On tax strategy, life insurance remains a central pillar, says industry veteran

by David Keelaghan | 12 Mar 2018

While small business owners generally welcomed the recent Federal Budget as a case of cooler heads prevailing, critics of the government's tax policies remain.

With the Trump administration committed to lowering taxes in the US, there's a school of thought that Bill Morneau should have followed suit.

As president of WEALTHInsurance.com, tax planning is a major part of Mark Halpern's job, and a frequent topic of discussion in recent months.

But as he outlines, the recent changes to the tax code won't have a major impact for the majority of his clients.

"I think the whole investment/insurance planning industry was waiting with baited breath to find out what the final intentions of the CRA were. It seems like they pulled back on most of them."

That compromise came after a considerable backlash among Canada's business community following the original proposals going out last July. With a federal election looming, Justin Trudeau's government elected to water down many of its original plans for passive investment income held by corporations.

"I have never seen a more vocal, unified group of lefties and righties coming together to discuss how this would affect how people do business," says Halpern. "The big concern was on passive income inside corporations, so they came up with proposals that would only affect a much smaller part of the business community – those with a large amount of passive income inside their corporation."

The implications for the life insurance business meanwhile were minimal, which wasn't surprising given that the government had introduced new tax sheltering rules in January 2017. As Halpern explains, those measures had been a long time coming.

"It was the first change since 1982, and had been discussed for many years," he says. "It was addressing the idea that insurance had moved away from being just for widows and orphans and more to tax planning," he says. "In 2003, the policies sold in the GTA that had a premiums of $25,000 or more – that represented about 30% of the total. By 2016 it was more like 80%. Clearly successful business people saw insurance as a smart way to plan their estates."

The government subsequently moved to install limits on the sheltering abilities of life insurance, which facilitated a rush on sales in late 2016. While most providers saw sales dip somewhat on a year-over-year basis in the final quarter of 2017, the long-term impact of the changes has been negligible, believes Halpern.

"At that time there were a lot of advisors talking about the sky falling, but the sky didn't fall," he says. "Costs were driven up on the younger ages, but with older ages – where insurance companies can price accordingly because there isn't as long a runway to guess long-term interest rates – it wasn't as affected. In terms of the ACB (Adjusted Cost Basis), it was almost the same as before the changes."

With the recent changes to passive investment income in corporate accounts, Halpern believes the life insurance industry will see a boost. Despite the new rules brought in last January, the attraction of these products for tax strategy remains, he says.

"The biggest competition in this business is getting someone's attention. There really isn't a lot of bad news – it's just news if you plan for it. But it requires sitting down with someone that is an estate & tax planning professional, preferably a member of STEP or a certified financial planner. You can't ignore it, the costs are way too high."

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