

Tax implications of Demo Agreements



Please route to:

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

Demo agreements

Many dealers have discontinued the practice of providing demos to their salespeople and managers. The increased liability which results from the use of a dealership vehicle by employees is reason enough to stop.

Lately, the IRS has been cracking down on personal use of company vehicles. So, before you furnish a company vehicle to employees, the taxation issue should also be considered.

Lastly, you should ask the question – Is it a demo or just transportation for the employee?

If you decide to furnish demos, make sure you have a demonstrator agreement with strict guidelines.

Qualification criteria should include:

- Minimum length of time in employment
- Satisfactory driving record
- Satisfactory accident record
- Current valid driver's license

Once employees have satisfied these requirements, you need to check at least annually to see if they are still qualified.

Your demonstrator agreement should govern the employee's use and possession of your vehicle.

This should include:

- The demo should not be furnished to a customer awaiting delivery of a replacement vehicle.
- Only the employee whom you furnished the demo is allowed to drive - No family members, friends, etc.

- Salesperson accompanies customer on all demo rides.
- Employees are not allowed to consume alcoholic beverages before or while operating a company owned vehicle.

In 2020, 11,654 people died due to drunk driving crashes, about 30% of all crash fatalities, according to National Highway Traffic Safety Administration estimates. Research shows that a 0.08 blood-alcohol level impairs anyone's judgment and reflexes.

Once you have established your qualification criteria and guidelines for employee use and possession, you must strictly enforce the program. If you allow employees to deviate from the program, you condone behavior which can be used against you. The example you set towards alcohol use is reflected in management's attitude toward drinking and driving. Make your policies reflect the image of the person "whose name is on the sign."



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