Sprott

Special Report

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Owning Gold and Precious Metals Doesn't Have to be Taxing

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Holding steady near $1,500 an ounce, the price of gold has climbed more than 17% thus far in 2019 (as of 9/26/19). We're of the opinion that we are at the beginning stages of a new bull market for gold. Along with other precious metals strategists, we believe the yellow metal could surpass its all-time high of $1,900 within the next couple of years as investors confront the realities of lower for longer global interest rates, swelling worldwide debt, trade tensions and mounting geopolitical uncertainty.

For many U.S. investors the returns provided by owning physical gold — and the other precious metals including silver, platinum and palladium — come with a sobering surprise when the assets are sold and it's time to pay taxes. The reason: The U.S. Internal Revenue Service (IRS) categorizes gold and other precious metals as "collectibles" which are taxed at a 28% long-term capital gains rate. Gains on most other assets held for more than a year are subject to the 15% or 20% long-term capital gains rates.

Collectibles are Taxed at 28%

This is the case not just for gold coins and bars but also for most ETFs (exchange-traded funds) which are taxed at 28%. Many investors, including financial advisors, run into trouble owning these investments. They assume, incorrectly, that because the gold ETF trades like a stock that they will also be taxed like a stock, which are subject to the long-term capital gains rate of 15% or 20%.

Investors often perceive the high costs of owning gold as the dealer markups and storage fees for physical gold, or management fees and trading costs for gold funds. In reality, taxes may represent a significant cost in owning gold and other precious metals.

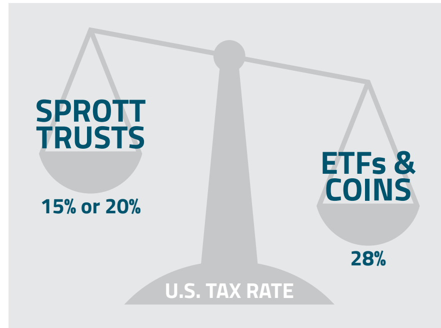
Fortunately, there is a relatively easy way to minimize the tax implications of owning gold and other precious metals.

> According to the IRS[1]: "Collectibles include works of art, rugs, antiques, **metals (such as gold, silver, platinum and palladium bullion)**, gems, stamps, coins, alcoholic beverages and certain other tangible properties."

PFICs are Taxed at 15% or 20% — A Tax-Friendly Way to Own Gold

For U.S. individual investors, Sprott Physical Bullion Trusts may offer more favorable tax treatment than comparable ETFs. Because the trusts are domiciled in Canada and categorized as Passive Foreign Investment Companies (PFIC), U.S. non-corporate investors are eligible for standard long-term capital gains rates on the sale or redemption of their units. Again, these rates are 15% or 20%, depending on income, for units held for more than a year at the time of the sale.

To be eligible, investors — or their financial advisors — need to make a Qualifying Electing Fund (QEF) election for each trust by completing IRS Form 8621 and filing it with their U.S. income tax return.



While no investor relishes filling out additional tax forms, the tax savings of owning gold through one of the Sprott Physical Bullion Trusts and making the annual election can be well worth it.

Consider the hypothetical example of an investor who invests $50,000 in gold and realizes an 8% annual return (see #2). After five years, that investment is worth $73,466, and the investor will be required to pay taxes on the appreciated amount of $23,466. If the investment, say a gold bullion ETF, is taxed at the 28% collectibles tax rate, the investor will owe $8,216. By contrast, the investor would owe $5,869 in taxes for gold owned in a PFIC and taxed at the 20% long-term capital gains rate. **In this example, owning a PFIC saves the investor nearly 40% in taxes.**

Tax Comparison for Hypothetical Investments

1. Hypothetical $10,000 Investment

Year	Hypothetical 8% Annual Return*	15% Long-Term Capital Gains Tax	20% Long-Term Capital Gains Tax	28% Collectibles Tax
5	$13,605	$541	$721	$1,009
10	$21,589	$1,738	$2,318	$3,245

2. Hypothetical $50,000 Investment

Year	Hypothetical 8% Annual Return*	15% Long-Term Capital Gains Tax	20% Long-Term Capital Gains Tax	28% Collectibles Tax
5	$73,466	$4,402	$5,869	$8,216
10	$107,946	$8,692	$11,589	$16,225

3. Hypothetical $100,000 Investment

Year	Hypothetical 8% Annual Return*	15% Long-Term Capital Gains Tax	20% Long-Term Capital Gains Tax	28% Collectibles Tax
5	$146,933	$8,803	$11,737	$16,432
10	$215,892	$17,384	$23,178	$32,450

*While future returns are not known, the 8% annual return is based on the 20-year historical annual average rate of return for the period from 8/31/99 to 8/31/19.

Investors always want to consider the full cost of ownership when weighing different precious metals investment options. That said, given that investors stand to save quite a bit on taxes, considering PFICs like Sprott Physical Bullion Trusts makes sense — especially when prices are trending higher.

The Sprott Physical Bullion Trusts

potentially provide favorable tax advantages versus owning metals directly or precious metals ETFs.

	Sprott Physical Bullion Trusts*	Precious Metals: Coins, Bullion, ETFs
Tax Treatment if Held More Than 1 Year	**15% or 20%** Taxed at capital gains tax rate**	**28%** Taxed at collectibles tax rate

* Requires the timely filing of a QEF form for your tax return.

** 15% for single filers earning under $400,000; 20% for married filers earning over $450,000 and single filers earning over $400,000.

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About Sprott

Sprott is a global alternative asset manager with a defining focus on precious metals and real assets investments. Through our subsidiaries in Canada, the U.S. and Asia, Sprott is dedicated to providing investors with world-class investment strategies that include exchange-listed products, active equity strategies and highly-specialized real asset investments. Our deep sector expertise creates investment and financing solutions unparalleled in the industry.

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[1] Source: IRS 2016 Schedule D Instructions.

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