

HOW TO GET A DEALER'S LICENSE AND START A PROFITABLE USED CAR BUSINESS

HOW TO GET A DEALER'S LICENSE AND OPERATE A PROFITABLE USED CAR BUSINESS

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INTRODUCTION

First, I want to thank you for ordering this manual. You will find it a helpful introduction in starting a used car business.

My name is Don Massey and I'm a licensed dealer in Colorado. I have been involved in buying and selling cars for years. Many people ask me are you "the" Don Massey? Don Massey is a dealership that has many locations around the country, primarily Cadillac. Sorry to say that's not me!

I find that there are two primary types of interest in my manual. First, a need to know how to open a used car lot and second the interest in buying and selling a few cars a year as a part time business. Others want to know how can I go to a wholesale auction, buy a car and resell it for a profit. All usually require a dealer's license.

COMMON QUESTIONS/ISSUES

I'm often asked what does it cost for a license. The licensing fee can be anywhere from \$50 to \$500 a year.

Do you have to have good credit? In most states, yes. In Colorado the Licensing Board does a credit report (minimum score 600) and the applicant must prove a net worth of \$50,000.

States require a surety bond. A surety bond covers losses to a consumer in case of fraud or poor business practices. In Colorado, it's a \$30,000 bond, which I purchase from my regular insurance agent for \$300.00 a year.

You'll be required to have liability insurance and insurance for the cars when on the road. This is specialized insurance. Check with your home and auto insurance agent and they can refer you to an independent agent that will give you a quote and write the policy.

Most states do a background check. So persons with a criminal history may not be approved for licensing.

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A WORD OF CAUTION!

I receive calls all the time from people who ask me about deals they find on the Internet or locally, to use another's dealer's license to buy and sell cars. These options are usually in violation of state licensing laws.

As an example: I recently was called by a young man in Missouri inquiring about my manuals. He was presently buying and selling a few cars to make additional income needed to support his family. I asked him how he was doing it.

Here's his story and my concerns.

He had met a guy who has a dealer's license. He was attending the auctions with this "dealer". He would pick the cars he wanted. The "dealer" would bid on them and purchase the vehicles under his license. My caller then paid the "dealer" the price plus a fee of \$500 for each car. My caller would then take the cars home sell the car to a consumer with classifieds and make his profit.

I asked him how the title was being processed. He said that the title was still in the name of the "dealer" and when he (my caller) found a buyer the dealer would process the title work.

I told my caller he needed to check with the state to validate the legality of these transactions.

My concern was since he's paying the dealer for the car plus \$500.00, **he is the owner** and title transfer must take place so the state can collect the sales tax. States don't like anyone to circumvent sales tax!

Not signing the title over to my caller is called, in the business, an "open title" which is illegal in most states. When ownership is transferred from one person/business to another, the title must show this. One cannot "own" a vehicle without the title being signed over to the person buying it.

As a dealer, the title is signed to my business but I don't have to pay sales tax on my purchases at auction or from other dealers/wholesalers because these are wholesale transactions.

I explained to my caller that since I did not know all the exact details of the "legal" relationship with the "dealer" and the particular laws in the state of Missouri I could be wrong. But the title work was a big "red flag" for me.

I strongly recommended he contact the state for clarification. I explained he could do it anonymously by inquiring about a "deal" he had heard about for buying and selling cars using another's license.

Most states do not allow a person to use or ride on a dealer's license. One cannot share a business license. One cannot share another real estate license. One cannot share a license to practice medicine. One cannot share a car dealer's license.

The exception to this is the employees of a business. In the case of a car dealer, this would be a salesman. Even as a salesman some states, such as Colorado, require a test and a license for the used/new car salesman.