THE TAX PICTURE

Survey: Investors Not Aware Of SEC Rule On Fund After-Tax Disclosure

(NAPSA)—According to a new investor survey, investors' knowledge about the impact of taxes on their investment returns continues to be low, with most shareholders unaware of a recently enacted SEC rule requiring after-tax performance disclosure by mutual funds.

Most (73 percent) investors say that taxes have an important effect on the returns they receive from their investments in stock mutual funds, with two in three (66 percent) saying that the impact of taxes on their returns is more important this year when compared to last year. Nearly four out of five (79 percent) investors say they carefully examine tax implications in the investment statements they receive from their mutual fund provider, broker or other financial advisor. However, only 30 percent are aware of the recently enacted SEC rule requiring after-tax performance disclosure by mutual funds.

According to the third annual Eaton Vance survey, investors continue to lack awareness and knowledge of tax-efficient investments. One in four investors (27 percent) is completely unfamiliar with the term "tax efficiency" as applied to investments, the same percentage as last year. Four in 10 (40 percent) are unable to cite any investments that offer high tax efficiency—higher than last year (33 percent).

A substantial percentage of investors say that they would be more inclined to hold variable annuities (35 percent) and municipal bonds (32 percent) in a qualified retirement plan rather than outside such a plan, even though such tax-deferred investments are not designed to be held in qualified plans.

Many investors are unaware of new taxes they may have to pay this year.

Compared to last year (25 percent), more investors (39 percent) do not know their federal income tax bracket. More than four in 10 (42 percent) who use a broker or other financial advisor say that their advisor rarely or never discusses the tax implications of their investments with them. This is actually higher than last year (36 percent).

"The fact that investors in equity mutual funds have surrendered as much as a quarter of each dollar in investment returns to Uncle Sam in recent years was a driving force behind the SEC's mandating disclosure of after-tax returns in the risk/return section of each fund's prospectus. It is noteworthy that tax awareness does not seem to have increased in the past year despite the new SEC disclosure requirement, which goes fully into effect this month," observed Duncan W. Richardson, Chief Equity Investment Officer of Eaton Vance Management. "While taxpaying investors seem to have a good understanding of the importance of after-tax returns as a goal, they are still too often in the dark about how investment taxes work. Helping investors make intelligent tax choices is one of the best ways for financial advisors to add value for their clients."

Perhaps the reason investors know so little about the tax aspects of investing is simply the degree to which taxes are dreaded. By nearly a two to one margin (57 percent), investors think paying taxes on their investments is worse than going to the dentist (26 percent). And the majority (74 percent) thinks paying taxes on returns is worse than visiting prospective in-laws (4 percent).

Investors are supportive (73 percent support) of a bill currently before Congress that would, subject to annual limits, allow investors to defer taxes on mutual fund capital gains distributions that are reinvested in the same fund. But this is not their first preference—more than eight in 10 investors (84 percent) would rather see a reduction in the capital gains tax rate that applies to all types of investments, not just mutual funds.

Eaton Vance Corp., a Boston-based investment management firm, is traded on the New York Stock Exchange under the symbol EV.