

As a Matter of Tax

from Manulife's Tax & Estate Planning Group

Policy loan “repayment” at death?

When a policyholder has taken a policy loan and received a T5 for a policy gain because of the loan, and that policyholder then repays the loan, either in whole or in part, he or she is entitled to a deduction under 60(s) of the Act for the lesser of the amount of the repayment and the amount previously included in income.

What happens when a policy loan is outstanding at the time of death? Is this deduction available to the deceased policyholder when the insurance proceeds payable to the beneficiary are reduced by the amount of the outstanding policy loan?

In response to Question 11 at the 2009 APFF conference, the CRA confirmed its earlier position that a 60(s) deduction would not be available (as stated in #9909075 dated June 17, 1999). In the earlier commentary, the CRA stated as follows: “Generally, where the policyholder dies and the insurer reduces the amount of the death benefit paid to the deceased policyholder’s beneficiary or estate by an amount owing by the policyholder at the time of death on a policy loan in our view this does not constitute a repayment of an amount payable in respect of a policy loan.”

At the 2009 APFF, the unofficial translation of the CRA response provides further clarity:

The deduction set out in paragraph 60(s) applies only to a taxpayer who included an amount as a policy loan in his income and has made a payment to reimburse that loan. No amount can be deducted under paragraph 60(s) from (the taxpayer’s) final return because the loan had not been repaid at the time of his death.

No legislative provision exists that would allow an estate or an heir to deduct an amount as repayment of a policy loan when the policyholder previously included an amount in computing his income with respect to the loan.



Florence Marino, B.A., LL.B., TEP

As AVP of Manulife's Tax & Estate Planning Group, Florence provides tax, estate and insurance planning support and consultation to advisors working in the affluent and business markets.

Even though the economic effect at death is a “repayment” of the policy loan to the insurer, the provisions of the Act do not recognize this for purposes of providing a tax deduction.

These columns are current as of the time of writing, but are not updated for subsequent changes in legislation unless specifically noted

This document is protected by copyright. Reproduction is prohibited without Manulife's written permission.

November 2009