

July 20, 2020

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Charles E. Schumer
Minority Leader
U.S. Senate
Washington, DC 20510

Dear Speaker Pelosi and Leaders McConnell, Schumer, and McCarthy:

On behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide, I write on behalf of the nation's franchising community. As Congress debates another round of COVID-19 relief, we urge policymakers to provide additional relief to franchise businesses and their employees. Prior to COVID-19, America had 733,000 franchise establishments that employed more than 7.6 million Americans. These businesses operate in hundreds of business lines, including food and beverage, automotive, education, fitness, residential services, senior health services, salons, and hotels. The vast majority of these franchise owners are small business owners in every sense. According to industry research firm, FRANdata, 75% of all franchise owners have fewer than 20 employees. Franchising is also more diverse than non-franchise businesses: nearly 30% of franchises are minority-owned, compared to 18% of non-franchised businesses.

The CARES Act provided a temporary lifeline to thousands of franchises and their employees, but many businesses continue to face liquidity issues and are in dire need of additional assistance. In a May 2020 IFA survey, 49 percent of franchisees lacked adequate cash reserves to last more than six months absent additional relief, and an additional 21 percent would close within a year. As local and state governments mandate additional closures and restrictions due to increases in COVID-19 cases, we strongly urge the U.S. Congress to provide additional liquidity support to local businesses who will face shutdowns, reduced capacity restrictions, and decreased customer demand for their products & services. We believe a two-pronged approach would be best, building off the programs established in CARES such as the Paycheck Protection Program and the Employee Retention Tax Credit, while also developing new, long-term, government-guaranteed lending programs that provide support for affected businesses, such as the RESTART Act. Additionally, IFA recommends Congress include reasonable liability protections for businesses making good faith efforts to follow guidelines for reopening. These protections should extend to franchisors providing assistance to their franchisees and shall not constitute a joint employer relationship.

A more detailed summary of our recommended policy solutions to provide meaningful relief to the franchise sector is enclosed. On behalf of our member brands, franchise owners and their employees, we thank you for considering our views and stand ready to work with you during this critical moment.

Sincerely,



Matt Haller
Senior Vice President of Government Relations & Public Affairs
International Franchise Association

- **Allow ALL SMALL BUSINESSES Access to Relief & Recovery Programs if they have Significant Revenue Declines**

According to IFA data, more than 68 percent of our members have seen revenue declines greater than 25 percent since February. Any future relief efforts, much like the CARES Act, should be broad-based, rather than industry-specific, and based upon need as demonstrated by a minimum 25 percent decline in revenue over a defined period (such as 3 months). In addition, the program should support these core principles that build upon the current framework of PPP: 1) zero interest rates, 2) long-term loan maturity, 3) overall administrative simplicity, and 4) the flexibility to use the loans to cover a wide range of expenses and to improve the underlying resiliency of the business.

1. **Zero-Interest Loans:** Zero percent interest rates, coupled with longer loan maturity, would offer certainty and flexibility for small employers, enabling them to take loans large enough to survive a prolonged period of lost revenues and operational disruption, as well as to use the loans in ways that lower their fixed operating expenses. The program should be structured so that both lenders and borrowers are adequately incentivized to participate.
2. **Long-Term Maturity:** Amortization schedules of up to 30 years will allow businesses to spread the costs of borrowing over a longer period and make relief affordable for deeply affected small businesses.
3. **Administrative Simplicity:** The program's maximum loan amounts should be determined as a multiple of a borrower's annual operating expenses or gross receipts. Loan requirements should be straightforward for borrowers to navigate, underwriting standards should encourage a broad range of applicants, and necessary guidance should be provided at the start of the loan program.
4. **Broad Usage:** Borrowers must be able to use the next phase of relief to address a wide array of operational needs, as well as to improve their balance sheets in order to survive an extended period of weaker demand from consumers. Covered expenses should include maintaining payrolls, refinancing existing loans, purchasing equipment, inventory, furniture and fixtures, Personal Protective Equipment (PPE), funding tenant improvements, and paying for occupied real estate.

IFA supports three broad-based recovery programs, including: (1) the bipartisan *RESTART Act*, which would provide long-term, low interest loans to small- and medium-sized businesses in affected industries; (2) the *Prioritized Paycheck Protection Program (P4) Act*, which would provide additional PPP funding for the hardest hit small businesses with 100 employees or less; and (3) the bipartisan *Relief for Main Street Act*, which would complement federal relief efforts for small businesses through state and local emergency grant funding.

In addition, IFA supports the following policies and goals, all of which help franchise businesses remain operational and retain employees.

- **Allow Deductibility of PPP Loans.** S. 3612, the Small Business Expenses Protection Act of 2020, would allow franchises to deduct eligible expenses paid with a forgiven PPP loan, thereby eliminating the substantial tax liability many now face for taking these loans in the first place.
- **Simplify PPP Forgiveness for Smallest Borrowers.** S. 4117, the *Paycheck Protection Program Small Business Forgiveness Act*, would ensure franchises can focus their time, energy, and resources back into their business and communities instead of allocating significant time and resources into completing complex forgiveness forms. The legislation that would forgive PPP loans of less than \$150,000 upon the borrower's completion of a simple, one-page forgiveness document. PPP loans of \$150,000 and under account for 85 percent of total PPP recipients, but less than 26 percent of PPP loan dollars. Expediting the loan forgiveness process for many of these hard-hit businesses will save more than \$7 billion and hours of paperwork.

- **Expand & Rework the Employee Retention Tax Credit.** H.R. 6776, the *Jumpstarting Our Businesses' Success Credit (JOBS Credit) Act of 2020*, which will enhance the Employee Retention Tax Credit (ERTC) by allowing the program to complement the Paycheck Protection Program, thereby better ensuring employees can stay connected to their employers during the pandemic. Congress should also increase the size of the credit, make the credit more flexible by allowing small and midsize employers to claim the credit regardless of whether the employee is “providing services,” and expanding the universe of eligible employers by reducing the reduction in gross receipts required to access the credit. Congress should consider allowing the ERTC to cover a limited amount of fixed costs.
- **Pass the Small Business Comeback Act.** The bipartisan legislation would create a recovery fund to provide businesses with the support they need to see it through the coronavirus national emergency. The Comeback Act would complement business assistance provided under the CARES Act, and provide streamlined and tailored federal support for small businesses most impacted by COVID-19. Relief is targeted to help establishments retain and rehire employees, maintain worker benefits, and continue or resume economic activity.
- **Optimized Small Business Loans.** Optimize the SBA 7(a) loan program by eliminating borrower fees, providing higher loan guarantee percentages, and increasing the maximum loan size. Optimizing the loans will alleviate some cash flow concerns and allow small businesses to have capital access as they work on loan modifications, payroll, and other obligations. These enhancements worked particularly well following the Great Recession and would be helpful again in concert with the PPP and other measures.
- **Virtual Training Assistance for New Business Owners.** Pre-opening training is at the core of a franchisee’s future success, and Congress should facilitate robust training and education by assisting start-up franchise brands during this critical stage. A temporary refundable tax credit to support new franchisee education and training on reopening safely in the new economy, general business skills such as financial management, lease negotiation, marketing, and contracts, in addition to operational support such as site selection, real estate support, site development, and pre-marketing research and development costs, would accelerate ownership and job creation. In the wake of COVID-19, the focus would be to assist brands in their offering of virtual training and learning resources prior to the development of a vaccine. For any brand, these are incremental support services to benefit the franchisee, which will in turn support the education of franchise workers during the reopening phase.
- **Clean Start Tax Credit** H.R. 7079, the *Clean Start: Back to Work Tax Credit*, which will create a temporary tax credit to assist business owners responsibly safeguard their workers and customers during the re-opening of the economy. This important program would help defray the unforeseen costs and financial burden of critical cleaning services and supplies, especially as business owners continue to struggle with liquidity challenges.
- **Back to Work Tax Credits.** H.R. 7066, the *Reopening America by Supporting Workers and Businesses Act of 2020*, which will help local businesses rebuild their workforce quickly by turning the unemployment benefits into a back-to-work bonus that will provide a bump to workers and help accelerate our economic recovery.
- **Pandemic Risk Insurance.** H.R. 7011, the *Pandemic Risk Insurance Act of 2020 (PRIA)*, will create the Pandemic Risk Reinsurance Program, a system of shared public and private compensation for business interruption losses resulting from future pandemics or public health emergencies. The program will ensure that there is sufficient capacity to cover losses and protect our economy in anticipation of a resurgence of COVID-19 and future pandemics.

- **Forbearance and Rent Abatement.** Ensure landholders and leaseholders allow temporary late payments and/or lowered lease payments to minimize evictions to save a business and a tenant.
- **Expand RESTAURANTS Act to Other Affected Sectors & Ensure Franchise Eligibility.** The *Real Economic Support that Acknowledges Unique Restaurant Assistance Needed to Survive Act*, or RESTAURANTS Act), S.4012, would provide grants from the Treasury Department to eligible entities that own or operate 20 or fewer establishments (together with any affiliated business), regardless of the type of ownership of the locations and whether those locations do business under the same or multiple names. Grants are capped at \$10 million per eligible entity and can be used to cover a variety of costs including payroll, benefits, mortgage, rent, supplies, protective equipment, cleaning materials, and other costs. While IFA supports providing relief for restaurants, many other sectors face the same or more challenging liquidity issues, including salons, gyms, hotels, and day care centers, among many others. IFA urges Congress not to pick winners & losers by sector or business type, but to allow all businesses who face challenges related to operating in the wake of COVID-19 a priority.
- **Provide Direct Relief to Childcare Businesses & Workers** –Many childcare centers are franchises, and these providers face similar challenges as schools such increased costs associated with implementing public health measures and forgone revenue as a result of capacity and occupancy limits. As small businesses with thin margins and limited access to both capital and safety supplies like hand-sanitizer and personal protective equipment, Congress should provide targeted funding to offset a portion of the direct costs of COVID-related safety modifications and limited subsidies when occupancy limits constrain provider revenue. The *Back to Work Child Care Grants Act* supports the economic recovery and helps parents go back to work by providing critical resources to help childcare providers reopen and stay open.
- **Provide Stimulus to Gyms & Support Improved Health of Americans.** Gyms and health clubs are critical to keeping Americans healthy, and studies show that healthier Americans are less likely to face complications if they contract COVID-19. The *Personal Health Investment Today Act (PHIT)* 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.
- **Provide \$10 billion in Federal Grants to Promote Safe and Healthy Travel Practices.** More than 8 million travel industry jobs have been lost, totaling one-third of all jobs lost since March and leading to a 50% unemployment rate in the travel industry. Unless Congress acts, it will take the travel industry at least four years to fully recover, which will negatively impact the macro economic environment of the United States during that time. Given the extent to which franchise businesses make up the broader travel economy from hotels to restaurants and many others, as well as the extent to which all franchise brands necessarily must travel to protect brand standards and support their existing franchisees, promoting a safe and healthy travel sector can spur economic recovery from COVID-19. Congress should support the travel sector through an expansion of Coronavirus Relief Fund (CRF) to allow Destination Marketing Organizations to effectively compete for CRF resources. Congress should also provide Economic Adjustment Assistance (EAA) Grants expenses for travel promotion.
- **Good Samaritan Protection.** Congress should provide limited safe harbors from liability in the face of a public crisis. As hundreds of thousands of small businesses continue fighting to keep their doors open during these unprecedented times, we strongly urge you to clarify the legal standard of “reasonableness” in order to protect small business owners who have made good-faith efforts to maintain cleanliness and



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Building local businesses,
one opportunity at a time.

safe social distancing standards while providing much-needed jobs, services, and products to their local communities.

- **Joint Employer.** Congress should make clear when franchisors and franchisees are jointly responsible for the terms and conditions of employment over the same group of employees, but should not include best practices guidance, educational resources, or training as it relates to COVID-19 as an avenue for labor law liability.