

BOYS' TOYS

as investments

Guns aren't liable for Capital Gains Tax but armour is.
Godfrey Barker unravels the mysteries of wasting assets



Ferraris, such as this 1962 250 GTO
and 1960 250 GTO (below, at
Goodwood), lead the classic car market

THE Taxation of Chargeable Gains Act 1992 is not bedside reading for sane people. But for wide-awake lads in the City, it is a passport to the land of dreams. Sections 44 and 45 are especially exciting. The Act defines a "wasting asset": an object with a life expectancy not exceeding 50 years. Think aeroplanes, steam locomotives, Spitfires, motorboats, and tanks. Such assets, the Chancellor thrillingly announced during his reign of John Major, will henceforth be free of Capital Gains Tax for those who own them



as a personal asset, not as a business one. This information made the financial boys' heads spin. There are, as they well knew, "wasting assets" out there at prices from £10,000 to £3 million the values of which, far from depreciating from Day One and expiring within 50 years, are going up fast.

Classic cars (Ferrari and Aston Martin to the fore) are the biggest of all wasting markets. Guns, antique and sporting, come not far behind, followed by clocks and watches and, most enticingly, wine. Even bottles well beyond a 50-year life expectancy, like that ancient classic Château Lafite Rothschild ➤

1870, still rise in value every year. In 2010, a single bottle sold for £100,000 in Hong Kong.

Had this miracle occurred at Sotheby's or Christie's in London, the greater miracle would have been that the profit, as for everything else just listed, would have been tax free – free of Capital Gains Tax (CGT) at 18%, or 28% for higher-rate taxpayers.

Is this, you wonder, changing the reasons why buyers chase classic cars, guns, clocks, watches and wine? That classic cars, racing and road models, are roaring ahead in value

Holt's Auctioneers sold this Charles Lancaster 10-bore (below) for £30,000 in September 2012 and a Boss hammer ejector (right, top and below) for £18,000 in December 2012

need not be doubted. The HAGI Classic Car Index shows a gain of 395% since 2002, or an annual 23%. Bonhams, the auction house market leader in classic cars, reports world sales as \$141 million in 2003, \$396 million in 2006, \$421 million in 2009 and \$610 million in 2012. Robin Duthy, leading statistician in the field, confirms all this on www.ArtMarketReport.com, and shows the fastest push to come from Ferrari, then Aston Martin. Only Alfa Romeo, the unquestioned market leader in 1990, follows more slowly.

Ferraris at auction are way ahead of the field. Their market has risen 56 times in value since 1981; the top quarter of the market 105 times. But can this question be answered: is the love of money or the love of cars dominant

in these high-price purchases? "People who collect classic cars do it by and large from emotional attachment to the world of historic motoring," avers James Knight, head of the car division at Bonhams. "They are aware of the Capital Gains Tax advantage but they don't buy for that reason. They regard it as a hobby and a pleasure, not least to race their cars at Goodwood or Pebble Beach. But they have wealth behind them and they are not daft, either. Anyone who goes out and buys a car or an antique clock will feel that if they sell, they will end up on the right side of the deal."

In the late Eighties, the classic car market was made volatile by speculation. In 1990 it drove over the cliff into 10 years of recession and stagnation, lead by some catastrophic



auctions of Alfa Romeo. Now it is stable. "When it was frothy, it was a ride going up and a hell of a ride coming down," remembers Knight. "Those speculators brought on an excess of supply meeting a limited demand. Now we have a market that relies on liquid funds, not on buyers leveraging themselves."

So if not speculators, who has been driving the classic car market along so smoothly in the past 10 years? The mind goes to new buyers from emerging countries like India and China. "Yes," says Knight, "they contribute to the price rise but have not caused it. They are not the game changers. The acceleration comes from the traditional car-buying regions of Europe and North America."

Guns and pistols of all sorts, antique and modern sporting, are also free of CGT. They contain an inherent means of propulsion, explains Nick Holt, London and Norfolk gun auctioneer. This defines them as machinery and, as such, they are exempt. Armour, having no moving parts, is not exempt.

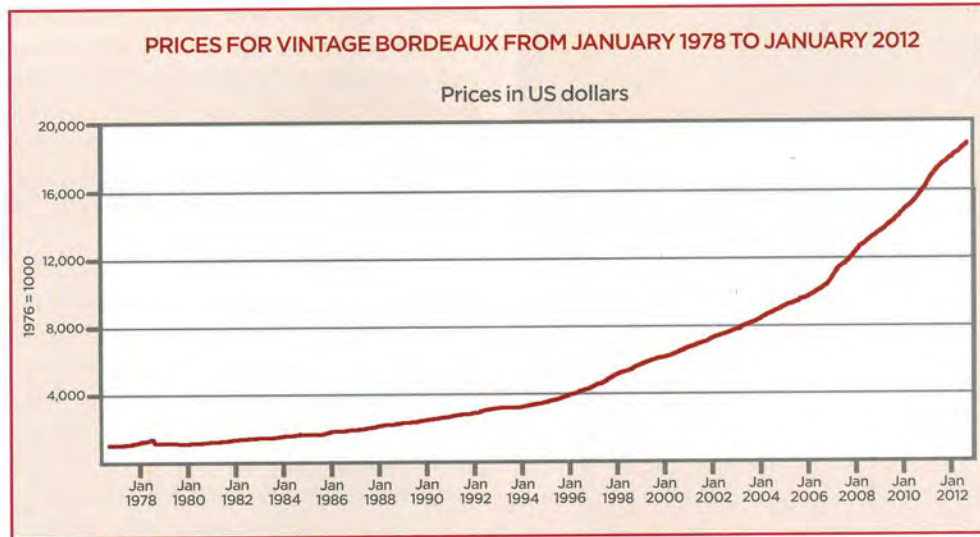
Is exemption and the rising market in antique weapons tempting our best shots into saving their money in their guns? Holt, without claiming to count the numbers, says "undoubtedly yes"; and just to prove it, he and his wife have started a "Club of Ten" for investors to lodge capital with his auction house, watch their funds buy a prime collection and reap the rewards on sale a few years hence. Recently formed, the club has quickly filled with members but has slots available.

Wine - free of Capital Gains for any auction lot sold under £6,000, no matter how many lots you sell - is very much the target of wide-open mouths in the City. Bordeaux wines at auction, great and humble, have risen 19 times on the Art Market Report index since 1976, by three times in the past 10 years. Wine investment is open and explicit. In a golden passage for equities between March and July 2007, the FTSE rose 11% in five months but average lot values in wine rose 49% at Sotheby's at the same time, from £1,140 to £1,702.

Unexpectedly, however, Serena Sutcliffe, head of wine at Sotheby's, says she cannot remember a single buyer who has approached her with questions about wine's tax-free status. "I'm not going to speculate about the motives of my buyers in the wine market," she declares. "It's a very grey area."

Surely Capital Gains Tax relief appeals to buyers? "It never passes their lips." Such good manners attest to the civilising powers of wine. But it does not stop silent investors thinking about the tax gain, surely. ➤

Right: this case of 12 bottles of Petrus 1982 sold for £29,900 in May 2007





Above: a rare 18ct Cartier gold watch owned by Sir Cecil Beaton auctioned by Bonhams in 2010. Right: this white-gold Patek Philippe wristwatch fetched £8,125 at Christie's



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Bowden cellar fetched £39,100. Provenance often implies good and careful cellaring as well as an aristocrat's breath upon the bottles. Weather affects price, also, for good and ill. The wettest summer in memory in France in 2012 will affect volumes in both Bordeaux and Burgundy and, paradoxically, the shortage of wine will lift prices, Sutcliffe predicts.

Three years ago, St James's dealer John Carlton-Smith told *The Field* that his door was repeatedly pushed open by financially aware young men who "walked in and told me candidly that they wanted to park their money in clocks". He was surprised because the market in finest antique clocks - by Thomas Tompion (1639-1713), Daniel Quare (1649-1724) and John (1640-1722) and Joseph (1640-1711) Knibb - had, for decades, been for collectors and not speculators. The curious were, he reported, "mostly British but quite a few were Europeans. There were not many Americans. They're City boys, doctors, barristers, architects, professionals of all sorts." Bracket clocks at prices up to £150,000 were the principal target.

I asked Anthony Woodburn in Lewes, East Sussex, who, with Carlton-Smith and Raffety in Kensington, London, is one of the three eminent clock dealers in the UK, if it was still like this. It has become more discreet, Woodburn suggests. Clock buyers these days are more knowledgeable on the subject. "The top end of the market - Quare, the Knibbs, Tompion - is as popular as it ever was. Several people are always waiting for the finest clocks and they sell easily.

"These people are quite aware that clocks are free of Capital Gains Tax and that prices at this level continue to appreciate. They do not come in and ask me about it, nor approach me

with direct questions at a BADA fair. They know all this before they arrive and know that they are in a position to buy the clock. They have realised that putting their money into clocks is a pretty safe thing to do."

How far are antique-clock buyers into "flipping" the clocks and collecting a profit? "I have handled at Tompion level a few clocks that I have bought back six or seven times from clients. On each occasion they have made a profit," he says.

Table clocks at Art Market Report are assessed as having risen nine times in value since 1976 - far from depreciating from day one. Wristwatches, too, have become seriously financial. Patek Philippe is up nine times on Duthy's indices since 1981, Rolex and Cartier around three times since 1984.

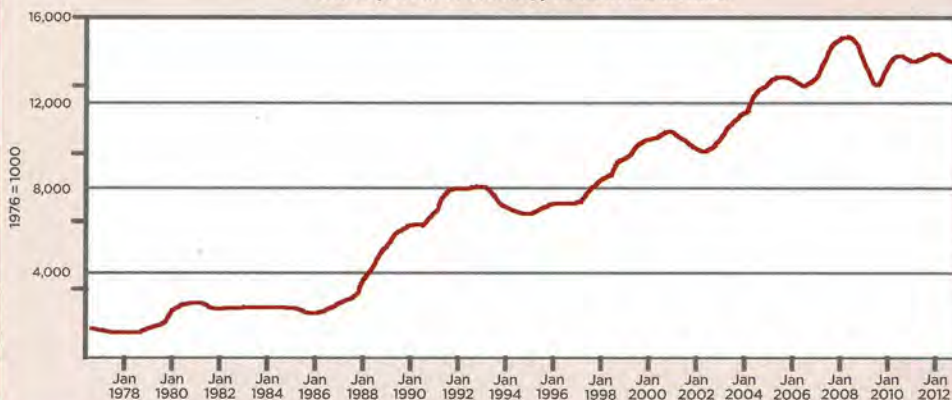
The sting in the tail comes with the grave. We may avoid CGT on all the above but Inheritance Tax (IHT) is there at the end at 40%. It catches all individually owned assets in its net, wasting or not. They will be assessed at open market value.

There is, suggests Bonhams' tax advisor, Nick Parnell, to owners of guns, wine, classic cars, clocks and watches, "some merit in selling in your lifetime". You avoid CGT at 18% or 28% and, if departing ere your spouse or civil partner, you avoid IHT at 40% as well. If your spouse inherits wasting assets but sells within six to nine months, he or she avoids CGT also. Where children will be sole receivers, counsels Parnell, it is definitely better to sell and gift while still alive, then live for seven years longer than the dates on the receipts to avoid Inheritance Tax. Death and taxes, for certain, never go away, but smile: there is some fiscal joy for the living. ■

Christie's sold clocks by Thomas Tompion (below right) for £241,250 and Daniel Quare (below) for £25,000 at auction

ANTIQUe CLOCK PRICES BETWEEN JANUARY 1978 AND JANUARY 2012

The top 25% of clocks; prices in US dollars



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