How one mutual fund can reduce taxes

How would you like an investment that would give you more cash flow and less tax? If so, we have good news. There is now a way for you to enjoy a high level of monthly cash flow, reduce your short-term tax bill and participate in the growth of mutual funds.

You can do it with specialized mutual funds that use a distribution strategy called Return of Capital (ROC). With an ROC mutual fund, you receive a monthly distribution that's partially made up of a return of your original invested capital. Since you're receiving a return of your principal, rather than a form of income, this cash flow can be paid to you without being taxed.

You will eventually have to pay tax on the capital gains that you earn in the fund, but payment would be deferred until you sell your mutual fund units or when your original invested capital runs out.

As long as you remain in the fund, you can continue to defer payment of taxes on the ROC portion of the distributions. And when you do eventually sell the units, if you move into a lower marginal tax bracket, you may enjoy a net tax savings.

An ROC mutual fund is best held in a non-registered portfolio and is most appropriate for investors with a moderate risk profile, perhaps in their early retirement years, who want to maximize their after-tax cash flow.

If you'd like to speak to someone personally, click here to find the CPA financial planning professional closest to you.