Liberty's Outlook

Our 30th Anniversary! 1971-2001

Volume 7 Issue 9 Liberty Coin Service's Monthly Review of Precious Metals and Numismatics September 5, 2001

The Internet Tax Moratorium Expires October 21—

An Opportunity For Precious Metals And Rare Coins?

P.2 Why Internet Taxes Seem Inevitable

Many savvy American consumers are aware that, because of serious constitutional questions and a daunting regulatory nightmare, Congress enacted a three-year moratorium barring state and local government enforcement of use tax collections by sellers on their internet sales activity.

This well-publicized tax haven has spurred even further growth in internet commerce.

What few people realize, despite a rash of news articles in the past few weeks, it that this moratorium expires on October 21.

Still fewer have an idea of what is likely to follow the expiration of this moratorium.

I cannot say for certain just what will happen. But, by combining information from a variety of sources and digesting it with my decades of observing the political scene, one scenario stands out as far more probable than the other alternatives. Here are the features and timelines I consider most likely:

- There will be some kind of nationwide sales/use tax collection enforcement on internet sellers who sell to buyers in states other those where they already are registered to collect sales taxes.
- This expansion of tax collections will also cover non-internet interstate mail-order sellers who, through a series of court decisions, have not had to collect use taxes for states where they do not have nexus (defined as some kind of continuing physical presence).
- The nature of this newly-enforced tax will be along the lines of a national sales tax, probably handled by the federal government, with proceeds divided among the states.
- Rather than try to accommodate the varying tax rates and tax coverage among the 7,500 sales tax jurisdictions, a flat tax rate will likely be imposed nationwide that will be equal to or slightly higher than the average sales tax rate in the U.S.
- Further, exemptions from tax will be consistent across the nation, without regard to individual state law. For example, six states do not now have a sales tax. Of the other 44 states, twelve have an exemption on clothing. Out of those twelve states, six define a handkerchief as exempt clothing while the other six consider it taxable because it is not clothing. Under the coming tax, all handkerchiefs sold over the internet or by mail-order would either be taxed or not, without regard to where the seller or the buyer were located.
- However, because of the thorny constitutional and regulatory problems, I do not expect these new taxes to be imposed on October 22 this year. Despite pressure from state governments for quick action, I expect that it will take at least another 12 months before this expanded enforcement takes effect.
- Another reason for the slow implementation of this new tax, though no government official would want to publicly acknowledge it, is that the tax would harm a strong sector of the U.S. economy. Politicians who wish to be reelected have no incentive to make the current recession any deeper or last any longer by hurrying to impose this tax.

We Welcome New Readers!

Our mailing list has grown by more than 5% in the past month. Many have come through purchasing our auctions posted on Ebay (look us up; we are *treasurechestofliberty*). Many have also come from the number of endorsements and referrals we have received in the past few weeks.

If this is the first newsletter you have received in the mail either as an Ebay auction purchaser or as a recent inquirer, relax and enjoy this newsletter in confidentiality.

This company has never sold or rented its mailing list. We plan never to do so. However, you are welcome to write or send an e-mail to path@libertycoinservice.com to ask that your name be kept confidential in case we ever change that policy.

Also, we do not make cold calls. Instead, you must initiate contact with us to place your orders or to give us your want lists. We call you only if there is a problem with an order or to tell you about finding an item on your want list.

If you make a purchase from LCS within 3 months, we will keep sending future newsletters for a year. Or you may subscribe to keep receiving *Liberty's Outlook*, one of the most cited rare coin newsletters in the country.

What is the basis on which I make these predictions? And how will these potential new taxes affect the economy, especially the precious metals and rare coin markets?

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Why Internet Taxes Seem Inevitable

The basic reason why these taxes seem inevitable is that they are technically not new taxes. In-state buyers of merchandise already pay the applicable sales tax at the time of purchase. However, courts have held that a state government cannot force out-of-state sellers to collect sales or use taxes from in-state mail-order or internet purchasers. Instead, the purchasers are on their honor to contact their state government to report such purchases and pay the use tax directly.

As you might imagine, reporting and payment of use taxes is widely neglected.

A few years ago, when the Michigan Treasury added an extra form for reporting and paying use taxes to its booklet of individual income tax forms and instructions, I was told that, out of millions of Michigan tax returns filed, only six of these forms were submitted the first year!

The internet tax moratorium has focused attention on how much tax collections states are missing. Here in Michigan, the Treasury estimates that it loses more than $200 million annually through non-payment of use taxes.

There is currently a bill in Congress calling for an indefinite extension of the moratorium on internet taxes. House Majority Leader Dick Armey talks as if passage of this bill is an important part of his agenda. However, political analysts notice that his press releases are littered with words of qualification and waffling.

With the recession hurting state tax collections, it should come as no surprise that the August 23 issue of *Investor's Business Daily* reported that Congress had received a letter signed by governors of 45 states asking that the moratorium on internet tax collections not be extended.

Since then, almost like a carefully coordinated publicity campaign, the newspapers have carried regular stories on just how much the internet tax moratorium represents unfair competition to main-street retailers. State governments are trying to avoid being perceived as greedy pigs. Instead, they are simply "rescuing" local businesses that are being harmed by out-of-state competition. The governments are just trying to create a "level playing field."

If the reports of how much economic growth has been allegedly stimulated by the internet tax moratorium are true, that raises an important question. Wouldn't it be more important to stimulate the creation of more new businesses and jobs by repealing existing sales and use taxes?

In my mind, that is the real question, but it was never mentioned in any of the news stories.

This glaring omission is easy to understand. Despite all of the posturing, the real reason that state governments want an end to the internet tax moratorium is to increase government tax collections. And, to paraphrase a quote from one state official, the best kind of tax to impose is on someone from out of state who cannot vote in local elections. The "unfair competition with local merchants" justification is just political camouflage to deflect public outrage over an increase in taxes.

Imposing any kind of a national sales or use tax on internet and mail order collections is doomed to fail. There are three main reasons for this.

First, many buyers go to the internet is because there are no sales or use tax collections by out-of-state vendors. If such taxes were imposed no matter where the seller was located, the growing internet economy may well stall or even decline. So tax collections would never be as much as current studies indicate.

Many people, for instance, conduct their personal garage sales in internet auctions almost as a form of recreation. If the government were to come along and require that these sellers start collecting and paying taxes, a large number will simply stop selling.

Second, just like the inhabitants in the Colonies got used to flaunting tax laws (John Hancock, Sam Adams and other Founding Fathers were widely known as smugglers, for instance), the internet makes it easier to cheat on remitting tax collections than for a storefront business. So, in addition to lower tax collections from diminished business activity, there would also be a reduction in compliance with tax laws.

Third, such a tax would be one of the most expensive to enforce and collect. This is widely acknowledged. The stories that have discussed this angle have all cited costs for collection, remittance and enforcement totaling at least 50% of the taxes that are collected! This is far higher than collection costs of less than 10% for most taxes!

No matter which way you analyze it, the state governments will never realize more than a small fraction of the increased tax collections they are hoping to gain. With the higher costs of enforcement, I would not be surprised if they actually suffered a net decrease in tax collections!

What Does This Mean For Precious Metals And Rare Coins?

Did You Know?

Here's some numismatic trivia for Michiganians.

1. The Jefferson Nickel was designed by Felix Schlag of Owosso, Michigan. In 1966, partly through efforts by the Michigan State Numismatic Society (MSNS), his initials were added at the bottom of the obverse side.
2. At one time, the U.S. government issued paper money featuring the Michigan State Seal. The earliest National Currency issues through Series 1882 Brown Backs depicted the state seal at the left side of the reverse for the state in which the issuing bank resided.
3. The only living Michigan resident who has design a coin is Steve Bieda of Warren. He designed the reverse of the 1992 Olympic Half Dollar Commemorative. He is also the main instigator of the forthcoming 2004 commemorative to honor the 125th anniversary of Thomas Edison's invention of the electric light bulb. Bieda is a current member of the Board of Governors of MSNS.
4. George Heath, the founder of the American Numismatic Association (ANA) was from Monroe, Michigan. He obtained his medical degree from the University of Michigan in Ann Arbor.
5. Ken Hallenbeck, the ANA president during the organization's 100th Anniversary in 1991, obtained his engineering degree from the University of Michigan.
6. Oldsmobile found, Ransom Eli Olds of Lansing, Michigan, personally signed some of the National Currency issued by Lansing banks of which he was president.

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So what does this mean for rare coins and precious metals? There the answer is not so obvious. Currently, 26 states with over 60% of the U.S. population have complete or partial sales and use tax exemptions on the sale of precious metals and rare coins. Exemption efforts are now underway in at least another half dozen states. Plus, federal law allows many retirement accounts to own a restricted selection of precious metals and rare coins. These exemptions and the inclusion in retirement account options exist because hard assets are recognized as investments, not as merchandise that is consumed. If something like a national sales tax is imposed, a good case can now be made that precious metals and rare coins should be exempt from this tax.

Another reason for this exemption is that many nations with a value-added tax (VAT), which is similar to a national sales tax, exempt hard assets from the tax.

To increase the prospects for an exemption from a national sales tax, the Industry Council for Tangible Assets (ICTA), the national trade association on which I currently serve on the Board of Directors, is seeking 1) enactment of legislation to expand the precious metals and rare coin options in retirement accounts, 2) enactment of legislation to reduce capital gains taxes on precious metals and rare coins to the same levels as on stocks and bonds, and 3) to increase the number of states with sales and use tax exemptions on precious metals and rare coin sales.

These plans are all continuations of existing trends. The more these trends continue in the future, the greater the prospect that that hard assets will be exempt from any national sales tax right from the start.

Exempting precious metals from a national sales tax will increase demand, especially in states where such taxes still apply. But I do not expect the impact to be as strong as for rare coins.

The prospect that really excites me is any expansion of rare coins that can be included in retirement plans. If this happens, I would expect it to be expanded to include only rare coins certified by the major grading services. Prices of U.S. Gold Coins and Morgan and Peace Silver Dollars could double almost overnight.

This opportunity in rare coins will most reward those who act sooner rather than later. At today's low prices, I don't think there is much downside risk, even if precious metals and rare coins were to be subject to a national sales tax, at least at the start.

You can help improve the likelihood that retirement plans will expand their investment options for bullion and rare coins. Please call us for more details.

ANA And CSNS Conventions—The State Of The Current Rare Coin Market

August provided a double delight for numismatists—the huge annual convention of the American Numismatic Association (ANA) held in Atlanta followed two weeks later by the Central States Numismatic Society (CSNS) Fall show in Dearborn, Michigan.

I "walked the floor" at the ANA convention, then staffed the LCS booth at Central States with Chief Numismatist Allan Beegle and Senior Numismatist Tom Coulson. The shows offered marked differences and striking similarities.

In addition to buying and selling at shows, I devote a lot of time talking with dealer specialists and wholesalers all across the numismatic spectrum. I also pick the brains of representatives from various Mints, supply dealers, numismatic organizations, and with the numismatic media. We exchange information, helping to stay up-to-date in areas where we are not active on an everyday basis.

During 2001, we saw demand for high-end coins, especially those selling for $5000 or more, fall off dramatically. Some companies that specialize in that segment have closed or merged. Others trimmed staff. Coupled with a normal collector slow-down in the summer, as they spend more time outdoors and on vacation, my expectations for the ANA were lower than usual.

Although attendance was strong at the ANA, several dealers told me that buying demand was light. Generally, they were satisfied with overall activity, but considered the results to be below par for an ANA show. With sales down, many dealers were also less aggressive at buying merchandise.

I had anticipated this slower market and packed less inventory to sell than I normally would take. Still, my sales were surprisingly high. That was because I had a lot of fresh material from a number of exciting collections we had acquired recently.

Seeing that many dealers were closing their checkbooks, I tried to take advantage of the circumstances. I was ready to buy attractive coins that represent great values in today's market. But, as has been the story at every show for the past two years, there was little to buy. Still, with dogged determination I managed to buy more inventory than expected.

One troubling trend I observed at the show was a large increase in gimmicky products or packaging. Some examples include 1) replicas of California Gold Rush Territorial Gold $50.00 that were made from the gold bars salvaged from the SS Central America shipwreck, 2) sets of Sacagawea Dollars encapsulated by a major grading service enclosing autographs of the woman who modeled for the coin and the man who designed the coin's reverse, and 3) giant-size pure silver replicas of the sold-out recent Buffalo Dollar commemorative. While such items are interesting, they are being promoted at prices well above what I think they will be worth a few years from now.

However, the fact that these products are even being offered is a sign of the strength and growth in coin collecting. From the ANA, I conclude that the overall coin market is healthy.

While at the ANA, I attended my first ICTA meeting as a member of its Board of Directors. There I was appointed to fill the vacant Treasurer's position.

At the Central States show, buyers descended upon our table in droves. We enjoyed our highest sales at any coin show in the past two years! Buffalo Nickels, Franklin Half Dollars, and Morgan Silver Dollars were the "hottest" coins. Even though attendance was somewhat light for a national show, those who came were ready to buy! And so were other dealers. Dealers were at our table constantly seeking to restock their depleted inventories. I even drove back to the store to bring more inventory Saturday morning, almost all of which sold at the show!

We were so busy selling that there just wasn't enough time to thoroughly comb through other dealers' stock to try to fill customer want lists. We spent less there than at any national or regional show we have attended in the past 20 years!

Part of our strong sales can be attributed to the fresh material out of the collections we purchased. However, I also

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see it as additional evidence of the solid growth in coin collecting that was sparked by the introduction of the Statehood Quarter series at the beginning of 1999. The expansion in the numismatic hobby is more than offsetting any fall off in demand wrought by the recession.

Who knows how much stronger the market will get once we get past the current recession?

Gold and Gold Coins

Gold closed today at $272.00, up $4.75 (1.8%) from last month.

The major effect on the price of gold lately has been the decline in the value of the U.S. dollar versus the Euro. When the dollar recovered at the beginning of this week, the price of gold lost some of its recent gains.

Investment demand has been quiet in the U.S. and in the Far East, steady in the Middle East, and stronger in the Indian sub-continent and in Europe. Short-term traders are now largely sitting on the sidelines to await direction from the Bank of England gold auction next Wednesday.

In this quiet time, there have been some falling premiums among low-premium issues. The U.S. **American Arts Medallion** (2.1%), South African **Krugerrand** (2.7%), and Austria **100 Corona** (2.3%) are at the lowest levels since the huge liquidations in early 2000.

Fears that the value of the US dollar may continue to fall have spurred interest in **Common-Date U.S. Gold Coins**. In MS-63 and MS-64 grades, many prices are up 5-10% from last month.

At the ANA, I managed to pick up a lovely group of **Mint State-61 1888-O $10.00 Liberties.** This is the lowest mintage group of Mint State U.S. Gold Coins from the 1800s that we have ever offered! They are far rarer than their relative price would lead you to expect. See our offer for details.

Silver and Silver Coins

Silver settled today at $4.15, down two cents (0.5%) from four weeks ago, just above the lowest close in more than four years. At these low prices, many primary silver mines announced production cutbacks or closures during the past month.

The Month

Gold Range	$12.00	4.5%
Net Change	+4.75	
Silver Range	.12	2.9%
Net Change	-.02	
Gold/Silver Ratio		65.5
Net change		+1.4
Platinum Range	28.00	6.3%
Net Change	-3.00	
Platinum/Gold Ratio		1.67

Date	Gold	Silver	Platinum
Aug 07	267.25	4.17	445.00
Aug 08	267.75	4.15	444.00
Aug 09	273.25	4.21	439.00
Aug 10	274.00	4.15	453.00
Aug 13	275.75	4.15	453.00
Aug 14	276.25	4.20	440.00
Aug 15	275.75	4.16	433.00
Aug 16	275.25	4.20	441.00
Aug 17	279.25	4.26	450.00
Aug 20	276.00	4.16	436.00
Aug 21	275.00	4.18	443.00
Aug 22	275.00	4.20	448.00
Aug 23	275.25	4.21	461.00
Aug 24	272.50	4.18	457.00
Aug 27	272.50	4.19	458.00
Aug 28	272.50	4.19	461.00
Aug 29	273.75	4.19	460.00
Aug 30	275.00	4.16	442.00
Aug 31	274.25	4.16	445.00
Sep 03	closed		
Sep 04	271.50	4.14	445.00
Sep 05	272.00	4.15	442.00

London Silver Market Premium To New York Silver Market = 3¢

Gold, silver and platinum quotes are working spots at 2:45 EST/EDT each day, quoted in U.S. dollars per troy ounce.

Soft demand has been largely matched by limited liquidation over the past month. The result has been a steady to slight increase in premiums.

Remember, there is really a two-tier silver market, with paper contracts trading on the basis of "spot" prices. The physical silver market continues to trade as if the price of silver were about a dime higher than spot.

This only reinforces the evidence of a coming price explosion in the price of silver. When will this happen? How much will it rise? I have been surprised that the silver break out has not long since occurred so I will just say that it is virtually inevitable that it will rise so much that it will again attract news headlines like it did in 1980.

Again, U.S. **90% Silver Coin** (6.3%) is the best buy. It has a nine cents per ounce advantage over **100 Ounce Ingots** (8.4%). It's the most widely traded physical investment silver, has the greatest liquidity, and is extremely divisible.

Circulated common-date Morgan and Peace Dollars (125.1%) are slowly falling in price but are still too expensive to consider a good value. Unlike Gold and Platinum Eagles, which have seen demand for current issues plummet, demand for U.S. **Silver Eagle Dollars** (41.0-55.4%) has stayed strong. This is no doubt due, in part, to demand from the large number of new collectors.

Although prices of **Mint State Morgan and Peace Dollar Rolls** and of higher-grade **Common-Date Morgan and Peace Dollars** are not moving around much, demand actually seems stronger than it was a year ago. There is enough inventory on the market to satisfy current needs. But it wouldn't take much of an increase to create a supply squeeze. **Better-Date Morgan and Peace Dollars** are getting harder to find.

Platinum In The Doldrums

The relatively high price of platinum over much of the past has led to significant liquidation of coins and ingots and to the evaporation of investor demand.

Demand for platinum coins has been so weak that the Royal Canadian Mint has not sold any size of Platinum Maple Leafs since 1999! Sales of Platinum Eagles are down almost 90% from 1998 levels.

Business is so slow that the Platinum Guild, Inc. a worldwide trade association promoting the usage of platinum, is closing their US office at the end of September.

With platinum now down at its lowest levels in more than a year, we have seen a surge in demand for Platinum Eagles, especially for coins dated 2000 and 2001. With mintages so low, there is a good chance that these coins will develop a numismatic premium down the road.

Although I do not like the fundamental supply and demand factors for platinum as much as I do for gold and silver, the more adventurous investor may want to consider putting away one or more sets of the 2001-dated Platinum Eagles.

Liberty's Outlook is published monthly by Liberty Coin Service, 300 Frandor Ave., Lansing, MI 48912. Telephone: National 800/527-2375 Fax: 517/351-3466 Internet: www.libertycoinservice.com, E-mail: path@libertycoinservice.com Patrick A. Heller, Editor. Subscriptions $79.00 per year (12 issues). Send subscription orders and changes of address to the above address. All information is derived from sources believed to be reliable, but accuracy cannot be guaranteed. No guarantee of profitability of any investment or recommendation contained herein is made or implied. Liberty Coin Service has been a dealer in rare coins and precious metals since 1971. The publisher, its principals and associates may, from time to time, have a position in items recommended here.