

Steering your dealership to higher profits

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August was an improved month for most dealers. As you can see below, 60% of our new vehicle dealers have improved profits in August 2017 compared with July 2017. However, the number of dealers losing money reflects approximately 15%, even though the new vehicle dealership economy is good.

August Profit Trends

	AUGUST BETTER THAN JULY	AUGUST WORSE THAN JULY	AUGUST BEST MONTH	AUGUST NET PROFIT 3% OR BETTER	AUGUST LOSS MONTH	AUGUST LOSS Y-T-D
CHRYSLER	55%	45%	10%	15%	15%	5%
FORD	65%	35%	25%	40%	10%	5%
G.M.	70%	30%	25%	25%	15%	15%
IMPORTS	55%	45%	20%	25%	20%	20%
OVERALL	60%	40%	20%	25%	15%	15%

October nationwide new vehicle sales approximated September 2017 and was improved over October 2014, 2015, and 2016. As reported by the National Automobile Dealers Association through July 2017, pre-tax net profit as a percentage of sales reflected 2.5% while it was 2.6% in 2016.

National New Vehicle Dealer Metrics

The enclosed survey reflects net profit as a percentage of sales and net profit as a percentage of gross profit and other income. The overall metric is 2.0% net profit as a percentage of sales and 15% net profit as a percentage of gross profit and other income. Each of the four dealer groups on the enclosed survey are almost the same as the overall average. In earlier years, import dealers seem to perform at a higher level than domestics, but that trend seems to have disappeared. The average dealer in this survey reflects sales of \$36 million for 7 months, or \$5 million per month. This is very close to the reported metrics from the National Automobile Dealers Association (NADA).

“Success seems to be connected with action. Successful people keep moving. They make mistakes, but they don’t quit.”

-- Conrad Hilton

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General Motors

Recently, General Motors sent a letter to its dealers reminding them if they sell non-GM service contracts or put non-GM parts on GM products the customer must be informed of this and acknowledge it. There are extremely large penalties and possible termination of the dealer's GM franchise if these GM policies are not followed. We sent a four question survey to some of our GM dealers and below is a summary of those responses. We do not know if this is representative of all GM.

In the past we did NOT have customers, in violation of the GM policy, sign the GM form acknowledging being sold a non-GM service contract - 90%

In the future we plan on having GM customers acknowledge they were NOT buying a GM service contract for their GM product - 80%

In the past we did NOT have customers, in violation of the GM policy, sign the GM form acknowledging being sold non-GM parts on their GM vehicle - 95%

In the future we plan on having GM customers acknowledge they were NOT buying 100% GM parts on the parts being purchased for their GM product - 75%

Internal Revenue Service (IRS) Taxes

The IRS publishes the various amounts they collect from personal income taxes. These IRS metrics are for the tax year ended 2015.

Some interesting metrics that you will not see in the general main stream media; possibly for political reasons are as follows:

All Individual and Joint Income Tax Returns

Number of personal income tax returns	150,000,000
Adjusted Gross Income (income before personal deductions)	\$10,210,000,000,000 (trillion)
Total Personal Income Taxes (not including payroll taxes)	\$1,460,000,000,000 (trillion)

Top 1% (approximate) Individual and Joint Income Tax Returns

Number of personal income tax returns (total returns)	1,300,000
Adjusted Gross Income (income before personal deductions)	\$2,050,000,000,000 (trillion)
20% of all income reported	
Total Personal Income Taxes paid	\$560,000,000,000 (billion)
38% of all income taxes paid	

Bottom 54% (approximate) individual and Joint Income Tax Returns

Adjusted Gross Income (income before personal deductions and not including "welfare" benefits).

Total Personal Income Taxes were 3% of income.

As a summary the bottom 54% paid close to zero in income taxes versus the top 1% paid 38% of the income taxes earning 20% of the total adjusted gross income.

Future of the New Vehicle Dealership Industry

We are all reading about many of the expected changes in the industry coming in the next few years. With the advent of self-driving (autonomous) vehicles, more non-fossil fuel vehicles and possibly outlawing fossil fuel vehicles, are some major changes coming. It will be interesting to see which current and potentially new manufacturers are able to develop and sell "electric" vehicles at competitive prices. Also, with self-driving (autonomous) vehicles we see fewer new vehicles being sold in metropolitan areas along multi-vehicle families reducing the number of vehicles per household. The theory in this trend, is if a family now has 3 vehicles, but seldom are all vehicles in use, they might reduce the number of vehicles they own by one. They will be able to obtain a self-driving vehicle that they can order and have show up in front of their residence when they need this extra vehicle for a short period of time. Who knows where all of this is going?

Internal Revenue Service (IRS) And IRS Form 1099-MISC

This article applies to many of the dealers that reflect other income on their personal income tax returns. You could be overpaying self-employment taxes. If you received "income" from the sale of products of the dealership and this income was reported on Form 1099-MISC for 2016, please confirm if the amount of income was reported in Box 7 or Box 3. If this income is reported in Box 7, you are probably overpaying self-employment taxes. Sometimes the amount is reported in Box 7, incorrectly, and is categorized as Nonemployee Compensation. This box is for fees, commissions, prizes and awards for services provided as a nonemployee and therefore is subject to self-employment taxes. As a dealer, you do not perform services to earn this income as it is received based on services your employees perform. The income amount should be reported in Box 3 for income that is not reportable in the other boxes and prizes and awards that are not for services performed.

You or your tax preparer should look at this Form for 2016 to determine if income is reported in Box 7. If so, you may want to call the issuer of that 1099 now and point out to them that the income should be reported in Box 3, not Box 7. Why? Usually this is "side" income you personally received for the sale of products by your employees, not really Box 7 commissions and personal service income. This could save you several thousand dollars or more in self-employment taxes. If the wrong box is being used, Box 7, you need to discuss this with the representative of the company that issues this IRS Form 1099-MISC. Ask them in the future, including 2017, to report the income in Box 3. If they disagree, feel free to have them call us at no charge to you, to explain why they should use Box 3, not Box 7.

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