# Why Silver Wheaton Corp. Dropped 11% on Tuesday

## Description

On Tuesday **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) dropped from the previous day's close of $22 to $19.70, a whopping 11%. What caused the drop? The Canadian Revenue Agency (CRA) is proposing to reassess Silver Wheaton relating to income earned by the company's foreign subsidiaries outside of Canada. The CRA thinks the tax should be increased for the 2005-10 taxation years.



Although Silver Wheaton is not required to pay anything right now, the estimated increased amount is a scary $715 million. Compare that to Silver Wheaton's current market capitalization of $8 billion.

**The CEO's view**

Randy Smallwood, president and chief executive officer of Silver Wheaton, instilled confidence in the shareholders by saying, "We remain confident in our business structure which we believe is consistent with that typically used by Canadian companies, including Canadian streaming companies, that have international operations."

Further, Smallwood stated, "Generally, a company is taxable in Canada on its income earned in Canada, while non-Canadian income earned by foreign subsidiaries is not subject to Canadian income tax. However, with this proposal, the CRA is seeking to tax, within Canada, streaming income earned outside of Canada by our foreign subsidiaries related to mines located outside of Canada."

**Silver Wheaton's reaction**

Right now, Silver Wheaton estimates that it would be subject to federal and provincial tax of roughly US$150 million in the 2005-10 taxation years.

If Silver Wheaton received a notice of reassessment from the CRA based upon the proposal, the firm intends to file an objection. In such a case, Silver Wheaton would be required to pay 50% of the reassessed amount of tax, interest, and penalties. This amount, plus interest, would be refunded if the company were ultimately successful in challenging a reassessment.

**What should investors do?**

Silver Wheaton's long-term business model as a silver streaming business is still the safest around. It doesn't have any ongoing capital or exploration spending required for other mines.

Instead, it has agreements with multiple mines to purchase a fixed percentage of silver and gold from them at a low fixed cost for the life of the mine. Only now, the company could be charged more taxes, which would cut into the company's profits.

It's more prudent for investors to wait until this issue settles. If Silver Wheaton ends up paying more taxes, then it's likely the years after 2010 would be reassessed for increased taxes as well.

If you already own shares, another option is for you to take the chance to buy more shares. Assuming it is priced at a lower cost than your previous buy price, you'll be lowering your cost basis.

**CATEGORY**

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice



**TICKERS GLOBAL**

1. TSX:WPM (Wheaton Precious Metals Corp.)

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kayng