THE TAX PICTURE

Majority Of Investors Support Extending Reduced Taxes On Dividends, Cap Gains: More Education Needed On Effect Of Taxes On Investments

(NAPSA)—According to a recent study released by Boston-based asset manager, Eaton Vance Corp., the vast majority of U.S. investors support an extension of the 15 percent tax rate on qualified dividends and capital gains or believe the tax rate should be made permanent. The survey, conducted by Penn, Schoen & Berland Associates, Inc., also revealed that the reduced tax rate on qualified dividends was a factor in investors' decisions to invest in dividend-paying stocks.

In fact, if Congress were to make the reduced dividend tax rate permanent, nearly half of investors said either they would start investing in dividend payers or invest more in such stocks. This viewpoint was even more widespread among GenXers, with more than half saying either they would start investing or increase investment in dividend-paying stocks if Congress makes the tax cut permanent.

"There is overwhelming investor support for the reduced tax rates on dividends, suggesting that if Congress makes these tax rates permanent, it would be reinforcing desirable behaviors by both investors and corporations," said Duncan W. Richardson, chief equity investment officer at Eaton Vance.

Nevertheless, many investors remain unaware of the tax implications of investing, including which investments are best held inside or outside a qualified retirement plan (answer: tax-advantaged investments are better held outside a qualified plan). Two-thirds of investors are also unfamiliar with tax-managed funds. Yet, when asked whether they would consider tax-managed investing given a reasonable expectation of realizing 2 percent per year more return after taxes over 10 years, only half said yes. "Given the reality of the last 10 years of market returns, it is almost nonsensical to refuse an opportunity to capture an additional 2 percent per year in after-tax returns," said Mr. Richardson. "A lot more education is clearly needed regarding the effect of taxes on investment returns."

Despite predictions by industry watchers that record numbers of mutual fund investors will experience the sting of capital gains taxes in tax year 2006, the results of Eaton Vance's study show that investors are relatively unconcerned about taxes triggered by capital gains distributions. Half (51 percent) say they do not expect to pay taxes on capital gains in 2006. Yet, diminishing tax loss carry-forwards from the 2000 to 2002 bear market, combined with strong stock market returns beginning in 2003, appear to indicate many of these investors may be in for a surprise come April.

"The results of our survey suggest fund shareholders may be in for a rude awakening when it comes to capital gains," said Richardson. "Investors seem less concerned than in the past, and early indications support our belief that they should be more concerned than ever."

Eaton Vance Corp. is a Boston-based investment management firm whose stock trades on the New York Stock Exchange under the symbol EV. Eaton Vance and its affiliates managed over $133.1 billion in assets as of December 31, 2006, for more than 100 investment companies, as well as individual and institutional accounts, including those of corporations, hospitals, retirement plans, universities, foundations and trusts.

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