

## OVERVIEW

The International Franchise Association (IFA) works daily to protect, enhance, and promote America's **800,000 local franchise businesses**, their brands, and the suppliers who support them. Franchising is one of the greatest pathways for upward mobility through small business ownership and job creation – especially for underrepresented communities and first-time business owners. According to Oxford Economics, more than a quarter (26%) of franchise businesses are owned by people of color, compared to just 17% of non-franchised businesses. Despite unprecedented economic headwinds of recent years, the franchise model continues to excel. **In 2024, total franchise output is expected to increase by 4.1% in 2024, from \$858.5 billion in 2023 to \$893.9 billion in 2024, outpacing the broader U.S. economy.**



To encourage the continued growth and success of the franchise business model, as well as predictability for franchise owners, IFA believes the following five policy areas are essential in 2025 and beyond:

### 1 CODIFYING A JOINT EMPLOYER STANDARD THAT PRESERVES FRANCHISEE INDEPENDENCE AND PROTECTS THEIR EQUITY

Franchising succeeds because of the unique franchise relationship – a franchisor who creates the brand and business concept, and a franchisee who licenses the right to run the business as its own independent operation. **IFA supports codifying a joint employer standard that requires direct control of narrowly defined essential terms and conditions of employment** to ensure franchisees continue to receive franchisor support and that brand standards can be enforced to protect the equity each franchisee has built in their business while preserving the autonomy of franchisees to independently manage employee relationships.

In recent years, government regulators have tried to disrupt the joint employer standard – especially through the National Labor Relations Board's (NLRB) 2023 joint employer rule, which sought to expand the definition of joint employer to an ambiguous and overly broad standard that threatens the viability of the entire franchise model, putting a risk not only the franchised small businesses but also the workers they employ and consumers they serve.

The benefits of a clear joint employer standard are widespread for workers and consumers. On average, franchises pay 2.2-3.4% higher wages than their non-franchised counterparts and offer greater benefits, including health care and paid leave. Further, franchisee satisfaction has reached an all-time high in recent years, according to Franchise Business Review. Nearly nine in ten (88%) franchise business owners enjoyed operating their business, while 86% enjoy being part of their franchise organizations.

### 2 PRESERVING A TAX CODE THAT SUPPORTS FRANCHISE DEVELOPMENT AND WAGE GROWTH.

With the several provisions of the Tax Cuts and Jobs Act (TCJA) expiring at the end of 2025, and others already expired, franchise businesses are facing a significant tax increase absent congressional action in 2025. **IFA supports policies that foster competitiveness and expand eligibility for franchise businesses to deduct expenses from their tax obligations** – enabling reinvestment in their businesses and improving employee benefits. When the TCJA was passed in 2017, hundreds of IFA member franchisors and franchisees pledged to reinvest their tax savings in their businesses, including improving employee benefits.

IFA is committed to addressing lingering tax concerns facing the franchise community, including extension of tax-deductible business expenses, depreciation rules, and lower pass-through rates. Specifically, IFA supports interest deductibility, bonus depreciation, permanence of Section 199A, enhancement of the Work Opportunity Tax Credit (WOTC), repeal of the estate tax, the foreign-derived intangible income incentive, and continuation of the veteran tax credit. Further, IFA supports extending the benefits of existing tax policy to support all industries operating under the franchise model, including hair salons, fitness studios, restaurants and other business lines.

As today's economic challenges remain top of mind for franchise owners, including persistent inflation and high interest rates, IFA supports policies to keep prices down and encourage further business expansion through franchising.

### 3 IMPROVING FRANCHISE DISCLOSURE TO PROMOTE RESPONSIBLE FRANCHISING

To strengthen franchise relationships, protect consumers, and improve outcomes for the entire model, **IFA supports modernizing the Federal Trade Commission's (FTC) Franchise Rule to increase transparency in the franchise sales process and strengthen disclosure requirements.**

In May 2024, IFA put forward a series of policy recommendations to improve pre-sale disclosure requirements and make due diligence more robust, facilitating a stronger foundation for all franchise relationships. And in California, IFA led the charge advocating for legislation to improve disclosure requirements for third-party franchise sellers, which was signed into law in September 2024.

While the Franchise Rule remains under review, IFA urges the Federal Trade Commission (FTC) to adopt the Responsible Franchising policy recommendations and focus on improving disclosure, so potential franchise owners have access to more fulsome information to make a sound financial investment.

### 4 ENSURING MAIN STREET FAIRNESS AND STOPPING BURDENSOME REGULATIONS

Franchises are local, small businesses and should be treated as such. **IFA advocates for policies to support small businesses and ensure fair treatment of local franchises with their non-franchised counterparts.**

Specifically, IFA supports efforts to protect franchised small businesses from exorbitant credit card transaction fees; establish a national privacy law with a private right of action that applies equivalently to all businesses handling consumers' information and avoids potentially unintended consequences that would unfairly burden small businesses; and challenges to the constitutionality of the Corporate Transparency Act (CTA), which would put onerous requirements on small business owners to comply with reporting requirements that are largely duplicative of state reporting requirements.

IFA opposes efforts by the Department of Labor (DOL) to expand the threshold for overtime pay uniformly across the country, resulting in unworkable pay increases in certain geographic markets, as well as their efforts to reclassify independent contractors as employees and erode their independence as entrepreneurs. IFA has led legal challenges to the Occupational Safety and Health Administration (OSHA) "walkaround" rule that allows union organizers, trial lawyers, and even competitors to access workplaces under the premise of assisting OSHA inspectors with routine inspections.

### 5 PREVENTING THE SPREAD OF MISGUIDED STATE-BASED POLICIES AT THE FEDERAL LEVEL

IFA has engaged in a number of state-level debates over the implementation of policies aimed at harming or ending the franchise model. For example, the 2022 Fast Food Accountability and Standards Recovery (FAST) Act in California would have expanded the joint employer standard and created and empowered a Fast Food Council, an unelected board of bureaucrats with little to no accountability, widespread authority to establish sector-wide mandates on wages, hours and other factors. Negotiations led by IFA and our allies yielded a compromise lowering the minimum wage threshold from \$22 to \$20 and extended the timeline of its implementation from Jan. 1, 2023, to April 1, 2024. It also weakened the powers of the Fast Food Council to advisory-status rather than creating a new rule-making body.

Franchise businesses have higher rates of safety compliance, and **IFA supports enforcement of laws to protect employees from wage theft and ensure health and safety.** However, IFA opposes attempts to create new councils to regulate industries based on flawed data that harm small businesses and their employees. Efforts are underway in other cities to establish such workforce councils, and IFA will continue to oppose their creation.

Looking ahead to 2025, IFA will be at the forefront fighting for the best interests of franchising, with these five priorities front and center, so franchising will continue to thrive and generate opportunity around the United States.