An "economic nexus" standard will hurt Washington-owned small businesses.

In Washington alone there are **18,741** franchised small businesses employing **203,000 workers**, providing an annual economic output to the state of **$16.8 billion**.*

A Double Tax on Washington Franchisees

The economic nexus standard represents a radical departure from the historical understanding of the reach of taxing authorities and a significant increase in the tax liability and burden of compliance of thousands of Washington small businesses. If every state where a franchisor has granted franchises is permitted to tax its income attributable to that state, franchisors will be subject to costly compliance burdens and overlapping taxes; and many no doubt will be forced to consider passing this cost of business on to their Washington franchisees by increasing the royalty fee. Those franchisees would therefore be paying it twice, a double tax.

In-state franchisees already pay the B&O tax on the same in-state revenue dollars. Under the B&O tax there is no deduction for expenses, therefore no possibility of apportioning expenses among the various states. (This is why high margin businesses, like Microsoft, prefer to reside in Washington state, while low margin businesses that have losses in some years, like Boeing, are more likely to consider relocating out of state.)

Double Tax on Out of State Franchisors that do not Pass it On to WA Franchisees. Very few other states have a similar tax, so there is no possibility of apportioning tax liability among the majority of states. Out of state franchisors (and credit card companies, etc.) will therefore certainly be subject to double tax on the same dollars, unless they are domiciled in a rare state that has a B&O tax and allows apportionment. The franchise relationship evolved over the last half century with the understanding that the franchisor is not subject to state income taxes (other than those imposed by the franchisor's domicile state) on the royalty income paid to the franchisor by franchisees located in a different state. Most franchisors own no property in the state in which their franchisees operate, do not maintain offices there and employ no residents of those states. Out of state franchisors do not generally rely on the states of their franchisees' domicile for any services and impose no costs on those states.

Likely Unconstitutional

The B&O tax is more like sales tax than income tax for purposes of the limits on state regulation of interstate commerce. There is no deduction for expenses, like the sales tax. Therefore it is likely that if this bill is passed and subsequently challenged in federal courts, it would be held unconstitutional.

The International Franchise Association

The International Franchise Association, the world's oldest and largest organization representing franchising, is the preeminent voice and acknowledged leader for the industry worldwide. Approaching a half-century of service with a growing membership of more than 1,300 franchise systems, 10,000-plus franchisees and more than 500 firms that supply goods and services to the industry, IFA protects, enhances and promotes franchising by advancing the values of integrity, respect, trust, commitment to excellence, honesty and diversity. According to a 2008 study by PricewaterhouseCoopers, there are more than 900,000 franchise establishments in the U.S. that are responsible for creating 21 million American jobs and generating an annual economic output of $2.3 trillion.*

**Economic Impact of Franchised Businesses – Volume 2*

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