

COMMENT BACKGROUND



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POLICY LOANS

The rules outlined in this article apply to policy loans taken, and repayments of policy loans made, after March 31, 1978. The ACB of a policy would have been adjusted for any policy loan outstanding as of that date. Policy loan interest has been treated as a premium since January 1, 1978.

Income Tax Act references:

- paragraphs 20(1)(c) or (d) – interest deductibility
- subsection 20(2.1) – “interest” on policy loan
- paragraph 60(s) – deduction for repayment of policy loan
- subsection 148(1) – calculation of policy gain
- subsection 148(9) – definitions of adjusted cost basis, disposition, policy loan, premium, proceeds of the disposition

CRA technical information:

- Form T2210 – *Verification of Policy Loan Interest by the Insurer*
- Technical Interpretation 9909075, dated June 17, 1999 – *Repayment of policy loans on death*

VOLUNTARY DISCLOSURE

- CRA Information Circular IC00-1R *Voluntary Disclosures Program*

CAPITAL DIVIDEND ACCOUNT

Other capital dividend account “silos” not covered in this article are:

- any balance in the corporation’s “life insurance capital dividend account” (LICDA) as at May 24, 1985;
- the non-taxable portion of capital gains distributed to the corporation by a trust; and
- any capital dividends distributed to the corporation by a trust.

Income Tax Act references:

- subsection 89(1) – definition of capital dividend account
- subsection 83(2) – payment of capital dividend

CRA technical material:

- Interpretation Bulletin IT-66R6 *Capital dividends*
- Technical Interpretation 2004-0065461C6, dated May 4, 2004 (2004 CALU Annual Meeting round table question 8) – *Corporate-owned life insurance*