

Budget 2013 (Impact on 10/8 Plans and Leveraged Annuities)

To: All Managing General Agents and Advisors

Universal Life Investment Loan (10/8) Plans

On March 21st, 2013, the Minister of Finance announced measures in the 2013 budget that are intended to eliminate the tax benefits of leveraged life insurance arrangements, commonly referred to as 10/8 programs. In respect of taxation years of the policyholder ending on or after March 21, 2013, the new tax measures will deny the following benefits in respect of a life insurance policy used in a 10/8 program:

1. the deductibility of interest paid or payable on the borrowing that relates to a period after December 31, 2013;
2. the collateral insurance deduction that might otherwise be available for premiums paid or payable under the policy that relate to a period after December 31, 2013 and;
3. where the death occurs after December 31, 2013, the increase in the capital dividend account of a private corporation in respect of the death benefit proceeds associated with the borrowing.

BMO Insurance will be assessing the impact of the proposed changes on its version of the 10/8 Plan (i.e. the Universal Life Investment Loan Plan) on in force policies and will provide an update, as details are finalized. **In the meantime, effective immediately, BMO Insurance has decided that it is prudent to suspend new sales of the Universal Life Investment Loan Plan (i.e. BMO Insurance's version of the 10/8 plan) until further notice.**

Any clients with pending applications will automatically be switched to a Life Dimensions (Low Fees) plan. Please contact the BMO Insurance New Business Department, if a client wishes to select another plan that best suits their own financial objectives. We will be removing the illustration capabilities for the Universal Life Investment Loan plan from the Wave (new business) software in an upcoming version, which will be released shortly. Also, note that other leveraged life insurance plans which involve the assignment of a BMO Insurance universal life policy for a third party loan (such as those used for financial concepts like the "Insured Retirement Plan" or "Insured Corporate Financing") do not appear to be impacted by these changes. This will be confirmed, once the legislation is finalized as expected in the Fall of this year.

In the meantime, when structuring any strategy, it's important to note that each policyholder's financial circumstances are unique, and he/she should obtain and rely upon independent tax, accounting, legal and other advice concerning the structure and its appropriateness for his/her particular circumstances. BMO Life Assurance Company does not provide any such advice to policyholders. Advisors are asked to contact their clients who may be affected by these plans to inform them of these developments. In these discussions, consideration should be given to the valuable insurance protection that clients have in place with these policies.

Leveraged Insured Annuities

Budget 2013 also proposed to eliminate the tax benefits associated with leveraged annuities (also known as "triple back-to-back" annuities). This structure involves combining a permanent life insurance policy, a life annuity and a third party loan. The Budget has proposed that the life insurance policy will be non-exempt (i.e., accrual based taxation will apply to income accruing in the policy). The collateral insurance deduction will not be allowed and the death benefit received in respect of the policy will not increase a private corporation's capital dividend account. In addition, for purposes of a deemed disposition at death, the fair market value of an annuity contract assigned to the lender will be deemed to be equal to the total of the premiums paid under the contract (essentially the purchase price of the annuity).

This measure will apply to taxation years that end on or after March 21, 2013. The measure does not appear to apply to leveraged insured annuities where all borrowings were entered into before March 21, 2013.

If you have any questions, please do not hesitate to contact your Managing General Agent or any member of the BMO Insurance Business Development team.

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