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Tax Basics of the C-Corp Structure

XBTF
VanEck Bitcoin Strategy ETF

EFUT
VanEck Ethereum Strategy ETF

> **Bitcoin and Ethereum are known not only for their dramatic price appreciation they have experienced over their short history, but also for their volatility and wide price swings. Investors looking to obtain long-term exposure to bitcoin or ether via an ETF that invests in bitcoin or ether futures may find that an ETF structured as a C-Corporation may experience better after-tax returns.**

Executive Summary

- A bitcoin or ether futures ETF structured as a C-Corporation ("C-Corp") may have better after tax returns for long-term investors than those structured as a Regulated Investment Company ("RIC").
- C-Corps can carry forward and carry back capital losses and are not required to distribute long-term capital gains to investors. This may result in a deferral of tax and allow investors to keep more money continually invested in the fund.
- Distributions from C-Corps are Qualified Dividend Income ("QDI") eligible and taxed at an investor's long-term capital gains rate, whereas distributions from income earned by a RIC investing in bitcoin or ether futures are taxed at an investor's ordinary income tax rate.
- Distributions from C-Corps are Dividends Received Deduction ("DRD") eligible for corporations investing in the fund.
- For tax exempt investors/portfolios, RICs still might be the preferred structure.

RIC vs C-Corp

Generally, most ETFs and mutual funds elect to be treated as a RIC for tax purposes. Doing so allows the fund to avoid paying taxes at the fund level by distributing all of its income and capital gains to investors. In order to qualify as a RIC, the fund has to meet certain requirements for distributions, diversification of assets and earn income from sources that generate qualifying income for a RIC.

If a fund elects to be treated as a C-Corp for tax purposes, it does not have the same requirements for diversification and qualifying income. It will be required to pay taxes at the fund level and any distributions to investors are also taxable to the investor. This potential for "double taxation" is generally something to avoid and why most funds elect to meet RIC requirements. However, the tax treatment of bitcoin or ether futures, and specifically how a fund structures its investments in order to meet the RIC requirements, may result in a C-Corp being more tax efficient, particularly for individuals in higher tax brackets and for corporations.

Non-Qualifying Income

Bitcoin and ether are treated as generating non-qualifying income and gains for RICs by the Internal Revenue Service. In order for an ETF to qualify as a RIC, it must generate 90% of its income from qualifying sources.

RICs that invest in bitcoin or ether futures through a Cayman subsidiary can treat the income and gains earned by that subsidiary as qualifying income for purposes of the RIC requirements. However, investing through a Cayman subsidiary results in other adverse tax consequences regarding how distributions and losses from the fund are treated for tax purposes.

Treatment of Distributions

RIC

The distribution from RIC related gains earned from bitcoin or ether futures held through a Cayman subsidiary are not considered QDI or capital gains, meaning any distributions from the RIC would not be eligible to be taxed at lower capital gains rates.

Gains on futures contracts generally benefit from being treated as 40% short-term capital gain and 60% long-term capital gains. However, when gains on bitcoin or ether futures are earned in a Cayman subsidiary, they lose their character as short and long-term capital gains and are treated as income for tax purposes by the RIC. When distributions on that income are paid to investors, they are treated as ordinary income taxed at an investor's highest tax rate. Marginal income tax rates can be as high as 37%.

C-Corp

Distributions from a C-Corp are QDI and DRD eligible regardless of the source of the income or gains earned by the C-Corp. Additionally, with respect to the 40/60 capital gains treatment on futures contracts, the C-Corp is not required to distribute long-term capital gains and thus will only distribute 40% of the capital gains earned by the fund (less applicable federal taxes paid by the fund). This allows investors to defer tax at the individual level and retain assets in the fund, thus maintaining greater exposure to the investment class.

Further, for institutional investors that are also C-Corps, distributions would be DRD-eligible, meaning only 50% of the distribution is taxable.

Treatment of Losses

Losses from bitcoin or ether futures held by a RIC through a Cayman subsidiary cannot be carried forward or back for tax purposes. Thus, investors must pay current tax on all gains earned during years of positive returns regardless of losses from prior periods. The only way that investors can take advantage of the tax benefit of losses is to redeem from the fund. Investors would also need to have capital gains from other sources in order to deduct those losses.

However, a C-Corp can carry capital losses back for three years and forward for five years. This allows the C-Corp to take the tax benefit of losses by using those losses to either receive a refund of taxes previously paid by the fund or to offset gains earned in future years. This will decrease the fund's tax accruals and also result in lower dividend distributions to investors.

Treatment of NAV

To account for corporate taxes, a C-Corp must accrue taxes on income and gains earned throughout the year. This tax accrual is reflected in the daily calculation of a fund's NAV. A RIC does not accrue taxes in its daily NAV and in periods of rising markets, the performance of a fund structured as a C-Corp may lag that of a RIC. However, for long-term investors in a C-Corp, the attributes of more preferable tax treatment on distributions, loss carryforwards and carrybacks will result in greater tax efficiency.

Tax Forms

C-Corps and RICs both benefit from being able to report income to investors on a Form 1099 (rather than a Schedule K-1) at year end.

Taxable vs Tax Deferred Accounts

Tax sensitive investors should focus on after-tax returns when comparing funds structured as C-Corps vs. RICs. On an after-tax basis a fund structured as a C-Corp may result in higher returns than funds structured as RICs, particularly for high net worth individuals and corporations and particularly over longer time horizons and in periods of high volatility. Tax exempt investors or individuals investing through tax deferred accounts may not be well-suited to invest in a fund structured as a C-Corp.

Important Disclosure

This is for information purposes only and not to be considered tax advice. Speak to your tax professional.

The value of Ethereum (ETH) and Bitcoin (BTC) and the Funds' Futures holdings, could decline rapidly, including to zero. You should be prepared to lose your entire investment. The Funds do not invest in BTC, ETH or other digital assets directly.

The further development and acceptance of digital asset networks, which is part of a new and rapidly changing industry, is subject to a variety of factors that are difficult to evaluate, the slowing, stopping or reversing of the development or acceptance of the digital asset networks may adversely affect the price of digital assets and therefore cause the Funds to suffer losses, regulatory changes or actions may alter the nature of an investment in digital assets or restrict the use of digital assets or the operations of the digital asset networks or venues on which digital assets trade in a manner that adversely affects the price of digital assets and, therefore, the Funds' digital asset Futures. Digital assets generally operate without central authority (such as a bank) and are not backed by any government, digital assets are not legal tender and federal, state and/or foreign governments may restrict the use and exchange of digital assets, and regulation in the United States is still developing.

Futures Contract Risk. The use of futures contracts involves risks that are in addition to, and potentially greater than, the risks of investing directly in securities and other more traditional assets. The market for digital asset Futures may be less developed, and potentially less liquid and more volatile, than more established futures markets. Digital asset Futures are subject to collateral requirements and daily limits that may limit the Fund's ability to achieve its target exposure. Margin requirements for digital asset Futures traded on the Chicago Mercantile Exchange ("CME") may be substantially higher than margin requirements for many other types of futures contracts. Futures contracts exhibit "futures basis,"" which refers to the difference between the current market value of the underlying digital asset (the "spot" price) and the price of the cash-settled futures contracts.

This risk may be adversely affected by "negative roll yields" in "contango" markets. The Funds will "roll" out of one futures contract as the expiration date approaches and into another futures contract on a digital asset with a later expiration date. The "rolling" feature creates the potential for a significant negative effect on the Fund's performance that is independent of the performance of the spot prices of the digital asset. A market where futures prices are generally greater than spot prices is referred to as a "contango" market. Therefore, if the futures market for a given commodity is in contango, then the value of a futures contract on that commodity would tend to decline over time (assuming the spot price remains unchanged), because the higher futures price would fall as it converges to the lower spot price by expiration. Extended period of contango may cause significant and sustained losses.

An investment in the **VanEck Ethereum Strategy ETF (EFUT)** may be subject to risks which include, but are not limited to, risks related to market and volatility, investment (in ETH futures), ETH and ETH futures, futures contract, derivatives, counterparty, investment capacity, target exposure and rebalancing, borrowing and leverage, credit, interest rate, liquidity, investing in other investment companies, management, new fund, non-diversified, operational, portfolio turnover, regulatory, repurchase agreements, tax, cash transactions, authorized participant concentration, no guarantee of active trading market, trading issues, fund shares trading, premium/discount risk and liquidity of fund shares, U.S. government securities, debt securities, municipal securities, money market funds, securitized/mortgage-backed securities, sovereign bond, ETH-related company, ETH-related concentration, and equity securities risks, all of which could significantly and adversely affect the value of an investment in the Fund.

An investment in the **VanEck Bitcoin Strategy ETF (XBTF)** may be subject to risks which include, among others market and volatility, investment, futures contract, derivatives, investments related to bitcoin and bitcoin futures, derivatives, counterparty, investment capacity, target exposure and rebalancing, borrowing and leverage, indirect investment, credit, interest rate, illiquidity, investing in other investment companies, management, new fund, non-diversified, operational, portfolio turnover, regulatory, repurchase agreements, tax, of cash transactions, authorized participant concentration, no guarantee of active trading market, trading issues, fund shares trading, premium/discount and liquidity of fund shares, U.S. government securities, debt securities, municipal securities, money market funds, securitized/asset-backed securities, and sovereign bond risks, all of which could significantly and adversely affect the value of an investment in the Fund.

Cryptocurrency is a digital representation of value that functions as a medium of exchange, a unit of account, or a store of value, but it does not have legal tender status. Cryptocurrencies are sometimes exchanged for U.S. dollars or other currencies around the world, but they are not generally backed or supported by any government or central bank. **Their value is completely derived by market forces of supply and demand, and they are more volatile than traditional currencies. The value of cryptocurrency may be derived from the continued willingness of market participants to exchange fiat currency for cryptocurrency, which may result in the potential for permanent and total loss of value of a particular cryptocurrency should the market for that cryptocurrency disappear**. Cryptocurrencies are not covered by either FDIC or SIPC insurance. Legislative and regulatory changes or actions at the state, federal, or international level may adversely affect the use, transfer, exchange, and value of cryptocurrency.

Investing in cryptocurrencies comes with a number of risks, including volatile market price swings or flash crashes, market manipulation, and cybersecurity risks. In addition, cryptocurrency markets and exchanges are not regulated with the same controls or customer protections available in equity, option, futures, or foreign exchange investing. There is no assurance that a person who accepts a cryptocurrency as payment today will continue to do so in the future.

Investors should conduct extensive research into the legitimacy of each individual cryptocurrency, including its platform, before investing. The features, functions, characteristics, operation, use and other properties of the specific cryptocurrency may be complex, technical, or difficult to understand or evaluate. The cryptocurrency may be vulnerable to attacks on the security, integrity or operation, including attacks using computing power sufficient to overwhelm the normal operation of the cryptocurrency's blockchain or other underlying technology. Some cryptocurrency transactions will be deemed to be made when recorded on a public ledger, which is not necessarily the date or time that a transaction may have been initiated.

- Investors must have the financial ability, sophistication and willingness to bear the risks of an investment and a potential total loss of their entire investment in cryptocurrency.
- An investment in cryptocurrency is not suitable or desirable for all investors.
- Cryptocurrency has limited operating history or performance.
- Fees and expenses associated with a cryptocurrency investment may be substantial.

There may be risks posed by the lack of regulation for cryptocurrencies and any future regulatory developments could affect the viability and expansion of the use of cryptocurrencies. Investors should conduct extensive research before investing in cryptocurrencies.

Investing involves substantial risk and high volatility, including possible loss of principal. An investor should consider the investment objective, risks, charges and expenses of a Fund carefully before investing. To obtain a prospectus and summary prospectus, which contain this and other information, call 800.826.2333 or visit vaneck.com. Please read the prospectus and summary prospectus carefully before investing.

Information provided by Van Eck is not intended to be, nor should it be construed as financial, tax or legal advice. It is not a recommendation to buy or sell an interest in cryptocurrencies

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666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333