



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



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MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard *Cliff*
Executive Director

DATE: 16 September 2021

SUBJECT: Public Chapter 585, Acts of 2021 (State Gold Depository) Draft Report for Review and Comment

The attached Commission report is submitted for your review and comment. It was prepared in response to Public Chapter 585, Acts of 2021, which directed the Commission to “study the feasibility of creating a state gold depository, including whether other states or jurisdictions have created one.” The first and only state bullion depository in the United States is the Texas Bullion Depository. In addition, there are at least a dozen private depositories located in other states. Studying these, the staff finds that because of high costs, a lack of demonstrated demand, and the fact that precious metals are not exempt from sales taxes in Tennessee, a state depository is not feasible. While exempting precious metals from the sales tax would not in itself make a depository feasible, there are other reasons for the state to consider this option.

According to depository officials in other states, building a new depository would have substantial upfront costs, potentially costing millions or tens of millions of dollars. The cost is high because depositories require specialized design features. Depository officials say that, to make enough revenue from storage fees to cover costs, a depository would probably need about \$1 billion in deposits. The deposits held by the Texas Bullion Depository are less than what was anticipated and are currently \$130 million, which is not enough for the depository to break even. For a state depository in Tennessee to reach enough in deposits to be viable, it would probably need deposits from both institutional investment funds and individual investors. But it seems to be rare for large investment funds like university endowments to invest in gold. A university endowment investing in gold would likely want to store it at a depository

that is part of COMEX, which provides liquidity (the ability to buy or sell) and facilitates derivatives (futures and options) trading that could be a source of revenue for a depository. However, COMEX currently requires a depository to be within 150 miles of New York City to be a member, which prohibits a depository in Tennessee from being eligible. Moreover, the Tennessee Department of Treasury is not authorized to invest in gold, as is the case in all 50 states.

Although individual investors and collectors can currently store their precious metals at home, in a safe deposit box, or in an out-of-state depository, some individuals may want to store their precious metals in a state depository located in Tennessee. The fact that there is no private depository in Tennessee to meet this demand suggests the demand is not high enough to support one, which raises the question as to whether there are other factors that make Tennessee a less attractive location for a depository. Stakeholders say that Tennessee's sales tax makes buying and storing gold in Tennessee less attractive than in states that do not tax the sales and is one of the factors that stands in the way of the viability of a depository in Tennessee. **Because no institutional investment funds have said that they will buy or store gold in Tennessee, and because Tennessee's sales tax makes buying and storing gold in Tennessee unattractive to both institutional investment funds and individuals, the draft report finds that there does not appear to be enough demand for a state gold depository to be viable.**

Tennessee is one of only eight states—of the 45 states with a sales tax—that does not exempt any of the sales of precious metal coins and bullion. Stakeholders say that a sales tax exemption could make it more likely that Tennesseans would purchase precious metals from in-state rather than out-of-state dealers. Proponents of the sales tax exemption say it would lead to more tourism dollars in Tennessee by attracting coin shows; organizers of coin shows have said that they do not locate in Tennessee because of its sales tax. Delaying enacting a sales tax exemption for precious metal coins and bullion may help ensure that Tennessee does not lose any of the federal funds that it is set to receive through the American Rescue Plan Act. **For these reasons, the draft report finds that the General Assembly could consider a sales tax exemption for precious metal coins and bullion once it's clear that the exemption will not violate the American Rescue Plan Act, which includes a provision that requires states to give back federal funds used for "a reduction in the net tax revenue."**