

Interest deductibility and GAAR – Singleton planning is still OK

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For interest on borrowed money to be deductible, the direct use of the borrowed funds must be to gain or produce income from a business or property. Interest on borrowed money to pay a life insurance premium is not deductible. Where a taxpayer restructures borrowings and ownership of assets to meet the direct use test, interest can be deductible. The CRA confirmed this at paragraphs 1.28-1.33 of Income Tax Folio S3-F6-C1 Interest Deductibility.

At the APFF Conference in the fall of 2025 (#2025-1068401C6 - French), the CRA was asked to confirm this position in light of the new GAAR and, in particular, the new “economic substance” test.

Singleton planning is OK

The question restated the example at paragraph 1.33 of the Folio which outlined similar planning to that undertaken by the taxpayer in the *Queen v. Singleton*, 2001 SCC 61. In the example, securities are sold, funds from the sale are used to repay non-deductible debt (a home mortgage) and the home was used as collateral security to borrow funds to invest in securities. Looked at as a whole, this is a circular transaction with no change in economic position so it begged the question, would this be “significantly lacking in economic substance” that would “tend to indicate” a misuse or abuse under the new GAAR. (For more on economic substance and GAAR see: [Tax Legislation tabled – Some highlights – Tompkins Insurance](#) and [A new GAAR – Pretty chilly right now – Tompkins Insurance](#)).

The CRA confirmed that the series of transactions outlined in the example at paragraph 1.33 of the Folio would not be GAAR-able. However, it stated that the answer may be different if the series included other transactions.

Leveraged life insurance

Since interest on money borrowed to acquire a life insurance policy is not deductible, restructuring ones affairs in the same manner as Singleton planning can be done when leveraging life insurance.

(For a review of the direct use test and other relevant requirements for interest deductibility when considering leveraged life insurance see: [The nuts and bolts of interest deductibility and leveraged life insurance – A primer – Tompkins Insurance](#)).

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