POWER STEERING

Steering your dealership to higher profits

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Written by Carl Woodward **October 2018**

Pre-tax profits for the month of August 2018 for new vehicle dealers were much better than July 2018 pre-tax profits. As you can see below, 65% of new vehicle dealerships had increased profits over July 2018, while losses for the month and Y-T-D were 10% of new vehicle dealers. Nationwide, new vehicle sales for August 2018 were better than July 2018 and were the same as August 2017. New vehicle sales for September 2018, nationwide, were less than August 2018 and less than September 2017.

August Profit Trends

	AUGUST BETTER THAN JULY	AUGUST WORSE THAN JULY	AUGUST BEST MONTH 2018	AUGUST Y-T-D PROFITS 3.0% + Sales	AUGUST LOSS MONTH	AUGUST Y-T-D LOSS
CHRYSLER	55%	45%	20%	10%	5%	5%
FORD	65%	35%	15%	30%	15%	15%
G.M.	60%	40%	10%	15%	15%	10%
IMPORTS	70%	30%	10%	30%	10%	15%
OVERALL	65%	35%	10%	20%	10%	10%

Personal Income Tax Savings - 2018

With the new income tax law of 2017 that applies now to 2018, you should consider the information below if you own a dealership. This advice applies to “S” corporations, LLCs (partnerships) and sole proprietorships (Schedule C). If your W-2 is significantly more than $100,000 or if you have substantial other income to report on your personal tax return such as service contract income, you should consider having that income reported by your dealership. If you can reduce your personal taxable income by reducing the above categories, this will increase the income of your dealership by a like amount. The new Qualified Business Income Deduction will allow you to reduce your dealership income by 20%. If the items above increase your dealership income by $100,000 you will reduce your income taxes by approximately 7.4%, or $7,400, in income tax savings. If you were able to reduce your income from the above categories by $1,000,000 then you could have a total income tax reduction approximating $74,000.

“There are two types of people who will tell you that you cannot make a difference in this world: those who are afraid to try and those who are afraid you will succeed.”
-- Ray Goforth

Inside

Lifetime Dealer Programs

Some dealers give customers benefits or programs, free of charge, to increase new unit sales, service and parts department sales, and they hope will ultimately increase the profits of the dealership. We write about this subject every few years. The three main programs we see or hear of dealers implementing include: tires for life, lifetime oil changes, and/or lifetime service contracts. Usually these programs are included in the vehicle sale at no charge to the customer upon the sale of the vehicle.

Dealers tell us and we have read where these programs are implemented, at no charge to the customer, in anticipation of the dealership increasing its future sales and future profits to justify giving these products or services to the retail customer. However, from our many years of experience, we have never seen any measurable empirical evidence to support the giving away of the above three items as worthwhile financially. To analyze these programs to see if they are worthwhile, we ask the following questions to dealers that have implemented any or all of these three programs:

Do you sell more new vehicles after implementing these "free" programs, or do you have increased new unit sales? Is your new vehicle sales effectiveness more than 100% compared to sales effectiveness in the past? We suspect some dealers make this "free" program worthwhile, but we believe most do not. Do you have more parts and service sales above what would be expected based on the number of new and used units sold in the past or based on the units in operation (UIO) in your market? To have the three free items be worthwhile to give away, the dealership should also have above average net profit percentage of sales. Alternatively, new unit sales, and/or parts and service sales, should be more than anticipated without using one or all of these programs. Though these free programs sound good and seem to make sense, we typically are unable to find a dealer or dealer group able to prove that these giveaways are worthwhile. Based on this reasoning, we would not implement these types of programs for often times they seem to be "gimmicks" that do not justify themselves financially.

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Dealership Legal Issues

We have seen and read about various "legal" issues that can get dealerships in trouble. Trouble meaning penalties, fines, bad publicity, and jail in some cases. You might ask yourself if your dealership could possibly be "guilty" of doing any of the below. All of which are misrepresentations to the financial institution to which you are selling your retail contracts.

- Dealer writes a check to the customer with no valid reason and then has the customer use the dealer's check as part or all of their down payment.
- Dealer reports to the retail installment contract lender certain options or model lines that do not exist.
- Dealer rolls back the vehicle odometer miles ("clocking" the vehicle odometer) which can cause fines and possible jail.
- Dealer misrepresents customer credit applications including knowingly overstating the customer income and other critical information where there can be huge penalties and possibly jail.

Dealers might consider a short compliance list to ensure with appropriate employees that they are not violating any of the above examples of inappropriate conduct and should hold recorded annual meetings on the above.

Personal Income Taxes Paid - 2016

The following nationally available IRS data was recently reported by Kiplinger regarding the 2016 tax year:

The top 1% of individual taxpayers with 20% of adjusted gross income paid 37% of all federal income taxes. These filers required an income of $480,000 to be in the top 1%.

The top 5% of individual taxpayers had 35% of the adjusted gross income and paid 58% of all federal income taxes. These filers required an income of $198,000 to be in the top 5%.

The top 10% of individual taxpayers had 47% of the adjusted gross income and paid 69% of all federal income taxes. These filers required an income of $140,000 to be in the top 10%. The bottom 50% paid 3% of all federal income taxes.

Reinsurance Companies

If you own a dealership that utilizes some type of "reinsurance" company or "position" mainly for service and insurance contracts, the associated administrator/intermediary and/or CPA should inform you of any income tax or regulatory issues that exist. They need to make sure you know the risks you have depending on the type of entity for your position: NCFC, CFC, Self-insured, DOWC, Retro, Dealer Self-insured, etc.

In addition, ownership of certain captive reinsurance companies may require the annual filing of IRS Form 8886, Reportable Transaction Disclosure Statement. This information return may need to be included in multiple returns: the entity which owns the reinsurance company and its owners as well as the dealership itself and the individual or trust returns of the (dealership) owners. In certain cases the Form 8886 must also be filed separately with the Office of Tax Shelter Analysis. State filing requirements vary. Due to increased IRS review in this area, we recommend that the administrator/intermediary or CPA for your reinsurance position confirm in writing whether this filing requirement applies.

Dealership F & I Department Results

The enclosed survey reflects the finance department income per retail deal after chargebacks. The chargebacks for finance-insurance-service contracts are shown compared to department income minus these chargebacks. We would estimate that overall chargebacks approximate 13% - 15% of total finance department income before chargebacks.

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