

# Burdened assets

Ype Wijnia

9 November 2012

Tough times are coming for asset managers making a habit of taking their job home. Obviously, I am mentioning the asset managers making an average income and having 43 old-timers in their garage. These used to be free of road tax once they passed a certain age, but the new Dutch government planned to drop the exception. As some modest old-timer like a Blower Bentley weighs a little over 1600 kg, the private fleet owners can expect a charge of about 1000€ per vehicle. The average income asset manager thus would see a negative income. No wonder there is a storm of protest.



Source: Wikipedia Commons<sup>1</sup>

The problem is interesting though. What should an asset manager do if the legislation is changed and the fixed costs of the asset suddenly increase? A number of options is available to deal with the situation. The first option is to accept the increased costs and live with it. If the extra costs are bearable and the asset still delivers some net positive value after the cost increase this is most simple solution, as it requires no effort at all. It can be made even more acceptable psychologically by framing the situation as having had a fortunate benefit the last years, that has come to an end.

The second option is to start lobbying to get the cost increase reverted. In case of the rule of taxing company cars at their purchase price as income for youngtimers it has worked, they are charged at their actual value. The only disadvantage of lobbying is that it can consume lots of energy. Furthermore, lobbying requires influencing the public opinion, and that can turn against the lobbyist. If the owner of a Blower Bentley (a comparable example cost 4,5 million dollar back in 2007<sup>2</sup>) complains about having to pay 1000 Euros on road tax people most likely will feel very sorry for him. But that could also happen to other old-timer enthusiasts. Their claim that the cars are hardly used might be applied as well to a number of people having a modern car. And the argument about caring for the automobile heritage might be a bit of an exaggeration. There are plenty of museums to admire old-timers. Furthermore, scarce makes wanted, thus if the new rule induces some not-very-special old-timers to be scrapped, the rest becomes more special. No matter how you look at it, it is a lobby to let someone else pay for your hobby and that usually does not receive much sympathy.

<sup>1</sup> [http://en.wikipedia.org/wiki/File:Bentley\\_4%C2%BD\\_Litre\\_-\\_20090924.jpg](http://en.wikipedia.org/wiki/File:Bentley_4%C2%BD_Litre_-_20090924.jpg)

<sup>2</sup> <http://www.conceptcarz.com/vehicle/z15035/Bentley-45-Liter-Blower.aspx>

The third option is to avoid the new costs. Cars can be suspended, though it means it is not legal any more to drive them on a public road. Another option is to relocate the car to another country, though that limits driving in the Netherlands. The key question therefore is whether the cost of implementing this option is not higher (in the broad meaning) than the cost to be avoided. If that is the case, you are better off by choosing option 1, just accepting the costs. Unfortunately, the psychological trick does not work anymore as the change has been framed as unfair.

The final option is to sell the burdened asset. If the costs of the asset exceed the benefit this is the best option. However, there is a problem in this option. As it is an external event (the increase of the taxes) that induced the decision to sell the asset, more asset owners will reach a similar conclusion. Besides, because of the higher costs assets will be less attractive. The market on which the asset has to be sold therefore will be very bad. It means some write-off on the asset has to be accepted. On the other side, that depreciation will come anyway and a golden rule of doing business is taking your losses as early as possible, to avoid being chained to the past. A wise lesson to be learnt from this example is to think about the exit strategy at every asset that is procured.

Perhaps we should look back at the motive for the change. The story goes that it is because old, uneconomical and polluting vehicles are imported into the Netherlands, that are driven, free of road tax, as the first car. The exemption was not meant for that purpose, and the government wanted to do something about it. This is like option 2, but then regarded from the other side. However, one could ask the question whether the result is worth the effort, and if so, whether it is the most effective measure. What I know of old cars is that they stink, rattle and make noise, lack modern comforts, are slow and bad to drive, tend to break down a lot, need lots of fluids (fuel but also oil) and always cost more than what expected. If this package is considered together it is hard to imagine this is preferable to driving in a modern car. The most effective measure against misuse of the tax exemption therefore might be giving the soon-to-be owners of old-timers a crash course in asset management, they will immediately reconsider.

---

*Ype Wijnia is partner at AssetResolutions BV, a company he co-founded with John de Croon. In turn, they give their vision on an aspect of asset management in a weekly column. The columns are published on the website of AssetResolutions, <http://www.assetresolutions.nl/en/column>*