October 15, 2024

The Honorable Jason Smith

Chairman
Committee on Ways and Means

1139 Longworth House Office Building

Washington, DC 20515

Dear Chairman Smith,

On behalf of the International Franchise Association (IFA), thank you for the opportunity to share the priorities of the franchise community with the Committee’s Tax Teams. In particular, our comments are relevant to the Main Street, American Manufacturing, and American Workforce teams.

**About IFA**

IFA is the world's oldest and largest organization representing franchising worldwide. IFA represents all aspects of the franchise business model, with more than 1,200 franchise brands, more than 10,000 franchise business owners, and 600 industry suppliers who support the franchise sector. For over 60 years, IFA has worked through its government relations, public policy, media relations and educational programs to advocate for the protection, promotion and enhancement of franchising and the approximately 806,000 franchise establishments that support nearly 8.7 million direct jobs, $858.5 billion of economic output for the U.S. economy, and almost 3% of the Gross Domestic Product. IFA members include franchise companies in over 300 different industries, individual franchisees, and companies that support franchising in marketing, technology solutions, development, operations, and more.

**Section 199A Deduction for Qualified Business Income**

The Tax Cuts and Jobs Act (TCJA) created the Section 199A deduction that provides pass-through businesses with a 20% deduction for qualified business income to provide a degree of parity with the large rate cut included in the bill for C corporations. Unlike the corporate rate cut, the 199A deduction, which functions much like a reduced tax rate on qualified business income, will not be available beyond 2025 unless Congress acts. Franchises are locally owned small businesses, and nearly all franchise businesses are organized as pass-throughs in the U.S. The bipartisan and bicameral [H.R.4721/S.1706, the Main Street Tax Certainty Act](https://nam11.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.congress.gov%2Fbill%2F118th-congress%2Fhouse-bill%2F4721%2Fcosponsors&data=05%7C02%7CMlayman%40Franchise.org%7Cb3ee961ff99c439d52cb08dcbd35c9ce%7Cb4bbe30856ff43dc905585d840fa5be2%7C1%7C0%7C638593286033216438%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C0%7C%7C%7C&sdata=MwtfpnEc6uHF1RdckbPKTQGMMD2KzDk5r0Xu8bDQSo0%3D&reserved=0), introduced by Reps. Lloyd Smucker and Henry Cuellar and Sen. Steve Daines, would make Section 199A permanent. IFA strongly supports making the pass-through deduction permanent to provide continued certainty to the franchise businesses on Main Street.

**Bonus Depreciation**

The TCJA allowed businesses to immediately write off 100% of the cost of capital investments in qualified property placed in service after September 27, 2017, and before January 1, 2023, after which the additional depreciation allowance phases down before fully expiring in 2026. This provision encourages businesses of all sizes to make investments that will boost wages and

increase hiring, and it is included in the U.S. House-passed [Tax Relief for American Families and Workers Act of 2024](https://nam11.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.congress.gov%2Fbill%2F118th-congress%2Fhouse-bill%2F7024&data=05%7C02%7CMlayman%40Franchise.org%7Cb3ee961ff99c439d52cb08dcbd35c9ce%7Cb4bbe30856ff43dc905585d840fa5be2%7C1%7C0%7C638593286033245438%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C0%7C%7C%7C&sdata=YwKqw6vYbluIgDG4bOT7wWVhc9tHDrxlTaHZiResOMA%3D&reserved=0). IFA thanks you for your leadership in advancing this bipartisan bill and strongly supports making 100% bonus depreciation permanent to support local franchise businesses as they make investment decisions***.***

**Work Opportunity Tax Credit**

The Work Opportunity Tax Credit (WOTC) is a federal tax credit available to employers for hiring and employing individuals from certain targeted groups who have faced significant barriers to employment. According to [Department of Labor statistics](https://www.dol.gov/sites/dolgov/files/ETA/wotc/pdfs/WOTC-Fact-Sheet-2024.pdf), WOTC supports the hiring of around 2 million such individuals annually. IFA supports the bipartisan Lloyd Smucker-Terri Sewell bill, [H.R. 6833, Improve and Enhance the Work Opportunity Tax Credit Act](https://www.congress.gov/bill/118th-congress/house-bill/6833/cosponsors?s=1&r=1&q=%7B%22search%22%3A%22hr+6833%22%7D), to benefit franchise employers who offer job opportunities to individuals from underserved communities. H.R. 6833 increases the credit percentage from 40% to 50% of qualified wages and adds a second credit level for employees working 400 or more hours.

**Interest Deductibility**

Debt financing plays an important role in franchising to support capital investments, growth, and job creation across all industries. The TCJA introduced a limit on net interest expense to 30% of EBITDA (earnings before interest, taxes, depreciation, and amortization). Beginning in 2022, this limitation was applied against EBIT, which is a narrower definition of business income. IFA thanks you for the addressing this issue in the Tax Relief for American Families and Workers Act. We also support the [American Investment in Manufacturing Act, H.R. 2788/S. 1232](https://www.congress.gov/bill/118th-congress/house-bill/2788/related-bills?s=1&r=1&q=%7B%22search%22%3A%22hr+2788%22%7D), which would restore this higher limitation and not subject franchise businesses with increased financing costs and reduced liquidity.

**Foreign-Derived Intangible Income**

Under TCJA, the deduction for foreign-derived intangible income (FDII) is reduced from 37.5% to 21.875% in taxable years beginning after December 31, 2025. IFA opposes the reduction of this incentive, which encourages companies to keep research and development, production, ownership and commercialization of intellectual property and the associated jobs here in the United States. The FDII is critical to more than 250 U.S.-based franchise brands that have an international presence, and the possible elimination of the FDII incentive would discourage these businesses’ efforts to keep their innovation and intellectual property development here in the United States.

**Veterans Tax Credit**

In order to alleviate some of the barriers to entry in franchising, IFA proudly advocates tax credits to minority groups and veterans seeking to overcome the initial financial hurdles to owning and operating a franchise. IFA supports the [Veteran Entrepreneurs Act, H.R. 3214](https://www.congress.gov/bill/118th-congress/house-bill/3214?q=%7B%22search%22%3A%22hr+3214%22%7D&s=3&r=1), which would provide a qualified veteran with a 25% tax credit on the initial franchise fee and significantly lighten the financial burden of starting their own business.

**Estate Tax and Gift Tax**

The TCJA made permanent $5 million exemption, spousal transfer and stepped-up basis that was passed as part of the American Taxpayer Relief Act of 2012 and increased the exemption to $11

million through 2025 by the TCJA. IFA supports the [Death Tax Repeal Act, H.R. 7035/S.1108](https://www.congress.gov/bill/118th-congress/house-bill/7035?q=%7B%22search%22%3A%22hr+7035%22%7D&s=2&r=1) and short of that legislation, permanence of TCJA estate tax provisions.

Franchise businesses rely on a stable and favorable tax code as they work to hire, invest and grow. It is very difficult for small, local businesses to compete with multinational corporations, and yet the biggest corporations enjoy permanent tax relief, while small franchises do not. Again, we appreciate the opportunity to share the priorities of the franchise community and look forward to working with the committee to protect, enhance, and promote the franchise business model.

Sincerely,

Michael Layman

Sr. VP Government Relations and Public Affairs

International Franchise Association