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Hearing on "Local Ownership, National Brands: How Franchising is a Pathway to Entrepreneurship"

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Good afternoon, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee.

My name is Angie Katsanevas, or Angie K. Some people may know me from *The Real Housewives of Salt Lake City*, but long before I was on television, I was a hairdresser. And that's what brought me here today.

I'm the co-founder of *Lunatic Fringe*, a hair salon business I started with my husband Shawn in Salt Lake City in 1999. I was a 21-year-old hairdresser, sweeping hair, and making $2 an hour with high hopes. That's where the story begins. I had passion for the beauty industry and saw a need for something bigger – to build something and call it our own.

That's when we opened the door to our own salon. We started out with humble beginnings: taking a small loan from Shawn's brother, renting a 700-square-foot space and carrying out a vision to build a place where you could have a thriving career as a stylist, grow within the company, and potentially even own your own salon one day.

We saw a strong need for a salon with a true guest experience in Salt Lake City – this had not been done before outside of major cities. We were on a mission to establish a place with a path for career growth for stylists, to create jobs in our community, and to provide financial freedom for those in the hair industry.

During the process, we learned that running a business wasn't easy. We encountered the failures and we took the hits, but through that we took the guess work out of it for others, and built a model that could be recreated outside of Salt Lake City and now offers entrepreneurs the opportunity to be a successful business owner.

Franchising gave us that ability to take our trials and create a model with a tried-and-true blueprint that allows others to be successful.

We've since grown into a network of salons across Utah, Idaho, and Ohio, some that we own directly, and others that we've franchised to local entrepreneurs who now run them as their own businesses.

And so, I'm here today, in partnership with the *International Franchise Association*, to share what franchising has meant to me, my family, our community and the people who have benefited from what we have built.

But before I get there, I'd like to share a little about my personal story. I am the daughter of Greek immigrants. My father came to this country with nothing but the clothes on his back. Through his example we learned kindness and respect. He taught me that if I wanted something, I had to work for it. He taught me drive and work ethic. That there's dignity in every job. And that taking care of your people is what business is really about.

That's the philosophy we brought to *Lunatic Fringe*. In other words, we wanted to build a business and culture where someone could walk in as an assistant or a hairdresser and if they worked hard and learned the craft, could eventually own their own business.

Proof Point: Franchising Creates a Path to Local Ownership

Let me tell you about Kati Torres. Kati is an *incredible* hairstylist. With over 25 years in the industry, she's trained stylists across the country and knows the craft inside and out.

Kati joined our team in 2017. She learned our systems, our culture, and how we do things. And last year, she and her husband Reuban opened their own *Lunatic Fringe* location in Draper, Utah.

They're franchisees now. They *own* that business. They employ local stylists. They serve their community.

And it's only possible because of franchising. Kati had the drive to own her own business but didn't know the ins and outs of running a business. Because Shawn and I learned the hard lessons, reduced the risks, and eliminated the learning curve surrounding leases, budgets, and understanding the salon business, she was able to achieve that dream. Now, our franchisees get to own their own business with the support and infrastructure that *Lunatic Fringe* is proud to provide.

I know some people hear "franchise" and think of big corporations. They see a familiar sign and assume there's some faceless company behind it. But that's not what it is, and that's why I'm here today to tell you about my firsthand experience with what franchise businesses are.

When I hear "franchise," I think about Kati and our other franchisees, who spent decades perfecting their craft and, through franchising, came to *own their own businesses – now passing on that success to others.*

That's what the franchise model does: it lets people who couldn't or wouldn't otherwise start a business from scratch to become entrepreneurs and business owners in their own communities.

And the community element is just so important. I see real careers with growth and professional development – you wouldn't believe the time and effort and care Kati devotes to her stylists.

It's just inspiring to be a part of it… if you can't tell, I'm passionate about this!

A Viral Franchising Moment

That passion came through on camera a few months ago. I found myself in a bit of a public disagreement… a fellow housewife, who happens to have a brand partnership with a quick-service restaurant brand, questioned whether I was a "real" business owner because I franchise.

In that moment, I quickly responded: "You do French fries, I do franchise," and the moment went viral. I didn't hesitate to defend a model that has provided so much opportunity for so many – putting food on their table, helping people buy their first homes and first cars, all the way to owning their own business. Franchising supports communities, neighborhoods, and families.

Here’s what struck me most about that viral moment: the comments on social media weren’t just the usual response to the drama; they were overwhelmingly in support of my business, in support of franchises, in support of women in business – and the possibility that they too could achieve the same.

It was people saying, this matters; this is important. We support you in standing up for franchise businesses – for a system that empowers others to succeed, a model that helps hardworking people like Kati go from stylist to business owner.

All of this is to say there’s more support for this model than most people realize. And I think that’s because, at its core, franchising is about something Americans believe in – that if you’re willing to work, there should be a path to ownership. A path to building something.

Franchising makes that possible. It let me scale something I couldn’t have scaled on my own. And more importantly, it let me share it. So let me share a little bit of background on franchising and how it has led to the creation of over 830,000 small businesses in the United States.

The Franchise Model

From its earliest origins in the United States, the franchise model has sought to enable brands’ growth by empowering local business owners. The first known commercial franchise agreement—signed in 1731 between Benjamin Franklin and Thomas Whitmarsh for a printing shop in North Carolina—reflected the enduring logic of the model: an established brand entrusting local operators who understood the communities they served. That dynamic continues today. Franchising allows national and regional brands to expand while remaining rooted in local markets through owner-operators whose livelihoods depend on the success of their individual establishments.

The economic rationale for franchising is well established. Central to this is ensuring that the incentives between the franchisor and the operator of each establishment are aligned. Franchisees act as both investors and CEOs, giving them a direct financial stake in the performance of their locations. This helps address the classic principal–agent problem by motivating local operators to maintain quality, drive revenue, and uphold the brand’s reputation. No salaried corporate manager has the same incentive structure as an owner whose income and wealth depend on the success of the business.

Today, franchising is a significant driver of economic and community growth. With over 830,000 franchise establishments in 2024, franchises provide jobs for over 8.8 million people across the country, generating over $550 billion in GDP.

Franchises are also far more diverse than they are sometimes perceived to be. While many people associate franchising with national fast-food chains, these represent only about a quarter of all franchise establishments. The remaining three-quarters are made up of a wide range of industries, including business services, residential services, lodging, personal services – salons like my own – retail, and more.

Similarly, iconic national brands represent just 15% of all franchise brands, while more than half (52%) are local brands in just a handful of states. Nearly half of all franchise brands (47%) are relatively small, operating 25 locations or fewer. *Lunatic Fringe* has nine. This highlights how franchising is a business model embraced by both emerging companies and well-established brands at every stage of growth. While every business model is different, Lunatic Fringe isn't focused on reaching a certain number of units or meeting a specific metric – we are focused on finding the right people who want to own their own businesses, to be a part of what we built and setting them up for success.

FRANdata estimates that franchise employment has grown by 7.3% between 2021 and 2024. This was higher than the average growth rate of 6.7% across similar sectors of the economy during the same period. In sectors like retail, business services, commercial and residential services, and personal services, franchise employment grew at a faster rate than the overall industry during 2021–2024. Looking ahead, franchise GDP is expected to continue to grow during 2025, at a pace of 5% year-on-year. This is faster than the Congressional Budget Office's projections for the U.S. economy, which is expected to grow at 1.4% in 2025.

The American Franchise Act

With all of these facts, it is hard to deny that the franchise model must be protected. Perhaps the most important thing Congress could do to protect the franchise model is to enact the bipartisan, bicameral American Franchise Act (H.R.5267/S.3525).

The American Franchise Act would clarify a regulation essential to the operation of the franchise business model, called the joint employer standard – which has changed four times over the last decade – with each change in presidential administration. The joint employer standard determines when two entities share responsibility for violations of the National Labor Relations Act (NLRA) and Fair Labor Standard Act (FLSA) based on one entity's control of the other entity's employees. Until 2015, a company was considered a "joint employer" with another company only if it had substantial direct and immediate control over narrowly defined essential terms and conditions of employment of the other company's employees – like wages, benefits, hours of work, hiring, discharge, discipline, supervision, and direction.

But in 2015, the National Labor Relations Board (NLRB) created an overly broad joint employer standard that is completely misapplied to the franchisor-franchisee context because franchises are independently operated, and no one is arguing that franchised employees belong to a franchisor. The 2015 NLRB standard cost franchise businesses over $33 billion per year, resulting in 376,000 lost job opportunities, and led to 93% more lawsuits.

Over the past decade, the definition has unnecessarily become a political issue, creating legal confusion, eroding trust, and stifling growth for thousands of small businesses across America. That's why we need a new legislative solution – to provide long-term certainty and protect franchisors and franchisees from the political tide, for good.

The bipartisan, bicameral American Franchise Act modestly amends the Fair Labor Standards Act (FLSA) and the National Labor Relations Act (NLRA) to clarify that: "A franchisor may be considered a joint employer of the employees of a franchisee only if the franchisor possesses and exercises substantial direct and immediate control over one or more essential terms or conditions of the employees of the franchisee." This is consistent with historical precedent and current NLRB policy.

IFA applauds the bipartisan and bicameral group of Members who have joined together to find a commonsense solution to support locally owned franchise businesses, and together, we urge Congress to enact the American Franchise Act.

Tax Policies that Support Small Businesses

Last summer, Congress enacted legislation providing critical tax relief to small businesses, making permanent provisions like the 199A small business deduction, bonus depreciation, interest deductibility and add a new "no tax on tips" provision – all essential to supporting franchised businesses.

Section 199A Deduction for Qualified Business Income

In 2017, Congress enacted the Section 199A deduction as part of the Tax Cuts and Jobs Act (TCJA), providing pass through businesses with a 20% deduction for qualified business income and 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, was scheduled to expire at the end of last year without Congressional action. Notably, more than 95% of franchised businesses are organized as pass-throughs.

Much like the rest of small business owners, the 199A deduction has enabled our franchisees to increase investment in new equipment, technology, and facilities, driving growth and innovation, while the extra financial breathing room has allowed them to hire more employees, and provide better benefits to existing team members.

We try to keep our salons modern and inviting, and we are grateful that Congress made this valuable provision permanent.

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. This provision encourages businesses of all sizes to make investments that will boost wages and increase hiring.

Bonus depreciation allows businesses to deduct a large percentage of the cost of eligible assets in the year they are purchased. This immediate deduction significantly reduces taxable income, leading to lower tax liabilities and improved cash flow. For our businesses, this influx of cash is crucial for reinvestment, expansion, or managing operational costs. More importantly, the provision incentivizes businesses like our franchisees to invest in remodeling, new equipment, technology, and other qualifying assets, leading to increased customer appeal, productivity, efficiency, and overall economic growth. By allowing a business to make capital expenditures sooner rather than later, our franchisees have the ability to take a large deduction upfront simplifying tax planning, and reducing the complexities associated with traditional depreciation schedules.

The phasing down of this provision under TCJA added further complexity to long term business planning, and capital expenditure planning. Businesses had to plan for the future, knowing that the tax benefits were being reduced.

For these reasons, IFA strongly supported restoring and making 100% bonus depreciation permanent and applauds Congress for including it in the final legislation.

No Tax on Tips

This new provision, passed as part of the One Big Beautiful Bill Act, provides an above-the-line deduction of up to $25,000 for qualified tips received by both W-2 employees and 1099 contractors, Effective in tax years 2025–2028, the provision also extends the employer-side FICA credit under Section 45B to beauty and salon services. This is essential to keep more hard-earned money in my employees and my franchisees' employees' pockets.

This legislation, now signed into law, has been essential to keeping small business owners' tax burden more predictable, affordable, and encouraging reinvestment in their business and employees so we can continue to grow and give back.

Conclusion

I'll close with this. My grandfather came to Utah and worked as a janitor so he could bring his family to America. My father built a life for us through his own relentless work and sacrifice. And I've been fortunate enough to build a business that has helped other families do the same.

I'm proud to be here today, proud to represent this business model, and proud to work alongside organizations like IFA that fight every day for the small business owners who make franchising what it is.

Mr. Chairman, Members of the Committee, thank you again for the opportunity to testify, and I look forward to your questions.