



**Statement of Dina Dwyer-Owens
Chairwoman & CEO, The Dwyer Group
Chairwoman, International Franchise Association**

Before the House Committee on Small Business

**Hearing on *Expiring Tax Incentives: Examining their
Importance for Small Businesses on the Road to an Economic
Recovery***

September 30, 2009

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Good afternoon Chairwoman Velázquez, Ranking Member Graves and members of the committee. My name is Dina Dwyer-Owens, and I am grateful to have the opportunity to speak to you today about what Congress can do to help franchised small businesses lead the way to economic recovery for our nation. During my statement, I will discuss three key points that can help achieve this goal:

1. Extending certain elements of the American Recovery and Reinvestment Act of 2009 and the Emergency Economic Stabilization Act of 2008, which are helping to strengthen the foundation of our economic recovery;
2. Enacting legislation to put veterans returning from service overseas into business for themselves; and
3. Bolstering the ability of franchisees to obtain the capital necessary to expand their operations, thereby creating more sustainable jobs for the economy.

I am the Chairwoman and CEO of The Dwyer Group, franchisor of six service industry concepts, including Rainbow International, Mr. Rooter, Aire Serv, Mr. Electric, Mr. Appliance, and Glass Doctor. Across these brands, The Dwyer Group provides support and opportunity to over 1200 franchisees in the United States and Canada, and an additional 300 units in seven other countries. My father founded The Dwyer Group in 1981 with the intent to build a system

of related businesses that would provide high-quality residential and light commercial services, and through this system we have enabled thousands of entrepreneurs to own their own small business.

I also have the privilege to serve as the Chairwoman of the International Franchise Association, the largest and oldest franchising trade group in the world. The 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 for the IFA Educational Foundation, there are more than 900,000 franchised establishments in the U.S., creating 21 million American jobs and generating \$2.3 trillion in economic output.

Since the economy went into recession, Congress has enacted numerous provisions that have helped small businesses avoid some of the worst effects of the downturn. The nation is only now starting to see signs of recovery and those fragile businesses that operate in your communities need these programs to continue. A key provision that is providing a valuable benefit to small franchised businesses is bonus depreciation. The Emergency Economic Stabilization Act of 2008 extended the provision of 15 year straight-line recovery for qualified leasehold and restaurant improvements for 2008 and 2009. In addition, the Act added a 15 year schedule for new construction and improvements placed in service in 2009. It is clear that our recovery will not be fully underway in this tax year and the provision must be extended beyond 2009. It lowers real estate costs and related construction spending in the franchise industry. Extending this provision will entice franchise business owners to reinvest in their brick-and-mortar facilities. This will create a tremendous spill-over effect on other industries. The Bureau of Labor and Statistics estimates that every \$1 spent on construction generates another \$2.39 in

economic activity; and every \$1 million spent in the construction industry creates more than 28 jobs in the overall economy.

The American Reinvestment and Recovery Act also provided important tax relief to small businesses through the Work Opportunity Tax Credit and capital gains tax relief for businesses organized as S Corporations. The Work Opportunity Tax Credit assists franchise businesses in hiring unemployed veterans or youth who are not in school or already employed. This tax credit should be extended until our national unemployment rate returns to pre-recession levels. Additionally, I believe Congress can do more to assist our returning military veterans with the transition to civilian life, which I will mention in a moment.

Madame Chair and members of the Committee, I sincerely hope that Congress can also address the upcoming expiration of the important estate—or death—tax relief set to expire after 2010. The estate tax has long cost our economy more than the revenue it generates for the federal government. According to the Joint Economic Committee (JEC), the estate tax has brought in only \$761 billion in revenue since 1942, while reducing the stock of capital in the economy by \$847 billion. The JEC study finds no compelling reason to keep the tax and a number of compelling reasons to reduce or abolish it. The IFA has advocated for a permanent solution to the estate tax and I urge Congress to address this situation now before the tax returns to its pre-2001 level.

There is another policy objective that I would like to discuss, an idea that was inspired by a provision in the Recovery and Reinvestment Act, but not included in the bill. As I mentioned, the recovery act included a provision providing a tax credit to employers who hire qualified veterans. Taking this concept and expanding it to the entrepreneurial level, Congressmen

Leonard Boswell and Aaron Schock proposed a bill in June that creates an incentive to not only give our veterans jobs, but give them the keys to the building.

H.R. 2672, the “Help Veterans Own Franchises Act” establishes a tax credit for franchise businesses that choose to offer qualified veterans a discounted initial franchise fee. The tax credit would amount to 50% of the total franchise fee discount offered by the franchisor to the franchisee and would be capped at \$25,000 per unit. More importantly, the bill also provides a tax credit to the veteran who chooses to purchase a franchise and open a business in their local community, equal to 25% of the remaining franchise fee. Eligibility for both the franchisor and franchisee is capped at franchise fees of \$100,000.

Given the current economic climate, many franchised businesses are finding it harder to access the capital they need to open new stores and recruit new investors. In order to encourage economic growth and to make it easier for veterans to own their business, the IFA supports enactment of this tax credit for those franchise systems that choose to offer qualified veterans a discounted franchise fee.

The Help Veterans Own Franchises Act is a natural compliment to IFA’s popular Veterans Transition Franchise Initiative (VetFran), a program established to help those who have so honorably served their country to seek the dream of business ownership.

The VetFran Program holds a special place for me, since it was my father, Don Dwyer, Sr., who launched the program nearly two decades ago as the United States was in the midst of the First Gulf War. At that time, nearly a hundred members of the International Franchise Association stepped up to show their patriotic gratitude by providing financial incentives that aided veterans in acquiring franchises. The program was re-launched in 2002 as a permanent initiative of the IFA. Since 2002, purchases of franchised businesses by former military personnel have reached

1,500 and I'm proud to say that my companies are responsible for helping 170 of those veterans become franchisees. There are 228 others currently in negotiation. There are 395 franchised business concepts from which to choose and most offer significant reductions of the initial franchise fee required at purchase. The same leadership qualities and adherence to an established structure of operation that make our military the finest in the world translate perfectly into the successful operation of a franchised small business. Indeed, our military veterans are a sought after commodity for franchise investors.

Before I close I cannot pass up this opportunity to impress upon you the continued concerns the franchise community has with access to capital. Credit is the lifeblood of small businesses, as you know. Beyond the daily credit needed to keep a small business afloat, franchise investors need access to capital to expand their brand and create jobs. In an economic recovery, these jobs are critical. Unlike many jobs created by federal infrastructure spending, we firmly believe that franchise jobs are sustainable. They will be here when the asphalt dries. As tourism recovers, franchise jobs will provide services in hotels and restaurants, at rental car counters and travel agencies. When Americans resume buying and fixing up their homes, franchise jobs will be there to broker the sales and remodel the kitchens; franchise jobs will be there to paint the house and beautify the yard.

A recent study by the IFA Educational Foundation revealed that for every \$1 billion of lending obtained by franchised businesses, 34,100 jobs, sustainable jobs, are created and \$3.6 billion in annual total economic output is realized. Unfortunately, less than one tenth of one percent of the money allocated in the Recovery and Reinvestment Act was dedicated toward helping support small business lending.

While Congress and the Administration have taken important steps to address the challenges small businesses are facing in accessing credit, franchised businesses and prospective franchise investors with strong credit histories continue to have loan applications denied or delayed. In fact, according to the July 2009 senior loan officer survey conducted by the Federal Reserve, more than one-third of these bankers reported tightening terms for small-business loans, while only one reported easing terms. These tight standards continue to keep capable and willing franchise business owners on the sidelines. Congress can create jobs faster and support small businesses by: 1) extending the 90% SBA 7(a) loan program guarantee rate through 2010; 2) increasing the maximum 7(a) loan size to \$5 million; and 3) improving access to SBA loan programs specifically for small business start-up and expansion.

Madam Chairwoman, again I wish to thank you and the committee members for allowing me to come here today to discuss the ways in which Congress can continue to help small businesses lead the nation to economic recovery. I look forward to answering your questions.