QUICK QUIZ

Understanding The Changing Tax Picture

(NAPSA)—As more baby boomers reach retirement age, analysts say it could pay to give some extra thought to taxes.

Indeed, tax efficiency and dividends will become important income streams for a growing number of retirees. And, according to a recent survey, investor interest in tax management strategies—which can help avoid the loss of returns to taxes—is on the rise.

One key to protecting your assets could be to work with a financial advisor, since investors who do so are twice as likely to invest in mutual funds that are specifically designed to minimize the effects of taxes. But it's also important to understand the tax picture. This quick quiz from Eaton Vance could help:

Questions

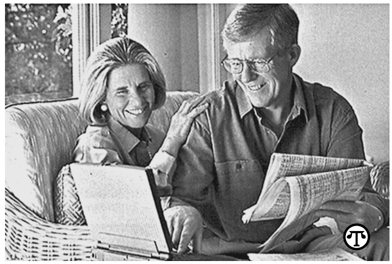
1. T or F? For the average taxable mutual fund investor, about 2 percentage points of return were surrendered to taxes each year over the past decade.

2. T or F? The highest tax rate on both qualified dividends and long-term capital gains today is 15 percent.

3. T or F? Tax-managed stock funds, municipal bond funds and variable annuities are examples of investments best suited to be held outside of a qualified retirement plan such as an IRA or 401(k).

4. T or F? AMT stands for "Alternative Minimum Tax."

5. T or F? All municipal bonds are "tax-free" and therefore are not subject to the Alternative Minimum Tax.



An increasing number of retirees will be living on dividends in coming years.

Answers

1. True. Over the past 10 years, taxable mutual fund investors gave up between 1.3 and 2.2 percentage points of return because of taxes.

2. True. The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the tax rate on qualified dividends and long-term capital gains from almost 39 percent to 15 percent. This now gives investors two incentives to better manage the tax consequences of their investments.

3. True. The optimal use for each of these tax-advantaged investments is outside of a qualified retirement plan. Investors should generally use their qualified retirement plans to shield investments that would otherwise be fully taxable. Investors who are unsure of how best to use qualified plans should consult a financial advisor to help them make the correct investment decisions.

4. True. The Alternative Minimum Tax, or AMT, is calculated alongside ordinary income tax for all households. Under the AMT, taxpayers must pay whichever is higher, the AMT—usually 26 percent to 28 percent of income—or their typical blended tax rate. The AMT was originally adopted in 1969 to ensure that the wealthy would pay taxes. But, because the AMT's exclusion level is not inflation-indexed and incomes have risen, many middle-class American families are now subject to this tax. Without additional legislation, the AMT could affect nearly half of households earning between $75,000 and $100,000 by 2010.

5. False. Municipal bonds issued by entities—such as housing agencies, airports and industrial developers—are subject to the AMT because their use is considered outside of government purposes. These bonds, which comprise about 10 to 12 percent of the overall municipal bond market, are popular with municipal bond investors (including some mutual funds) because they tend to provide income (yield) that is about 0.25 percent higher than similar AMT-free bonds. While this can provide a good source of income for investors who are not subject to the AMT, after-tax yield comparisons between these bonds are not favorable for AMT-paying investors. Because AMT status may not be clear until the end of a tax year, municipal bond investors should ensure that holdings are AMT-free.

For more information or to begin learning how changing government regulations might affect your tax returns in the coming years, visit www.eatonvance.com/mediacenter or call 800-225-6265.