



# HOW TO GET TAX-EFFICIENT CASH FLOW FROM YOUR MUTUAL FUND INVESTMENTS

An introduction to tax-efficient systematic withdrawal plans

Tax-efficient systematic withdrawal plans ( T-SWPs) are available on many mutual funds and allow you to receive a steady stream of tax-efficient monthly cash flow to help you pay for your regular living expenses. If you're looking for ways to withdraw cash from your investments, then T-SWPs might be worth a closer look.

## WHAT ARE T-SWPs?

A T-SWP is a type of mutual fund that pays regular monthly distributions at a fixed percentage. They are available on many kinds of mutual funds including fixed income, balanced and equity funds. The payout percentages typically range from three to eight percent per year.

T-SWPs are also simple to use – you buy them just like regular mutual funds. The most important feature of T-SWPs, however, is that they give you the ability to defer some of the tax you would otherwise pay if you simply sold your mutual fund units to generate cash flow.

## HOW ARE T-SWP DISTRIBUTIONS MORE TAX-EFFICIENT?

Before T-SWPs were created in the early 2000s, whenever you wanted to withdraw regular amounts from your mutual fund investments, your only option was to sell part of your holdings in the fund. To simplify things, you could also ask the fund company to automatically sell a certain amount of your holdings each month using what is still known as a Systematic Withdrawal Plan (or “SWP”).

From a tax perspective, whenever you sell a fund to generate cash, you trigger a taxable disposition. That means you have to calculate the gain or loss on the sale and pay tax on any gains. So

with a regular SWP, you would make 12 separate monthly sales each year and, therefore, have to make 12 separate gain/loss calculations. If the net result is a capital gain at the end of the year, then you pay tax on that amount.

T-SWPs, however, allow you to avoid much of this hassle and cost. Instead of the normal SWP process where you ask the fund company to sell units of your mutual fund each month, with a T-SWP you essentially ask the fund company to pay you a regular distribution each month where part of that distribution comes from your own capital. And since that “return of capital” component is not taxable in the year you receive it, you don't have



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T-SWPs give you the ability to defer some of the tax you would otherwise pay if you simply sold your mutual fund units to generate cash flow.



Please contact us for more information about tax-efficient systematic withdrawal plans, and other ways to get tax-efficient cash flows from your investments.

to calculate and pay the tax costs that would apply if you were simply selling fund units using a regular SWP. That's how T-SWPs can give you a steady stream of monthly cash flow while minimizing the immediate tax costs at the same time.

#### **UNDERSTANDING T-SWPs**

T-SWPs allow you to take more control over the immediate tax costs when you withdraw cash from a mutual fund. But it's important to know that those tax costs are deferred to a later date and not eliminated altogether. And if the total amount of return of capital distributions eventually exceeds the amount you originally invested, then future return of capital distributions

will be taxed as capital gains. Also, the regular distribution and original investment amounts in T-SWPs are not guaranteed and are likely to change from year to year depending on market conditions.

#### **DO T-SWPs MAKE SENSE FOR YOUR PORTFOLIO?**

If you're looking for ways to receive cash flow from your investments and manage your tax costs, then T-SWP may be an option to consider.

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