

||| Manulife Investment Management

Manulife Series-T Mutual funds. When the ACB = 0

Series-T funds can provide a stable cash flow for many years. But what happens when all of the original investment has been returned as tax efficient return of capital?

When the ACB or adjusted cost base equals zero, there are a few options to consider.

First, let's look at the scenario from the previous video.

An initial 200,000 investment with a 6% average annual return paying a 6% per year distribution would provide an average after-tax income of \$11,400 per year for 19 years¹. At that point the ACB would equal zero.

The total amount received over that period is \$216,600, after tax. At this point the ACB will be 0 but the **market value** of the investment will still be approximately \$200,000.

If the investor was to cash out the full amount that would trigger a capital gain of approximately \$40,000 based on a 40% marginal tax bracket. However, there are three more tax friendly options to consider:

One, continue with a reduced cashflow. The income payments can be continued but they will be taxed as capital gains. This will reduce the monthly payment by about \$2,100 dollars annually.

Two, move the Series-T fund assets to a different class of the same fund. The cash flow will stop but taxes will be deferred until fund units are sold triggering a capital gain. Ultimately, the assets will face a deemed disposition when the holder passes away.

Three, a charitable donation could be made in the amount of \$67,000. The investor would receive a charitable donation credit in the amount of approximately \$26,800 (depending on the province). The remaining \$133,000 could be cashed out of the fund and the tax credit would offset the approximately \$26,600 in capital gains owing on the sale.

Series-T funds from Manulife Asset Management can provide a tax efficient income stream, while helping investors reach other goals such as retirement or philanthropy.

Speak to your advisor to learn more.

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¹ Assumes a marginal tax rate of 40 per cent, and taxable distributions of \$1,500 per year and ROC distributions of \$10,500 per year.

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