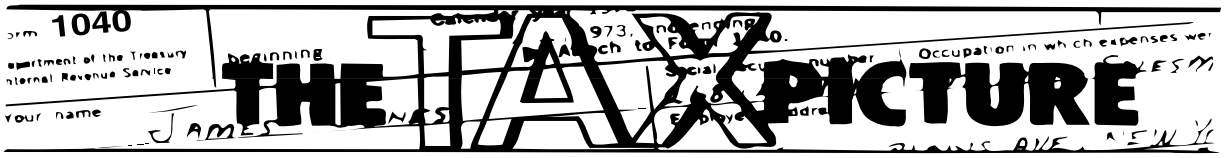

Investors Unaware Of Impact Of Capital Gains Taxes

(NAPSA)—The one bright spot in the three-year bear market of 2000 to 2003 was the ability of equity managers to apply capital losses incurred to offset gains, thus minimizing taxes for investors. However, with nearly half of the nation's $7.5 trillion in mutual funds held in taxable accounts, a good many investors will soon find themselves becoming reacquainted with the sting of capital gains distributions, the downside of the now over three-year-old bull market.

According to the sixth annual investor survey commissioned by Boston-based investment manager Eaton Vance, a majority of investors (51 percent) paid capital gains taxes in 2003. Those with investments greater than $250,000 (65 percent) and Bush voters (52 percent) were more likely to have paid capital gains taxes than investors with investments of less than $250,000 (37 percent) and investors who voted for Senator Kerry (40 percent).

The nationwide survey, conducted by Penn, Schoen and Berland Associates, was a comprehensive study among 1,000 U.S. residents who have invested in both qualified retirement plans and investments outside of qualified retirement plans (stock mutual funds, bond mutual funds, individual stocks, individual bonds, variable annuities and money market funds).

In 2001, the SEC identified taxes as potentially the single biggest cost associated with mutual funds and began to require disclosure to help investors understand the magnitude of tax costs and to compare the tax impact of different funds. Significantly, this disclosure is in the "risk/return" section of prospectuses.

Many investors (54 percent) say they are concerned that they may be subject to increasing capital gains taxes. The bull market is reacquainting investors with the reality of sharing their investment returns with Uncle Sam. Investors who voted for President Bush are much more likely (62 percent) than investors who voted for Senator Kerry (42 percent) to be concerned.

Yet, surprisingly, only 41 percent of investors—32 percent of investors with investments of less than $250,000 and 49 percent of investors with investments greater than $250,000—expect to pay capital gains taxes this year. Most mutual fund investors may be in for a rude awakening. A recent report from Lipper, Inc., the New York fund-research firm, predicts investors should anticipate a rise in capital gains taxes over the next few years as tax-loss carry forwards are exhausted. According to published reports by Chicago-based fund researcher Morningstar, Inc., the average potential loss had shrunk from almost 50 percent at the end of 2002 to 8 percent by mid-year 2004.

"Investors express concern about taxes and the tax implications of investing, but are confused by a subject that can, very quickly, become complicated. As with the weather, there is a lot of talk but, unlike the weather, investors can do something about taxes," said Duncan Richardson, Senior Vice President and Chief Equity Investment Officer for Eaton Vance. "There is a great opportunity for financial advisers to help their clients lower their tax drag by discussing tax basics, the AMT, and the implications of recent tax legislation."

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 manage over $94 billion in assets as of October 31, 2004, 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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