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National Survey: Large Capital Gains Distributions In A Year Of Negative Returns Has Mutual Fund Investors More Concerned About Investment Taxes

(NAPSA)—Stung by large capital gains distributions in a year of negative investment returns, mutual fund shareholders increasingly consider taxes to be an important investment consideration, according to the results of an annual survey of investors commissioned by Eaton Vance, a Boston-based mutual fund provider.

The nation-wide survey of investors, conducted by Penn, Schoen and Berland Associates, indicated that an overwhelming majority of investors (84 percent) considers the impact of taxes on their stock mutual funds to be an important consideration when making investment decisions. Nearly 60 percent (58 percent) of investors say that the impact of taxes on their investment returns has increased in importance over the past year.

"Investors who had been less aware of mutual fund taxes had a rude awakening in 2000, when many funds had low or negative returns but still paid out large taxable distributions," observed Duncan W. Richardson, senior vice president of Eaton Vance and portfolio manager of The Eaton Vance Tax-Managed Growth Fund. "The combination of strong built-up gains carried over from prior years, high portfolio turnover in a volatile market and an insensitivity to tax considerations on the part of most fund managers created a "Perfect Storm" that dumped large capital gains distributions on many unsuspecting shareholders. Many shareholders who in the past might have been dismissive about fund taxes were horrified to learn they will be paying taxes on fund investments on which they lost money last year."

Consistent with the growing concern regarding fund taxes, 82 percent of investors consider disclosure by mutual fund organizations of the tax implications of fund investing to be important. Nearly nine in ten (85 percent) investors say they carefully examine their investment statements to determine the degree to which taxes affect their returns and three out of five investors (60 percent) believe the U.S. government should require mutual fund providers to state after-tax returns for stock mutual funds, supporting the objective of the Securities and Exchange Commission's new after-tax return disclosure requirement. Although the new SEC rule requiring disclosure of after-tax returns was finalized only recently and does not fully go into effect until the first quarter of 2002, 30 percent of investors are already aware of this coming requirement for all long-term mutual funds.

Although most investors recognize the importance of tax considerations, they have only a limited understanding of investment-related tax issues. One in four investors (25 percent) do not know their current federal income tax bracket. One in four investors (26 percent) are unfamiliar with the concept of "tax-efficient" investing, and one in three investors (33 percent) are unable to cite any investments that offer high tax efficiency.

When asked whether they would be more inclined to hold municipal bonds and municipal bond funds in a qualified retirement plan such as an IRA or 401(K) plan or outside such a plan, survey respondents were equally likely to say they would hold such investments within a qualified plan (39 percent) as outside a qualified plan (40 percent). Similar questions addressing investments in variable annuities and tax-managed stock funds received similar responses. Survey respondents were equally likely to favor use of variable annuities within a qualified plan (39 percent) versus outside a qualified plan (40 percent), and only somewhat more in favor of using tax-managed stock funds outside of a qualified plan (49 percent) versus inside a qualified plan (38 percent).