

Cash Back is a No-No

by : *Gil Van Over*

I wasn't voted "Most Popular Guy" in high school. I only know where one of my former college classmates lives and haven't seen him in quite a while. I can't tell you where most former co-workers are these days. Being popular has not always been a priority.

I know the opinion expressed in this article will not be popular with some in the dealership community. But here goes.

You should not give cash back to a customer as part of the vehicle sale.

There, I said it. Now let me explain.

Potential issues with giving cash back

Arranging a transaction so that a customer receives cash back from the dealer has a number of issues including potentially violating your dealer/lender agreement, maybe some issues with your local taxing authority and possible bank fraud.

Potential violation of dealer/lender agreement

Some sales managers include cash back to customers as a part of the negotiation process. "Buy the car today and get \$2,000 back."

The argument they put forth is, "The lender will allow 130 percent advance and I only need 110 percent to put my deal together, so I use the rest to entice the customer to buy the car."

Others will include it as part of the deal to meet a bank stip, to get an account up-to-date, for example.

The dealer/lender agreements I have read state that the amount financed is to include the purchase price of the vehicle, applicable sales tax, license, fees and approved options. Providing cash back on top of these approved items is considered a side loan and could turn the transaction into a recourse deal.

Potential tax ramifications

Depending on how your state taxes vehicle transactions, giving cash back to the customer can be viewed as underpaying state sales tax under certain scenarios.

Let's assume that the customer has a free and clear trade-in. You are willing to put \$10,000 into the trade as a trade allowance, but the customer wants \$6,000 of the equity.

If you show \$10,000 trade allowance with a \$6,000 lien payoff, and your state assesses taxes on the trade difference, your taxing authority may claim that you have understated the tax liability and come looking to you for the shortfall.

Possible bank fraud

Under the same scenario as above, showing a \$6,000 lien payoff on a non-existent lien could be perceived as bank fraud. After all, you are showing false information on the retail installment sales

contract.

The quick answer to avoiding these potential issues is to avoid providing cash back to your customers as part of your sales process.

There, I said it.

Gil Van Over is the president of gvo3 & Associates, a nationally recognized dealer compliance consulting firm. He assists dealers with F&I and sales compliance.