Investors Lack Knowledge On Tax Implications Of Investing

(NAPSA)—According to the sixth annual investor survey commissioned by Boston-based investment manager Eaton Vance, investors generally believe they are well informed about the tax implications of their investments. 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 outside of qualified retirement plans.

Eight in 10 investors (80 percent) claim that they carefully examine their investment statements with this in mind, and more than 8 in 10 (85 percent) say that the impact of taxes on their stock mutual fund returns is important to them. Nearly nine in 10 investors (87 percent) say that they consider the disclosure by mutual fund organizations of the tax implications of their investments (including differences between pre-tax and after-tax returns) to be important.

Investors say that the tax implications of their investments are important; however, as results from the November 2004 study indicate, investors' actual level of knowledge about the subject is low. Many are unaware of current tax rates and generally know little about tax-managed investing. One third of financial advisors don't discuss taxes and 29 percent of investors have to raise the topic of taxes themselves. When informed about the advantageous tax treatment of dividends and the historical advantage of tax-managed investing, the majority of investors surveyed became more interested.

For instance, in this year's survey, nearly one in four investors (24 percent) aren't aware of their tax bracket. This number is very high considering that the tax code was recently changed. There is low awareness among investors of the maximum federal tax rate on 1) ordinary income (only 26 percent of investors are aware that it's 35 percent); 2) qualified dividend income (only 16 percent of investors are aware it's 15 percent for those with a tax bracket greater than 25 percent); and 3) long-term capital gains (only 22 percent of investors are aware that it's 15 percent for those with a tax bracket greater than 25 percent).

"A great service that financial advisers can provide their taxpaying clients is to discuss the 2003 Tax Act," stated Duncan W. Richardson, Chief Equity Investment Officer of Eaton Vance Management. "It is clear that investors both want and need more information about this important tax legislation. Investors need to understand, in particular, that tax rates on qualified dividends are dramatically lower than before and now are on par with long-term capital gains tax rates."

Investors know little about tax-managed investing and are unable to identify the circumstances under which it is appropriate. Less than one-third of investors (31 percent) are aware of investments specifically designed to seek after-tax returns: 24 percent of investors with investments of less than $250,000 and 38 percent of investors with investments greater than $250,000 are currently aware of tax-managed funds.

Investors also demonstrate a lack of knowledge about what types of investments are best held inside or outside of a qualified plan for tax purposes. For instance, more investors say they would be inclined to hold a tax-managed fund in a qualified retirement plan (43 percent), rather than outside of a plan (42 percent) and one in five investors (16 percent) say they are unsure.

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