

## CRA Cracks Down on Aggressive Tax Schemes Using Critical Illness Insurance

The Canada Revenue Agency (CRA) has issued a public warning about aggressive tax schemes involving offshore critical illness insurance policies. These arrangements are being marketed as sophisticated tax planning strategies but are clear tax avoidance schemes, a clear violation of Canadian tax law.

### How These Schemes Operate

- Promoters encourage corporations to purchase critical illness insurance using limited recourse loans.
- The loan and policy are structured to create a circular flow of money, often involving offshore entities.
- The goal: avoid taxable shareholder benefits by disguising withdrawals as legitimate transactions.

### CRA's Position

- These schemes do not comply with the Income Tax Act.
- Participants risk denied tax benefits, reassessments, penalties, interest, and potential criminal prosecution.
- Promoters and advisors may face third-party civil penalties.

### Why This Matters

While critical illness insurance is a valuable tool for protecting individuals and businesses against unexpected health costs, using it as a tax avoidance mechanism is illegal and high-risk. CRA has made it clear: if it sounds too good to be true, it probably is.

### Our Guidance

- Be skeptical of any strategy promising dramatic tax savings through complex insurance or loan structures.
- Seek independent advice from a qualified tax professional before entering such arrangements.
- If you've participated in such a scheme, consider the Voluntary Disclosures Program to correct your tax affairs.

### Navacord Perspective

At Navacord, we advocate for transparent, compliant planning. Insurance can play a legitimate role in tax and estate strategies, but schemes that exploit loopholes put your business and reputation at risk.

If you have questions about legitimate uses of insurance in tax planning or want to review your current strategies, connect with your advisor today.

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**If you have questions specific to your business, or would like additional information, please reach out to your Navacord Advisor.**

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AB.info@navacord.com