain: Finance is intent on curtailing some of the tax benefits presently afforded life insurance in the Income Tax Act.

Transition Date

The target date for implementing these changes is still set for policies issued after 2013. The insurers need lots of lead time to update their systems to track these types of changes. An extension may be forthcoming from Finance, but none has been announced yet.

Further announcements aren't expected until the new year. We're following this matter closely and will keep you posted as details emerge.