

CRA Issues Warning About Aggressive Tax Schemes Involving Insurance Products

WESTWARD'S VIEWPOINT

On December 4, 2025, the CRA issued a warning about aggressive tax schemes involving leveraged insurance products.

Westward specializes in conservative tax compliant leveraged life insurance planning. Westward has never recommended or implemented for any client a leveraged life insurance plan of the kind discussed in the CRA warning.

The aggressive schemes highlighted by the CRA are characterized by the use of **limited recourse loans** where the lender can only get their money back from the insurance policy itself.

No Westward client has a limited recourse loan.

Westward clients have leveraged their life insurance policies with loans from many lenders including RBC Insurance, iA Financial, Scotia, CIBC, RBC, BMO and Manulife Bank. **In every case, the lender has full recourse against the borrower**, supported by a collateral assignment of the insurance policy as security.

Where the borrower is the shareholder and the loan is guaranteed by the corporate policyholder, **the guarantee is in some cases limited in recourse** to the corporation's insurance policy. This protects the guarantor but it does not let the borrower "off the hook," and the lender still has full recourse against the borrower for repayment of the loan.

The CRA warning has no relevance to Westward managed insurance plans.

For more information, clients can contact their Account Manager or Wayne Stone at waynes@westwardadvisors.com.



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EXTRACTS of CRA WARNING ISSUED DECEMBER 4, 2025

Warning: The CRA has identified aggressive tax schemes involving insurance products

The Canada Revenue Agency (CRA) is warning Canadians about certain financial arrangements involving **critical illness insurance** that may be designed to avoid paying taxes. These arrangements often involve complex transactions, like borrowing money and using it to pay for insurance, which can mislead taxpayers and result in serious tax consequences.

These schemes often use **limited recourse loans**, where the lender can only get their money back from ... the insurance policy itself. If the borrower doesn't pay back the loan, the lender cannot go after other assets.

How these arrangements work

1. A **shareholder** borrows money from a third-party lender connected to the promoter group.
2. The shareholder transfers the borrowed funds to their **corporation**.
3. The corporation uses the money to buy a **Critical Illness Insurance Policy**, often from an offshore provider.
4. The corporation records the loan from the shareholder as a liability, allowing the shareholder to withdraw funds **tax-free**.
5. The security for the loan in step one cancels the shareholder's obligation to repay the loan.

Why this is a problem

These arrangements are problematic because they **appear to be legitimate insurance transactions**, but are actually designed to let shareholders take money from their company without paying taxes.

The CRA has found that the insurance products used often do not meet the standards of valid insurance policies and are only used to support the tax scheme.

See the complete news release on the CRA website here:

<https://www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2025>

