



Why Did Silver Wheaton Corp. Shares Fall 12% in 1 Day?

Description

Shares of **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) fell by nearly 12% on Tuesday. So, what's going on?

The tax man cometh

After markets closed on Monday, Silver Wheaton announced it had received a proposal letter from the Canada Revenue Agency (CRA) regarding the tax years 2005-10. In the letter the CRA claims that Silver Wheaton's taxable income should be increased by \$715 million. This would result in roughly \$150 million in additional taxes. In addition, the CRA is seeking apply transfer pricing penalties of \$72 million, bringing the total bill well over \$200 million.

While Silver Wheaton's shareholders may feel blindsided, they shouldn't be. The company avoids taxes through the use of subsidiaries in the Cayman Islands and Barbados, which prompted a CRA audit. Silver Wheaton first reported this audit back in 2012.

Furthermore, the CRA has plenty of freedom to pursue tax-avoiding companies. There's a General Anti-Avoidance Rule (GAAR) spelled out in Section 245 of the Income Tax Act, which allows the CRA to go after any entity that engages in tax-avoidance transactions.

And Silver Wheaton's structure is clearly meant to avoid tax. None of the mines with which it's signed deals are located in the Cayman Islands or Barbados, and the company's head offices are located in Vancouver.

What does this mean?

At first glance, the fall in Silver Wheaton's stock price seems a little harsh. After all, this is a company valued at roughly \$8 billion. So, a fall of 12% in the shares wipes out more than \$1 billion in market value. That's far more than what the CRA is asking for.

But there's a much bigger problem: Silver Wheaton may have to pay Canadian taxes on its earnings going forward. For now, the company "remains confident in [its] business structure" and "intends to

vigorously defend its tax filing positions.” Yet it’s hard to see the company prevailing against the GAAR.

What should investors do?

If Silver Wheaton is unsuccessful in its defence and is forced to pay taxes in the future, then its stock price has a lot more downside. That may be more risk than you’re willing to swallow, especially if you just want to bet on the prices of precious metals.

So, you may want to switch into **Franco-Nevada Corporation** ([TSX:FNV](#))([NYSE:FNV](#)), which doesn’t use the same tax-avoidance methods. To illustrate what this means for the bottom line, last year Franco-Nevada recorded over \$50 million in income tax expense, about 32% of pre-tax income.

This may not be good for profitability, but at least Franco’s shareholders don’t have to worry about any CRA audits. Silver Wheaton’s shareholders must be feeling envious.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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Date

2025/07/21

Date Created

2015/07/09

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