

Get the money you need to do the things you want

Tax-efficient monthly cash flow from TD Mutual Funds.



Your priorities are changing. Your investments should too.

If you're like most people who are moving into retirement, you've got a lot to look forward to. Working less means more time for the things you want to do. It might mean travel, pursuing a favourite hobby, taking courses, starting a business, or simply spending more time with friends and family.

But working less also means that your investments have to work harder to generate the money you want every month. In today's investment environment, that can be a challenge. There just aren't a lot of options that will give you the cash flow you want. And when you receive income from GICs or take money out of mutual funds regularly through a Systematic Withdrawal Plan (SWP), a lot of it can go to taxes.

TD Mutual Funds offers a solution on a number of funds and portfolios. It's called Return of Capital (ROC) and it could help you –

- Enjoy a consistent monthly cash flow from your non-registered investments
- Receive more than you would from many guaranteed investments
- Defer taxes
- Take advantage of capital gains tax rates
- Grow your investment
- Reduce government clawbacks
- Simplify your tax reporting

With the ROC solution, you can get the money you want every month and into the future.

Return of Capital – How it works

The goal of the ROC solution is to give you consistent monthly distributions that are primarily made up of money you invest in a fund. Since the ROC portion of the distribution is your own money coming back to you, it is not taxed.

The results are –

1. You end up with more money in your pocket now than if you were receiving distributions that were taxable.
2. Your higher cash flow from the ROC solution can help reduce the need to make withdrawals from your RSP or RIF, preserving those investments for the future.
3. You defer capital gains tax until you redeem your investment.

Return of Capital: Distributions from a mutual fund that are considered to be a return of your initial investment and therefore not taxable.

Systematic Withdrawal Plan: Cash flow from a mutual fund that requires selling units of a fund, which triggers a taxable capital gain or loss.



The benefits of Return of Capital

Consistent monthly cash flow – You’ll know what to expect each month so you can do the things you want to do now and in the future. The ROC solution aims to provide you with a steady cash flow.

Tax efficiency – The portion of the distribution you receive that is classified as ROC is not taxable because part of your original investment is being returned to you. Whatever amount you receive as a ROC distribution reduces the Adjusted Cost Base (ACB) of your investment by the same amount.

For more about your ACB, please see “Adjusted Cost Base and Return of Capital: How They Relate.”

The possibility of lower taxes – The ROC solution allows you to defer capital gains tax until you redeem your investment. This flexibility lets you determine the best time to sell your investment according to your personal tax situation. For instance, you could be in a lower tax bracket in the future and, when you sell your investment, you will be taxed at the capital gains tax rate in effect at that time.

Growth potential – Even though part of your original investment is being returned to you each month, your investment can grow, as long as the return earned by the fund is higher than the amount distributed to you.

Potential to reduce government clawbacks – ROC distributions increase your monthly cash flow without increasing your taxable income. That means your eligibility for government programs such as Old Age Security, the Guaranteed Income Supplement, spousal tax credits and medical expense credits is not affected.

Simplified tax reporting – Details of all ROC distributions are conveniently provided on your year-end tax slip, as opposed to SWP transactions where you must calculate taxable capital gains or losses for each redemption.

You can invest with confidence in TD Mutual Funds. Our award-winning funds and dedication to serving the needs of our investors have made us one of Canada’s largest and most successful fund families. Your financial advisor can help you select from our range of ROC solutions.

Adjusted Cost Base and Return of Capital: How They Relate

ACB is the cost of your mutual fund investment for tax purposes. It is generally equal to the amount you paid for your mutual fund units, plus the amount of distributions reinvested in additional units and less the amount of ROC distributions. The ACB is used to calculate your capital gain (or loss) when you redeem your units.

Depending on how long you keep your investment and its performance, it is possible that ROC distributions could reduce your ACB to zero. This means that you have taken out all the money you invested, but it does not mean that the value of the investment has disappeared. You can continue to receive distributions once your ACB is reduced to zero, but the distributions that would have been ROC will be taxed as a capital gain. No matter when you sell some or all of your investment, a capital gain or capital loss will be realized on the difference between the investment’s market value and your reduced ACB.

Deferring taxes with Return of Capital

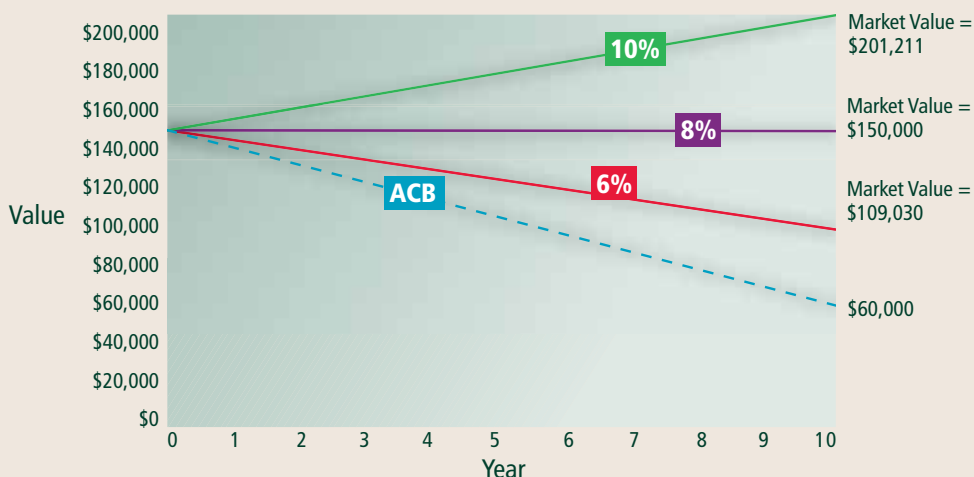
As shown in the example below, the ROC solution can provide a larger tax deferral than a mutual fund with a SWP.

Taxes paid on money received from a \$150,000 investment		
	Fund A with SWP 6% SWP + 2% Distributions	Fund B with ROC 6% ROC + 2% Distributions
Capital Gains	\$3,481	\$3,481
Interest Income	\$6,962	\$6,962
Monthly Withdrawals	\$5,208	N/A
ROC	N/A	\$0
Total Taxes Paid	\$15,651	\$10,443
Tax Deferral		\$5,208

This table shows the taxes paid on a \$150,000 investment after 10 years, assuming a 46.41% marginal tax rate and an 8% annual cash flow rate paid monthly, comprised of 6% SWP or ROC, 1% capital gains and 1% interest income.

Return of Capital – market value scenarios

The following scenarios show you how the market value of your investment can vary depending on how a fund performs. Assume a \$150,000 initial investment over 10 years that pays an 8% annual distribution paid monthly based on the initial investment amount. Distributions are comprised of 6% ROC, 1% capital gains and 1% interest income.



The blue dotted line is your ACB. At the end of 10 years, the ACB has been reduced from \$150,000 to \$60,000 due to the portion of the monthly distributions that are Return of Capital. If you redeemed your investment at this time, you would have a realized capital gain or loss equal to the difference between \$60,000 and the market value of the investment.

10% Return

Represents the market value of your investment if a fund achieved a 10% annual rate of return. After 10 years of receiving monthly distributions, your investment would still have grown to \$201,211.

When an annual distribution is **lower than** a fund's annual rate of return, you can expect the market value of your investment to increase over time.

8% Return

Represents the market value of your investment if a fund achieved an 8% annual rate of return. After 10 years of receiving monthly distributions, your investment would still be worth \$150,000.

When an annual distribution is **equal to** a fund's annual rate of return, you can expect the market value of your investment to remain steady over time.

6% Return

Represents the market value of your investment if a fund achieved a 6% annual rate of return. After 10 years of receiving monthly distributions, your investment would have decreased to \$109,030.

When an annual distribution is **higher than** a fund's annual rate of return, you can expect the market value of your investment to decrease over time.

Talk to your financial advisor today

A new stage in your life requires new ways to generate the cash flow you want.

A ROC solution from TD Mutual Funds seeks to give you the consistent and tax-efficient monthly cash flow you need to do the things you want to do.

Talk to your financial advisor to find out how a ROC solution can help you achieve your financial goals now and into the future.

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Capital gains taxes deferred will be payable when the units of a fund are sold or when their Adjusted Cost Base goes below zero. Return of Capital (ROC) distributions do not constitute part of a fund's rate of return or yield. ROC reduces the adjusted cost base of the units to which it relates, and may fluctuate based on the level of earned income from distributions.

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