

Roll-out of life insurance policy from a trust – Undisturbed

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Since the release of several technical interpretations involving the transfer of a life insurance policy as a dividend in-kind through a trust ([Imperfect conduit - Transfer of a life insurance policy as a dividend-in-kind via a trust](#)), some have asked the question: does this disturb prior CRA commentary regarding the roll out of a life insurance policy in satisfaction of a capital interest in a trust?

In a recent CALU InfoExchange article, the following positive statement was made:

“Based on CALU discussions with the CRA we understand that the prior commentary remains unchanged and should generally continue to apply to transfers of life insurance to a capital beneficiary under subsection 107(2).”

The prior commentary confirmed that when a life insurance policy is distributed to a capital beneficiary, the policy can roll out to the beneficiary in satisfaction of all or a part of their capital interest in the trust at the property's cost – in this case, the adjusted cost basis of the policy. This commentary stated that 107(2) would take precedence over 148(7) in determining the proceeds of the disposition on the transfer of the policy.

The prior commentary can be found in CRA technical interpretations 9641405 dated March 2, 1998, Question 9 at the CALU Roundtable (9908430 dated June 30, 1999) and 2011-0391781E5 dated January 18, 2012.

FOOTNOTE:

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