INFORMATION CIRCULAR

DATE: May 23, 2016 **N°. 2016-09**

CATEGORY: INSURANCE

TO: Managing General Agents, Associate General Agents, Advisors, General Agents, Independent Financial Advisors and National Accounts

SUBJECT: New tax rules for life insurance in 2017

Background

One of the benefits of permanent life insurance is that funds inside a policy can grow, exempt from taxation. To remain exempt from taxation each year, the growth of funds within the policy must not exceed certain limits which are defined within Canada's Income Tax Act. The current tax-exempt rules we use today have been in place since 1982.

What's Changing

Starting **January 1, 2017**, rules related to the taxation of life insurance in Canada will change. These new rules will have an impact on all life insurance plans issued after 2016, including prescribed annuities. Since most of the tax changes may be considered negative, especially for universal life plans, taking action in 2016 may be very important for your customers.

Highlights

- Less ability to shelter large deposits on average inside a life insurance policy
- Maximum lifetime accumulation within a life insurance policy will be reduced
- Will take longer to quick-pay permanent life insurance policies
- Negative impact on insurance proceeds are paid through a corporate Capital Dividend Account
- Increased proportion of prescribed annuity income that is subject to taxation
- Grandfathering of all life insurance plans issued before 2017

Key Message

Start the conversation with your clients right now! Since most of the tax changes may generally be considered negative, especially for universal life plans having a conversation with clients about taking action in 2016 is very important.

For more information on these changes and how they may impact your customers, please see the attached information, contact your Regional Sales Representative or visit us at www.empire.ca.

Reference:

Cameron Walker, FLMI, ACS, AIAA, Manager, Retail Insurance Marketing

NEW TAX RULES FOR LIFE INSURANCE IN 2017

Starting **January 1, 2017**, rules related to the taxation of life insurance in Canada will change. These new rules will have an impact on all life insurance plans issued after 2016, including prescribed annuities.

What's Changing	Impact Post 2016
The exempt test that defines the amount of funds that can be accumulated in a life insurance policy on a tax-preferred basis.	No longer able to shelter large amounts of cash immediately and will shelter less funds over the long term. Greatest impact will happen with universal life plans with a level cost of insurance.
The prescribed payment period for the benchmark exemption test policies will be shortened from 20 years to 8 years, and the assumed endowment age will increase from age 85 to age 90 to reflect higher life expectancy.	It will take longer to quick-pay life insurance policies. In most cases this change will increase the timing from 4 years or less to 8 years or more.
Decreases to the Net Cost of Pure Insurance (NCPI), improved mortality tables, and including the embedded reserves of a policy in the calculation, will all increase the Adjusted Cost Basis (ACB) for a longer period of time.	Policy loans or withdrawals may pay less tax. Corporations owning life insurance may have a lower Capital Dividend Account (CDA) credit, meaning less death benefit may be paid tax-free to shareholders.
Prescribed annuities will have a higher portion of the income subject to taxation each year.	The same amount of income generated by prescribed life or term certain annuities purchased will pay more tax.
Policies issued before January 1, 2017 will be grandfathered under the current (pre-2017) tax rules.	Changes requiring medical underwriting, policy splits or conversions to new plan types will cause pre-2017 policies to lose grandfathering status and therefore become subject to the new rules.

Existing clients should know...

Grandfathering will **not** be affected for an existing policy if they:

- Change from smoker rates to non-smoker rates
- Change cost of insurance within a policy
- Change a dividend option
- Reinstate a policy
- Reduce a rating

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Start the Conversation!

The best time to start talking about these changes with new or existing clients is right now. Since most of the tax changes may generally be considered negative, especially for universal life plans, having a conversation with clients about taking action in 2016 is very important. There are three key messages all clients should take away from any communication.

Buy Now!

Permanent life insurance issued in 2016 will qualify for the current tax rules. Businesses should consider purchasing any type of life insurance in 2016.

Convert Now!

Existing term life insurance that's converted to permanent life insurance in 2016 will qualify for the current tax rules. Plans converted after 2016 will be subject to the new tax rules.

Change Now!

Clients looking to add new coverage to existing plans, substitute a life or split their joint or multi-life coverage will need to do so in 2016 to avoid losing the grandfathering status of their policy.

We recommend that you prepare clients sooner rather than later, and submit applications as soon as possible. Applications received near the end of 2016 may not be processed in time to take advantage of these opportunities.

As always, you should determine what course of action is suitable for each client based on their specific needs.

For more information on these changes and how they may impact your clients, please contact your Regional Sales Representative for more details or visit us at www.empire.ca.

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INS-1257-EN-05/16

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