Life insurance tax and planning

Tax reference guide for life insurance ownership transfers

When a client transfers a life insurance policy, it's considered a disposition for tax purposes. The resulting tax consequences depend on many factors including:

- The relationship between the transferor and transferee
- Whether the party to the transfer is an individual, corporation or trust
- Policy tax attributes
- Whether it's done for value

This guide will help you understand the tax consequences of common ownership transfers of a life insurance policy within each of these categories;

1 Individuals

2 Business entities
(including corporations and partnerships)

3 Trusts

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor. Current as of November 2021.

1 Individuals

Existing owner	New owner	Tax consequences	Tips and considerations
Spouses and former spouses			
Spouse, while alive	Spouse or common-law partner	If both individuals are residents of Canada, the transfer is at adjusted cost basis ("ACB")[i]. No tax reporting.	If considering a trust, transfers to a spousal or common-law partner trust aren't eligible for the rollover at ACB. See below at Other non-arm's length.
Spouse, while alive	Former spouse or common-law partner in settlement of rights arising out of their marriage or common-law partnership	If both individuals are residents of Canada, the transfer is at ACB[ii]. No tax reporting.	
Spouse, at death[iii]	Spouse or common-law partner	If both individuals are residents of Canada, the transfer is at ACB. No tax reporting.	Spouse is designated as a contingent owner of the policy. On the death of the policyowner, the policy transfers to the spouse directly, bypassing the will. If the spouse isn't named a contingent owner, the life insurance policy would be eligible for a rollover at ACB if the spouse is the beneficiary of the deceased's estate. A copy of the will is required.
Intergenerational			
Parent or grandparent Life insured: child of the existing owner[iv]	A child or grandchild, including adopted or in-law, of the existing owner	Transfer is at ACB, if no consideration is paid by the child[v]. No tax reporting.	The child who is the new owner doesn't have to be the same child who is the life insured.
Deceased parent Life insured: child of the existing owner[vi]	Child of existing owner, named as a contingent owner	Transfer is at ACB, if no consideration is paid by the child. No tax reporting.	Child is named as the contingent owner of the policy. On the death of the parent, the policy transfers to the child directly, bypassing the will. If the child is a minor, consider appointing a guardian of property to take advantage of the rollover at ACB[vii]. No rollover at ACB is available if the life insurance policy is transferred to the child through the deceased parents' estate.
Deceased parent Life insured: child of existing owner[viii]	Estate of deceased parent	The transfer to the deceased's estate is a non-arm's length transaction with proceeds of the disposition deemed to be the greatest of: 1. ACB of the policy 2. Cash surrender value ("CSV") of the policy 3. Fair market value[ix] ("FMV") of the consideration given If proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	Consider naming the child as a contingent owner. A rollover at ACB is available if the child is named a contingent owner of the life insurance policy.

1 Individuals

Existing owner	New owner	Tax consequences	Tips and considerations
Other non-arm's length (related)			
Individual	Related and other non-arm's length individuals	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given If proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	Uncles/aunts and their nieces/nephews aren't deemed to be related for tax purposes but may in fact be non-arm's length.
Unrelated			
Individual	Unrelated individual	Disposition of the policy for proceeds equal to the consideration actually paid. If the proceeds of the disposition exceed the policy's ACB, a policy gain may result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	If consideration paid is less than the CSV of the policy, we may consider the transfer to be a non-arm's length transfer with proceeds deemed to be the greatest of the policy's ACB, CSV, or consideration given.
Charities			
Policyowner (individual)	Registered charity	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given[x] If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	The policyowner may be eligible for a donation tax credit for an amount equal to the FMV of the policy transferred and any premiums they paid after the transfer. Consider the application of subsection 248(35) of the ITA if the policy was acquired within three years of the donation or within 10 years (under certain circumstances) of the donation. If applicable, the donation tax credit is deemed to be the lesser of the FMV of the policy and its ACB[xi].

i Subsection 148(8.1) of the Income Tax Act (Canada) (ITA).

ii Ibid.

iii Subsection 148(8.2) of the ITA.

iv The definition of "child" includes: 1) the policyowner's child, 2) the policyowner's grandchild,3) a person who, at any time before the person attained the age of 19 years, was wholly dependent on the policyowner for support and of whom the policyowner had, at that time, in law or in fact, the custody and control, 4) a person of whom the policyowner is the legal parent, 5) a child of the policyowner's spouse or common-law partner, and 6) a spouse or common-law partner of a child of the policyowner, even after the child of the policyowner predeceases the son-in-law/daughter-in-law.

v Subsection 148(8) of the ITA.

vi The definition of "child" includes: 1) the policyowner's child, 2) the policyowner's grandchild,3) a person who, at any time before the person attained the age of 19 years, was wholly dependent on the policyowner for support and of whom the policyowner had, at that time, in law or in fact, the custody and control, 4) a person of whom the policyowner is the legal parent, 5) a child of the policyowner's spouse or common-law partner, and 6) a spouse or common-law partner of a child of the policyowner, even after the child of the policyowner predeceases the son-in-law/daughter-in-law.

vii Canada Revenue Agency technical interpretation 2008-0270431C6.

viii Ibid.

ix References to FMV of a life insurance policy are made throughout this article. As a general rule, life insurers don't provide the FMV of a life insurance policy. Refer to the Canada Revenue Agency Information Circular 89-3 on factors to consider in valuing a life insurance policy. An actuarial valuation of the life insurance policy may be required in certain situations.

x FMV of consideration is assumed nil since this is a gift to a registered charity

xi Canada Revenue Agency technical interpretation 2017-0692361C6.

2 Business entities (including corporations and partnerships)

Existing owner	New owner	Tax consequences	Tips and considerations
Shareholder to corporation			
Shareholder (individual)	Corporation (controlled)	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip. If the FMV of consideration is greater than the FMV of the life insurance policy, a taxable shareholder benefit may be triggered for the shareholder.	Tax consequences of the transfer and capital dividend account credit calculation may be different for transfers before March 22, 2016.
Corporation to individual shareholder			
Corporation	Individual shareholder	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip. There may be a taxable shareholder benefit[xii] where the FMV of the policy exceeds the consideration paid by the shareholder for the policy (unless the policy is transferred as a dividend in kind).	A more tax-effective way to transfer a policy to a shareholder is a dividend-in-kind, which doesn't involve consideration. Therefore, in this scenario the proceeds are deemed to be the greater of: 1. ACB of the policy before the transfer 2. CSV of the interest in the policy If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip. Shareholder receives a taxable dividend equal to the FMV of the policy.
Corporation to corporate shareholder			
Corporation	Corporate shareholder	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given If proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip. A taxable shareholder benefit[xiii] may arise when the FMV of the policy exceeds the consideration paid by the shareholder for the policy (unless the policy is transferred as a dividend in kind).	A more tax-effective way to transfer a policy to a corporate shareholder is a dividend-in-kind, which doesn't involve consideration. Therefore, the proceeds are deemed to be the greater of: 1. ACB of the policy before the transfer 2. CSV of the interest in the policy If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip. If the corporations are connected, the dividend may be tax-free. The corporate shareholder's tax professional should consider the application of subsection 55(2) of the ITA.

2 Business entities (including corporations and partnerships)

Existing owner	New owner	Tax consequences	Tips and considerations
Corporation to sister corporation			
Corporation	Sister corporation	Proceeds are deemed to be the greatest of: 1. ACB of policy 2. CSV of the policy 3. FMV of the consideration given If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	If the amount of the consideration given for the policy is less than the FMV of the policy, there may be a taxable shareholder benefit[xiv].
Amalgamations and wind-ups			
Corporation (Opco)	Corporate (≥90% Holdco) shareholder, as part of a wind-up[xv]	The transfer is at ACB. No tax reporting.	Applies in situations where the Holdco owns at least 90% of the issued shares of each class of the Opco.
Corporation (Opco)	Individual/ Corporate (<90% Holdco) shareholder, as part of a wind-up	Disposition of the policy for deemed proceeds equal to the FMV of the policy[xvi]. If the proceeds of the disposition exceed the policy's ACB, a policy gain may result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	Applies in situations where either the Holdco owns less than 90% of the issued shares of each class of the Opco or the wind-up is to an individual shareholder.
Corporation	Corporate shareholder or sister corporation, as part of an amalgamation[xvii]	The transaction occurs at ACB. No tax reporting.	Technically, an amalgamation doesn't result in a transfer of ownership.
Partnerships			
Partner	Partnership	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	In the case of corporate partners, the tax consequences of the transfer and capital dividend account credit calculation may be different for transfers before March 22, 2016.
Partnership	Partner	Disposition of the policy for deemed proceeds equal to the FMV of the policy[xviii]. If the proceeds of the disposition exceed the policy's ACB, a policy gain may result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	

2 Business entities (including corporations and partnerships)

Existing owner	New owner	Tax consequences	Tips and considerations
Employer to employee			
Employer	Arm's length employee	In most cases, the transferred policy is considered a taxable employee benefit[xix] resulting in an income inclusion to the employee of an amount equal to the FMV of the policy less consideration paid by the employee, if any. Proceeds to the employer are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip. The ACB of the employee's interest in the policy includes the taxable benefit[xx].	The employer may deduct as a business expense for tax purposes the amount equal to the FMV of the policy less any consideration paid by the employee.
Corporation to charity			
Policyowner (corporation)	Registered charity	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given[xxi] If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	The corporation may be eligible for a donation tax deduction in the amount of the FMV of the policy transferred and any premiums paid after the transfer. Consider the application of subsection 248(35) of the ITA if the policy was acquired within three years of the donation or acquired within 10 years with the intention to donate. If applicable, the donation tax credit is deemed to be the lesser of the FMV of the policy and its ACB[xxii].

xii Subsection 15(1) of the ITA.

xiii Ibid.

xiv Subsections 15(1), 56(2), 246(1) of the ITA.

xv Subsection 88(1) of the ITA and the Canada Revenue Agency technical interpretation 9211260.

xvi Subsections 69(5) and 88(2) of the ITA and Canada Revenue Agency technical interpretation. 2015-0573841C6.

xvii Subsection 87(1) of the ITA and the Canada Revenue Agency technical interpretation 9211260.

xviii Subsection 98(2) of the ITA.

xix Paragraph 6(1)(a) of the ITA.

xx Canada Revenue Agency technical interpretation 9327305.

xxi FMV of consideration is assumed nil since this is a gift to a registered charity.

xxii Canada Revenue Agency technical interpretation 2017-0692361C6.

3 Trusts

Existing owner	New owner	Tax consequences	Tips and considerations
Individual to trust			
Individual	Trust (includes spousal, alter ego, and joint partner trusts)	Proceeds are deemed to be the greatest of: 1. ACB of the policy 2. CSV of the policy 3. FMV of the consideration given If the proceeds of the disposition exceed the policy's ACB, a policy gain will result. Resulting policy gain, if any, is reported on a T5 (RL-3) tax slip.	
Trust to beneficiary			
Trust	Trust beneficiary, in satisfaction of their capital interest in the trust	The transfer is at ACB. No tax reporting.	A rollover is available provided certain criteria in the ITA are met[xxiii].

xxiii Subsection 107(2) of the ITA.