

# Vehicle Taxation Should be Reconsidered

## *Israel's Case-Study, and A Wider Comparison*

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### Abstract

Vehicle taxation is a global issue. When considering the appropriate tax regime for vehicles, states consider a variety of factors. Among others, vehicle taxation takes into consideration traffic congestion (loss of time), environmental issues such as air pollution, accidents, noise, land use for roads and parking lots, costs of control and enforcement system, damage to the natural environment, and much more.

Israel imposes purchase tax on vehicles, which is a tax quite equivalent to GST or excise duty.

As will be presented below, in 2022, apparently, Israel's vehicle taxation, imposes 83% purchase tax on vehicles, is probably the highest in the world.

Vehicles are a daily, routine product that exists in almost every home worldwide. A vehicle isn't a luxury product anymore, but Israel, according to the tax rate, still considers it a luxury.

The high tax rate has not achieved its goal, to discourage the usage of personal vehicles and shift to public transport.

The high tax regime encourages repetitive debates between importers and that customs authority, concerning the vehicles value, for customs purposes.

A reform in this field is needed. Maybe it's time for Israel to reinvent to wheel in this area, and impose a fixed tax, ignoring the vehicle's price.

**Keywords:** purchase tax, vehicles, taxation, environmental, international trade, Israel

### 1. Introduction

Vehicle taxation is a global issue. Unlike simple goods, such as clothing, when considering the appropriate tax regime for vehicles, states consider a variety of factors. Among others, vehicle taxation takes into consideration traffic congestion (loss of time), environmental issues such as air pollution, accidents, noise, land use for roads and parking lots, costs of control and enforcement system, damage to the natural environment, and much more (Teusch, 2019) Generally speaking, a variety of externalities should be taken into consideration in relation to vehicle taxation regime, when implementing a system of environmental tax, such as: climate costs, non-climate external costs, fiscal costs, consumer and producer surplus, social costs, etc. (Preece, 2016, Preece, 2015).

Therefore, there is not one appropriate formula for vehicle taxation, as was stated in a relatively recent research (Al-Rawi, 2018):

*"A phrase 'optimal taxation' set a high bar for research. Has somebody discovered the optimal tax system? The answer to this is a resounding no".*

Some states may be interested in achieving several goals, while another state may focus of different goals. These considerations, off course, affect directly when a state implements its vehicle taxation regime.

As will be presented below, in 2022, apparently, Israel's vehicle taxation is probably the highest in the world.

For example, majority of the personal vehicles, equipped with a diesel or petrol engine (such as: Mazda 3, Hyundai i30 and others) are subjected to an Israeli purchase tax at a rate of 83%, ad valorem, for customs purposes, as it is classified in HS codes of Heading 87.03 - Motor Cars and other motor vehicles principally designed for the transport of persons (Israeli customs Tariff, 2022).

Vehicles equipped with an electric or hybrid engine, however, enjoy tax benefits. Therefore, according to a "green

grade" method, the less polluting the vehicle, a greater tax benefit is given.

For example, subheading 87.03-8000 of the Israeli customs tariff, refers to Other vehicles, with only electric motor for propulsion, 87.03-8090, others- is subjected to 7% customs duty and 10% purchase tax (instead of 83% purchase tax for petrol or diesel engine). Also, additional Israeli notes for Chapter 87 of the Customs Tariff, divide vehicles according to its pollution rate, and allow reduction in purchase tax rate, according to the pollution rate (Israeli customs Tariff, 2022).

This tax benefit for less polluting cars, is a part of the global trend to shift from diesel or petrol cars, to electric or hybrid cars (Meireles, 2021; Bjernaes, 2019).

Israel allows another reduction for safety accessories, according to which, the more accessories, the greater reduction in purchase tax rate is given. Hence, the additional Israeli notes for Chapter 87 of the Customs Tariff, allow a purchase tax reduction, when the vehicle is equipped with safety equipment, such as ABS (Israeli customs Tariff, 2022).

However, most vehicles in Israel are still equipped with a petrol or diesel engine, therefore are subjected to the maximum purchase tax rate of 83%.

For example, Mazda 3, which was used to be one of the common vehicles in Israel (Walla, 2022), has a relatively high degree of air pollution, a green grade of 11 out of 15 (Mazda website, 2022), so it receives a reduction of only 5,000 NIS purchase tax per vehicle (about 1,500 USD).

When considering the fact that some vehicles are also subject to 7% customs duty when imported to Israel, and all vehicles are subjected to 17% Value added tax (which is not recoverable, for tax purposes, when it comes to personal imports), at the end of the day, it is a heavy tax burden, which exceeds 100% of car's value, one of the highest vehicle tax rates in the world.

Hence, for example, vehicles originated from Japan, India, China – and any other state which does not have a FTA (free trade agreement) with Israel, are subjected to 7% customs duty on importing a vehicle (additional to the 83% purchase tax). As to the VAT, when the importer is an authorized dealer for tax purposes, and the vehicle is imported as a part of the vehicle business, the 17% VAT is recoverable under the Israeli VAT law, section 38(a). But, if the vehicle is imported for a personal use and not as a part of a business activity, then according to section 41 of the Israeli VAT law, the 17% VAT is not recoverable.

Among others, one reason for it that the purchase tax is imposed on the vehicles' value with the customs duties (section 4b(a) of the Israeli Purchase tax law):

*"..the wholesale price of imported goods will be their value as stated in sections 129 to 134A to the Customs Ordinance, plus the taxes applicable to their import.."*

And the import VAT is imposed on the vehicles' value together with customs duty and purchase tax (Section 11(a) of the Israeli VAT law).

*"The price of imported goods.. is their value as stated in sections 129 to 134A to the Customs Ordinance at the time of payment of the tax, plus customs duty and any other tax or levy applicable to imports."*

As can be demonstrated in the following table. If the Vehicles' price for customs purposes is 10,000\$, here is the possible tax calculation:

Table 1. Tax calculation:

Vehicle's Value for customs purposes	10,000\$
Customs duty rate	7%
Customs duty	700\$
Value for purchase tax	10,700\$ (Vehicle + customs duty)
Purchase tax rate	83%
Purchase tax	8,881\$
Value for VAT	19,581\$ (Vehicle + customs duty+ Purchase tax)
VAT rate	17%
VAT	3,329\$

Total taxes (Customs duty, Purchase tax, VAT)	12,910\$
Vehicle's value for tax purposes	10,000\$

Therefore, when it comes to tax which exceed 100% of the vehicle's value, this is actual importing one vehicle for the citizen, and another vehicle (= at the tax value) for the state of Israel.

And if that wasn't enough, the taxable base for vehicles (the 10,000\$ in our example) is often challenged in court proceedings, and Israel also applies an additional luxury tax for certain vehicles.

This article will review the Israeli law which imposes purchase tax, analyze the purposes underlying the imposition of tax, and make a comparison with foreign jurisdictions.

Also, the article will include a criticism, regarding the current vehicle tax regime, and suggest some alternative model for imposing the tax.

## 2. Discussion

### 2.1 Israeli Purchase Tax – Who are You?

Purchase tax is an indirect Israeli domestic tax, imposed on certain type of goods imported into Israel, as well as on local sales of such goods in Israel.

However, in practice, when there is no local manufacturing of certain types of goods - for example, vehicles are not manufactured in Israel - the purchase tax on vehicles functions, de-facto, as a kind of customs duty, which is imposed only on imports.

Generally speaking, the Israeli purchase tax or a similar name, is also implemented in other states, for example: VPT (vehicle purchase tax) is imposed also in Sweden, Korea and China (Haohan, 2021). GST (goods and services tax) which is imposed on vehicles in India at a rate of 28% (OECD, 2022; Basavanagouda, 2021). An excise tax/duty is imposed in many states, among other in Poland (EU Taxation):

*"The main fiscal tool affecting the car market in Poland is the excise tax, in theory designed to correct market externalities by disincentivizing certain types of consumption and collecting funds for mitigation of its negative effects"* (Poniatowski, 2020).

In an Asian research, it was noted, with relation to vehicle taxation, that (Yasol, 2017):

*"All ASEAN member-countries impose "excise tax", "excise duty" or an equivalent excise tax- like levy on motor vehicles (MV). In particular, the Philippines, Lao PDR, Thailand and Vietnam impose the excise tax while Brunei, Malaysia and Singapore collect the excise duty."*

The Israeli legislation which imposes purchase tax, is one of the oldest is the State's tax law (Israeli Purchase Tax Law from 1952, while the state of Israel was established in 1948).

In the past, only one year after the State of Israel was established, this law was named "The luxury tax ordinance", and imposed tax on passenger cars, motorcycles, electric refrigerators for home use, radio receivers, clocks, musical instruments, cameras, fur coats, jewelry, cosmetics and rugs, all were considered luxury, at these times. In the following years, this law and the type of goods subjected to tax, were amended for several times (Israeli Luxury Tax Ordinance, Purchase tax law, etc.).

### 2.2 How is the Purchase Tax Imposed, what is the Tax Basis?

Customs duties are imposed only on imports, but purchase tax is levied at similar rates on imports, as well as on the local sale in Israel, of the taxable goods.

In the case of goods manufactured and sold in Israel, the tax is levied on the wholesale price- the price between the wholesaler and the retailer. When goods are imported, according to Sections 4(a), 4b(a) of the Israeli Purchase Tax Law, the wholesale price is the import price.

### 2.3 Which Goods are Subjected to a Purchase Tax?

The Purchase tax law allows the Minister of Finance to impose Purchase tax on any goods, except for food stuff (except drinks), medicines, ambulances, holy books and other books (Section 3(a) and the appendix of the Israeli Purchase Tax Law).

By virtue of his authority, the Minister of finance has enacted the Israeli Customs Tariff, which relates to customs duties and purchase tax on goods (Section 31 of the Israeli Purchase Tax Law, and Israeli customs Tariff, sections 1, 11).

Besides vehicles, other types of goods which purchase tax is imposed on, includes alcoholic beverages, cigarettes, spare parts for vehicles, yachts.

And, as from 2022, additional goods which are subjected to purchase tax, includes disposable cutlery, sweeten/sugar drinks, syrups and powders, and oil/ fuel substitutes, electronic cigarettes and cigarettes liquids, including an inventory purchase tax (Purchase tax list, 2022).

Except cigarettes, e-cigarettes and liquids, in which the purchase tax rate is very high (about 270%, ad valorem), all other products are subject to purchase tax at relatively low rates, ranging from 12% -15% ad valorem (Israeli Customs Tariff).

For example, Vodka of HS code 22.08-6000 to the customs tariff, is subjected to purchase tax of 87.04 NIS per one liter of pure (100%) alcohol.

Cigarettes of HS code 24.02-2000 to the customs tariff, are subjected to purchase tax of 270% plus 408.12 NIS per 1,000 cigarettes, but no less than 781.83 NIS per 1,000 cigarettes.

Vehicle safety belt of HS code 87.08-2100 to the customs tariff, is subjected to a purchase tax of 19.2%.

Yachts of HS code 89.03-9321 are subjected to a purchase tax of 15%.

A purchase tax was also levied on mobile phones, entertainment electronics, such as speakers, microphones, amplifiers and certain TV screens, before it was abolished. But even then, tax rates were not high (about 15% ad valorem).

Hence, mobile phones classified in HS code 85.17 of the customs tariff were subjected to a 15% purchase tax, until the Minister of finance abolished it in 2017; All the rest electric products were subjected also to a purchase tax, which was abolished in 2017.

Vehicles, as mentioned, are subjected to a very high purchase tax rate, of 83% ad valorem

For example, HS code 87.03-2390 of the Israeli customs tariff, refers to: other vehicles, with only spark-ignition internal combustion- reciprocating piston engine- of a cylinder capacity exceeding 1,500 CC but not exceeding 3,000 CC- others. This HS code, as I estimate, refers to the majority of passengers cars in Israel.

The current Israeli tax regime includes various credits and reductions in purchase tax, among other things for safety accessories such as ABS, airbags, for "green grade" - the degree of air pollution of the vehicles, and there are also reduced rates for commercial vehicles, SUVs, trucks, hybrid vehicles or electric motors and more. Thus, when a vehicle meets these parameters, in the end, the tax burden on it will be less than 83%.

On the other hand, luxury vehicles that meet certain conditions are subject to an additional purchase tax - "luxury tax", at a rate of an additional 20% (on top of the "ordinary" 83% tax). That is, Rule 4(a) of the additional Israeli rules for chapter 87 of the Israeli customs tariff, states as follows:

*"Notwithstanding the aforesaid in Rule 4, the tax rate applicable to a motor vehicle whose total weight does not exceed 3,500 kg and does not belong to Group C or E as specified in Rule 4, whose price per consumer exceeds NIS 300,000 will be added a tax rate that is a product of 20%, in the difference between the price of the car to the consumer and NIS 300,000, when it is divided by the price of the car to the consumer"*.

#### 2.4 What is the Purpose of Purchase Tax?

Customs duty, the older and more famous tax, is imposed to protect local industry from the imports. Customs duty, by its nature, is imposed only on imports, and not on the local sale of goods in the territories of the State of Israel.

Then, what is the purpose of purchase tax?

In the past, it was imposed on luxury products, but today, we can estimate, this purpose is no longer valid, or the main purpose of this tax.

We may find the purpose in an Israeli court ruling from 2011, dealt with customs classification of a Bach flower extracts, known as "Rescue Remedy". The product comprised of plants and alcoholic content, and the question was, whether to impose purchase tax, since it contains alcohol, or not. The state of Israel explained in court that the purpose of imposing purchase tax, in general, is comprehension of the negative consequences of the product, which are not part of production costs, but cause various damages to the economy and society. In this case, the court rejected customs authority's position, and a purchase tax was not imposed, mainly because the product was not similar to alcoholic beverages sold to teenagers, etc. (Court Judgement, Pharma Gury, 2011).

This approach is common also in different jurisdictions. For example, in one research it was stated that:

*"..apart from their fiscal objectives, vehicle purchase tax aim to internalise negative externalities by putting*

*a price on a car's purchase and, indirectly, on its use" (Poniatowski, 2020; Ar-Rawi, 2018).*

The Israeli Tax Authority published in 2018 a review on the vehicle industry, in which it explained its position, in relation to the purpose of imposing purchase tax on vehicles, as follows (Review on Vehicle Industry, 2018):

*"Purchase tax on vehicles in Israel serves two main purposes, apart from the obvious fiscal aspect: Regulating vehicle demand by internalizing the external costs generated from vehicle use. A vehicle is a product with a very wide range of external costs, which include traffic congestion (loss of time), air pollution, accidents, noise, land use for roads and parking lots, costs of control and enforcement system, damage to the natural environment and more. Another purpose of purchase taxes on vehicles is directing the import of vehicles to areas with reduced external damage, especially in the field of air pollution and accidents. Also, the percentage component of purchase tax and especially the "luxury tax" imposed on expensive vehicles, act as a means of smoothing out social disparities".*

Therefore, the state believes that imposing a purchase tax on products that cause damage, may reduce their usage, and shift the use to other, less harmful products.

If this is the purpose of purchase tax, then one may wonder, why cigarettes are subjected to a 270% purchase tax, vehicles to 83%, and alcohol products to a much lower tax, sometimes less than 5%? Are cigarettes necessarily the most harmful goods, followed by vehicles, and in the third place, alcoholic products? And where do the yachts and spare parts for vehicles fit into this equation (which, as mentioned, the tax rate on them is "only" 19.2% or 15%, compared to the vehicles on which the tax rate is 83%)?

As for the vehicles field, the State of Israel believes, it seems, that a high purchase tax rate may lead to a reduction in the use of private vehicles, and will, hopefully, shift the use towards public transport, instead of private use.

#### *2.5 The Purchase Tax Rate on Vehicles did not Fulfil Its Purpose*

When examining a little history, one can find that the current 83% purchase tax rate is a "discounted" tax. In the not-so-distant past, purchase tax rates on private vehicles were higher. Thus, in 1990 the purchase tax in Israel stood at 116%, in 1993 at 95% and today, at 83%.

In recent years, the state of Israel has adopted a policy of reducing the purchase tax rates on private vehicles, to a rate of 83%, as it is today.

Nevertheless, In Israel, almost 3.5 million vehicles drive the country's roads, and every year, the number of vehicles in Israel increases, both in percentages and in absolute numbers (The Israeli Bureau of Statistics Reports, 2018, 2019). In these reports, it was found that from 2019, there was a raise of 3% of car consumption, compared to 2018. In 2018, a raise of 4.3% compared to 2017, was found.

Therefore, it seems that the high purchase tax rate does not achieve the main purpose, which is to cause the "comprehension of negative consequences that cause damage ...", or in other words, the consumption of private vehicles in Israel is not declining, the contrary is true.

#### *2.6 How are Vehicle Taxed, Worldwide?*

It is well known that the purchase tax on private vehicles in the State of Israel is one of the highest in the world.

A report published by the OECD on the method of imposing purchase tax in the State of Israel in 2016 stated that, apart from Denmark, at that time, Israel has the highest tax rate:

*"The car tax in Israel has been historically the highest compared to any other country in the world, except for Denmark" (OECD, 2016; JIMS, 2011), and eve found to be five times higher than the EU states (JP, 2011).*

The following table makes a little comparison for the vehicle tax rates:

Table 2. Comparison of vehicle tax rates (Various Vehicle Tax Rates)

State	Type of vehicle tax	Tax rate
Australia	GST	10% + 33% luxury tax
India	GST	28%
New Zealand	GST	15%
Poland	Excise	3.1% - 18.6%
China	Purchase tax	10%

Denmark	Registration tax	Car value + VAT under about 10,000\$ - 25% Between 10,000-30,000\$- 85% Over 30,000\$ - 150%
Philippines	Excise	Car value lower than about 12,000\$ - 2% Between 12,000\$-22,000\$ - fixed 235\$ + 20% of the excess above 12,000\$ Between 22,000\$-41,000\$ - fixed 2,000\$ + 40% of the excess above 22,000\$ Over 41,000\$ - fixed 10,000\$ + 60% of the excess above 41,000\$
Singapore	Excise	20%

When comparing to several US States – Missouri imposes less than 10% on vehicles; Texas - 6.25%; Vermont - 6% -9%; Massachusetts - 6.25%; Minnesota - 6.5%; Illinois - 6.25%; Connecticut - 6.35% -7.75%; Virginia - 4.15%.

So, it seems that today, the State of Israel holds the first place in the world, in the vehicle tax rate (or shares the first place with Denmark).

### *2.7 If the High Tax Wasn't Enough – Let's Challenge the Taxable Base*

One of the common disputes between importers and the customs authority deals with goods valuation, or in other words, what is the value on which import taxes will be levied, the tax basis (Valuation Agreement)

In recent years, the state of Israel has taken steps aimed at imposing a fixed customs duty (calculated on weight, alcohol percentages, etc.), and not a percentage ad valorem tax. Still, most import taxes, such as customs duties and purchase tax, are levied in Israel as a percentage of imported product value.

It is clear imposing ad valorem tax can provoke many disputes between taxpayers and the tax authority, concerning the tax base (on which the percentage tax is imposed).

When it comes to a vehicle imported, and especially for personal use, which is subject to a very high purchase tax, at a rate of 83%, the motive to raise a controversy over the vehicles customs value, from both sides- the importer and the state, is much higher.

It is clear that a product subjected to a 12% purchase tax, is not comparable to a product subjected to 83% purchase tax, when it is obvious to all parties involved, that the higher the tax, the greater the incentive for challenging the value for taxes, the tax basis.

As a consequence, at least from 2010 to the present, in a period of a little over 11 years, quite a number of Israeli court judgments have been given, on issues where the legal question was similar, and that is - what is the import price of a vehicle, for the purpose of imposing 83% purchase tax.

#### *2.7.1 Cases Where the Importer Has Prevailed (Cases in Favour of the Importer)*

In a recent ruling from the end of 2020, in the case of AWIDA, the court accepted the importer's claim and ruled that the value of the vehicle is as declared to customs.

In that case, it was ruled that since the Customs Authority did not have positive evidence proving that the payment paid by the importer was higher than claimed, and the importer had full evidence to prove that this was the price he paid - the importer's position on the declared price should be accepted.

In the Hanks case from 2019, the court accepted the importer's claim regarding the price declared by him, while rejecting the position of the Customs Authority seeking to collect customs duties at a higher price.

In this case, two bank transfers were discovered, with customs believing that both together constitute the value of the one vehicle, while the importer claimed that only one of them was the vehicle in question, and the other transfer was of a vehicle for his niece. The court accepted the importer's claim that only another bank transfer is relevant to the imported vehicle.

In the Farah case from 2017, the court ruled in favor of the importer. The plaintiff claimed that he imported a Mercedes SLK200 in 2012 for the price of 17,000 euros. The Israeli Customs Authority contacted the Customs

Authority in Germany (the exporting country), and received an invoice from the seller in Germany, which showed a higher price of 26,630 euros. The plaintiff proved that he paid 17,000 euros in a bank transfer, as he claimed. Although a conflicting export invoice, with a higher value, was presented, the court ruled that the importer was telling the truth and accepted his claim.

In the Agbaria case from 2016, the plaintiff imported a luxury car from Mercedes, claiming that it was priced at \$ 35,000, and customs claimed that it was priced at \$ 60,000 based on an invoice found on the "broker's" computer in the transaction. The court chose to believe the importer in Israel since the declared price was referenced well on the financial company's documents, and it was not reasonable that he paid extra 25,000\$ as customs claimed.

#### 2.7.2 Cases Where the Customs Authority Has Prevailed (Cases in Favour of the Customs Authority)

In the Sorek case from September 2021, the plaintiff imported a GMC Yukon for a declared price of 35,000\$. Customs found out that it was imported with an assistance of a dealer, and that the dealer paid the exporter 70,000\$. Therefore, customs claimed that 70,000 \$ was the import price. The dealer claimed that 70,000\$ comprised for two cars, one of the plaintiffs and another one which he does not hold the full details anymore. The court rejected that suit and ruled that the value for import duties is 70,000\$.

In the Hershkovitz case from 2019, the importers' claims were rejected, and the import price was adopted in accordance with the position of the Customs Authority. In that case, it was proved factually that the import procedure was done through intermediaries, dealers, which refused to testify in court, and therefore the importers themselves lacked information regarding the procedure and the import price.

In those cases, the actual outcome was to impose purchase tax at a higher rate than 83% from the declared value.

### 3. Conclusions and Recommendations

#### 3.1 The Israeli Vehicle Taxation Regime is Unique and Inappropriate

For many years, private vehicles are a daily, routine product that exists in almost every home worldwide, and also in Israel. Sometimes, families own more than one vehicle.

Everyone may agree that a vehicle isn't a 'luxury' product anymore, but a popular common product (Preece, 2016):

*"Automobile excise taxes have traditionally been based on vehicle ownership being seen as a 'luxury' and having excise taxation designed to contribute to the progressivity of a country tax system, however, this view is now slowly changing in recognition of levels of vehicle ownership and the need to correct a range of negative externalities".*

But it seems that the Israeli legislator is still referring to vehicles as a luxury product, as was over than 70 years ago, when the purchase tax was first imposed in Israel.

As we have seen, the high tax rate has not achieved its goal: Israeli roads are full of vehicles traveling on the roads, traffic jams are only growing, and the amount of vehicles purchased is growing every year. See for example, related to China (Ma, 2021):

*"The vehicle purchase tax can have a certain inhibitory effect on the consumption of automobiles, but with the development of the economy, automobiles have become more and more rigid demand for most people, which makes the role of taxation gradually weakened".*

Despite the penetration of electric and hybrid vehicles, the use of vehicles with petrol or diesel engines (which pay the highest tax) is also not declining, at all.

It seems that public transportation in Israel, unfortunately, is currently unable to provide, the full range of possible solutions for the citizen, for a simple and convenient arrival from his home to work and vice versa. For example, in one research the authors claimed that under certain regime, a VPT (vehicle purchase tax) may shift the usage from private cars to public transport:

*".. the increases in the VPT rate lead to the decrease of private car demand/share and the growth of public transport demand/share" (Haohan, 2021).*

Therefore, in the absence of an adequate replacement, the citizen is obliged to purchase a vehicle and has no practical alternative.

Consequently, the state dictates the citizen to engage in a partnership with her: for every NIS of vehicle price in import, the citizen pays more than 100% tax to the state (comprising of customs duty, purchase tax, VAT).

As we have seen, the high tax encourages both parties, importer and the state, to challenge to goods value for tax purposes, so in several cases, the tax burden is even higher.

This twisted tax model even caused to some researchers to raise the question whether it is a legal purchase tax regime, under Israel's commitments to the WTO (Munin, 2017).

### 3.2 The Israeli Alcohol Purchase Tax Reform, as a Reference

As will be presented below, for many years, alcohol beverages in Israel were subjected to a percentage ad valorem purchase tax, usually 75% of the drink value (the import price, or the wholesale price for goods manufactured in Israel).

For example: Subheading 22.08-3000 – Whiskies, 22.08-5000 – Gin and Geneva, 22.08-7000 – Liqueurs and cordials, were subjected to 75% + 20.98 NIS purchase tax in Israel, before 2013.

Such a high percentage tax has provoked repeated debates between importers and the Customs Authority, as in the vehicle's field, over the goods value – the tax basis.

In 2013, the State of Israel introduced a reform, in which it was decided to impose a fixed purchase tax, according to the alcohol content of the product (The Alcohol Purchase Tax Reform).

As from 2013, for example, 40% alcoholic content vodka, which is a popular low-priced beverage, was subject to the same purchase tax, as luxury beverages such as 40% alcohol cognac and whiskey.

This reform is considered as a successful one, which reduced consumption of cheap alcohol, mainly with teenagers, and put an end to the valuation disputes, concerning the tax basis.

For comparison, this taxation method is common also in the European Union states, where about 550 Euro per 1 Hectoliter of pure alcohol is imposed (EU's Alcohol Taxation Regime)

### 3.3 Suggested Models for a Vehicle Tax Reform

Vehicle taxation regime is a complicated one, with many factors which should be considered.

Any change in the vehicle tax may have an immediate effect on global heat, road accidents, air pollution, public transport, traffic jams, insurance cost, use of old cars, and many more factors to be taken into consideration (Tal, 2017).

As was presented in this article, the 83% Israeli purchase tax on vehicles, has failed in the major purpose- to decline the usage of private vehicles, and encourages repetitive debates over the customs valuation of cars.

As will be suggested below, it is a time to reconsider this regime, take the example of the alcohol reform and impose a fixed purchase tax on vehicles.

If the state believes that purchase tax is intended to decrease the usage of cars in order to avoid the negative consequences, such as road accidents, air pollution – then the state should encourage the usage of new and more expensive cars, over the old ones.

But, according to the regime today, the tax on old cars, in absolute terms, is lower than the one on new cars, so it seems the state encourages the opposite. For example, an article comparing the Scandinavian automobile taxation, it was that Denmark relatively high vehicle percentage taxation regime, shifted people from expensive and new cars, to old or small cars:

*"..under Danish rules..., buyers prefer generally smaller and cheaper cars.." (Østli, 2021).*

If a fixed tax for each vehicle will be imposed, it is estimated that the consumption of old and cheap car will decline, and the consumption of newer more expensive car, will be raised.

This could be demonstrated in the following table, which proves that a fixed tax will minimize the price differences between old and new cars, and motivate people to switch from old to new cars:

Table 3. Comparison of old and new car taxation under the current regime and the suggested regime

New Car Price	25,000\$	New Car Price	25,000\$
Current Tax (129.1%)	32,275\$	Fixed suggested tax (for example: 15,000\$ per unit)	15,000\$
Price including taxes	57,275\$	Price including taxes	40,000\$
Old Car price	10,000\$	Old Car price	10,000\$



Current Tax (129.1%)	12,910\$	Fixed suggested tax (15,000\$ per unit)	15,000\$
Price including taxes	22,910\$	Price including taxes	25,000\$
Price difference between old and new car (tax included)	34,365\$	Price difference between old and new car (tax included)	15,000\$

Therefore, in order to try and solve the current Israeli vehicle tax regime's problems, one of the following models is suggested, to impose the tax on an objective criterion:

- A. Imposing a fixed purchase tax, based on the vehicle's weight.
- B. Imposing a fixed purchase tax, based on the vehicle's engine size.

For example, in one article the authors mention that:

*"The design of the excise tax on passenger vehicles in Poland stands out from the solutions introduced in other EU Member States... Importantly, none of them use engine size alone as a base for tax rate cut-offs".*

Poland imposes a percentage excise duty on vehicles, based on their engine size. It is worth mentioning that the authors come to a conclusion that:

*".. Engine size, which is the base criterion for tax rate differentiation in Poland, proved to be a poor proxy of a vehicle's emissions". (Poniatowski, 2020).*

- C. Imposing a fixed tax, based on the car's year of model.
- D. Imposing a fixed tax, based on the degree of air pollution.

For example, in Norway, vehicle taxation takes into consideration several factors, such as weight, engine size, power and rate of pollution (Ciccone, 2018).

This factor is taken into consideration also in Thailand:

*"Thailand is the only country that imposed the excise tax based on the CO2 emission rate for each type of MV (motor vehicle) and engine. The higher the emission rate, the higher the excise tax rate" (Yasol, 2017).*

- E. Imposing a fixed tax, based on the car's collision damage test.
- F. Imposing a fixed tax for one unit of a car.

Off course, one can also suggest of a method that will combine the proposed methods, or some of them.

Such a fixed unit tax, for example, is imposed on batteries and chargers in Israel, in the amount of 80 NIS per battery, regardless of price of the product. Fuel is also subjected in Israel to a fixed and non-percentage excise tax.

Hence, the Israeli Excise tax on fuel order (imposing excise tax), 2004, sets the excise tax rates. For example, petrol is subjected to 2,329.61 NIS per 1,000 Liter, Biodiesel is subjected to 2,616.05 NIS per 1,000 Liter.

Subheading 85.07-1020 to the Israeli customs tariff - Electric Accumulators, including separators therefor. Lead-acid, of a kind used for starting piston engine – of the kind used in motor vehicle and only that the height of the side walls of its tank does not exceed 375 mm. Importing goods under this subheading is subjected to 80 NIS per one unit of the goods, regardless of its value for customs purposes.

As we have seen, alcoholic goods are also taxed based on the alcohol content.

If the tax will be imposed on an objective indisputable criterion, the regime will be simple and easy to implement, as was happened in the alcohol tax reform in Israel in 2013.

An objective equal criterion for taxation, may encourage the consumption of newer more expensive cars, over old and cheap cars.

An objective criterion will put an end to repeated disputes between importers, especially in the field of personal imports, and the Customs Authority regarding personal vehicle value, the tax basis.

A fixed tax regime on vehicles, ignoring its price, is not common worldwide. As we have seen, the common vehicle tax is a percentage tax, but much lower than the 83% Israeli purchase tax.

If Israel is a such a unique country which imposes 83% tax, maybe the highest in the world for cars, perhaps it is time for the State of Israel to reinvent the wheel in this area.

As God said to the people of Israel: "Now if you will obey me and keep my covenant, you will be my own special treasure from among all the peoples on earth" (Exodus, the Bible).

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