



Solutions for the Economy: Leveraging the Strength of Franchising to Expedite Job Growth

Franchised businesses can play an important role in economic recovery and sustainable job growth. The franchise industry consistently outperforms the non-franchised business sector, creating more jobs and economic activity in local communities across the country. There are over 900,000 franchised businesses in the United States that employ over 21 million people while contributing \$2.3 trillion in annual economic output to the U.S. economy.

The IFA believes that Congress and the Administration should focus on policies that will help franchised businesses succeed and create more sustainable jobs:

- Increase Small Business Access to Credit
- Eliminate Tax Uncertainties for Small Business
- Reduce the Cost of Health Insurance
- Support Veterans as Small Business Owners

Increase Small Business Access to Credit

The current credit crisis has delayed the recovery for many small businesses. The nature of the crisis calls for extraordinary action, and Congress should support temporary changes to SBA programs including increasing the maximum SBA loan limits to \$5 million to accommodate the needs of more small businesses. The IFA is recommending a renewed emphasis on loan programs for small business start-ups, expansions and acquisitions that will promote faster job creation and lead to a stronger recovery. In fact, a 2009 study conducted for the IFA determined that for every \$1 billion in new small business lending, the franchise business sector would create 34,100 sustainable jobs and generate \$3.6 billion in economic output.

Under normal circumstances, small businesses can tap financing from a number of different sources, including national and community banks as well as many non-bank lenders. Typically, the SBA loan programs are not the first stop for an entrepreneur, but they serve an essential function as a lender of last resort for business owners who cannot find appropriate financing in the commercial marketplace. During this recession, however, most commercial lenders have dramatically curbed their willingness to assume risk, and small businesses are increasingly reliant on SBA guarantees. As a result, the effectiveness of SBA programs is more important than ever.

Larger loan limits will also enhance our economy's job creation potential by opening up credit availability for businesses that are poised to create jobs now. A majority of franchised businesses in the United States today are operated by multi-unit owners. Growth beyond the first unit is not just an aspiration for many entrepreneurs in franchising; it is an essential part of helping ensure that their business will reach a level of scalability and sustainability. Businesses that cannot reach a certain level of scalability naturally find it more challenging to survive. There are approximately 325,000 franchised businesses in the United States owned by "multi-unit" small business franchisees. Our studies show that these multi-unit operators will be the most successful over time, and we expect them to create the most jobs. Fifteen percent of all small

business franchisees in the United States own between two and five units, and this category of franchise ownership is the fastest growing. If these businesses can grow at the five percent annual rate that we saw between 2001 and 2005, franchising will grow 16,250 new businesses per year. These new businesses will create 243,750 to 325,000 jobs (assuming 15-20 direct jobs per store) plus an additional 245,000 to 325,000 indirect jobs. Therefore, we believe that a larger loan limit will enable some of these franchise small business owners to expand into new markets and help the U.S. create between 450,000 to 650,000 new jobs within the next 12 to 18 months.

Eliminate Tax Uncertainties for Small Business

Measures enacted in 2001 and 2003 provided essential tax relief for small businesses, and helped to kick start the economy after the attacks of 9/11. This tax relief, however, is scheduled to end after 2010, and many entrepreneurs are anxious about sharply higher taxes in coming years. Without action by Congress, for example, taxes will increase for 116 million income taxpayers by an average of \$1,800. Moreover, 27 million small business owners will face an average increase of \$4,066.

In addition to keeping marginal rates as low as possible, IFA is focused on enacting a permanent solution to the estate tax; extending the current capital gains tax rate of 15%, and permanently shortening the depreciation schedule for restaurant buildings to 15 years. If tax relief is permanently enacted, franchised businesses will be better positioned to invest in growth strategies that create more jobs.

IFA also endorses efforts to clarify the intent of existing interstate commerce law and re-establish the primacy of the Commerce Clause in multi-state business activity. IFA supports the Business Activity Tax Simplification Act (BATSA) to assist businesses throughout the country in limiting audits and tax bills from states where they do not have any buildings, property or staff. BATSA codifies the “physical presence” standard and eliminates confusion for state tax administrators and businesses alike. BATSA would also ensure that one standard of taxation applies for taxing multi-state companies, taking some of the confusion out of interstate commerce.

Reducing the Cost of Health Insurance

The IFA is focused on ensuring that health insurance is more affordable for franchised small businesses and their employees. There is no doubt that the status quo is untenable and makes health insurance unaffordable for many small employers and their employees. For several years, the IFA has supported legislation that would enable small employers to band together through national associations or franchise systems to purchase health insurance. Federal and state regulations often keep affordable healthcare coverage from being available to small employers or individuals. We are committed to any solution that increases access, improves quality and decreases the cost of health insurance.

Support Veterans as Small Business Owners

IFA supports enhancing franchise business opportunities for America's returning military veterans by expanding the Montgomery GI Bill to provide educational assistance for training in franchising operations and appointing a Franchising Program Coordinator at the US Department

of Veterans Affairs. As the VetFran initiative recently passed the 1,500 mark for getting veterans into franchised businesses, IFA is focusing its veterans' policy on two key pieces of legislation in Congress.

Help Veterans Own Franchises Act– A new initiative IFA launched in 2009 was the creation of a tax incentive to complement the success of the VetFran Program. Inspired by a provision in the Recovery Act that gave a tax credit to employers that hire returning military veterans, the bill establishes a tax credit for franchisors equal to 50% of the total franchise discount offered to veterans, capped at \$25,000 per unit. The military veteran franchisee would also realize a tax benefit of 25% of the remaining franchise fee.

Veterans Self-Employment Act– This legislation would allow veterans to use a portion of their Montgomery GI education benefits to defray the training costs associated with purchasing a franchise agreement. Specifically, it directs the Secretary of Veterans Affairs to conduct a pilot project on the use of educational assistance under programs of the VA to defray training costs associated with the purchase of certain franchise enterprises. The bill was endorsed at the subcommittee level on June 3 by voice vote and is now before the full Committee on Veterans Affairs.

About the IFA

As the largest and oldest franchising trade group, the IFA's mission is to safeguard the business environment for franchising worldwide. IFA represents more than 85 industries, including more than 11,000 franchisee, 1,200 franchisor and 600 supplier members nationwide. According to a 2008 study conducted by PricewaterhouseCoopers for the IFA Educational Foundation, there are more than 900,000 franchised establishments in the U.S., providing 21 million American jobs and generating \$2.3 trillion in annual economic output.