

2016 FRANCHISE Public Policy Platform

Main Street businesses, including local franchise businesses, are a pillar of job creation. America's 800,000 franchise establishments support nearly 9.1 million direct jobs, \$944 billion of economic output and 3 percent of the Gross Domestic Product (GDP). While the franchise industry is projected to grow faster than the overall economy, adding over 13,000 new franchise establishments and 278,000 direct jobs in 2016, the industry continues to face significant public policy threats that put the franchise business model at risk. The franchise industry would see additional growth if the following policy changes were to be enacted:

Preserve the Franchise Business Model: The "Joint Employer" Standard

Local franchise small business owners take great pride in running their businesses, creating local jobs and contributing to their communities while remaining accountable to those they employ. However, the unelected Washington bureaucrats at the National Labor Relations Board (NLRB) have reversed decades of established legal precedent in holding that franchisor brand companies may be liable for labor law violations brought against local franchisees. If entire franchise systems are declared to be single units, or "joint employers," local franchise owners everywhere will lose control of the businesses that they have worked so hard to build. Other government agencies are writing their own rules for determining joint employment, demonstrating the broad reach of this destructive policy shift. Policymakers should take action to protect local franchise small business owners by rejecting this radical realignment of traditional employment structures.

Congress should pass H.R. 3459 / S. 2015, the Protecting Local Business Opportunity Act, to ensure that franchise small business owners everywhere are allowed to maintain control over their operations and keep businesses' workforce decisions at the local level, where they belong.

IFA supports the Coalition to Save Local Businesses, a multi-industry effort to preserve the traditional joint employer standard.

Reject Restrictions on Franchise Business Agreements

In recent years, several states have proposed legislation to limit the right of franchisees and franchisors to negotiate business contracts by placing unreasonable restrictions on franchise agreements. Many seek to prop up under-performing franchisees to the detriment of the entire system, and particularly disadvantage the high-performing franchisees that go to great lengths to maintain operational standards, product quality, and brand reputation. Prospective franchise owners are already protected by the Federal Trade Commission (FTC) franchise rule, extensive federally-mandated disclosures, and additional state disclosure and registration statutes, while responsible franchise sales practices have become the industry rule, not the exception. Lawmakers should exercise restraint in passing new legislation that over-regulates the contractual business relationship between franchisees and franchisors so that franchise opportunities remain available for aspiring entrepreneurs in every state.

Apply New Wage Laws Fairly for All Small Businesses

Many states and cities have considered proposals to increase

the hourly minimum wage within their jurisdictions. However, some of these proposals aim to require franchise businesses of all sizes to implement the wage hikes on the same schedule as large corporations, while "independent" non-franchise small businesses are allowed more time. Some policymakers are under the mistaken impression that franchise owners receive financial support from their franchisors to implement wage hikes, but this belief reflects a fundamental misunderstanding of the franchise model. Policymakers should take steps to implement new wage laws evenly and fairly, and without putting franchise businesses owners at a competitive disadvantage compared to businesses of identical size. Accommodations for small businesses should apply to all small businesses, regardless of their strategic business decision to affiliate with a national brand.

Prevent Damaging Labor and Workforce Policies

In the past year, government officials across the Administration have proposed workforce regulations that threaten to add significant cost and compliance burdens to franchise small businesses, all while eliminating flexibility, opportunity, and prosperity for workers. Some regulators have proposed to nearly double the salary level necessary for exemption from overtime rules, while others loosen union organizing rules that restrict democratic processes while limiting the flow of crucial information to employees. Additional proposals "blacklist" companies from receiving federal contracts over mere allegations or settlements of labor law violations by the company or its contractors, while others require investigations into confidential franchise agreements under the pretense of ensuring occupational safety. By almost any measure, the Administration has taken its regulatory efforts too far; they should revisit these burdensome, costly, and intrusive proposals that severely limit the ability of franchise small businesses to grow and prosper.

Promote Franchise Growth through a Revised Tax Code

America's tax code is not working for the economy – small business owners get lost in the complex web of credits and deductions, while astronomical corporate tax rates send some businesses looking for new headquarters overseas. For years, tax reform has only been considered from the viewpoint of large corporations. However, given that 80 percent of franchise owners file their business income on their individual tax returns, individual tax rates need to be addressed to unlock the potential of America's locally-owned small businesses. Although the passage of legislation making many annually-expiring business tax provisions permanent was a welcome improvement, comprehensive tax reform is still needed to ensure parity of corporate and individual tax rates.

Simplify Health Care Compliance for Small Business Owners

As franchise small businesses across the country begin to comply with the Affordable Care Act and with many offering coverage to employees for the first time, steps should be taken to lower compliance burdens and offer flexible and affordable solutions for employer-sponsored health care plans. To help preserve existing jobs, hours, and take-home pay, Congress should restore the traditional and well-established 40-hour definition of full-time work. In addition, Congress should simplify and streamline reporting requirements for employers and allow for flexibility in providing benefits to workers through health reimbursement arrangements (HRAs) and other methods.

Enhance Access to Credit for Franchise Businesses

Even though the improving economy has increased the flow of credit to small businesses in recent years, the U.S. Small Business Administration (SBA) loan guarantee programs still provide a significant source of financing for new franchise units. In 2015, an estimated 21 percent of the capital required for new franchises was provided through SBA lending and SBA backed

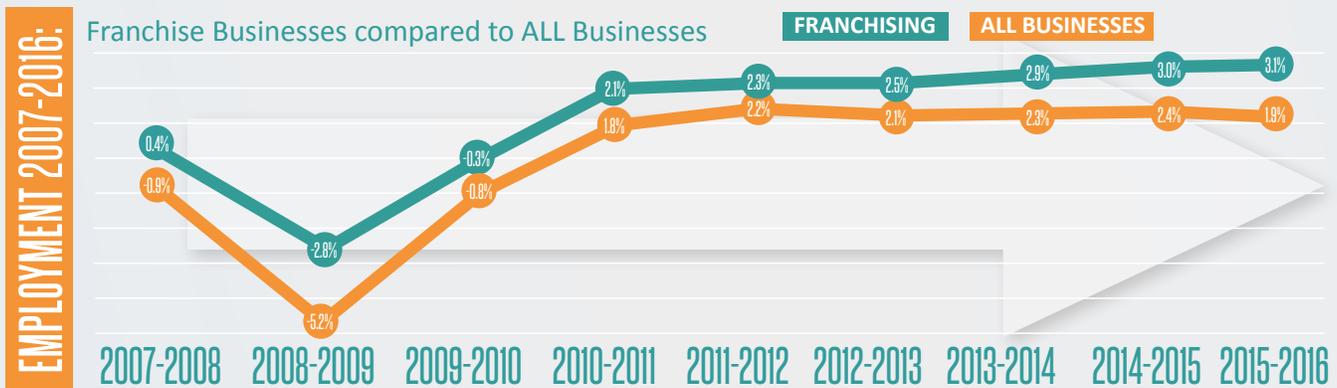
a record \$23.6 billion in loans to small businesses through its 7(a) program, a 23 percent increase. SBA programs served as a lifeline to small businesses during the recession, and continue to support entrepreneurs during the recovery. As the SBA revisits many of its regulations and procedures, including standards for "affiliation" and loan eligibility requirements, policymakers should ensure access to capital for all qualified small businesses.

Increase Hiring and Entrepreneurship for Veterans

It is both a moral and economic imperative to integrate the approximately one million returning military veterans and their families into the civilian economy and serve them as honorably as they have served us. As part of IFA's Veterans Transition Initiative, or VetFran, nearly 5,200 veterans have become new franchise owners since Veterans Day 2011, and over 150,000 veterans have started careers in franchising. Congress should offer increased incentives for companies to hire military veterans while also offering assistance to veterans to continue to serve their communities as local entrepreneurs.

For more information, please visit www.franchise.org or call 202-628-8000. Follow us @Franchising411 and facebook.com/IFA.DC.

Franchise Businesses Create Jobs Faster than Other Businesses



EMPLOYMENT DISTRIBUTION BY SECTOR: 2016

Source: IHS Global Insight

