



IMMEDIATE FINANCING ARRANGEMENT · CANADA

Can You Capitalize Interest on a *Life Insurance Loan in Canada?*



By Conor McGowan · Published Oct 28, 2026 · Updated Oct 28, 2026 · 14 min read

SIMPLE SUMMARY

Yes, with lender approval. The bank uses spare room on your IFA facility to pay the monthly interest, so your corporation keeps its cash. At death, the death benefit repays the bank, and the corporation still gets a CDA credit that can let other company assets come out tax-free.

- Real example: \$5M drawn at 4.20% costs about \$17,500 a month in interest.
- With a \$5.4M facility, that interest can be capitalized for about 22 months before payments are required.
- Banks typically lend 90% of projected year-5 cash value, or up to 100% with extra collateral.
- Facilities are usually approved five years at a time and reviewed annually. Capitalizing until death is a goal, not a guarantee.

Who this is for: Incorporated business owners with significant retained earnings who use, or are considering, an IFA.

*Real numbers and answers from a Scotia Wealth Management
private banker, explained.*

\$5M

LOAN DRAWN

\$17,500

MONTHLY INTEREST

\$5.4M

APPROVED FACILITY

~22 mo

UNTIL THE ROOM IS USED

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The *short answer*.

Yes. Some Canadian lenders let you capitalize the interest on an Immediate Financing Arrangement (IFA). The bank uses unused room on the credit facility to pay the monthly interest, so the corporation keeps its cash instead of paying interest out of pocket.

The loan balance grows every month. At death, the corporately owned policy's death benefit can repay the bank, including the interest that was added. And because the corporation still receives a capital dividend account (CDA) credit on the insurance proceeds, other assets built up inside the company may come out to the family as tax-free capital dividends.^{[1],[5]}

The catch: capitalizing interest only works while the lender keeps approving room. Facilities are usually approved five years at a time and reviewed every year. It is not automatically available for life.

Where these numbers come from. The examples, tables and answers below come from real September 2026 correspondence between GOALD and a private banker at Scotia Wealth Management, published with permission. Personal and client details are removed. This is not an offer, endorsement or credit policy of The Bank of Nova Scotia.

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How does capitalizing interest on an IFA loan *work*?

It’s certainly possible for clients to capitalize on interest to maximize their cash flow.

Essentially, we are using the loan available balance to service the monthly loan interest payment.

If the client initially utilizes \$5MM of the available loan, the monthly interest cost would be approximately \$17,500, assuming an interest rate of Prime – 0.25% (4.20%).

Since there would still be \$400,000 of availability remaining under the credit facility, we could use that amount to service the monthly interest payments. As the interest is funded from the loan facility, the loan balance would gradually increase each month, hence higher interest charges over time.

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LOAN DETAILS	AMOUNT
Approved credit facility	\$5,400,000
Initial loan drawn	\$5,000,000
Room left for interest	\$400,000
Illustrative rate (Prime – 0.25%)	4.20%
First month’s interest	\$17,500

How the loan balance grows in year one

MONTH	OPENING BALANCE	INTEREST ADDED	ENDING BALANCE
1	\$5,000,000	\$17,500	\$5,017,500
2	\$5,017,500	\$17,561	\$5,035,061
3	\$5,035,061	\$17,623	\$5,052,683
4	\$5,052,683	\$17,684	\$5,070,367
5	\$5,070,367	\$17,746	\$5,088,113
6	\$5,088,113	\$17,808	\$5,105,921
7	\$5,105,921	\$17,871	\$5,123,792
8	\$5,123,792	\$17,933	\$5,141,725
9	\$5,141,725	\$17,996	\$5,159,721
10	\$5,159,721	\$18,059	\$5,177,780
11	\$5,177,780	\$18,122	\$5,195,903
12	\$5,195,903	\$18,186	\$5,214,088

Lender’s original figures, including rounding.

In this example the corporation keeps about \$214,088 of cash in year one by not paying the interest itself. The trade-off: the debt is \$214,088 higher.

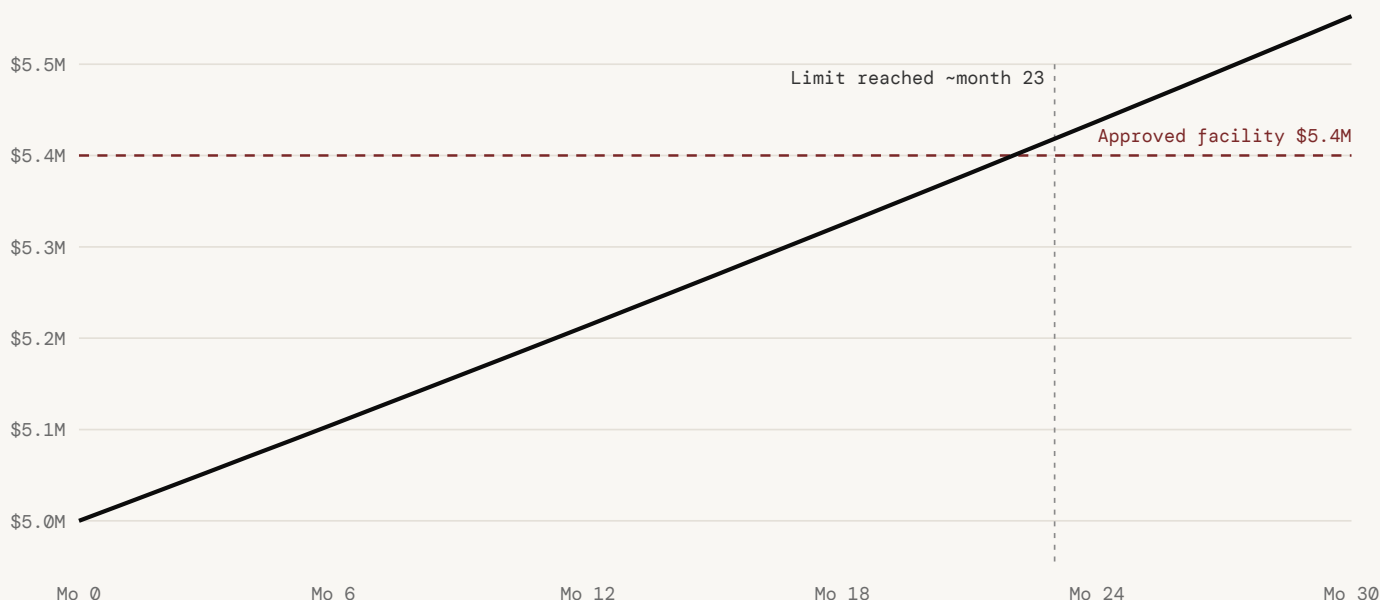
How long can the interest be capitalized before the *facility runs out*?

This is the question most people skip. The lender was clear:

If the client's outstanding loan balance exceeds the approved facility amount of \$5.4MM, the client would be required to make principal and/or interest payments to bring the balance back within the authorized lending limit.

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Running the same math forward, the \$400,000 of room lasts about **22 months**. The balance passes \$5.4M in month 23. After that, the corporation pays interest again unless the lender approves more room, which normally comes from the policy's cash value growing.



GOALD projection using the lender's example assumptions (\$5,000,000 drawn, 4.20%, interest added monthly, \$5.4M facility). Months 1–12 match the lender's table; later months extend the same math. Rates change; this is not a forecast.

That is why a long-term plan to capitalize interest has to be built around future borrowing room, not just the first approval.

How much will a bank lend against a *whole life policy*?

We generally structure IFA lending based on the projected Cash Surrender Value (CSV) over the five years according to the policy illustration.

In cases where the client has strong income, liquidity and overall net worth, we may be able to lend up to 100% of the annual premium amount.

That said, the most common structure I see is lending up to 90% of the projected Year 5 CSV, as this generally results in a more flexible debt service requirement.

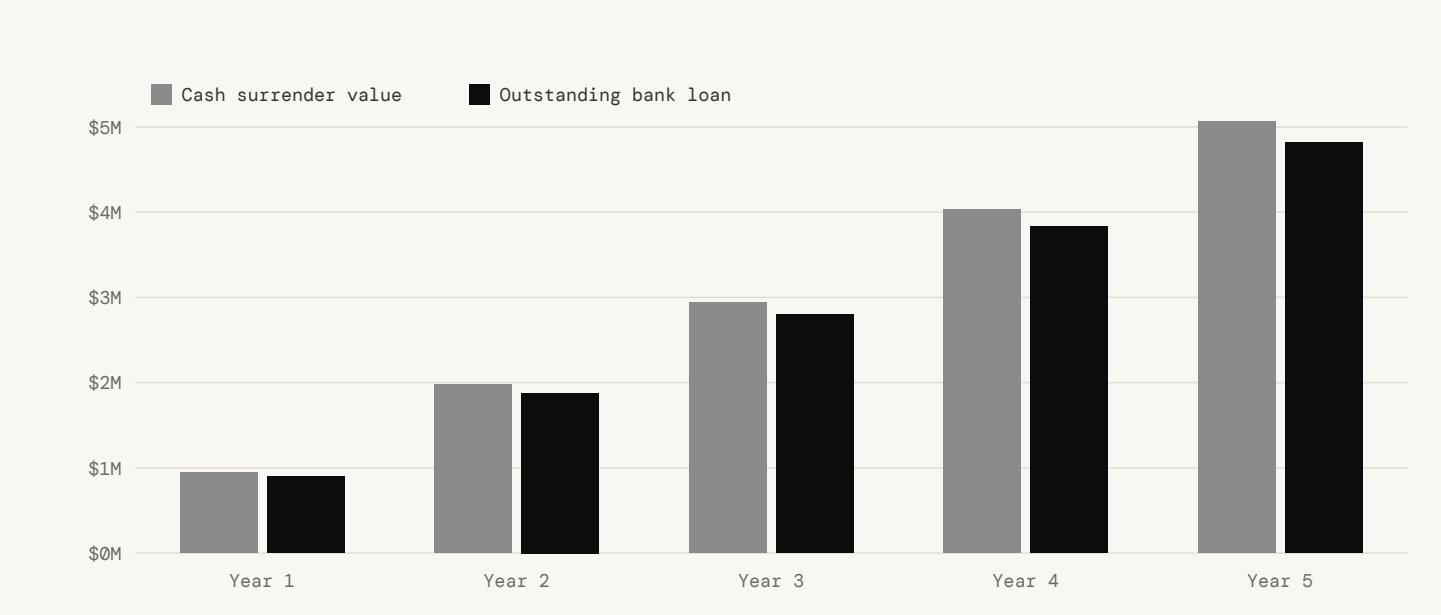
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Two things drive the approval: the policy’s cash surrender value (the collateral) and the client’s income and cash flow, meaning the ability to keep paying premiums and interest.

Five-year IFA illustration from the lender

ASSUMPTION	VALUE
Annual deposit	\$1,015,201
Initial death benefit	\$20,000,000
Bank loan rate	5.00%
Maximum loan-to-CSV	95%
Corporate tax rate used	50.67%
Dividend scale	Current less 1%

Year	Annual Deposit	Cash Surrender Value	Annual Loan Advance	Outstanding Loan	Net Cost
1	\$1,015,201	\$941,071	\$851,446	\$894,018	(\$163,000)
2	\$1,015,201	\$1,976,758	\$915,242	\$1,877,920	(\$99,000)
3	\$1,015,201	\$2,944,533	\$830,433	\$2,797,306	(\$184,000)
4	\$1,015,201	\$4,031,325	\$916,481	\$3,829,759	(\$98,000)
5	\$1,015,201	\$5,067,061	\$846,008	\$4,813,708	(\$169,000)



Rebuilt from the lender’s five-year IFA illustration: \$1,015,201 annual deposit, \$20M initial death benefit, 5.00% loan rate, 95% maximum loan-to-CSV, dividend scale current less 1%. Not guaranteed.

Death benefit and CDA in the same illustration

Year	Total Death Benefit	Illustrated CDA Credit	Net to Corporation at Death
1	\$22,380,525	\$21,376,738	\$21,486,508
2	\$24,837,396	\$22,834,788	\$22,959,476
3	\$27,354,868	\$24,358,329	\$24,557,562
4	\$29,862,470	\$25,877,786	\$26,032,712
5	\$32,343,998	\$27,377,609	\$27,530,290

Illustration values, not guaranteed. They include assumptions about interest and collateral insurance deductions that depend on tax eligibility.

How is the IFA credit released *each year*?

A facility can be approved on projected year-5 cash value, but the bank releases it in steps as premiums are paid and the cash value grows. Using the illustration above, with a facility based on 100% of the year-5 CSV of \$5,067,061:

WHEN	TOTAL CREDIT LIMIT AVAILABLE
Year 1	\$941,071
Year 2 (after the anniversary and premium)	\$1,976,758
Later years	Released as the cash value grows

The banker added that, in many cases, clients use the year-1 limit to pay the year-2 premium.

Questions a client asked a *Scotia Wealth Management private banker*.

A GOALD client planned to keep an IFA running for decades, and possibly start policies for children at age 7 and carry them to 80. We put his questions to the lender. The answers below are close to word for word, lightly edited for readability.

What determines the initial approved IFA loan amount?

PRIVATE BANKER'S ANSWER

The fifth-year cash surrender value (CSV), and the client's income will determine whether we could apply for 100% or 90% of that value.

As the policy's cash value increases each year, how is the loan facility increased?

PRIVATE BANKER'S ANSWER

We request our credit funding team to release the funds. We will be asking for an updated policy summary and policy illustration, and an Enquiry 2 form, after the premium is paid.

Is the increase formula-based on lending value, or does the bank reassess income, net worth and debt-service capacity each time?

PRIVATE BANKER'S ANSWER

The increase is mainly based on policy lending value. During the annual review we will ask for income documents as well, but income is not the major factor. From what I have seen, our credit team is more concerned with the client's ability to pay the premium and loan interest.

Can a larger IFA facility be approved in advance instead of increasing it every year?

PRIVATE BANKER'S ANSWER

We typically apply for five years of CSV. In some rare cases we can go to ten years of value, but that needs strong assets and income.

How long can a bank approve an IFA credit facility for at one time?

PRIVATE BANKER'S ANSWER

Five years would be what I usually propose.

At renewal, does the borrower have to go through full credit underwriting again?

PRIVATE BANKER'S ANSWER

It's an annual review rather than a full application, so the process is quicker. That said, we still collect updated policy, illustration and income documents for our records.

Could the bank decide not to increase or renew the IFA even if the policy values support the loan?

PRIVATE BANKER'S ANSWER

I haven't run into this issue, but I am assuming if we are doing an annual review and the client didn't pay the premium, or we can't show the client is able to pay the premium, perhaps we would not be able to release the funds.

Will the bank ask for more collateral if the loan is still within the loan-to-CSV ratio?

PRIVATE BANKER'S ANSWER

Case by case, but not really. For 90% of CSV we don't ask for additional collateral. That said, if we are aiming for 100% of CSV or premium financing, we usually ask for additional assets to be pledged, or for the loan amount to go to wealth management for investment.

One lender's experience in the circumstances discussed. Not a commitment or a universal credit policy of any institution.

Can the bank finance *100% of the premiums?*

For IFA premium financing, the collateral requirement is generally the difference between the total premiums paid and the CSV at the applicable requested IFA year — for example, 5 years IFA. Depending on the strength of the cash flow, CSV value may be determined at 90% or 100%.

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YEAR	ANNUAL PREMIUM	TOTAL CSV (LENDING VALUE)	CUMULATIVE LOAN	EXTRA COLLATERAL NEEDED
1	\$400,000	\$350,833	\$400,000	\$49,167
2	\$400,000	\$751,479	\$800,000	\$48,521
3	\$400,000	\$1,081,705	\$1,200,000	\$118,295
4	\$400,000	\$1,487,017	\$1,600,000	\$112,983
5	\$400,000	\$1,883,571	\$2,000,000	\$116,429

So \$2M of premiums can be fully financed if the client pledges collateral with a lending value of \$116,429. It does not have to be cash. The lender’s typical lending values:

COLLATERAL	TYPICAL LENDING VALUE
Cash and GICs	Up to 100%
Investment portfolios	About 50%–70%
Stocks and mutual funds	About 70%
Real estate	About 65%

Examples only. Actual lending values depend on the assets and credit terms.

Can premiums *and* interest both be financed?

Potentially, but only if the facility has room for both. A facility used up by premiums has nothing left for interest. Financing both usually means extra collateral, a larger approval, or a different structure. Judge an IFA on its long-term cash flow, not only on the first year’s lending percentage.

What documents does a bank need to *approve an IFA*?

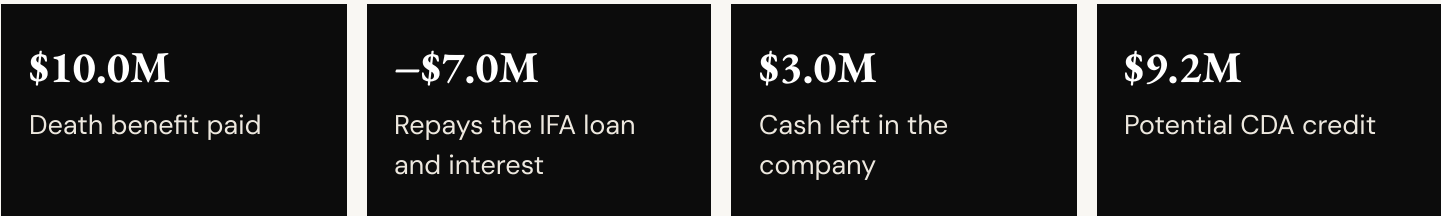
For a holding-company structure, the lender asked for more than a standard first approval:

AREA	DOCUMENTS
Insurance	Policy illustration; policy summary if any
Corporation	2 years of holding-company financial statements, full T2 returns and notices of assessment; central securities register
Personal	2 years of full T1 General returns and notices of assessment; personal financial or net-worth statement; investment statements if assets are being pledged
Family trust (if any)	2 years of T3 returns and trust notices of assessment; trust agreement

What happens to the IFA loan and capitalized interest *at death*?

The corporately owned policy is assigned to the bank as collateral. At death, the death benefit repays the loan, including the interest that was added over the years. The rest goes to the corporation.

The important part: the corporation’s CDA credit is generally the death benefit less the policy’s adjusted cost basis (ACB), even though part of the proceeds went to the bank under a collateral assignment.^{[1],[5]}



HYPOTHETICAL GOALD EXAMPLE AT DEATH	AMOUNT
Total death benefit	\$10,000,000
IFA loan including capitalized interest	(\$7,000,000)
Insurance cash left in the company	\$3,000,000
Illustrative policy ACB	\$800,000
Potential CDA credit	\$9,200,000

The corporation receives \$3M of cash, but may have \$9.2M of CDA room. That extra room is what lets assets built up in the company over a lifetime, such as an investment portfolio, come out to the family as tax-free capital dividends, rather than only the leftover insurance cash.^{[1],[3]}

Be precise about what this means. Capitalizing interest does not create or increase the CDA credit. The credit comes from the death benefit less ACB. Capitalizing interest lets the corporation keep its own cash invested during life, while the bank is repaid from the death benefit at death. Paying a capital dividend needs real corporate value and a valid T2054 election, and selling appreciated corporate assets to fund it can still trigger corporate tax.

Can I capitalize the interest on an IFA loan *until death*?

It can be the goal, but it cannot be assumed. The lender proposes five-year facilities (ten in rare cases), reviews them every year, and releases room as cash value grows. Approval for five or ten years is not a promise to renew forever.

A long-term plan should stress-test rising rates, premium funding, the loan-to-CSV ratio, collateral, and what happens if the corporation has to start paying interest or reduce the loan.

Is capitalized IFA interest *tax-deductible* in Canada?

It depends on how the borrowed money is used and how the interest is handled.^[2]

- Interest that is simply added to the loan balance, without being paid, is generally deductible only when it is actually paid.^[4]
- Borrowing a new advance to actually pay interest can be treated differently, and the timing of the deduction can change.^{[2],[4]}
- A portion of the policy cost may qualify as a collateral insurance deduction, subject to strict conditions.^[4]

Do not assume interest is deductible because the loan is secured by a corporate policy. Review the credit agreement and the use of funds with your accountant. A bank loan secured by a policy is also legally different from a policy loan from the insurer.

Frequently asked *questions*.

Can you capitalize interest on an IFA loan in Canada?

Yes, if the lender approves it. The lender uses available room on the credit facility to pay the monthly loan interest, so the loan balance grows instead of the corporation paying interest from cash flow. Once the balance reaches the approved facility limit, principal or interest payments are required.

What determines the initial approved IFA loan amount?

The policy's projected fifth-year cash surrender value and the client's income. Income determines whether the lender can apply 100% or 90% of that value.

How is the IFA loan facility increased as cash value grows?

The lender's credit funding team releases additional funds after the premium is paid, using an updated policy summary, policy illustration and an Enquiry 2 form.

Does the bank reassess income every year on an IFA?

The increase is mainly based on policy lending value. Income documents are requested at the annual review, but the credit team is mostly concerned with the client's ability to pay the premium and loan interest.

How long can a bank approve an IFA credit facility for?

Five years is typical. In rare cases a lender may approve ten years of value, which needs strong assets and income.

Does capitalizing interest increase the capital dividend account?

No. The insurance CDA credit is generally the death benefit less the policy's adjusted cost basis. Capitalizing interest does not change that credit, but because the bank is repaid from the death benefit while the corporation still receives the CDA credit, other corporate assets may be paid out as tax-free capital dividends.

Is capitalized interest tax-deductible?

It depends. Interest added to the loan balance without being paid is generally deductible only when it is actually paid. Borrowed money used to pay interest can be treated differently. Confirm the treatment with your accountant.

14 — MODEL MY IFA

Is capitalizing interest worth it for *your corporation*?

It suits incorporated owners with significant retained earnings, strong income and long-term estate goals. The aim is not to borrow the maximum. It is to make one pool of capital do several jobs: stay invested during life, repay the bank at death, and create CDA room for the family.

RELATED GUIDES

Continue with the *related references*.

CONTINUE READING

Immediate Financing Arrangement

The full IFA structure: corporate policy, collateral assignment and bank loan.

CONTINUE READING

Capital Dividend Account

How the CDA works and how tax-free capital dividends are paid.

CONTINUE READING

Accessing Cash Value

Bank loans, policy loans and withdrawals from a whole life policy.

CONTINUE READING

IFA and Investments

Putting borrowed IFA capital back to work.

Sources *and disclosure.*

Primary sources

1. [CRA — Income Tax Folio S3-F2-C1, Capital Dividends](#)
2. [CRA — Income Tax Folio S3-F6-C1, Interest Deductibility](#)
3. [CRA — Form T2054, Election for a Capital Dividend Under Subsection 83\(2\)](#)
4. [Income Tax Act — Section 20 \(interest, compound interest and collateral insurance deductions\)](#)
5. [Income Tax Act — Section 89 \(definition of capital dividend account\)](#)
6. [Scotia Wealth Management — Private banking](#)

About the examples

The lending examples, tables and eight answers come from private banking correspondence with Scotia Wealth Management dated September 2026, published with permission. Personal and client details are removed and the figures are as provided. The capitalized-interest runway beyond month 12 is a GOALD projection on the lender's assumptions. The \$10 million death-benefit and CDA example is a separate hypothetical GOALD illustration.

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