



## MUTUAL FUNDS

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# Financial Planners Mull Tax Cuts' Impact On Investors

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NEW YORK -(Dow Jones)- It still may be a little early for financial planners to assess the ultimate impact of tax-free dividends on their clients' portfolios. However, the early read seems positive.

"I tend to not get too excited until I see (the legislation) actually go through," said **Richard Winer**, a registered investment adviser in Woodland Hills, Calif.

Winer said once the legislation proposed by President Bush Tuesday works its way through Congress, "it may look nothing like it looks now" so it's difficult to figure exactly how it will impact investors.

And investors haven't exactly been pestering their financial advisers over how they would be affected if tax cuts on corporate dividends become a reality.

For the average investor, Winer said he wasn't sure if the potential for dividend tax cuts "is even on his or her radar at this point."

"I think most people just want to make back some of the money they've lost" in the bear market, he added.

Certainly, one aspect getting a close look from financial advisers is what tax-free dividend income might mean for asset allocation.

For example, financial advisers wouldn't recommend purchasing municipal bonds in a tax-deferred account, such as an individual retirement account (IRA), because the income from the bond is already free from federal taxes and may be free of state and local taxes as well.

The advantage of tax deferral is essentially wasted on an asset that already is not subject to taxes, and one which would then be taxed when it's withdrawn from the IRA.

The prospect of tax-free dividends, whether from individual stocks or from those paid through mutual fund holdings, then provokes some questions.

"If you have high-dividend paying stocks in an IRA, would you sell them and rebuy them in a taxable account?" questioned Joel Bruckenstein, a certified financial planner in Miramar, Fla.

Another planner, Morris Armstrong of New Milford, Conn., wondered, "If you use (stock) mutual funds in qualified accounts, are you doing a disservice to your clients?"

While high dividend-yielding stocks or stock funds are currently more appropriately held in an IRA, that position is sure to be challenged if President Bush's proposal makes it through Congress.

Most advisers also believe that municipal bonds will look less attractive, as their after-tax lure compared with equities would diminish.

For mutual fund investors, the impact of dividend tax-cuts has been downplayed a bit, since the majority of the fund assets that would benefit from the cuts are already in tax-deferred accounts.

However, financial advisers and analysts all seem to agree that the president's proposal has the potential to have a beneficial structural impact on the stock market, where the stocks of companies with a history of paying dividends will become more valued by investors.

In an analysis of the president's plan issued Wednesday, Putnam Investments economic adviser David Kelly said the likely outcome for stocks is "a major positive."

"A preferential treatment of dividends would be a further reason to buy dividend-paying stocks," Kelly pointed out, which should help to push stock prices higher.

Rising stock prices are a benefit to all fund investors, regardless of the account-type in which their mutual funds are held.

While the notion of their clients collecting tax-free stock dividends is widely embraced by investment professionals, they're skeptical of President Bush's proposal making it through Congress intact.

"At this point it's only a proposal, and we tend not to plan on proposals," said Bruckenstein, the planner from Florida.

"Let's just say it's a little early in the game to be moving client money," he added.

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