

COVID-19 RELIEF REQUESTS TO MITIGATE FRANCHISE OWNER CLOSURES AND JOB LOSSES

Absent immediate action described below, FRANdata projects 33,000 franchise business closures & 365,000 job losses

FRANCHISE SECTOR

- 1. Create a SMALL BUSINESS WORKFORCE STABILIZATION FUND that provides immediate cash flow for otherwise healthy businesses to remain solvent during Coronavirus epidemic, keeps employees on payroll, and allows the business to grow once customers return.**

Eligibility:

1. Business must be SBA eligible on size standards and industry;
2. Business must have been solvent prior to the Covid-19 crisis - as of 12/31? (SBSS Score? Cash flow positive?);
3. Loans made by SBA lender banks with 90% - 100% guarantee;
4. SBA agrees to no impairment of guarantee unless fraud is proven;
5. Forgiveness up to \$\$ dollars given if headcount is restored within 12 months of the end of the Covid-19 period (measured in dollars or headcount); and
6. If headcount not restored, loans are termed out based on the original amortization.

- 2. Expanded Unemployment Insurance Benefits & a Temporary Government-Funded Paid Leave Program for Affected Workers**

Congress should temporarily allow COVID-19-affected employees to receive Unemployment Insurance (UI) benefits while retaining their current jobs during a business shutdown or quarantine. Alternatively, Congress could establish a government-funded paid leave program for affected workers whose employers do not offer paid leave to maintain employment. Rather than putting the burden on the most affected small businesses which will experience declines in cash flow to administer an unfunded paid sick leave mandate, expanded UI benefits or a government funded paid leave program would encourage franchise businesses to allow exposed employees to stay away from work for extended period while allowing them to remain employed.

- 3. Temporarily Cancel Payroll Taxes Through May**

Temporarily cancelling the collection of payroll taxes will reduce the cost for employers for continuing to pay employees regardless of whether they are working or on sick leave and increase liquidity for employers to help them respond to losses in revenue. For employers with fewer than 500 employees, cancellation of the taxes will provide meaningful financial support. Workers will receive more pay in each paycheck immediately through a reduction in payroll tax withholdings.

- 4. Optimized SBA Loan Terms and SBA Guarantees for Loan Forbearance**

IFA has long supported the SBA 7(a) loan program, which is the primary source of funding many franchisees rely on for site development, property leasing, and more. Small business franchise owners will struggle to meet loan obligations, and an assurance to a lender that the SBA guaranty will not be questioned when a COVID -19 loan modification is structured between the franchise owner, franchisor and others will provide protection for the lender, giving confidence to the deal. IFA also supports optimizing the SBA 7(a) loan program by eliminating borrower fees and providing higher loan guarantee percentages. Similar efforts worked in the Recovery Act following the Great Recession. Congress could also consider increasing the maximum loan amount in the SBA 7(a) program. Zero interest loans will also alleviate some cash flow concerns and allow small businesses to have capital access as they work on loan modifications and payroll.

5. Restructured Employee Retention Credit

Expand the Employee Retention Tax Credit paid by a qualified employer to an employee. Congress can continue the current credit of 40% of \$6,000 in wages, or increase it to provide more economic security for workers and businesses alike. The credit should be allowed against FICA once an employers' income tax liability is offset, with Social Security trust funds reimbursed by the Treasury. A qualified employer would be defined as an employer primarily engaged in the business of food service, lodging, retail, automobile rentals, air transportation, amusement, entertainment, recreation, or accommodation for mass gatherings of persons.

6. A Delayed Deadline for Estimated Quarterly Tax Payments and Filings

Delay the April 15th tax payment and filing due dates for two months for businesses in states with the COVID-19 would provide relief. Hold the Social Security Trust Fund harmless through a transfer of general revenue.

7. Flexibility from Financial Institutions and Leaseholders on Loan Payments and Relaxed Penalties for Small Businesses

- Ensure lenders offer temporary waivers on penalties on mortgages or other debt by small businesses.
- Provide loan workouts to modify or restructure loans to avoid foreclosure.
- Allow borrowers to defer principal portion of the monthly payment and make interest only payments, and/or to refinance without fees.
- Ensure landholders and leaseholders allow temporary late payments and/or lowered lease payments to minimize evictions to save a business and a tenant.

8. Tax Parity for All Small-Business Pass-Throughs

Treasury should help all pass-through small businesses by finally fixing the section 199A tax parity for pass-throughs to allow the first \$1 million of adjusted gross income of all pass-throughs to qualify for the 20% business income deduction without exclusions and jumping through hoops. The Tax Cuts and Jobs Act made this business deduction available for pass-throughs to give parity with the corporate income tax cut included in that bill, but the complicated language meant that only certain favored business types such as architects and engineers could easily qualify.

9. Tax Relief for Access to Disaster Relief Through Retirement Accounts

Include special tax relief to make it easier for retirement plan participants (including IRA owners) to access their retirement funds to recover from disaster losses incurred while living in certain federally declared disaster areas during the COVID-19 outbreak. This disaster relief may allow affected participants to:

- a. avoid the 10-percent additional tax on early distributions,
- b. include qualified disaster distributions in income over three years,
- c. repay distributions within three years,
- d. borrow more funds as a plan loan, and
- e. repay plan loans over a longer period.

10. The Securities and Exchange Commission (SEC) should increase the ability of public and private companies to access the capital markets.

- The SEC could extend its Order issued on March 4, 2020 to provide relief beyond April 30, 2020 in order to include most SEC registrants as it relates to their Form 10Q for the quarter ended March 31, 2020.

- For registration statements of existing issuers that are current and timely, the SEC could permit for those registration statements to be effective when filed. This action would enable certain smaller issuers that do not qualify as well-known seasoned issuers to more readily access capital.
- The SEC could use its exemptive authority to create a unique, emergency Securities Act registration exemption to facilitate timely access to capital for smaller private companies during the period impacted by the Coronavirus.

HOSPITALITY SECTOR

Facilitate Forbearance

Facilitating forbearance of principal and interest payments on debt during this crisis is critical. This could be facilitated by providing federal funds to cover payments during the most disruptive period, or by requiring lenders to offer forbearance options directly to borrowers.

Short Term Bridge Loans

Short-term bridge loans could allow hotel owners to keep their properties open, employees working and bills paid during the peak of the virus. Loans could be paid back over a fixed period as the economy recovers. To the extent Congress could ensure the next round of SBA loans are made available to hotels of all sizes in all jurisdictions, that would provide meaningful relief.

Cancellation of Debt

Hotel owners that are already facing severe economic circumstances and have debt canceled should not be required to pay taxes on this Cancellation of Debt (COD) income. Instead, hotel owners should be putting this money back into their businesses, employees, and customers during this difficult time. A deferral of tax attributable to COD income was provided in the wake of the 2008 financial crisis, and it makes sense to do the same now.

NOL Carrybacks

Allow hotel owner's net operating loss (NOL) to be carried back and deducted in the two years before the NOL year, and then carried forward for up to 20 years after the NOL year. This treatment would be consistent with pre-2018 law. Under current law, a business's NOL can be carried forward indefinitely, but there is no carryback.

Unsecured Loans/Loan Guarantees

A voluntary liquidity facility program in an aggregate amount up to \$[25]B pursuant to which the Treasury Department would provide zero interest unsecured loans or zero interest unsecured loan guarantees to hotel ownership groups.

RESTAURANT SECTOR

Qualified Improvement Property

Include bipartisan technical corrections legislation, the *Restoring Investment in Improvements Act* (H.R. 1869/S. 803), to help the restaurant sector recover costs on significant remodeling investments by restoring the 15-year depreciation treatment.

OTHER SERVICES

- Provide incentives, such as a payroll tax holiday, to the home health and home care industries in order to ensure at risk populations continue to have appropriate staffing levels. Ensure home health and home care companies have adequate staffing levels. Such systems need flexibility on how they provide leave to their workers without penalty, such as through a safe harbor, and relief from overtime penalties. Ensure access to Personal Protective Equipment for home care professionals.
- Provide gyms and health clubs with economic stimulus by including the *Personal Health Investment Today Act* (PHIT). This bill passed the House (H.R.1679) and Senate (S.680) in March 2019. The stimulus will allow Americans to use flexible spending accounts (FSAs) and health savings accounts (HSAs) to pay for health club memberships, fitness equipment, exercise videos, and youth sports leagues. Currently, the IRS code only allows these accounts to be used for medical expenses like prescription medications and doctor visits. This will provide a lifeline to small business franchise gyms.
- Include tax-exempt entities in temporary aid. According to the Events Industry Council's 2018 Economic Significant Study conducted by Oxford Economics, more than 1.9 million meetings occur in the United States each year – with more than 250 million attendees. These meetings contribute more than \$446 billion to U.S. gross domestic product and directly support 5.9 million jobs nationwide. Congress should include associations, non-profits and other tax-exempt organizations within any federal aid packages or supplemental appropriations measures, as many have been and will be harmed by event cancellations and reduced meeting attendance as a result of COVID-19.