TOMPKINSights

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STEP submission on life interest trusts – Seeking comparable treatment

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On August 31, 2026, STEP made an extensive submission to the Department of Finance ("Finance") advocating for greater neutrality for life interest trusts under the Income Tax Act. The submission seeks equivalent treatment for life interest trusts to that of graduated rate estates (GREs) along with amendments to ensure consistent treatment of property held personally and property held in a qualifying life interest trust.

See: https://step.ca/assets/img/Communications/eNews/Submissions/STEP_Canada_TTC+PPC_Submission_to_Finance-Aug_31_2026.pdf.

Enumerating the differences

The submission painstakingly points out 24 disparities between life interest trusts and GREs in the following areas:

- tax rates and timing of tax payments;
- charitable giving;
- post-mortem double tax relief;
- qualified small business corporation shares and qualified fishing property;
- cross-border; and
- other technical and administrative issues.

It persuasively argues for a post-mortem "deemed GRE regime" for life interest trusts that are subject to a deemed disposition on the death of the life interest beneficiary.

Life insurance and life interest trusts

It would be intuitive to think when there's a tax liability arising on death, that life insurance would be a permitted asset and source of funding for that tax. As we've discussed previously it has been the CRA's view that a life interest trust's status (and qualification for a rollover of property into the trust) could be impacted by purchasing life insurance. The view is that by paying a life insurance premium, someone other than the life interest beneficiary would "receive or otherwise obtain the use of" income or capital of the trust during their lifetime. See: [Absurdly problematic – Life interest trusts and corporate-owned life insurance – Tompkins Insurance].

The STEP submission includes a section drafted in collaboration with CALU requesting an amendment to allow a life interest trust to own life insurance without being disqualified from life interest trust classification.

Will they listen?

STEP has had some recent successes with submissions it has made ([Legislative matters – Matter to STEP – Tompkins Insurance]). This submission is very comprehensive and may take more time for Finance to react.

As well, Finance may have its hands full in the lead-up to the 2026 Federal Budget. Although a date for the Federal Budget has not been announced, on July 6, 2026, Finance launched pre-budget consultations. Submissions to a public online portal were open until September 8.

FOOTNOTE:

Should you wish to discuss this or any other TOMPKINSights article, please contact florence@tompkinsinsurance.com