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TESTIMONY BEFORE THE U.S. HOUSE COMMITTEE ON SMALL BUSINESS AND THE U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

HEARING ON "PROSPERITY ON MAIN STREET: KEEPING TAXES LOW FOR SMALL BUSINESSES"

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Good morning, Chairs Williams and Ernst, Ranking Members Velazquez and Markey, and distinguished members of the Committees. My name is Jerry Akers, and I am a franchise business owner of Great Clips and The Joint Chiropractic. I own and operate with my wife and two daughters 33 Great Clips and four The Joint Chiropractic locations in my home state of Iowa, as well as Nebraska. I am also a co-author of the best-selling book "Live it 2 Own it" a Franchise bootstrap guidebook leading to the formation of ZDynamix – a company tasked with paving the way of success for franchise business owners.

I appreciate the invitation to appear before this Committee to share my story of small business ownership and discuss the views of local business owners everywhere as it relates to tax policy. I will focus my comments on the Section 199A deduction for qualified business income, bonus depreciation, the deductibility of interest, the estate, and tax relief for tipped workers. It is important that small business perspectives are heard by our nation's leaders.

I appear today on behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 830,876 franchise establishments that support nearly 8.8 million direct jobs, $896.9 billion of economic output for the U.S. economy, representing almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

I have experienced firsthand the remarkable impact that franchise businesses can have on local economies and communities, including their ability to create jobs, develop a skilled workforce, and foster economic growth. My wife and I have created a community of our own, employing over 250 team members that have been part of our system over the past several years. These team members are treated as an extension of our family and receive industry leading wages and Fortune 500 benefits all while working for a small franchised organization. As a multi-brand franchise owner and area developer for The Joint Chiropractic, I also assist other franchisees to create success and generate wealth in their communities. We are proud of the growth of franchising and its role in the economic recovery. Franchising had a great year in 2024, and 2025 looks to be another strong year of growth.

The Franchise Model

Franchising is perhaps the most important business growth strategy in American history. First beginning in 1731, when Ben Franklin entered into a partnership with Thomas Whitemarsh, who franchised Franklin's printing business – *The Pennsylvania Gazette*, the franchise system has served as a core American model over centuries for opportunity and entrepreneurism, contributing to robust job creation and providing foundational skills development for small business owners and workers.

When most people think of franchising, they first focus on the law, and while the law is certainly important, it is not the central tenant to understand franchising. At its core, franchising is about the relationship between the franchisor and its franchisees— how the franchisor supports its franchisees, the franchisor's brand value and how the franchisee then meets its obligations to deliver the products and services to the system's brand standards.

Often affiliated as "big business," franchising is in fact the exact opposite. A franchise is first a local business, distinguished from other local businesses because it licenses the branding and operational processes of a franchisor while operating independently in a defined market. The local owner, or franchisee, like myself, is responsible for hiring staff, organizing schedules, managing payroll, and all daily operational tasks as well as local sales and marketing. The value of franchising then lies in a strategic balance in the relationship between a franchisor and franchisee: the independence of a franchisee to manage its day-to-day operations and connections with its employees, consumers and the local community balanced with the franchise system giving aspiring small business owners a head start toward becoming their own boss, with a proven business model that can set up new business owners for success and easier access to lines of credit than a traditional business.

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. Like I mentioned earlier in my testimony, there are more than 300 different sectors that are represented in franchising, and franchised companies offer a huge range of products and services from lodging to fitness, home renovators to hair salons, plumbing to pest control, restaurants, security, lawn care, and yes, even to dog care services, like Camp Bow Wow. So again, franchising is utilized far beyond the fast food brands that many most associate with it. In fact, 60% of franchises are outside of the restaurant sector.

There are two principal explanations for the popularity of franchising as a method of distribution. One is that it "was developed in response to the massive amounts of capital required to establish and operate a national or international network of uniform product or service vendors, as demanded by an increasingly mobile consuming public." The other is that franchising uniquely provides an opportunity for an aspiring business owner to own their own business with a brand, concept, and system for support in place, while having the autonomy to run their own day-to-day business operations. These two motivations are consistent with a business model in which the licensing and protection of the trademark rests with the franchisor, and the capital investment and direct management of day-to-day operations of each franchise unit are the responsibility of the franchisee who owns, and receives the net profits from, its individually owned franchise unit.

It is typical in franchising that a franchisor will license, among other things, the use of its name, its products or services, and its operational processes and systems to its franchisees. The turnkey nature of operating a franchised business is why I and so many of my fellow franchisees purchased a franchise. Franchisees look to the franchisor to protect the trade names, trademarks and service marks (collectively the "Marks") and brand by establishing and enforcing standards on all franchisees in a system. Such standards are essential for protection of franchisees' equity in their businesses and consumers of the brand. These standards allow franchisors to maintain the uniformity and quality of product and service offerings and, in doing so, to protect their Marks, the goodwill associated with those Marks, and most importantly, consumer confidence in the Marks and brand.

2025 Franchising Economic Outlook

For the last several years, franchising has exceeded economic expectations and surpassed the rate of growth of the broader economy. Last month, IFA released its annual Franchising Economic Outlook for 2025, and for the second consecutive year, franchising is experiencing tremendous growth. The report, conducted by FRANdata, an industry-leading research and analytical firm, is IFA's annual study that details the franchise sector's performance for the past year and projected economic outlook for the year ahead. It also provides an in-depth state outlook for all 50 states and Washington, D.C.

The report positively notes that even in the face of ongoing economic uncertainty and policy headwinds in 2024, franchise growth exceeded expectations, highlighted by 2.2% growth in franchise establishments and more than189,000 new jobs. And now, as we turn the calendar year into 2025, the report notes that a stabilizing labor market, easing interest rates, and increasing optimism about our economy are expected to propel franchising further, forecasting that franchise establishments will grow an additional 2.4%.This growth is projected to create approximately 210,000 new jobs across franchising this year, bringing franchise employment to more than 9 million jobs. Some other key highlights from the report that I wanted to bring to the Committees' attention are:

- Projected growth in the number of franchise establishments is expected to increase in 2025 by more than 20,000, or 2.5%, from 830,876 total franchise establishments to 851,000 total establishments.
- Total franchise output in 2025 is projected to exceed $936.4 billion, increasing by 4.4%, from $896.9 billion in 2024.
- Franchise GDP is expected to increase at a pace of 5% to $578 billion, which significantly outpaces the 1.9% growth in the broader economy projected by the Congressional Budget Office.
- The two franchise sectors that are expected to be the fastest-growing industries in 2025 are personal services and then retail food, products, and services, anticipated to increase by 4.3% and 3.5%, respectively.
- Regionally, it is forecasted that growth in the Southeast and Southwest will outpace the rest of the U.S. franchise market this year, with output growing by 6.2% and 8.5%, respectively.
- And as it pertains to states, the top 10 fastest-growing for franchise growth are: Georgia, North Carolina, Virginia, Arizona, South Carolina, Pennsylvania, Tennessee, Florida, Colorado, and Maryland.

So, as we enter into 2025, the economic outlook for franchising is strong and promising. We have favorable economic conditions and supportive regulatory policies which are helping pave the way for such expected growth and expansion across various sectors in franchising.

The Importance of Tax Policies that Support Small Businesses

As we all know, in 2017, Congress enacted the Tax Cuts and Jobs Act (TCJA), which significantly overhauled large portions of the tax code for individuals, families, and businesses. While many of these changes for corporations were permanent, many of the individual and small business provisions are expiring at the end of this year. Several of these expiring provisions are critical to locally owned franchise businesses. I appreciate the urgency with which Congress is seeking to address these as the uncertainty created by their looming expiration is giving small businesses pause as they make investment decisions that will allow them to grow and create jobs.

Section 199A Deduction for Qualified Business Income

The TCJA created the Section 199A deduction that provides passthrough 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. 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 me to increase investment in new equipment, technology, and facilities, driving growth and innovation, while the extra financial breathing room has allowed me to hire more employees, and provide better benefits to existing team members.

More importantly, this deduction has helped level the playing field, allowing businesses like mine to compete with larger corporations, and provide a level of financial stability that has been very valuable. The thought of these hard-earned gains being jeopardized is deeply unsettling. It's not just about numbers; it's about the livelihoods of families, the vitality of communities, and the spirit of entrepreneurship.

I urge Congress to make the pass-through deduction permanent to provide continued certainty to 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. This provision encourages businesses of all sizes to make investments that will boost wages and increase hiring. Unfortunately, bonus depreciation has already begun to phase out. It stands at 40% for this year and will be phased out entirely in 2027 absent Congressional action.

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 mine to invest in new equipment, technology, and other qualifying assets, leading to increased productivity, efficiency, and overall economic growth. By allowing to make capital expenditures sooner rather than later, I have the ability to take a large deduction upfront simplifying tax planning, and reducing the complexities associated with traditional depreciation schedules.

As the bonus depreciation percentage decreases each year, the immediate tax savings for businesses also diminish. This means that businesses will have to spread out their deductions over a longer period, resulting in a delayed tax benefit. The phase-down ultimately leads to a higher tax burden for businesses in later years, as we can no longer claim the same level of immediate deductions.

The phasing down of this provision adds further complexity to long term business planning, and capital expenditure planning. Businesses must now plan for the future, knowing that the tax benefits are being reduced.

In essence, while the bonus depreciation provision provided a substantial boost to small businesses, its phase-down creates a growing concern about increased tax burdens and potential disincentives for investment. For these reasons, I strongly support restoring and making 100% bonus depreciation permanent.

<u>Estate Tax</u>

The TCJA made permanent the $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 the end of this year. These provisions are critical to allowing family businesses like mine to be passed down to the next generation without selling or taking on crushing debt burdens.

Estate taxes can pose a substantial burden on family-owned businesses when the owners pass away. Without careful planning, heirs may be forced to sell off parts or all of the business to cover the tax liability. The TCJA's increased estate tax exemption helps maintain the business's continuity and preserves the family's legacy. Family businesses often have significant value tied up in illiquid assets, such as property, equipment, and inventory. Paying a large estate tax can create a liquidity crisis. By increasing the exemption, the TCJA has lessened the immediate financial strain on these businesses, enabling our families to focus on long-term strategic planning rather than worrying about immediate tax liabilities.

This is very personal to me – as I mentioned at the beginning of my testimony, our daughters are minority partners at this time in our Great Clips locations and will eventually own 100% of that business. Whether or not that generational transfer can happen – hopefully many years from now – may well depend on whether Congress acts.

<u>Deductibility of Interest</u>

Under the TCJA, prior to January 1, 2022, businesses' interest expense deductions were limited by section 163(j) to 30% of their earnings before interest, tax, depreciation, and amortization (EBITDA). Interest deductions are now limited to 30% of earnings before interest and tax (EBIT) – a stricter limitation. This change, combined with rising interest rates, is proving to make incremental investments by small businesses much more expensive. On average, a business affected by the change could see a three-fold increase in its incremental tax burden, facing both higher interest rates when financing improvements and a very high tax rate.

While I understand the rationale for wanting to discourage undue leverage, for small businesses, it hinders our growth. I urge Congress to restore this limitation to an EBITDA basis.

<u>Tax Relief for Tipped Workers</u>

President Trump's proposal to eliminate taxes on tips helps workers and small business owners alike. As a salon owner, I can tell you this proposal would provide meaningful tax relief to my employees who rely on tips as a significant part of their income. The most immediate effect would be a substantial increase in the amount of money our team members keep. Currently, a portion of their tip income is subject to federal and, in some cases, state income taxes, as well as payroll taxes. Removing these taxes would mean they retain the full value of their tips.

I am particularly grateful that Members of Congress have recognized that it is important to provide parity across businesses where tipping is common.

Other Policy Concerns – Joint Employer

Finally, I would like to highlight a regulatory issue that has the potential to not only strengthen the franchise business model. That is, to permanently extend the 2020 National Labor Relations Board's joint employer rule.

As you are aware, in October 2023, the NLRB issued its final joint employer rule, which rewrote the standard for determining how brands and owners could be jointly responsible for the same employees under the National Labor Relations Act (NLRA). The rule threatened the ability of hundreds of thousands of local small business franchise owners, like mine, to make their own employment decisions – as it would ultimately lead to higher costs, less autonomy, and less equity for franchisees. When the joint employer standard was similarly expanded from 2015 to 2017, it cost franchised businesses $33 billion per year in operational costs and led to a 93% increase in lawsuits.

Recognizing the harm this rule would bring, both the House and Senate voted to overturn the joint employer rule in early 2024 using the Congressional Review Act (H.J. Res. 98), which I and other members of IFA commend. Then later in March 2024, a U.S. District Court judge struck down the 2023 NLRB rule, allowing for the former 2020 rule to be reinstituted.

While a reprieve from the previous NLRB's joint employer rule has been welcome news, I wanted to stress the importance that the current, common sense standard in federal labor law has on franchisees, like mine, and state that any action towards permanently preserving the current NLRB rule would not only protect both businesses and workers, but also create the regulatory conditions that allow both franchisors and franchisees to thrive, grow, and create jobs and opportunities in the communities that they serve.

Legislation such as the Save Local Business Act would help franchise small businesses tap into their potential to be an economic power engine and further assist the workforce issue. This important piece of legislation would keep the hard-earned equity of business owners like myself invested into their stores, community, and workers.

Conclusion

It is no surprise that for many small business owners like me, the TCJA provisions have been a lifeline. It has provided a sense of stability, allowing me to reinvest in my businesses, hire new employees and provide better benefits, and weather economic fluctuations. The prospect of losing that feels like a rug being pulled out from under me. The anxiety of potentially facing a significantly higher tax burden is a heavy weight to bear, especially for those who operate on tight margins.

In the already volatile economic climate, the added layer of tax uncertainty creates a sense of anxiety. Small business owners are accustomed to taking risks, but the threat of a significantly higher tax burden feels like an unfair and unpredictable obstacle.

Franchise businesses contribute significantly to our nation's economy, creating a diverse range of employment opportunities from entry-level positions to management roles. In addition, by offering a platform for individuals to become small business owners with lower risks than starting a business from scratch, franchises encourage entrepreneurship, which in turn creates more jobs and enhances local economies. It is critical that Congress continue tax policies that support franchising, and all small businesses. IFA and I are ready to be a resource in this effort. Thank you again for the opportunity to testify. I am happy to answer any questions you may have.