



# Sprott Physical Bullion Trusts 2021 Tax Guide for U.S. Investors

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## 1. What is a PFIC?

- “PFIC” stands for “Passive Foreign Investment Company.” A foreign corporation such as the Sprott Physical Bullion Trusts (“the Trusts”) will be treated as a PFIC for any taxable year if either of the following is true: (a) more than 75% of its gross income is from passive sources or (b) at least 50% of its assets are held for the production of passive income.

## 2. Are the Trusts PFICs?

- The Trusts have been PFICs since their inception and it is expected the Trusts will continue to be treated as PFICs for each of their taxable years.

## 3. What are the tax advantages for U.S. investors as a result of the Trusts being PFICs?

- Normally, all long-term capital gains on investments in precious metals (including gold, silver, platinum and palladium) are subject to a 28% collectibles tax rate (short-term capital gains are subject to a 37% tax rate in 2021). Losses on the disposition of precious metals are treated as capital losses which can only be used to offset capital gains and \$3,000 of ordinary income.
- But because the Trusts are PFICs, a U.S. individual investor is eligible for long-term capital gain tax rate (a maximum rate of 15% or 20% depending on income) on the sale or redemption of their units, including a redemption for physical bullion. In order to be eligible for the capital gain tax rate, a U.S. taxable investor must make a Qualifying Electing Fund (QEF) election with respect to each Trust and must have held the units for more than one year at the time of the sale.
- Any U.S. taxable investor can make a QEF election, which is made on IRS Form 8621 that is filed with the investor’s annual U.S. income tax return.
- The QEF election must be made with the tax return for the first year in which the investor acquired shares of the Trust. The election is made only once and is maintained by reporting the investor’s *pro rata* share of the Trust’s ordinary earnings and net capital gain on Form 8621 as described in Item 8 (“What are the other consequences of the Trusts being PFICs?”). Note that while the election is made only once, the investor will have to file a Form 8621 with the investor’s annual income tax reports to report the income from the Trust as described in Item 8. If an investor acquires additional units, a new election is not necessary with respect to such units as the existing election will automatically apply to such newly acquired units.



#### 4. Where can I find IRS Form 8621 and additional information on how to complete it?

- IRS form 8621 can be downloaded here: <https://www.irs.gov/pub/irs-pdf/f8621.pdf>
- Instructions for IRS Form 8621 can be downloaded here: <https://www.irs.gov/pub/irs-pdf/i8621.pdf>

#### 5. Where can I find the necessary information for my QEF filing and annual reporting?

- The Trusts will annually provide each U.S. taxable investor with all necessary information in order to make and maintain a QEF election on its website at [www.sprott.com](http://www.sprott.com), including a PFIC Annual Information Statement.

 The identifying number (EIN) of the Sprott Physical Gold Trust is 98-0639185

 The identifying number (EIN) of the Sprott Physical Silver Trust is 98-0678398

 The identifying number (EIN) of the Sprott Physical Gold and Silver Trust is 98-1399794

 The identifying number (EIN) of the Sprott Physical Platinum and Palladium Trust is 98-6068232

#### 6. Can the Trusts be held in an Individual Retirement Account (IRA)?

- Yes, the Trusts can be held in an IRA.

#### 7. What if a U.S. taxable investor did not make a QEF election for the first year the investor held Trust units but wishes to do so now?

- A U.S. taxable investor who did not make a QEF election for the first year the investor held units may make a special election to treat the units as if they were sold for their fair market value on the last day of the year in which the investor wants to make the QEF election.
- Any gain realized on such deemed sale would be taxed at ordinary income rates and subject to an interest charge. The units will have a tax basis equal to their fair market value if gain is recognized as a result of the deemed sale election.
- Losses on such deemed sale are not recognized but rather are deferred until the units are ultimately sold.
- An investor who did not make a timely QEF election should consult their tax advisor regarding the deemed sale election.



## 8. What are the other consequences of the Trusts being PFICs?

- While investors in a PFIC are eligible for a lower tax rate on gains from the sale of their units than investors in a fund that is not a PFIC, an investor in a PFIC is required to report in each year's U.S. federal income tax return their *pro rata* share of the Trust's ordinary earnings and net capital gain, if any, for the Trusts taxable year that ends with or within the taxable year of the investor, assuming the investor has made a QEF election. This report is made by filing a Form 8621 with the investor's annual income tax reports to report the ordinary income and capital gains from the Trust as described in Item 4.
- Historically, the Trusts have not produced any taxable income, so in the past U.S. taxable investors that made a QEF election **did not have to report any *pro rata* share of ordinary earnings and net capital gain.**
- The fiscal year end of each Trust is on December 31.
- Net losses of the Trust will **not** pass-through to a U.S. taxable investor who makes a QEF election but a loss can be recognized on the disposition of units.

## 9. Are there other elections that can be made?

- Yes, a U.S. taxable investor may make a mark-to-market election for their units rather than a QEF election.
- If the mark-to-market election is made, the U.S. taxable investor generally would include as ordinary income (maximum tax rate of 37% in 2021) in each taxable year the excess, if any, of the fair market value of the units at the end of the taxable year over such U.S. taxable investor's adjusted tax basis in the units.
- The U.S. taxable investor would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. taxable investor's adjusted tax basis in the units over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.
- A U.S. taxable investor's tax basis in their units would be adjusted to reflect any such income or loss amount. Any distributions by the Trusts would be subject to tax at ordinary income tax rates.

## 10. What are the consequences of making neither a QEF election nor a mark-to-market election to a U.S. taxable investor?

- A U.S. taxable investor who does not make either a QEF election or a mark-to-market election for that year is subject to special rules, with respect to: (1) any gain realized on the sale, exchange, redemption or other disposition of the units and (2) certain distributions with respect to the Units. Very generally, under these special rules, any gain realized on the sale of units is treated as ordinary income and is subject to an interest charge on the deferred tax liability during the investor's holding period.



### **11. Can a U.S. tax-exempt investor benefit from the Trusts' PFIC status?**

- The PFIC rules do not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise use leverage in connection with its acquisition of the units.

### **12. Do the Trusts issue K-1s?**

- No, the Trusts do not issue K-1s.

### **13. Can you provide an example of QEF reporting?**

- Assume that the investor acquires units in the Trust for \$100 on January 1, 2021.
- For the taxable year ending December 31, 2021, the Trust reports no income to the investor. The investor files Form 8621 with their annual U.S. federal income tax return and makes the QEF election and reports \$0 of income from the Trust.
- For the taxable year ending December 31, 2022, the Trust reports no income to the investor. The investor files Form 8621 with their annual U.S. federal income tax return and reports \$0 of income from the Trust.
- On February 15, 2023, the investor sells their units in the Trust for \$150. For the taxable year through February 15, 2023, the Trust reports no income to the investor.
- The investor recognizes \$50 of long-term capital gain for their taxable year ending December 31, 2023 which is taxable at long-term capital gains rates (currently 20% for individuals). In addition, the investor files Form 8621 with their annual U.S. federal income tax return and reports \$0 of income from the Trust.

## Sprott Physical Bullion Trusts



Sprott Physical  
Gold Trust



Sprott Physical  
Silver Trust



Sprott Physical Gold  
and Silver Trust



Sprott Physical Platinum  
and Palladium Trust

Fully Allocated Precious Metals ▪ Redeemable for Metals\* ▪ Trustworthy Storage  
Potential Tax Advantages\*\* ▪ Easy to Buy, Sell & Own ▪ A Liquid Investment

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\* Subject to certain minimums.

\*\* For more information, please see "Tax Considerations-U.S. Federal Income Tax Considerations" in the Prospectus and always consult your tax accountant regarding your particular situation.

The risks associated with investing in a Trust depend on the securities and assets in which the Trust invests, based upon the Trust's particular objectives. There is no assurance that any Trust will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Trust will be returned to you. The Trusts are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Trust's prospectus before investing.

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