A taxing situation

By Kobi Dahan

The price of a car in Israel is usually twice what one would expect to pay overseas. This has nothing to do with the profit margin of the importer or the price charged by the manufacturer. On the contrary, the FOB price for cars destined for Israel is usually less than that destined for other countries.

The reason for the high price of cars in this country is taxes. The taxes are very high on all categories but in most cases are more than 100 percent of the value of the car. Tax rates on cars range from 42% on a hybrid vehicle powered by electricity or gasoil and up to 131% on passenger vehicles from countries with which Israel does not have a trade agreement. Taxes on passenger vehicles from countries that have trade agreements with Israel have slightly lower tax rates of 116%, which is still considered very high. Green vehicles have a lower tax rate. It is determined according to the amount of air pollution they cause according to the specifications of the Transport Ministry.

The high taxation level has turned the local car industry into a virtual cash cow.

On an annual basis, the automobile industry pays some NIS 9 billion to the Exchequer in the form of taxes in the sale of new cars. In addition, the 300,000 or so employees that use company cars have to pay an additional NIS 8 billion a year in income tax. The tax authorities view the use of a company car as extra income that must be taxed.

The government uses some of this large amount of money to finance its activities, such as developing and upgrading the country's transportation infrastructure. But not enough. That is why the road infrastructure is in a relatively poor state. This causes frequent traffic jams at peak hours, and finding parking space in downtown areas is practically mission impossible.

The development of Israel's land transportation system and especially the road network does not keep pace with the number of new vehicles on our roads. This year, a quarter of a million new cars are expected to be added to the existing number of cars, which means that the already congested roads and streets will become even more congested. The public have become accustomed to high taxation and would like more of their tax money to go into developing the infrastructure. Otherwise, high taxes are an accepted fact that does not seem to harm the auto industry. It is vibrant and dynamic as evidenced by the high level of advertising in most media outlets.

One of the reasons for the brisk sakes in both new and used cars is the large number of financial outlets that make it easy to obtain the money necessary to purchase a car. The banks and various financial institutions, including leasing companies, are willing to finance up to 100% of the price of a new car. They are also willing to finance up to 80% of the value of a used car for 36 to 60 monthly repayment periods. This means that despite the high cost of a car in Israel, the public has recourse to easy sources of financing. This explains in part the high demand for cars in Israel, despite their hefty prices.

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The benefits of leasing cars

Supplying a car for their private use is one of the ways companies compensate their employees. For small companies, this means owning two or three cars. For large companies, it means owning large fleets of cars and maintaining them.

Most large companies have solved this problem by engaging the services of a leasing company. Instead of buying 20 or 100 cars outright, they lease the cars from the leasing company. Such a contract specifies that all the maintenance work will be done by the leasing company, and the leasing company will replace the car with a new one after a specified period of time, usually three years.

The advantages for the leasers are many. They do not have to worry about taking care of their cars and will not have to worry about selling them when they become outdated. Such a plan also has tax benefits for the leaser.

(INGIMAGE/ASAP)