

Hitting the brakes on demos



Please route to:

- Dealer principal
- General manager
- F&I manager
- Sales manager
- Service manager
- Office manager

Hitting the brakes on demos for salespeople

Imagine how much a dealership would suffer if a salesperson, driving while intoxicated, collided with another car killing an entire family. It could be difficult for a dealership to recover from such an incident. The negative publicity could destroy the business, not to mention the devastating financial impact of punitive damages that can result from this type of loss. (Punitive damages are not insurable in some states)

Yet salespeople do drive demos. The risk has become so prevalent that the IRS has vowed to crack down on dealer demonstrator vehicles. Could you survive an IRS audit of demo use in your dealership?

Consider alternatives

Dealerships across the country have found that providing demos is not essential to hiring and retaining good employees. There are options that can be beneficial to everyone. A car allowance, attractive lease agreement or increased incentive program can keep the employees happy while at the same time making them responsible for insuring their own vehicle. In risk management terms, this is referred to as "risk transfer." Responsibility for insuring the vehicles is "transferred" to the employee, where it should be.

Determine the true cost of demos

Use the following worksheet to determine the true expense of providing demos to your sales force on a monthly basis:

1. **Interest/floorplan expense:** Determine fair market value or average fair market value for each demo. Multiply fair market value by the prevailing interest rate.
\$ _____
2. **Depreciation of vehicle:** Determine average demo miles per month and then multiply by an estimated per mile depreciation charge i.e. "xx cents per mile."
\$ _____

3. **Taxable income:** Determine the value of commuting to and from work in your area. Use this daily charge to determine the "taxable income" for withholding of income and Social Security taxes. Include other taxes as required by federal and state laws.**
\$ _____

4. **Fuel/maintenance:** Develop an estimated average cost of fuel and maintenance.
\$ _____

5. **Registration/licensing:** per dealer plate
\$ _____

6. **Insurance premiums:** Liability and physical damage coverages.
\$ _____

7. **Insurance deductibles:** Physical damage deductible, i.e. \$1,000, multiplied by the estimated number of accidents your demos will be involved in per year.
\$ _____

Total expense of demo vehicle (add lines one through seven):

\$ _____

** For more information, obtain the NADA Management Guide publication: "A Dealer Guide to the Federal Tax Treatment of Demos."

Rate credits may be available to qualifying dealers insured by Zurich if they do not provide demos to any salespeople (excluding managers). Contact your Zurich representative for more information.

In addition, overall premiums may be reduced over time due to the reduction of the demo exposure. Without the exposure of sales staff in demos during non-business hours, your dealership has reduced the potential for auto liability and collision losses which could improve your overall loss experience. This should be considered a win-win for everyone.



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