A SMALL PART IN A BIG COMPANY: EXAMINING THE POWER OF FRANCHISING IN THE AMERICAN ECONOMY

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A SMALL PART IN A BIG COMPANY: EXAMINING THE POWER OF FRANCHISING IN THE AMERICAN ECONOMY

THURSDAY, MAY 15, 2025

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Representatives Williams, Meuser, Ellzey, Alford, Finstad, Wied, Jack, Downing, Schmidt, Patronis, Velázquez, McGarvey, Scholten, McIver, Cisneros, Tran, Simon, Olszewski, Conaway, and Goodlander.

Chairman WILLIAMS. Okay, good morning. And before we get started, I want to recognize Congressman Patronis from the great state of Florida to lead us in the pledge and prayer.

Good morning, everyone. And I will now call the Committee on Small Business to order. Without objection, the Chair is authorized to declare a recess of the Committee at any time.

I now recognize myself for my opening statement.

Welcome to today's hearing, "A Small Part in a Big Company: Examining the Power in Franchising in the American Economy." In today's hearing, we will hear from franchisors and franchisees on all aspects of the franchise business model. We will focus on how we in Congress can protect this model to ensure generations of Americans have a chance to achieve the American dream.

Franchises operate in every corner of America. My family has been a part of the franchise model for over 80 years in the car business. I have seen firsthand the benefits to consumers, manufacturers in local communities, and, most importantly, individual citizens and people in the community. Whether you are in a small town or a big city, you are likely to encounter locally owned franchises that support and drive the local economy.

Across the United States, there are an estimated 831,000 franchise businesses employing nearly 9 million workers. These franchise establishments generate close to $900 billion in economic output, which is roughly 3 percent of the U.S. GDP. When the franchises thrive, the American economy thrives.

Unfortunately, the franchise business model came under attack under the prior administration. The Biden Harris National Labor Relations Board, the NLRB, issued its disastrous Joint Employer ruling, which threatened to upend the franchise business model.

Congress fought this misguided attack on a bipartisan basis, only to be met with Biden's veto. If the courts had not struck down this Joint Employer Rule, franchises would have incurred an estimated $33 billion in additional costs each year.

Franchises face yet another uphill battle as Democrats are fighting tooth and nail to oppose extending President Trump's pro small business Tax Cuts and Jobs Act. Failing to extend the TCJA will result in the greatest tax hike on the American people in its history. Rather than being undermined through excessive regulation and being subject to Democrat tax hikes, the franchise business model should be supported. This model offers small business owners access to resources and tools to assist with many challenges and make the dream of becoming a business owner more attainable and also reliable.

It is an honor to work alongside my colleagues and President Trump to create commonsense policies that uplift our nation's small businesses through deregulation, lower taxes, and greater access to capital. I would like to thank the witnesses to participate in this important hearing. We look forward to your testimony.

Now with that, I want to yield to my friend and distinguished Member, Ranking Member from New York, Ms. Velázquez, for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Today's hearing on the franchise business model gave us the opportunity to assess the issues franchises and other small businesses face in today's economy, so let me give you the facts.

President Trump's economic on-and-off again economic policies are setting off alarm bells. Americans are becoming increasingly worried about the health and future of our economy. Recent economic data showed that our economy shrank by 0.3 percent in the first quarter as the President's policies created significant uncertainty. Growth in consumer spending slowed considerably, with GDP down from the 2.4 percent growth the economy experienced in the fourth quarter of 2024.

Despite lowering costs on day one, prices remain high. GDP data released at the end of April confirmed that prices are climbing as consumer inflation jumped 3.6 percent in the first quarter and core inflation rose 3.5 percent. When combined with a generally weakening economy, the uncertainty and higher costs caused by the President's tariff policies are beginning to force franchises and other small business owners to make difficult choices. Thirty percent of small business owners indicated in March that they plan to increase prices, the highest amount reported over the last year. Employment of small employers declined by 3 percent since President Trump took office, and 5 out of 12 federal reserve districts recently reported weakening manufacturing activity.

Perhaps worse, small businesses report that they anticipate these challenges to grow and forecasters from across the spectrum are increasingly concerned about the chances of an economic recession. J.P. Morgan now places the odds of a U.S. and global recession at 60 percent and directly attributes that forecast to President Trump's tariff policy. Again, these are the facts.

Combined with the Trump administration's decision not to enforce the beneficial ownership reporting requirements under the

Corporate Transparency Act, the American economy is left in a particularly vulnerable state. Passed in 2021 with wide bipartisan support from a broad array of stakeholders, including from President Trump, the CTA requires the Treasury Department to develop and maintain a registry of the real beneficial owners of established businesses in order to crack down on the use of anonymous shell companies in the U.S.

Mr. Chairman, I would like to include for the record a statement of administration policy from the Trump administration supporting passage of the CTA in 2019; a letter signed by the National District Attorneys Association, the National Narcotic Officers Association, and a list of 583 law enforcement, business, human rights, national security, and other experts supporting passage of the CTA.

Chairman WILLIAMS. So moved.

Ms. VELÁZQUEZ. While there is no doubt that there were problems with FinCEN's rollout, establishment of the registry, and education to small businesses of their reporting obligation, that is not justification for not enforcing the statute. I will soon be leading other House and Senate Democrats in introducing legislation to improve the BOI reporting process for small businesses, and I encourage anyone who is interested to join me in this effort. The CTA is the law of the land and must be enforced.

Franchises and other small businesses are especially vulnerable to tariffs and economic uncertainty, and the Trump administration's decision not to enforce the CTA expanding the use of anonymous shell companies, which harms fair competition for legitimate small businesses looking to compete in the marketplace. I look forward to exploring all of these and other issues here this morning.

Thank you. I yield back.

Chairman WILLIAMS. The gentlelady yields back. And we will now move to witness introductions.

I recognize my colleague, Representative Scholten from the great state of Michigan, to briefly introduce her constituent who is testifying before the committee today.

Ms. SCHOLTEN. Thank you so much, Mr. Chairman. I really appreciate the spirit of bipartisanship that dominates this committee and the opportunity to introduce my constituent here today.

I am so pleased to introduce Mr. Randy Cross, the president of Fish Window Cleaning. Mr. Cross is a constituent of mine. We enjoyed a great conversation over at Fish Window Cleaning just a few weeks ago, and my boys are very interested in getting into the squeegee business at some point in the future. I have to say, they re very fascinated. Thank you for your hospitality.

After opening his first Fish Window Cleaning franchise location in 2003, Mr. Cross has gained years of experience in the franchising world. He is now both a franchisor and a franchisee, providing a unique perspective on the ins and outs of this business model. As Co-Chair of the Franchise Caucus myself, I look forward to hearing from Mr. Cross on how Congress can do more to help entrepreneurs like him build up their businesses and, by extension, our nation's economy.

Thank you. I yield back.

Chairman WILLIAMS. The lady yields back.

Our next witness here with us today is Mr. Craig Wright. Mr. Wright is the chief executive officer of AquaTots Swim School in Phoenix, Arizona. Mr. Wright has over 30 years of executive leadership experience and joined AquaTots Swim School in 2017. Prior to that, he served in multiple positions for Leslie's Pool Supplies and as senior vice president for Millard Refrigerated Services. He worked his way up in his career, starting as a box boy at Buttrey Food and Drug, all the way up to vice president of distribution, merchandising, and support. Mr. Wright graduated from Montana State University in Billings.

I want to thank you for being here today and thank you for taking the time to bring your family with you, too.

Our next witness here with us today is Ms. Jennifer Beaudoin. Did I say that right, Jennifer? Ms. Beaudoin is a franchise owner of multiple Buffalo Wild Wings locations in West Virginia and Virginia. Ms. Beaudoin has been a Buffalo Wild Wings franchisee for more than 25 years, founding her first restaurant with her family in 1999. Ms. Beaudoin serves as Vice Chair of the Franchise Business Services Board of Directors and is a co-owner of Black Rock Bar and Grill. She is a graduate of West Virginia University.

And thank you for joining us today. I am looking forward to hearing your conversation.

I now recognize the Ranking Member from New York, Ms. Velázquez, to briefly introduce our last witness appearing before us today.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

I would like to introduce Mr. Gary Kalman, Executive Director of Transparency International, U.S. In this role, he oversees the organization's U.S. operations, focusing on illicit finance and the U.S. role in global anti-corruption efforts. He was a founding member of the Financial Accountability and Corporate Transparency, FACT, Coalition, a nonpartisan alliance promoting policies to combat the harmful impacts of corrupt financial practices and served as Executive Director from 2016 to 2019. He is currently an Advisory Council Member for the International Coalition Against Illicit Economists.

Mr. Kalman, it is nice to see you again. Welcome back to the Committee. Thank you.

Chairman WILLIAMS. The lady yields back. And so thank again all of you for being here.

Now, before recognizing the witnesses, I would like to remind them that their oral testimony is restricted to 5 minutes in length, and we do stick with that. If you see the light turn red in front of you, it is over with. Okay. It means your 5 minutes have concluded and you should wrap up your testimony. If you continue to go, you will hear this, reminding you that you need to stop.

I now recognize Mr. Cross for his 5-minute opening remarks.

STATEMENTS OF RANDY CROSS, FRANCHISE OWNER, FISH WINDOW CLEANING; CRAIG WRIGHT, CHIEF EXECUTIVE OFFICER, AQUA-TOTS SWIM SCHOOL; JENNIFER BEAUDOIN, FRANCHISEE, BUFFALO WILD WINGS; AND GARY KALMAN, EXECUTIVE DIRECTOR, TRANSPARENCY INTERNATIONAL US

STATEMENT OF RANDY CROSS, FRANCHISE OWNER, FISH WINDOW CLEANING

Mr. CROSS. First of all, thank you to my congresswoman, Hillary Scholten, for the introduction. And thank you, Chairman Williams, Ranking Member Velázquez, and distinguished Members of the committee for inviting me here today. My name is Randy Cross and I am the president of Fish Window Cleaning, which is the nation's premier window cleaning service with more than 275 franchise locations nationwide. It is a unique privilege to appear before you today alongside our fellow franchise business leaders to talk about this incredible all American business model of franchising.

Mr. Chairman, as a franchisor, it is my honor to help aspiring entrepreneurs open and operate their own window cleaning business. But perhaps more importantly, I am also a franchisee in Grand Rapids, Michigan, and I opened the second Fish Window Cleaning location back in 2003. Today, I proudly employ 31 employees at my Fish franchise.

I appear before you today on behalf of the International Franchise Association, where I also serve on the Board of Directors. Today's hearing is a great opportunity to highlight the power of franchising, a business model that supports nearly 9 million jobs at 831,000 establishments in America, contributing a staggering $897 billion to our economy. Franchising is perhaps the most important business growth strategy in American history.

Mr. Chairman and friends of the committee, my message today is this: franchising is small business. When you see in your communities a Fish Window Cleaning business, an AquaTots Swim School, or a Buffalo Wild Wings restaurant, what you are looking at is small business. The vast majority of our franchisees in the country are like me, and they operate a tiny enterprise. Over 80 percent of franchise owners own and operate just a single location. And for all the benefits of operating under that established brand, franchisees pay an average of 6 percent royalty to a brand to sell that brand's products or services. This means franchisees retain an average of 94 percent of their business revenue.

So now that you understand most franchisees are very small, you also need to understand that the vast majority of franchisors are also very small enterprises. The majority of the nearly 3,500 franchise brands in operation today have less than 20 franchise units in their system. So franchising truly is a small business.

And because we are a small business, we are far more affected by the government policies than multinational corporations are. The franchise community is very pleased that Congress is advancing tax policy that allows small businesses to flourish. Specifically, we are excited that the House Ways and Means Committee is advancing a bill to extend, increase, and make permanent the Section 199A deduction for passthrough businesses. This benefit will provide monumental certainty to small business franchisees and franchisors.

Franchise business people are also very pleased about the extension of the bonus depreciation and estate tax provisions from the 2017 tax laws. These two policies, respectively, will allow businesses to immediately write off 100 percent of the cost of capital investments and prevent an unimaginable burden to a family in the event of a death of a franchise owner.

Another policy I would like to discuss is the unnecessary impact of the Corporate Transparency Act enacted by Congress in 2021. The CTA would require the smallest franchisees in America to report sensitive and personal information to the federal government. And while I certainly support the goal of reducing illicit activity, it is rare that policymakers pass a regulation that only affects the smallest businesses who are least able to understand how to comply. The IFA was pleased that the Treasury Department will not enforce that law, and we support a full repeal of the Corporate Transparency Act.

Last but not least, the most important action Congress can ever take to pave a clear future for franchise small businesses is to finally write a commonsense law for what constitutes a joint employer. While franchise businesses are predominantly small, they are also independent businesses. And franchisees like me want to stay independent forever. That is why we entered into this line of work.

Last year's expansive joint employer standard made no sense for the franchisor-franchisee relationship, and we can all be relieved that the IFA defeated that rule in court. The court defeat came after Congress also rejected the rule on a bipartisan basis last year through a Congressional Review Act resolution that passed both the House and the Senate last year. This year, Congress still has an opportunity to pass legislation, like the Save Local Business Act, to provide economic safety and security for franchise business families everywhere.

Mr. Chairman, I cannot thank you enough for the invitation to appear at this hearing on franchising and I look forward to our discussion.

Chairman WILLIAMS. Thank you very much.

I now recognize Mr. Craig Wright. You can swim, can't you?

Mr. WRIGHT. I can swim. I can swim, yes.

Chairman WILLIAMS. I now recognize Mr. Craig Wright for his 5-minute opening remarks.

STATEMENT OF CRAIG WRIGHT, CEO, AQUATOTS SWIM SCHOOL

Mr. WRIGHT. Thank you. Good morning, Chairman Williams, Ranking Member Velázquez, and distinguished Members of the committee. My name is Craig Wright and I am the CEO for AquaTots Swim Schools, a franchise based in Mesa, Arizona.

AquaTots Swim Schools is a family-owned business that began in 1991 with a simple goal: to make quality swim lessons accessible, safe, and convenient for families. What started as a single lesson taught by a teenage lifeguard in Tempe, Arizona, has grown into one of the world's largest swim school franchises. Initially operating in backyard and hotel pools, AquaTots pioneered one of Arizona's first indoor year-round facilities. The success of this business laid the concept and foundation for the brand's expansion under the franchise model.

In 2007, AquaTots launched its first franchise. Today, AquaTots is in over 170 locations, 14 countries. We have taught over 47 million swim lessons to 2-1/2 million children worldwide. The majority of our 75 franchise owner groups are made up of first-time business owners and families who are passionate about water safety and childhood development. Since 2017, I have had the privilege of leading AquaTots as the CEO. It is an honor to be here today and give my perspective on the impact of franchising in its hundreds and thousands of small businesses.

At its core, franchising is about the relationship between the franchisor and the franchisees, specifically how the franchisor supports its franchisees and how the franchisees meet their obligations to deliver products and services in accordance with the system's brand standards. A franchise relationship is a long-term relationship that spans a decade and in many cases more than 20 or 30 years. These long-term relationships only work when the parties can trust that the relationship and expectation each party has of the other will remain stable.

While the franchisor provides the brand and the operating system and the training and the ongoing support, the franchisee is the one on the front lines making the daily operational decisions, managing their team, and building relationships with their customers. We see our franchisees as partners who bring the brand to life in their unique local markets. Their success is our success and that success is built on the foundation of their individual small business.

The collective network of a franchise brand can be substantial, comprised of hundreds if not thousands, thousands of individual small business owners. These entrepreneurs are the backbone of the franchise model and significantly contribute to their local economies. As franchisors, we are proud to empower these individuals to achieve their dreams of business ownership and witness the positive impact they have every single day.

When franchising is mistakenly painted with a broad big business brush, it can lead to misguided policies and regulations. Legislation aimed at large corporations can inadvertently harm the small business owner, hindering their ability to grow, create jobs, and serve their communities. To that end, I would like to highlight an issue that has clouded the franchise community for decades, notably the ever changing joint employer standard.

Franchise businesses have faced four different definitions of the joint employer standard over the past decade and while there is reprieve from previous NLRB's Joint Employer Rule, I want to stress the importance that the current commonsense standard in federal labor law has on franchise businesses like AquaTots, and state that any action to towards permanently preserving the current NLRB rule would not only protect both businesses and workers, but also create the regulatory conditions that would allow both franchisors and franchisees to thrive, grow, create jobs, and serve in the opportunities in their local communities.

Lastly, the SBA plays a critical role in the franchising success. The SBA and the access to capital that its lending programs provide are an instrumental part of the franchise success story. Historically, franchises have represented about 20 percent of the billions of dollars in SBA loans. On April 25, we welcomed the SBA's news that it would be reinstating the Franchise Directory. This directory which was, unfortunately, eliminated in 2023, is an essential and centralized tool for lenders to access SBA loan eligibility and financing for franchisees. It also serves as a beneficial tool for prospective franchises and as they evaluate franchise opportunities.

I appreciate the attention that this committee has to this issue given the critical importance of SBA lending to new franchisees. I also appreciate your efforts to once again make the Franchise Directory available to both banks and borrowers.

Mr. Chairman and distinguished Members of the Committee, thank you again for the opportunity to testify. I am happy to answer any questions you might have.

Chairman WILLIAMS. Thank you. The gentleman yields back.

I now recognize Jennifer Beaudoin for her 5-minute opening remarks.

STATEMENT OF JENNIFER BEAUDOIN, FRANCHISEE, BUFFALO WILD WINGS

Ms. BEAUDOIN. Good morning, Chair Williams, Ranking Member Velázquez, and distinguished Members of the committee. My name is Jenny Beaudoin and I am a proud small business owner. I operate four Buffalo Wild Wings restaurants, three in Virginia and one in West Virginia, as well as a steakhouse in Maryland.

My story, like that of many small business owners, is a personal one. I literally grew up in a rest the restaurant my parents owned. We lived in the apartment above it. I saw firsthand the long hours, the financial risks, and the sheer grit it takes to make a small business succeed. There were no days off, no paid vacations, and every dollar earned was victory. That experience shaped my understanding of entrepreneurship and instilled in me a deep appreciation for the challenges and rewards of owning a business. I learned that being a small business owner isn't just about making a profit. It is about being part of a community, providing for your family and creating opportunities for others.

When I was in college, my father, a seasoned restaurant owner, was looking to expand, but he wasn't sure how to do it. He was hesitant to take on more debt and replicate the challenges of starting from scratch. That is when I suggested franchising. I remember inviting him to a local Buffalo Wild Wings near my college campus. He was struck by the vibrant atmosphere, the loyal customer base, and the efficient systems. He saw a model that offered a potential for growth with a proven framework. In fact, he was so impressed that he called the number on the back of the menu to inquire about franchise opportunities. That decision changed our lives. We became part of the Buffalo Wild Wings brand 26 years ago. We were the 97th location and I opened my first franchise 24 years ago.

Over the years, I have expanded my operations, always reinvesting in my business and my people. And now I am incredibly proud to say that my daughter has recently graduated from James

Madison University and is preparing to join our family business. She also got engaged yesterday. Impressively, not uncommon in the franchising industry, she represents the third generation of our family dedicated to serving our communities, creating jobs, and building a legacy.

This personal history is important because it highlights a fundamental truth. Franchisees are small business owners. We are not simply managers of corporate stores. We are entrepreneurs who invest our own capital, take on significant financial risk, and are deeply committed to our local communities. The franchise model offers a unique opportunity for individuals to achieve the American Dream of business ownership. It combines the support and brand recognition of a larger entity with the entrepreneurial drive and local knowledge of individual owners. It is a model that has proven to be a powerful engine for economic growth and job creation.

However, it is crucial that policymakers understand the realities of franchising and recognize that franchisees are in fact small business owners. Policies that treat franchisees as large corporations or employees of the franchisor can have unintended consequences, harming the very small businesses that this committee is intended to support.

To that end, some of the governmental policies that help my business and others like it thrive include: a clear and consistent joint employer standard that protects my business from the franchisor's legal liability affirming that I am, in fact, a business owner and not solely a manager of my restaurants. A strong, qualified business income deduction 199A that allows me to free up capital to reinvest in my restaurants and team members. One hundred percent bonus depreciation of assets that allowed me to recently remodel two locations and which allows me to pay my equipment suppliers upon delivery like they expect. Interest deductibility based on EBITDA, not just EBIT 163(j), that allows me and my fellow franchisees to secure access to capital to expand our businesses, which I hope to do soon by building two more restaurants with my family.

I appear today on behalf of myself as a franchise owner of Buffalo Wild Wings through S&J Enterprises LLC. I also appear as Vice Chair of the Association of Buffalo Wild Wings Franchisees, the Buffalo Wild Wings Franchise Business Services. I am grateful for the opportunity to share my story and advocate for pro-franchising policies for me, my daughter, and for countless other franchise owners in the U.S. supporting their communities and their families and their dreams.

Thank you for your time and attention. I would be happy to answer any questions that you have.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Mr. Gary Kalman for his 5-minute opening remarks.

STATEMENT OF GARY KALMAN, EXECUTIVE DIRECTOR, TRANSPARENCY INTERNATIONAL U.S.

Mr. KALMAN. Thank you. Chairman Williams, Ranking Member Velázquez, and distinguished Members of the Committee, thank you for inviting me to testify today, on behalf of Transparency

International U.S., I appreciate the opportunity to discuss the critical role of the Corporate Transparency Act in providing law enforcement with necessary tools to do their jobs and keep us safe. I also hope to share how this law benefits small business and to help dispel some of the unfortunate misconceptions that have surfaced.

When I testified before this Committee last spring, I offered more than a dozen examples in my written testimony in which anonymous companies were used to cover up the laundering of proceeds of drug trafficking, human trafficking, sanctions evasion, counterfeiting operations, and scams that harm small businesses, including stolen contracts and disruptions to supply chains. The current administration has made clear its prioritization of disrupting, even dismantling, drug cartels and transnational criminal organizations. Any suspension of enforcement or weakening of our anti-money laundering rules undermines their ability to deliver on that promise.

Since then, studies and investigations with new and previously underreported evidence continue to surface. Consider that a new April 2025 GAO study found that fraud is a significant and persistent problem in federal procurement practices and that some of this fraud is perpetuated by companies obscuring beneficial ownership information when they compete for contracts and apply for federal benefits. The GAO detailed several examples, including anonymous companies implicated in the diversion of contracts for small businesses and for veterans-owned businesses that were otherwise ineligible for those contracts.

The effective implementation of the CTA is also integral to the President's tariffs plans. Whether one supports or opposes tariffs, we should all be able to agree that additional uncertainties in supply chain integrity and price variability created by tariff-dodging via anonymous shell companies is harmful to small businesses already trying to navigate the policy change. The Financial Times recently reported that Chinese logistics managers told Asian media last month that they were creating shell companies to evade the tariffs.

The FT also reported that Customs and Border Protection said that enforcement will include the most severe penalties permitted by law. While the intention is no doubt genuine, they cannot prosecute what they cannot find. Without the CTA, this tariff dodge creates gaps for law enforcement and raises serious questions for small businesses about their role in undermining federal tax policy.

Since this week is Police Week and tens of thousands of officers and their families are in D.C., it seems fitting to mention the strong support for the CTA from police associations and law enforcement officials in all levels of government. I would also add that prior to the House vote, the first Trump administration issued, as the Ranking Member suggested, a Statement of Administrative Policy that said the CTA would assist law enforcement in detecting and preventing illicit activities, such as terrorist financing and money laundering.

On March 21st, the Treasury Department issued an interim final rule that narrows the scope of the law to apply only to certain foreign companies that register to do business in the United States.

The exemption for domestic companies from the CTA is not consistent with a risk-based approach to countering financial crime. We strongly urge the Treasury Department to return the scope to the intent of Congress and provide law enforcement with the tools necessary to protect Americans from both foreign and domestic threats. The current rule does neither.

Small business trade associations we spoke with seem to agree that compliance is not actually a major concern for their members. Small Business Majority wrote that small businesses across America are grappling with the impact of tariffs and cuts to vital programs supporting entrepreneurial innovation. Enforcement of this law is quite simply not close to a major concern for the main street small business owners with whom we are in contact every day. I would suggest that there seems to be a disconnect between K Street and main street on the top challenges facing America's entrepreneurs.

Finally, we recognize that there are improvements to the implementation that could be made. We have suggested FinCEN simplify the reporting form for the smallest businesses and adopt instant verification to reduce filing times and improve data quality. And Congress should provide these financial police with the resources to make these changes and expand outreach and education to small businesses.

Thank you for the opportunity to present this testimony and I look forward to answering your questions.

Chairman WILLIAMS. The gentleman yields back.

And before we get started, just as a reminder, you may see some Members coming and going and back and forth. It is not because they are mad at anybody or whatever. Lots of times there are other hearings going on. So you will see possibly me and the Ranking Member will have to get up and come back. So be aware of that.

I now recognize myself for 5 minutes.

Mr. Cross, you began your career as a franchisee in 2003 and transitioned to the corporate structure of Fish Window Cleaning in 2008, as you said. And this experience provides you with a unique perspective from both the franchisee and the franchisor side, because there is a big difference. So how has your experience as a franchisee impacted your thoughts and decision making as a franchisor?

Mr. CROSS. Thank you, Congressman. I would say that I live and breathe the business each and every day. And as a franchisee myself, I am blessed to help lead the corporation. So my overall answer is I know what it takes to be a successful small business in this country and a franchise owner out of West Michigan. So just what we want to do is support our franchisees in any way possible.

And I know we keep coming back to this joint employer. That is why I am here today. That is what is on my heart is this joint employer issue. These regulations are getting in the way of my ability as a franchisor to be able to support our franchisees. We would like to do more. I should have brought two hats. One as a franchisee and one as a franchisor. Sometimes it is difficult, but as a franchisee, I want as much support as possible from the franchise headquarters' offices. And as a franchisor, I want to provide as much support to our franchisees. They send royalty dollars our way and they expect and demand support for them.

So I am here to hopefully clear up this issue so we can get back to just providing window cleaning services to our great customers all across the country.

Chairman WILLIAMS. Thank you. Mr. Wright, one benefit to owning a franchise is that it provides a means for ambitious entrepreneurs to enter into business ownership with structure and a developed business model. At the same time, laws and regulations, such as the Franchise Act and the Joint Employer Rule, place limitations on the relationship between franchisees and franchisors. So how do you currently work with your franchisees to help them develop and be successful?

Mr. WRIGHT. Oh, that is a great question. That is really what we do every day. It is the core of what I do and my team does. And, you know, a lot of times we are using the word "communication," like back and forth, and that is not what we want to do. We want to build community, we want to build relationships with our franchise owners.

And it is a formal process where we have monthly calls, we have roundtables, we have owners forums. And it is a process where my team, on a weekly, on a monthly basis, has specific schools that they are calling and working with and communicating to. We also have a Franchise Advisory Council made up of nine franchise owners where we talk about operations, training, and marketing. Because it is really important to us that the processes that we are putting in place, the new technology that we have, all aligns with what is in the best interest of our franchise owners.

Chairman WILLIAMS. As a car dealer and franchise owner myself, I have noticed there is a misconception that franchisees are just extensions of the franchisor, and certainly not in my business. And when people see a Chrysler, Dodge, Jeep, or Ram dealership, they often think it is owned and operated by Chrysler. This couldn't be further from the truth. In fact, back in the 1930s, my father, Jack Williams, started a car dealership that is still in the family today, fourth generation. And our dealership is active in our communities. We support local charities, first responders and more. And simply put, our business operates just as any other nonfranchise business.

So, Ms. Beaudoin, could you please tell us how your business positively impacts the community that you serve in West Virginia and Virginia?

Ms. BEAUDOIN. Yes, sir. We are honored that we are the place that people come to when they need something, whether it is a meal for a football team before a game or if it is—we took wings this week to the police, local police force just as a thank you. We make ourselves visible in the community as much as possible. We recently had sponsored a community day within our locations where each location got to pick a charity that was on their heart, anywhere from a local animal shelter to the Boys and Girls Club. And we paid our team to go and actually volunteer at those locations. So we really do pride ourselves and we are the place that people come to after their Little League games or just to celebrate whatever it is that is going on in their lives. And we value the opportunity to do that.

Chairman WILLIAMS. And you are also the first one to get to work and the last one to leave, right?

Ms. BEAUDOIN. Absolutely. My team works harder than anybody I know, especially during COVID. That was a time where we really shined within our communities and gave people a respite and a place to come and relax.

Chairman WILLIAMS. And sometimes the last to get paid.

Ms. BEAUDOIN. Yeah, yeah, for sure.

Chairman WILLIAMS. Right? That is the way it works.

Ms. BEAUDOIN. Yeah. The franchisee definitely is last to get paid.

Chairman WILLIAMS. So quickly, in the time remaining, what are your future plans for the future of your business?

Ms. BEAUDOIN. We are hoping to expand two more locations. We are looking at two locations in Virginia that we are hoping to expand.

Chairman WILLIAMS. Okay. I yield back.

I now recognize the Ranking Member for 5 minutes of questions.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Kalman, shortly after the Trump administration announced the Treasury Department will not enforce the legally mandated penalties or fines against domestic reporting companies and individuals that intentionally failed to complete their beneficial ownership information reports, the Treasury Department quickly turned to exempting all U.S. companies and individuals while maintaining the requirements solely for foreign firms. This announcement is contrary to Congress' intent, correct?

Mr. KALMAN. Yes, we believe it is.

Ms. VELÁZQUEZ. What was Congress' intent?

Mr. KALMAN. Congress, when it passed the law, created what we call a risk-based approach. That is, what are the greatest risks for money laundering that could harm the American people? There are numerous examples of—and case studies and other reports where companies were created in the United States, both from U.S. citizens, but also from foreign actors that simply create a company in the United States. Iran created companies in New York, in California; you have Venezuela creating companies in Miami. So there are numerous examples of where that risk exists.

Ms. VELÁZQUEZ. The Corporate Transparency Act passed by a wide bipartisan vote, didn't it?

Mr. KALMAN. Yes.

Ms. VELÁZQUEZ. What was the vote?

Mr. KALMAN. I believe it was 260—270—249 to 173.

Ms. VELÁZQUEZ. By a big margin.

Mr. KALMAN. Over 70 votes.

Ms. VELÁZQUEZ. The Trump administration supported it during House passage, arguing, and I quote, "represents important progress in strengthening national security, supporting law enforcement, and clarifying regulatory requirements." Correct?

Mr. KALMAN. Yes.

Ms. VELÁZQUEZ. So, Mr. Chairman, I would like to enter into the record an article from the Financial Times that at the end says, "Chinese logistics managers told Nikkei Asia last month that they were creating shell companies to evade tariffs." The FT also reported that Chinese exporters were attempting to avoid tariffs by shipping goods via third countries.

Chairman WILLIAMS. So moved.

Ms. VELÁZQUEZ. Mr. Kalman, in my opening statement you heard me mention that the President's on-again, off-again tariff policies are causing significant uncertainty for small businesses and their suppliers. Can you speak to why the CTA and BOI reporting is even more important in this uncertain economic environment?

Mr. KALMAN. Yes. So, as you mentioned, the Chinese companies are already telling Asian media that they are setting up companies to avoid tariffs. They could set them up overseas and create a web of companies. They could also set them up in the United States. We have also seen other reporting in the Washington Post and other media showing that other countries are trying to figure out how they could game the system using anonymous companies.

Ms. VELÁZQUEZ. Mr. Kalman, this committee recently passed H.R. 2966, the American Enterprise Act, which requires the SBA 7(a) and 504 program loans only be made to small businesses that are 100 percent owned by a U.S. citizen, national, or lawful permanent resident. Can you explain how the SBA is supposed to certify that a business is 100 percent owned by a U.S. citizen, national, or permanent resident without knowing who the beneficial owner is?

Mr. KALMAN. I don't see how they can do that. I think they would have to set up a parallel system and businesses would have to both, you know, enter their data to the Treasury Department and the Small Business Administration redundantly.

Ms. VELÁZQUEZ. So then you agree that it is inconsistent to be supportive of H.R. 2966 while opposing the Corporate Transparency Act's beneficial ownership information reporting requirements?

Mr. KALMAN. It does seem to be an inconsistency, yes.

Ms. VELÁZQUEZ. If you take the position that 7(a) and 504 program loans should only be extended to small businesses that are 100 percent owned by a U.S. citizen, national, or permanent resident—can you explain how the beneficial ownership information registration process can help ensure the requirement is carried out?

Mr. KALMAN. Well, having a central register means that businesses would only have to register once. I think the intent of the bill shows the value of the information and that the SBA may find it valuable and other agencies may find it valuable to ensure that they are dealing with U.S. citizens. So having a central register that agencies can check, I think simplifies the bureaucracy.

Ms. VELÁZQUEZ. Thank you. I yield back.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Mr. Finstad from the great state of Minnesota for 5 minutes.

Mr. FINSTAD. Thank you, Chairman Williams. Thank you for holding this important hearing today, and thank you to our witnesses for being here.

Across rural America, entrepreneurs have worked hard to pursue the dream of owning their own businesses. The franchise model provides entrepreneurs with that opportunity, the opportunity to achieve this goal and to bring an established brand to their local communities. I represent a pretty rural district, and it is on the front page of the news when an O'Reilly's Auto Parts comes to town or when a Culver's or when a Buffalo Wild Wings comes to our communities. And so we are very appreciative of this model.

On main streets across our country, franchise owners collectively employ thousands of Americans. You all sit on local chamber of commerce boards, other community organizations, and, Mr. Chair, most importantly, they sponsor things like local town ball baseball teams. Unfortunately, for years franchise owners have been subject to misguided regulations, as was pointed out in your opening testimonies, these regulations coming from bureaucrats at the federal and state levels, which limit your ability to grow and operate.

So with that being said, Mr. Wright, someone who has fostered significant growth in your businesses throughout the franchise model, can you maybe talk to us about how challenging the changing regulatory environment on the federal and state level have been to you and what impacts that has had on your ability to expand and to grow?

Mr. WRIGHT. Yeah, sure. Especially the Joint Employer Act is probably the greatest impact on us. As I stated in my opening remarks, a franchisee purchases a franchise because they need the help. They want the help. And that is what we want to do. That is what we were created for, that is what we are wired for. That is what they pay us to do in their royalties. So anything that puts in jeopardy our ability to give them 100 percent of our attention and our training and our operations, because with the Joint Employer, there is risk associated with that. There have been many lawsuits associated with that.

We conduct trainings in our headquarters where owners fly in general managers and aquatics managers, and we don't want to stop doing that. We think it is critical that we continue to do that. And so any rule that puts that in jeopardy hurts us, hurts the franchise owner, and hurts the communities in which they are serving.

Mr. FINSTAD. Thank you for that. In your opening comments, you also talked, Mr. Wright, about having locations, many locations across several states. I believe you have two locations in the state of Minnesota. So my question is, in your experience in multistate franchise model, what has been some challenges and do some states work better than others in regards to this model, your model?

Mr. WRIGHT. Certainly the biggest challenge we have within the states is the local health rules and regulations because in a lot of times they don't understand what a commercial swimming pool is. And so they put rules and regulations that are more like a hotel swimming pool. And that absolutely causes us to have lots of conversations and issues in making adjustments to both the physical pool itself and the entry and exit into the pool.

Mr. FINSTAD. Thank you for that. All right.

Now going to Mrs. Beaudoin. I would like to say that this body was in part built by Buffalo Wild Wings, but I don't want to hurt your brand so I won't say that. But I appreciate all of the risks that you have taken and, you know, the story that you talked about in regards to your family and I think that is great.

So you mentioned that your hope is that your newly engaged daughter, newly graduated daughter, was going to come into the family business. I am a small business owner myself. I have seven children, so it is something that is on my mind quite a bit. What are the biggest challenges that you face or that you are facing in regards to bringing that next generation into business?

Ms. BEAUDOIN. So in regards to bringing her in, one of the concerns we have is really, and we haven't addressed it yet, is with the estate tax and what that is going to mean for her taking over our business and even for me taking over when my parents—my parents are 50 percent owners in my business and what—the business that I already own, what I am going to have to pay on the estate tax to just acquire the rest of my business. So I would say that is a big concern.

Another one is just around the administrative burden that I have had to acquire lately. And then with Joint Employer, our franchisor cannot provide any human resources related—anything human resources related. So I have to take an additional expense to get outside counsel for handbooks and anything else with our team members where we run into issues.

Mr. FINSTAD. I appreciate that. Thank you again for each and every one of you for being here. Thank you for the risks that you take day-in, day-out. Thank you for the jobs that you provide our neighbors and just the great, really part of the fabric of our local communities that you really bring each and every day.

So with that, Mr. Chair, I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Ms. Scholten from the great state of Michigan for 5 minutes.

Ms. SCHOLTEN. Thank you so much, Mr. Chairman. And thank you to all of our great witnesses. I am a huge fan of BDubs. My constituent services director is a former BDubs server. He says nothing prepared him more for this job than doing that. And we frequent our local BDubs after my boys Little League games.

So I am also thrilled, as I said in my intro, to have my constituent here, Mr. Cross, just weeks after I visited his business. And I appreciate his willingness to come to Washington to express concerns that so many franchisors have communicated to me. While Mr. Cross and I might not align on every single issue, that is okay. That is what these hearings are about to hash out some of the most important issues that are facing our country when it comes to small businesses.

I support having beneficial ownership reporting requirements within the Corporate Transparency Act because we need to ensure that American businesses are protected from bad actors who have taken advantage of our nation's business-friendly environment to the detriment of our entrepreneurs' security and access to fair markets. But I understand that my constituent and other witnesses here today may have a different perspective. That is not something to be afraid of. That is something to discuss and figure out how we can do it better. I look forward to hearing what he and many others have to say.

Fundamentally, I believe that we should work to make these reporting requirements easier to navigate so legitimate hard-working businesses, like the ones here today, are rewarded for playing by the rules.

With that said, Mr. Cross, thank you for being here today. My first question is for you. I had the pleasure of touring your business back in West Michigan just a month ago. Can you tell me about your experience with the franchising ownership model and how it has benefited you, your family, and our community?

Mr. CROSS. I don't think I have enough time to answer that question, but I will tell you that I would not be here today without the franchise business model. I can look myself in the mirror and tell you that I did not have what it takes to start a business from scratch, off the ground, the tremendous things that go into that process, the uncertainties. So when I met the Merrick family, the owners and founders of Fish Window Cleaning, and they showed me this simple model that I could follow to be a business owner, it has been absolutely life-changing for me. I have been able to support my family, my beautiful wife Betsy and my talented son Alex. We have been blessed with hundreds of employees that have used our job to put themselves through school or as a steppingstone position to whatever is next in life. I have been able to support the local community.

As you know, Congresswoman, I am very supportive of Hope and Calvin in the area. And I also have to stop and pause and say thank you so much for what you have done for franchising. I appreciate what you have done with the joint employer issue. I thank you for your service as franchise Co-Chair. And I do want to continue to put that plug in. I look forward to teaching your boys how to use those squeegees the moment they turn 18 years old. There is an application waiting.

Ms. SCHOLTEN. Thank you. Thank you. Well, and we are so grateful for everything you have done for our community.

In your written testimony, you talk about the CTA reporting requirements and you refer to them as being confusing and burdensome. And I think that you and I both agree on the importance of transparency and security in our financial system. According to the FBI, each year an estimated 300 billion in illicit proceeds make their way through the U.S. financial system, including assets linked to terrorism financing and human trafficking. No one wants that. I am committed to achieving the goals of the CTA in a way that is not overly burdensome for small business.

In your view, can you help us understand what tools or clarification should these reporting requirements have to make them easier for businesses to navigate?

Mr. CROSS. Well, unfortunately, because I have 31 employees, that particular piece of law would not have affected my own franchise location. So I am sorry, but I haven't studied up on that issue. I would say, in general, with my franchisor hat on, what I am concerned about for my franchisees is the fact that they are very small business, and Jennifer alluded to it, they don't have in-house counsel to help them navigate these issues. And they are really just busy trying to find new customers and hire employees and clean more windows. And so anything that gets in the way of that is very difficult.

And so, again, you know, we are blessed to be part of the International Franchise Association. And while I can't answer your question directly, I would be happy to put you in touch with them and we can work together on that issue.

Ms. SCHOLTEN. Thank you. I had so many more questions, but I am afraid we are out of time. So, Mr. Chairman, I will yield back. Thank you all.

Chairman WILLIAMS. The gentlelady yields back.

I now recognize Mr. Downing from the great state of Montana for 5 minutes.

Mr. DOWNING. Thank you, Mr. Chairman, and thank you to the witnesses.

You know, the franchise businesses are critically and rapidly growing part of the American economy. In my home state of Montana, franchise businesses were responsible for almost 15 percent of job growth between 2023 and 2025. And this is despite the fact that our franchises currently employ, you know, less than 5 percent of the total job force in our state. And Republicans in Congress are fighting to ensure small businesses, including franchisees, are unburdened by the crippling taxes and regulations. So one of our main priorities is to extend the Tax Cuts and Jobs Act, the TCJA, and its small business provisions.

So I am going to start with Mr. Wright. In your testimony, you highlight the importance of TCJA Section 199A deduction, which allows passthrough business owners to deduct 20 percent of business income from their taxes. So can you explain in further detail how the Section 199A deduction has specifically benefited your business' operations?

Mr. WRIGHT. Absolutely. Anything within the—in our franchise process or any franchise process, the more capital that can be introduced, interjected into the business is going to fuel growth. It is going to fuel growth for building new locations, it is going to fuel growth for expansion, it is going to fuel growth for higher wages and benefits. And so that tax deduction puts more capital into the hands of the franchise owners.

Mr. DOWNING. Well, thank you. And if this were to expire, if this 199A deduction were to expire, how would that affect employees at AquaTots Swim School and—or the franchisees? How would they be impacted?

Mr. WRIGHT. Yeah. So this isn't theoretical. Our franchise owners have been talking about that and they are actually putting on pause, potentially, some of new leases they are looking at opening because they are concerned about the impact that that is going to have on their ability to invest in new schools.

Mr. DOWNING. Thank you. You know, Ms. Beaudoin had mentioned something about the estate taxes. Can you tell me how the TCJA's estate tax provisions have impacted your franchising?

Mr. WRIGHT. Oh, it is the same thing. So the—I think you said it perfectly there. We are a younger franchise organization that right now is looking at passing it on to the next generation. Those estate taxes would have a—they would probably have to sell their locations rather than passing them on to their family, and that is a really, really sad thing.

Mr. DOWNING. Yeah, it is. Thank you. In my home district, many Montana business owners, particularly in rural communities, struggle to access capital to fund their business ventures. And as I am sure everybody on this panel understands, I mean, one of the biggest limiting factors in building or growing a business is access to capital.

So recently, I introduced the Expanding Access to Capital for Rural Job Creators Act, and this is to help address these issues. This legislation requires the Securities and Exchange Commission's Office of the Advocate for Small Business Capital Formation to report on capital access issues faced by rural and small businesses. You know, the franchise model offers a potential solution for some of these capital access challenges.

I am going to move on to Ms. Beaudoin. Can you expand on how the franchise system provides unique opportunities for aspiring business owners to achieve their dream of business ownership?

Ms. BEAUDOIN. Yeah. So being part of a bigger brand is why banks talk to us. Otherwise, it really wouldn't be a conversation, especially in the restaurant environment right now. Restaurants' margins are so tight that banks are very, very hesitant to lend. But because we are part of a bigger brand and have an even bigger parent brand of Inspire brands behind us, they will enter into the conversation.

We do sometimes, because we are such a small franchise, my father personally guarantees a lot of our loans, so there is a weight on me that I have my parents personally guaranteeing loans as well as trying to support my children. So it is a heavy burden. But again, because we are a Buffalo Wild Wings franchisee, we have access to many banks that will lend to us.

Mr. DOWNING. Yeah. Thank you. I have to admit, I had a bonding moment with my daughter when she was in college and wanted to go to dinner to BDubs. I am going what is BDubs? Is that by that Buffalo Wild Wings over there?

Ms. BEAUDOIN. That is the Buffalo Wild Wings.

Mr. DOWNING. So what advantages in those last few seconds here do you think the franchise model can bring for aspiring business owners coming from rural backgrounds who are, you know, often isolated from, you know, these sources of capital?

Ms. BEAUDOIN. Yeah, I mean, I think that it gives them an opportunity of a proven brand and a proven business model that they don't have to invent from scratch. They can work on—focus on operating their businesses while the franchisor is developing, for example, in the restaurant business, developing the menu and the sauces and that type of thing, and they can really just focus on building their culture and their business.

Mr. DOWNING. Excellent. Well, thank you. And on that, Mr. Chair, I yield my time.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Mrs. McIver from the great state of New Jersey for 5 minutes.

Mrs. MCIVER. Thank you, Mr. Chairman and Ranking Member, for convening this hearing. And thank you to our witnesses for being here today.

The franchise business model plays a critical role in providing an avenue for entrepreneurs to become their own bosses and create jobs in their communities. This model is sometimes overlooked, but it is essential that federal policies create an environment where these types of small businesses can thrive. But, as we all know, the Trump administration is continuing on its path to make every part of the federal government less transparent, more corrupt, and totally ineffective. Continuing the work he started during his first administration, Trump is ignoring the laws Congress passed, like the Corporate Transparency Act and the Anti-Money Laundering Act, that are meant to prevent corruption and criminal activity in our economy. We must ensure our small businesses are not used as pawns in global money laundering schemes or as a cover for criminal enterprises. They deserve a level of playing field, not one rigged by Trump and corruption.

With that being said, Mr. Kalman—am I saying that right? I want to make sure I am pronouncing it right. Mr. Kalman, under the Corporate Transparency Act, reporting companies must provide the beneficial owner's full legal name, date of birth, current address, and unique identifying number from an identification card. What is excessively burdensome about these reporting requirements?

Mr. KALMAN. We don't think they are. In fact, most business owners that we—when we went to look at state registrations, most business owners actually provide this information to their state. It is—most of the information is out there, so we don't actually think it is—it has not proven to be a burden. I will also say this, that FinCEN had estimated that it would cost $85 for an initial registration. And then after that, if your information doesn't change, never for the history—for the rest of the eternity of your business, would you have to think about the CTA ever again.

Mrs. MCIVER. Can you give us an example of when a legitimate business would be incapable of providing this information?

Mr. KALMAN. You know, this was actually raised during the debate and the passage of the law as a potential possibility. And in 10 years of debate, no one ever put forward an example of a company that couldn't provide this information.

Mrs. MCIVER. Okay. Under the statute, companies are required to report updates to the information—to the information on file within 30 days of changes. Some claim that this will subject reporting companies to harsh penalties if they forget to update their information. Is this true?

Mr. KALMAN. No.

Mrs. MCIVER. Okay, thank you. With that, I yield back.

Chairman WILLIAMS. Gentlelady yields back. I now recognize Mr. Meuser from the great state of Pennsylvania for 5 minutes.

Mr. MEUSER. Thanks, Chairman. Thank you all very much. It is a nice conversation and appreciate your—your information. So the Ways and Means Committee yesterday marked up their portion of the one big, beautiful bill. We are delivering critical tax relief to franchise businesses, small businesses. The bill has many provisions in it, such as 100 percent bonus depreciation, Section 199A for a small business deduction, R&D tax credits, et cetera. Are these provisions helpful? Critical? On a scale of 1 to 10, how important are they to your growth and sustainability, Mr. Cross?

Mr. CROSS. Very important, Congressman. Thank you for the question. Yes, any—any additional funds that we can have to reinvest back into our businesses, in my case, we look at vehicles and additional labor to go out and do more work, are always much appreciated.

Mr. MEUSER. Do others agree, Mr. Wright?

Mr. WRIGHT. Oh, 100 percent. Yes, exactly. Being able to take that and invest back in the business is critical to the growth of small business.

Ms. BEAUDOIN. A scale of 1 to 10, I would give it about a 25.

Mr. MEUSER. Very good. Thank you. That is what we thought. I wish everybody thought that way, but we were working on it because the real world is where it matters, not in the, the theoretical bubble that tends to exist in certain—certain places here in Washington. Small businesses franchise, you know, I get it. I was in small business and lucky enough to grow it into a larger business over time. I recall with the PPP, for a temporary period, franchises were not included in availability for PPP because you were considered a larger corporation. We fixed that pretty fast. Is there anything else that franchises do not gain versus small businesses that you would like to see corrected, Mr. Wright?

Mr. WRIGHT. I can't think of anything off hand.

Mr. MEUSER. Okay, all right. Because we differentiate quite deliberately. But as the Chairman was saying, you are small businesses, and we, you know, many of us understand that. I am just making sure that there is nothing that you are not receiving because you are a franchise. And I was curious to hear about the personal guarantees, Ms. Beaudoin. I would think that being a franchise, that wouldn't be as—as——

Ms. BEAUDOIN. Yeah. Well, again, because we are our own business, we are not Buffalo Wild Wings corporate. They just want to make sure that we have the capital to back our loans.

Mr. MEUSER. Sure. And I signed many in my day as well, so I understand. The tax provisions, 199A, obviously affect your long-term planning and your investment strategies for your businesses? Okay. So, very important.

You know, onto this beneficial ownership rule. Listen, when it was, well, you know, when it was passed, there were four questions that, on a regulatory basis, the Biden Department of Treasury turned it into 52 questions. All right? And by the time January 1st, 2025, came around, when it was—when it was supposed to go into effect, there was something like 25 percent of small businesses actually submitted. And yet, and meanwhile, domestic companies were now excluded, which was, I certainly think, the right thing to do because of the level of fines and other penalties that were being expressed, but foreign companies must still abide by it. Why would you think that that would be something that should have been implemented or express to me why you are very happy it wasn't? I will start with you, Mr. Cross, and we will go down if you can answer in a short period of time.

Mr. CROSS. Again, Congressman, thank you for the question. I think it is just the uncertainty of how to comply and the fear of the fines. And again, I mentioned it in my previous response. We don't maintain on-site legal counsel to help us navigate these issues.

Mr. MEUSER. Right

Mr. CROSS. And with my franchisor hat on, because of the limitations of the joint employer, I as a franchisor am limited with the support that I can provide our franchisees to help coach and guide them through it.

Mr. MEUSER. Thank you. Mr. Wright?

Mr. WRIGHT. I think that was said very well. There is not a single franchise owner that we have has any legal counsel at all. And they will absolutely have to have some help in getting that documented completed.

Mr. MEUSER. Ms. Beaudoin?

Ms. BEAUDOIN. Yeah. And we are thankful to have the franchise association that kept us abreast of this issue. That being said, though, it is just another administrative burden that small business—if I were not part of a franchise, I pray for the small business owners daily of what they are missing, and it is the fear of what am I going to miss and what am I going to be—have an exorbitant penalty for. And I am not sure the penalties around this, but there are just so many administrative things that franchisees or small business owners can miss.

Mr. MEUSER. Thank you for your honest real-world information so we can base policy and support for small business based upon it. Thank you very much.

Chairman WILLIAMS. Gentleman yields back. I now recognize Mr. Cisneros from the great state of California for 5 minutes.

Mr. CISNEROS. Thank you, Mr. Chairman. And as a former franchisee, I appreciate the witnesses being here today to share their views with us, but I—I need to take a few moments to make a note that we have been asking for months to have the SBA administrator come speak before the committee about the policies and changes at the SBA that affect our small businesses. My colleagues and I have sent multiple letters to the SBA that have gone unanswered. Legislation about the SBA has been pushed through this committee with no input or insight from the SBA on how it will be implemented. It is important that the SBA administrator come in person to answer questions like, you know, what was the extent of the DOGE access to SBA headquarters and systems, and what was done by the SBA to ensure the systems were not abused or accessed by individuals without clearance? What specific offices or departments within the SBA are affected by the reduction in the workforce and where are the gaps? Where is the SBA relocating the six regional offices and will any others be closed in the future? What is the SBA's plan to handle $1.7 trillion in student loan portfolios while cutting 43 percent of their staff and also having staff not trained to work with such a complex student—complex student loan system?

So, that being said, I want to thank the Chairman and the committee staff for finally making it happen and getting the administrator on our calendar for the first week of June. If it took this long for the—for Members of Congress to get ahold of the SBA, I am very concerned about how long, you know, any help from the SBA is taking to get to our small businesses. So I sincerely hope the administrator comes with actual answers as I look forward to working with the SBA to help small businesses in my district and throughout our great nation.

So, that being said, Mr. Kalman, many opponents of the beneficial ownership information reporting requirements claim the penalties for small business owners who do not comply with the BOI reporting requirements are overly punitive, with prison sentences up to two years and fines up to $10,000. Yet the statute only provides penalties for willful failure of deception and reporting. Why is this inclusion of the word willful so important and how does it impact small business owners?

Mr. KALMAN. Thank you for the question. I think in the leadup to the passage of the bill, there was a lot of discussion. Nobody wanted a negligence standard. No one wanted a reckless standard. For those that are not familiar with these terms, all the sort of " I forgot, " " I didn't know the law existed, " and "I didn't realize that that was what I was supposed to report, " those are not punishable under the system. It is a willful standard. The original standard was knowing, and they changed it to a willful, which is even a higher bar. So we felt confident that we are only going after people who know about the law and knowingly, willfully, you know, whatever the term, choose to violate the law. And we think that that is a safer standard and therefore the punishments are appropriate.

Mr. CISNEROS. So if a small business owner accidentally makes a mistake on their submission, what are the consequences?

Mr. KALMAN. Nothing.

Mr. CISNEROS. All right, thank you for that. As I stated, the SBA administrator is going to be here the first week of June. I would love to hear from our franchisees if there is anything specific that you would like us to address with the SBA administrator that could go and help your businesses.

Mr. WRIGHT. I would like to thank the SBA for once again opening up the SBA directory for both banks and lenders and potential franchisees to be able to see that information.

Mr. CISNEROS. Anyone else?

Mr. CROSS. Anything that could be done to streamline the process for our prospective franchisees. Franchisees that are using SBA funds, it typically takes—it is an onerous process to get them through it.

Ms. BEAUDOIN. I tried to apply for an SBA loan with my steakhouse, and it was such an onerous process that I backed off, and I found other investors to come in and help me get it started.

Mr. CISNEROS. All right, well, thank you for your testimony. I will make sure that we address those issues when she is here. And I yield back.

Chairman WILLIAMS. Gentleman yields back. I now recognize Mr. Jack from the great state of Georgia for 5 minutes.

Mr. JACK. Thank you, Mr. Chairman, and thank you for convening this hearing. And I will start with Ms. Beaudoin. Is that the right pronunciation?

Ms. BEAUDOIN. It is Beaudoin, but anything works.

Mr. JACK. Beaudoin. Yeah, I say that because I know a lot of our colleagues on both sides of the aisle have already tried to affirm their loyalty to the franchise that is Buffalo Wild Wings. But I suspect I am the only Member of this committee that has eaten at perhaps one of your restaurants within the last week. So very excited that you are here. And I, you know, I think what is important—important about this hearing, in all seriousness, is that, you know, for so many of our colleagues, it is instructive to know that, you know, franchisees are small businesses. You think of these massive corporations with these huge brands, trillions of dollars in brand value, but ultimately, they are small businesses. And I am just curious, you know, states such as Oregon and Illinois have instituted minimum wage laws that treat franchisees as if they were part of their franchisor. This includes attributing the franchisor's total employee count to the local franchisee. What say you to that and is this treatment of franchisees fair?

Ms. BEAUDOIN. It has been tough on my colleagues in those states for sure, to where they are looking at different ways to handle their service models. They are working on ways to cut team members. They are looking at automation. They are looking at using computers to, or for servers, to have tablets to cut servers on the floor. So, yes, I know it has been extremely burdensome on those franchisees in those states.

Mr. JACK. Mr. Wright, I will give you a chance to comment.

Mr. WRIGHT. Yeah, I agree. Anything that we are doing to hinder the growth of the franchise owners is—it is—it is just not common sense. The process, in my opinion, and the regulation is just not common sense.

Mr. JACK. Sure. And to help me understand scale as it relates to just how many. I think you noted, ma'am, that you have got five restaurants, and given your leadership across Buffalo Wild Wings writ large, what is the average size of a small business that operates a few restaurants? Is it three, four, five? What do you see the average being for the franchisee?

Ms. BEAUDOIN. Across Buffalo Wild Wings, I believe the average is around 14. I don't know for sure.

Mr. JACK. That is great. And Mr. Wright, curious about Aqua-Tots?

Mr. WRIGHT. Yeah, the average franchise owner is three schools.

Mr. JACK. Three schools.

Mr. WRIGHT. Mm-hmm.

Mr. JACK. And Mr. Cross?

Mr. CROSS. Mostly single unit operators with six to eight employees.

Mr. JACK. Got it. Okay, very helpful. One of the things we are talking about today is that many Members of our leadership are meeting with folks right now to talk about the extension of the Tax Cuts and Jobs Act. You have seen it over and over and over across this hearing, but also across the communications that come out of our conference as to how important that is to revitalize our communities, to generate and incentivize investment. And I would just love to start with you, Mr. Cross, and work our way down. What is the impact of us passing the extension of these tax cuts going to do to small business?

Mr. CROSS. For me personally, I am going to get to reinvest more in my operation with additional management staff, with additional sales staff, with vehicles to go out and perform the service.

Mr. JACK. Wonderful, thank you. Mr.——

Mr. WRIGHT. Yes, we will be able to reinvest back in our—in our team members as well to provide greater support for our swim schools.

Mr. JACK. Wonderful.

Ms. BEAUDOIN. And we are looking at opening two additional locations, so this will help us invest in that.

Mr. JACK. Perfect. The only other question I have is when we talk about regulations, one of the things that I am really proud of having accomplished this Congress is ensuring the passage of a bill that repealed a regulation that drastically impacted a factory in my district. And we see the regulatory burden being incredibly complex, especially because as an administration is leaving in this case, as the Biden administration was leaving, a lot of regulations are foisted upon businesses across the country right before that administration ends. I am just curious if you could all three of you speak just very briefly to how we can best serve you as it relates to in ensuring there is a regulatory environment that enables you to thrive. We will start with you, Mr. Cross.

Mr. CROSS. 54 seconds isn't enough. It is the Save Local Business Act and making sure this joint employer legislation goes away. It is detrimental to franchising and it threatens to take away the retirements of thousands of small business owners across the country.

Mr. JACK. Thank you. Sir?

Mr. WRIGHT. I would say the Joint Employer Act as well. Holding a franchisor responsible for franchisee employment practices is just not good process at all.

Mr. JACK. Absolutely, thank you. Ma'am?

Ms. BEAUDOIN. And I would agree it is the joint employer standard that needs to be loosened up.

Mr. JACK. Wonderful. Well, Mr. Chairman, I applaud you for convening this hearing, and, as so many of our colleagues on both sides of the aisle have noted, there is a point of pride in a lot of communities when some of these brands move in and have an opportunity to serve the constituents we represent. So grateful for everyone's testimony today, and likewise your service to your communities. And with that, Mr. Chairman, I yield back.

Chairman WILLIAMS. Gentleman yields back. Now, I recognize Mr. Tran from the great state of California for 5 minutes.

Mr. TRAN. Thank you, Mr. Chairman, Ranking Member for the panel today and the hearing today. Panelists, welcome. I appreciate you being here. My first question is for Mr. Kalman. Recent SBA reporting determined there are more than 34.8 million small businesses in the U.S., making up 99.9 percent of all U.S. businesses. Despite this number, it seems to be a common misconception that cyber threat actors who commit ransomware attacks only target large companies or that small businesses on America's main streets don't have to worry about Russia, the Chinese Communist Party, or North Korea targeting their small firms, their hardware stores, or their investment advisory companies. First, can you explain why smaller businesses or firms might attract or are more likely to be victims of ransomware attacks?

Mr. KALMAN. Yeah. In our discussions with a number of small business organizations, and I think it is something that my colleagues on the panel here have alluded to, is they don't actually have in-house counsel. They are not large institutions. Large institutions are much more likely to try and fight back. They are likely to protect their brands. They are likely to have the resources to do that. So while any individual attack might be a smaller amount of money, it is much more likely that a small business owner might go, I am going to pay this amount rather than higher legal costs to try and fight it.

Mr. TRAN. Thank you. And then follow-up to that, can you explain how the Trump administration's decision not to enforce the Corporate Transparency Act's beneficial ownership information reporting requirements makes legitimate small businesses more vulnerable to these types of attacks?

Mr. KALMAN. Well, if one were to try and go to law enforcement to try and get help or actually try and pursue some remedy, they would hit a brick wall. Without beneficial ownership information, these companies open up and shut down overnight. They can move across the street, they can move across the globe, and there is no way of tracking them.

Mr. TRAN. And what could Congress do to help small business owners who are likely targets of ransomware attacks carried out by North Korea or China?

Mr. KALMAN. I mean, I think there are two things. One is to reinstate the law as we have it here in the United States. But also the United States has been a leader globally in moving anti-corruption legislation. There are now 100 countries around the world that have pledged to start beneficial ownership directories so that we could begin to track this stuff across countries and across continents. I would urge us to get back into that and follow up with all those countries.

Mr. TRAN. And Mr. Kalman, your organization published a fact sheet with numerous examples of shell companies from the fentanyl drug trade, which is currently killing about 80,000 Americans per year. Can you explain how small—how shell companies are being utilized in the fentanyl drug trade? And how would the Corporate Transparency Act help reduce their prevalence in this illegal market?

Mr. KALMAN. So anonymous companies are not just a mistake or an occasional use by drug cartels. It is a feature of how they operate. And the President, for example, in his latest budget, has proposed to increase funding for border and customs protection. That is only part of the problem. It is just trying to stop drugs that come into the country. There are numerous ways in which they are going to get here. But bankrupting the drug cartels is actually seen by DEA agents, if you ask them, as a more effective way of shutting down these operations. The Corporate Transparency Act is going to be critical to do that.

Mr. TRAN. Thank you for that. Mr. Wright, the government guarantee provided by the SBA in the 7A, the 504, and other capital access programs enables lenders to offer more affordable loans with more advantageous repayment terms than they would otherwise have. This helps small businesses—small business borrowers overcome many of the economic pressures we are discussing here today. And I am always looking for ways to improve awareness of the SBA's capital access programs and the benefits they provide. How do you think we can help the SBA improve awareness of these programs for franchisee owners and small business borrowers?

Mr. WRIGHT. I would say working with the IFA, making sure that you are providing that information to the International Franchise Association, who does a fantastic job of communicating to all of the small businesses and the franchisors about this opportunity. We do that. We, as part of our process of onboarding a new franchise owner, we provide them with a pretty large list of opportunities, usually through lenders who are working that process across the country. So it has been—SBA has been vital to the growth of our business.

Mr. TRAN. Thank you so much for that, Mr. Chairman. I yield back the rest of my time.

Chairman WILLIAMS. Gentleman yields back. Now recognize Mr. Alford from the great state of Missouri for 5 minutes.

Mr. ALFORD. Well, thank you very much, Mr. Chairman, and thank you, Ranking Member Velázquez. As a previous small business owner, I know firsthand one of the most difficult parts of starting any business is staying in business is your branding and your marketing. And of course, capital franchising offers a ready-made pathway towards creating their small businesses. The franchise model provides a pathway for Americans who want to be their own boss to achieve that dream. Here in the Small Business Committee, we are focusing on helping all small businesses, franchise and otherwise, succeed on main street. I am proud to be on this committee.

Mr. Wright, in your testimony you mentioned that franchises typically represent about 20 percent of SBA loans by $ volume. I am currently working on legislation that would seek to raise the current maximum loan of SBA backed loans. How could raising the limit on 7A and 504 loans benefit entrepreneurs looking to start small businesses?

Mr. WRIGHT. That is a great question.

Mr. ALFORD. That is why I asked.

Mr. WRIGHT. Literally this past week I was talking to a franchise owner who is up against that $5 million cap because of multiple schools that they have owned. And they are looking to grow, and they are looking at options other than the SBA to do that. So it would absolutely be beneficial to our owners who are opening multiple locations.

Mr. ALFORD. We got to get that done. Missouri represents about 16,000 franchise establishments contributing to about 170,000 jobs in the Show Me State. And we are proud in our district to have Fish Window Cleaning headquartered there. Mr. Cross, are there any policy changes at the federal level that you believe would significantly benefit small franchise owners like yourself?

Mr. CROSS. Yes, Congressman, thank you for the question. I appreciate the red tie, that is our branding.

Mr. ALFORD. That is why I wore it.

Mr. CROSS. I appreciate it. It goes back to the joint employer. Again, it is the single biggest issue that is affecting us as franchisors to being able to support our franchisees and their pursuits of small business ownership.

Mr. ALFORD. Ms. Beaudoin, is that how you pronounce it? Did I get it right? Oh my goodness.

Ms. BEAUDOIN. That is perfect. That is the French version.

Mr. ALFORD. Brian Jack told me how to pronounce it. He looked it up.

So thank you. Thank you for being here. How many wild wings do you own, Buffalo Wild Wings?

Ms. BEAUDOIN. I have four.

Mr. ALFORD. Four?

Ms. BEAUDOIN. Yes.

Mr. ALFORD. How did you get into that business?

Ms. BEAUDOIN. So I started in college. My father—I went to West Virginia University, and my father was looking at getting into a different type of restaurant. He had started a restaurant when I was three, and we grew up in it. And I told him there was a place he should check out, and he called the number on the back of the menu.

Mr. ALFORD. All right. I looked this up on Guac or Grok. You know, on X, Grok. The hottest sauce at Buffalo Wild Wings is the Blazin' Knockout.

Ms. BEAUDOIN. Yeah.

Mr. ALFORD. It is made with nine of the spiciest peppers, including Devil's Breath, Carolina Reaper, Scorpion, Ghost, Habanero, red and green peppers, jalapenos, Chile de Arbol, and cayenne. This sauce is so intense, it comes with a warning for potential skin and eye irritation and is served with ice cream to cool the heat. It is designed for extreme spice lovers and is significantly hotter than other sauces like wild or hot. My question to you, Ms. Beaudoin, have you had this hot sauce?

Ms. BEAUDOIN. I have. I have. Actually, I tested four blazin' sauces, four versions of a blazin' sauce, at one FAC meeting. I would like to tell you I was the only member that tried all four. And yes, and I frequently have participated in the Blazin' Challenge with my team members.

Mr. ALFORD. How long does it take to get your taste buds back after they are burnt off your tongue?

Ms. BEAUDOIN. It is a few days, yeah. It is—it is—yeah.

Mr. ALFORD. I have got about a minute and a half left. Just for the folks who may be tuning in or maybe watching this on one of our social media channels later, kind of describe how the franchise model works. A lot of people don't realize, I think, that it is—it is not a corporate-owned store.

Ms. BEAUDOIN. Correct. No, we are—we are our own businesses. I wear many hats in my business. I coordinate the contractors and the architects when we build. I am the last one that checks payroll. I oversee our bookkeeper. I am head of HR. I am the operations manager. They report up to me. So I wear marketing, our local store marketing. I do have somebody that handles our local store marketing, but again, she reports up to—to me, and I handled that myself for many years. But that being said, we also have resources that we can draw on from the corporate office so that I don't have to reinvent the wheel. Thankfully, I don't have to do the menu development piece. I do set my own pricing. We have been very conservative in our pricing, which has led to increased sales the last few years, but we definitely run our own businesses well.

Mr. ALFORD. To all the witnesses here today, thank you for coming here, as I like to say, on your own time and on your own dime. Your time is an investment in the future of what we do here, making main street great again under the leadership of Chairman Williams. So thank you so much.

Ms. BEAUDOIN. Thank you.

Mr. ALFORD. And with that, Chairman, I yield back.

Chairman WILLIAMS. Gentleman yields back. I now recognize Dr. Conaway from New—from the great state of New Jersey for 5 minutes.

Mr. CONAWAY. Thank you, Mr. Chairman, and thank you, witnesses, for presenting yourself today to offer information on this important issue. Enacted in 2020, the Corporate Transparency Act increases transparency in business ownership in order to combat certain financial crimes like tax evasion, money laundering, terrorist financing, the trafficking in labor and in the sex trade. These are important goals that protects our country, protects the interests of small businesses and individuals. The administration, however, last month decided they would no longer enforce penalties and fines against domestic companies and individuals that intentionally—that is an important part of it—intentionally and willfully fail to complete their financial ownership information. Information that involves a name, address, perhaps a driver's license. It takes 20 minutes to do, $85 to file, and you never have to do it again once done. I view this action as reckless, and I think I am joined by many in this, because I understand that the American people have an interest in preventing drug lords from flourishing and terrorists from gaining a foothold and basically attacking freedom, attacking our country. Can you, Mr. Kalman, speak to how these actions taken by the administration will weaken national security?

Mr. KALMAN. Thank you for the question. There are numerous examples of bad actors in the U.S., adversaries setting up companies in the United States to exploit our financial system, whether that be Chinese companies setting up in California to access and purchase or get their hands on sensitive information from our Defense Department. There was actually a Defense Department contract at one point in Afghanistan—in which a U.S. company was getting funding through the Defense Department to provide services to the troops. That company—secretly had ties to the Taliban. We were literally giving money to the people who were shooting at our troops. These are the kinds of horrific stories that we want to make sure we are doing everything in our power to counter.

Mr. CONAWAY. Thank you for that. We have—there have been a lot of concerns raised about the burden of complying with this law, and there have been—it took 10 years for this law to be passed. There were a lot of interest groups and law enforcement agencies who were involved in its passage, good government people, people concerned about national security. Can you put more clothes on the coalition that came together to get this law passed?

Mr. KALMAN. Yeah, I actually put this together because I often get asked this question. So if you don't mind, I am just going to quickly read that the coalition included police, chiefs of police, sheriffs, prosecutors, national security experts, anti-human trafficking organization, faith-based networks, business trade associations, banks, real estate associations, consumer and housing advocates, accountable governance organizations, and scholars at both conservative-and liberal-leaning think tanks. It was a wide coalition.

Mr. CONAWAY. Broad coalition, and that, I think, is a testimony to how—to the strength of the desire to get this bill passed and to bring security to the American people and to protect small businesses from attack by these foreign corporations. And indeed, in this climate of increased tariffs, broad-based tariffs, people who can go unidentified will make domestic shell companies here in order to get around the tariffs and confound the administration's desire to collect these tariffs and then pass it along to the wealthiest in our country.

I met with small businesses in my district a couple of weeks ago to talk about tariffs and the impact on small businesses. This sort of whirlybird, back and forth and uncertainty. I heard repeatedly from car dealers and people involved in selling all sorts of items, insurance brokers, and the like about how these are raising costs. Many small businesses buy—make their products from items purchased overseas and also sell overseas. So they get hit coming and going, and of course the consumer pays for all of these. Can you comment on how this—this—the CTA, helps with the terror problem that—that so many of us are facing?

Chairman WILLIAMS. Time is up.

Mr. CONAWAY. I don't know if you can answer that now?

Chairman WILLIAMS. Time is up. I now recognize Mr. Patronis from Florida, from the great state of Florida, for 5 minutes.

Mr. PATRONIS. Thank you, Mr. Chairman. I got to admit, I was really excited when you had a restaurateur come up. My family, my great granddaddy was in the restaurant business. My granddad, my dad, and now my family. And you know, just to be able to pick your brain and maybe empathize a little bit. Is it—oh, I am sorry. First timer, rookie problem. Horrible. No excuse. Does my clock start over? Nobody heard what I was saying. Thank you, sir. But as I like to tell people, the restaurant business is intoxicating, but it is also the most competitive business that exists. People could go anywhere for their birthday, their anniversary, maybe in your case to watch a playoff game, and what you have to do to ensure your product is always on the mark in order to get that consistent return customer. And I struggle sometimes, and I think about the days of pre-COVID and how it seems like life was so much better back then and then how the workforce has changed so dramatically since then. And then I want to get you to elaborate on specifically, because of the competitive nature of your industry and what you have dealt with in your family's evolution, how much help did you get from the government when you decided to open up your first restaurant?

Ms. BEAUDOIN. Our first restaurant, none.

Mr. PATRONIS. Yeah. You know, and I mean, you took that risk.

Ms. BEAUDOIN. My father did. My father, he financed it. I mean, after 30 years of working in the restaurant business, he saved every penny he had. We rarely went on vacation. Well, we went on one vacation a year to the beach.

Mr. PATRONIS. Sure.

Ms. BEAUDOIN. And the restaurant closed that week. But yeah, so he funded our first restaurant.

Mr. PATRONIS. Yeah, I relate. Our restaurant would close in the month of December and that is when dad would take us on our trip.

Ms. BEAUDOIN. Yep.

Mr. PATRONIS. And all of the hundreds of jobs that you have created, the families that you have put to work, any assistance from the government in any way, shape, or form?

Ms. BEAUDOIN. I mean, through Covid with PPP——

Mr. PATRONIS. PPP.

Ms. BEAUDOIN.—and RRF, yes. Otherwise, no.

Mr. PATRONIS. Yeah. What are some of the—if you had a magic wand and say, you know what, if I could change this one element, and I don't care if it is state, local, or government, what would make your life easier when it comes to growing your business?

Ms. BEAUDOIN. I think it is two things, actually. I think it is access to capital without having to personally guarantee it. That is a burden that my father takes on, and I am grateful for. But also, I think it is the amount of administrative duties and the constant—I feel like I constantly wear a cloud over my head of what am I missing or what am I forgetting, and what are the penalties going to be if I check the wrong box on a form, honestly, when it comes to government regulation.

Mr. PATRONIS. And do you ever look around at other businesses and get envious of assistance they may receive in comparison to what you are eligible for?

Ms. BEAUDOIN. I think I focus on my restaurants and just on my—on my road, yeah.

Mr. PATRONIS. The restaurant business, I tell people, and I would tell mom all the time, look, if you don't take care of the customer, somebody else will.

Ms. BEAUDOIN. Correct.

Mr. PATRONIS. But when you get into government, it is hard to have that type of attitude. So I have always been in front of my coworkers and my employees, and anywhere I have been in government, my attitude has always been, if you don't take care of the customer, I am going to find somebody else that will. And it is a culture that doesn't happen overnight. But you know, you build out a team, and as all these Members up here, they—they have, you know, the teams they lead are trying to be responsive to our constituents by telling you still have to be—hold us accountable, you know, and what else can we do? And I mean, just hearing your concerns about access to capital, to be able to grow the business, to be able to make that risk, you have got a proven track record. It is obvious, you know, what you are doing. Otherwise, you wouldn't continue to expand the way you have. What about supply chains?

Ms. BEAUDOIN. Supply chains have got, again, if I did not have a franchisor, I don't know what we would have done through COVID. There was a point where we had no wings. That has gotten drastically better. But as a small business owner, if it weren't for the franchisor, we would not have been able to survive.

Mr. PATRONIS. Well, congratulations on getting your daughter into the business.

Ms. BEAUDOIN. Thank you.

Mr. PATRONIS. So my dad had four boys. My three brothers are still there. I am the baby of the four. And up until 2017, my brothers still do—they clock in and clock out every day. If you want a paycheck, you are taking care of the customers.

Ms. BEAUDOIN. Yeah.

Mr. PATRONIS. So, anyway, it is just a real treat to have you come up and give some reality to this group.

Ms. BEAUDOIN. I appreciate you guys having us. Thank you.

Mr. PATRONIS. I yield back.

Chairman WILLIAMS. Gentleman yields back. I now recognize Ms. Simon from the great state of California for 5 minutes.

Ms. SIMON. Thank you all so much, and this has been a great panel. To the gentlewoman who came in thinking about you. My daughter got married a year and a half ago, and you will be employing a lot of small businesses to make that wedding go. I am telling you, from the flowers to the bar to the tablecloths, you all are providing such an incredible service in the community. I ran a youth program some years ago for a long time for young women, really young women who are struggling. So many of their first jobs out of foster care, out of the juvenile justice system, were in local small business franchises. So thank you so much for lifting up, really, what is so important.

You know, I have a few short comments, and I want to make sure that, you know, I associate my comments to the comments of Ranking Member Velázquez. You know, although I was not in Congress when the Corporate Transparency Act was passed, I understand and agree with Mr. Kalman and your remarks earlier this hearing. Mr. Kalman, I was extremely concerned listening to your testimony about the potential consequences of rolling back the law. And I am committed to working with this committee and, again, our partners on the ground and communities to making sure that we get it right.

Now, while my Republican colleagues are using this hearing to justify really what is happening here in the House this week and the tax cuts and gutting the Corporate Transparency Act, you know, I want to highlight how this administration's actions are actually impacting small businesses and franchises on the ground. Unlike big companies, small businesses and franchises can't absorb these costs. Restructuring supply chains in a lobby for exclusions. You know, when shipments are delayed or prices soar like they are right now in many communities, small businesses are the first to feel the brunt and the pain because their margins are much smaller. In my district at the Port of Oakland, we saw shippers rush cargo through in April before the tariffs took effect. And these port sellers, they are now experts; they are expecting—these experts are expecting 20 percent fewer ships to call into the port in June. This is a catastrophe. That translates to fewer outbound vessels for exports and higher cost for imports. This will certainly hit small businesses the hardest, as they won't be able to win the bidding war for container space against multinationals.

Now, I have a question for one of our witnesses, but I do want to say, in meeting with so many franchise owners and—and so many small business owners in my district, we know that approximately in this country, 30 percent of the employees that are employed by franchises, food service workers, et cetera, they are able to access Medicaid. Many of them are half-time workers. Many of them, again, are paid a low wage. And their health and their family's health are contingent upon them being—having this resource. And I am so afraid for our small business community across the country that in just weeks to come, the viability of their workforce will be harmed. So I am hoping that this committee and others that we band together to support small business owners, franchise owners, and the good people that are working for them.

I do have a quick question. And actually our Ranking Member, she lifted up and talked about an article before I go further, the Chinese exporters, the Financial Times article. I would encourage us all to read that article so that we know what is at stake. And in my short question, Mr. Kalman, would you quickly explain how U.S. law enforcement would identify shell companies, we talked about these before, in the wake of the Trump administration's decision not to enforce the Corporate Transparency Act's beneficial ownership registration requirement?

Mr. KALMAN. It will make it very difficult. I mean, we have the experience prior to the Corporate Transparency Act being passed of law enforcement running into a brick wall. It is the reason that they all rallied around this bill for 10 years and worked with us to get it passed. So I think we will return to a time where it is very difficult.

Ms. SIMON. Thank you very much, and I will yield back. Before I go, would anyone like my time? I have 32 seconds. All right, there you go. Thank you, Mr. Chairman.

Chairman WILLIAMS. Did you give—go ahead. Okay. Gentlelady yields back. Gentlelady yields back. And I recognize Mr. Wied from Wisconsin, the great state of Wisconsin, for 5 minutes.

Mr. WIED. Thank you, Mr. Chairman, and of course, the witnesses who came here today to share their experiences with us. As a former franchise owner myself, I know the firsthand the benefits of this model for both the franchisee and the community that they live in and work in. Whether it is fast food like McDonald's, gyms like Planet Fitness, or even hotels like Motel 6, the opportunity to become a franchise owner exists across many industries. For first-time entrepreneurs, becoming a franchisee allows access to a recognizable brand, the framework to begin their business, and potentially other resources from the franchisor. This allows first-time business owners to develop the skills to run their business while receiving support from their franchisor. This type of increased support makes the American dream more possible for thousands of Americans across this great country.

The most important point I make is that franchises are small businesses, and they should be treated as such. However, Biden era policies such as beneficial ownership information requirements and the joint employer rule, as well as other state laws that misinterpret the relationship between franchisees and their franchisors, actively hurt these small businesses. My Republican colleagues and I are committed to advocating for franchise owners and their businesses just like any other small business.

Mr. Cross, Fish Window Cleaning. I love good, clean windows. Definitely love that on my businesses and at home. But as you know, maintaining and replacing equipment can be very costly for a small business. How would the reinstatement of 100 percent bonus depreciation under the Section 168, the K, allow you to reinvest in your small business?

Mr. CROSS. Yeah, great question and thank you. And yes, everybody loves clean windows.

Mr. WIED. Oh yeah.

Mr. CROSS. It keeps us in business. Congressman, for me particularly, again, it goes back to vans. Additional equipment are the primary ways that additional—the depreciation expense would help me there.

Mr. WIED. Great.

Mr. CROSS. Purchasing more vans.

Mr. WIED. Yeah, absolutely. So, Mr. Bode—Mrs. Beaudoin, well, Buffalo Wild Wings, which is obviously amazing. My kids love it as well. We have it often. There are many examples of laws across our country that treat franchisees as part of their franchisor. How do these laws negatively impact the owner of a franchise like you?

Ms. BEAUDOIN. Yeah, as I spoke earlier, it is really under our human resources policies. So we have to employ outside counsel for our handbooks and to—for our workplace safety training, for sexual harassment training. The franchisor can't give us any feedback on that. If we have even a brand damaging issue that is caused by one of our team members, we really have to handle that and kind of navigate it with a really light touch from the franchisor.

Mr. WIED. Also, what impact do higher minimum wage laws for franchisees have on, you know, like businesses and especially in the rural areas?

Ms. BEAUDOIN. Yeah, it is interesting. So I am in the panhandle of West Virginia. I am on the 81 corridor. So you can get to three states in about 45 minutes there. And so I am in Virginia, West Virginia, and Maryland. We have a really hard time hiring in the panhandle with the lower minimum wage, even though our starting wage is higher than the other two states. Just because it is—the other two states have a higher minimum wage. But at my back of house, the kitchen wage is actually lower in those states because there is a perceived—there is a perception that they are going to get paid more. But I am trying to attract workers in the lower minimum wage state. So really, I am paying more in the state with a lower minimum wage.

Mr. WIED. Well, thank you all for all that you do. You are the heart—the heart of America. The small businesses and you are main street. So appreciate that, and——

Ms. BEAUDOIN. Thank you.

Mr. WIED.—thank you all for being here today. I yield back.

Chairman WILLIAMS. Gentleman yields back. I now recognize Ms. Goodlander from the great state of New Hampshire for 5 minutes.

Ms. GOODLANDER. Thank you, Mr. Chairman, and thank you to our witnesses for being here today. You know, I really appreciate your—your testimony, especially tracing the roots in the history of the franchise model. It is a deeply American idea. The word, I learned recently, franchise comes from a French word, but it is an American idea at bottom. But the French word it comes from basically means to make free. And I come from the Live Free or Die State. And our state really does have a long history with franchising and the franchise model. We call Bill Rosenberg one of our own. And Bill Rosenberg, of course, the founder of Dunkin Donuts. I am very upset to learn that Dunkin Donuts is going to be leaving the Longworth House office building. I learned that this morning. We will try to fight that. But he helped to actually bring about the International Franchise Association, and he left a long legacy in New Hampshire.

We are also home to the McDonald's brothers. And before I came to Congress, I worked at the Department of Justice in our antitrust division. And one of the cases I worked on that had a real impact on me that I felt deeply about was a case involving a woman, Leinani Deslandes, who worked—she started out her career as a crew worker in a franchisee-owned McDonald's. She was making $7 an hour. She worked really hard. And you know, I think one of the powerful things about the franchise model is the people who work in franchises have dreams of actually becoming small business owners too. And you know, she said someone who is making your fries today in 10 years could be running six or seven McDonald's. That is what she believed. That is at the bottom of what makes this such a powerful model.

She worked hard throughout her career. She got a pay raise. She was making $12 an hour. And, you know, eventually a management job opened up in another McDonald's not too far away. She was prevented from actually even pursuing that job because of a clause in a franchise agreement that is known as a no-poach agreement. It basically restricts franchisees from hiring workers from other franchises. This is at odds with the antitrust laws in our country, which promote competition and protect workers as equally as they protect small businesses. I wanted to ask about this because, you know, this is a problem that we have seen across the American economy and in a number of different types of franchises. But I wanted to ask you about this, Ms. Beaudoin. To your knowledge, do you have any employment contracts or franchise agreements that include no-poach provisions?

Ms. BEAUDOIN. Not to my knowledge.

Ms. GOODLANDER. But at one point there were such clauses in agreements that Buffalo Wild Wings?

Ms. BEAUDOIN. I can't—I am not sure. I don't know the exact provisions if there are.

Ms. GOODLANDER. Any of our other witnesses, are you aware of any—any of those types of clauses?

Mr. WRIGHT. No, we do not have an anti-poach in our agreement.

Mr. CROSS. And I am not—I am not aware.

Ms. GOODLANDER. Good. Well, can you help us understand why—why those types of clauses might have been put into contracts?

Ms. BEAUDOIN. I didn't develop it, so I really couldn't speak to it. And again, if it is in my contract, I am not aware of it.

Ms. GOODLANDER. So your testimony today is you see no need for these types of agreements? From your perspective, from the perspective of small businesses who are trying to make it work and work for your workers, you don't see a need for these types of agreements?

Ms. BEAUDOIN. I think we are in the most competitive employment environment that we have ever been in, and so I can understand team members going back and forth. And as a franchisee, having some security would be amazing. But again, I understand, though, that we want to get the best help possible. And if there is a better opportunity for my team members elsewhere, I understand why they would go searching for it.

Ms. GOODLANDER. Well, I appreciate that. And I know, you know, I have, talking to small businesses in my state, I know there is—it is—it is a challenging moment right now. You are facing a whole lot of uncertainty. I wanted to ask you about the impact that tariffs have had on your bottom line in recent weeks and what you would urge this committee to consider as we are looking, as many of us are looking, to restore the important role that Congress should be playing in the imposition of tariffs.

Ms. BEAUDOIN. For me, it is just really providing more certainty. As I shared in my opening testimony, restaurant ownership is not for the weak. We work hard for every dollar that comes through our doors, and so margins are thin. Anything that increases cost raises concern. Uncertainty brings a lot of discomfort. So really, for me, as far as the tariffs go, I mean, in any of these tax provisions, just anything that can be done to eliminate that uncertainty for the franchisee would be phenomenal.

Ms. GOODLANDER. Well, I appreciate your testimony. I see my time is up, so I yield back, Mr. Chairman.

Chairman WILLIAMS. Gentlelady yields back. I now recognize Mr. Olszewski from the great state of Maryland for 5 minutes.

Mr. OLSZEWSKI. Thank you very much, Mr. Chairman, to our Ranking Member, and to all of our witnesses really appreciate your time here today and your feedback. Also appreciate the contributions you are making both within your communities and across this great country through your franchises. In my home state of Maryland, we have over 15,000 franchisees and franchise locations, which employs over 155,000 people. The type of ecosystem that we know helps Marylanders and helps all Americans.

I know we talked a lot about the CTA today, so I will try not to talk too much about it, but do want to reinforce that. I think this is just critical legislation that provides law enforcement with those fundamental tools to help keep us safe from criminals laundering funds and setting up shell companies to wire money to criminal organizations. Here with Police Week, I want to especially thank my younger brother Jordan, who is in law enforcement back home, for his service, along with the men and women across this country who serve us all.

I do think it is a timely conversation that we are having around the idea of countering corruption, though. Just this week, our President publicly announced the possibility, floated the possibility, of taking a $400 million gift from the government of Qatar. A luxury plane that would be used first as Air Force One and then donated to his presidential library. But just worry that, you know, in this governing world, that the public is rightly asking the questions about do these types of things affect our decision-making. So, unfortunately, it seems in Congress, we are getting to a place where we are picking and choosing which reporting requirements we require and which ones we don't. We discourage global interaction that can foster new ideas in the classroom. On the business side, however, we are sitting and watching as this administration fails to enforce legally mandated penalties or fines.

So I guess I want to sort of ask, just sort of generally to all of you, you guys all follow whatever applicable rules and regulations that are out there, whatever they are, as best you can, right? Yeah. And then generally for business, right, knowing the goalposts, whatever they might be, even if we disagree, is helpful so that we can plan for and work around those? Okay.

And so I guess my point to my colleagues here is, you know, we can disagree with whether or not it was the right idea, but I think we have a well-established process. I know it was a 10 year, we talked earlier in testimony, this was a 10 year, bipartisan, multi stakeholder effort to get this passed. And if we think that there are flaws, we should come back through this Congress, make those changes, and we can do things like simplifying the reporting form. If there are improvements to be had, we can do instant verification. We can do sufficient resources if there are questions. Would that be something that would be helpful if we were to take up that conversation? You guys are being so succinct in your answers, and I really appreciate it.

So since you have been so great with me and gracious with me, I will just turn the floor open to all of you. In addition to following the process so that we can address this issue, both fighting crime, but also being good partners to our small business leaders, is there anything new that we should be thinking about that would best help you create more franchises across this country? Anything new that we should be thinking about?

Mr. CROSS. I think it has all been covered. Access to capital to give potential franchise owners. Streamlining that process, clarifying the joint employer standard, making it easier for small businesses. I think I can speak for myself, you know, when I started this business early on, it was me, one other person, and a window cleaner. And we were out there just hustling to make it happen, to drum up new business, to hire employees, and to build that business. And I had very little, if any, time to go out and worry about some of these other things that we have discussed today. So clarifying those things and making it easier for those businesses that are simply just trying to get this off the ground and put food on the table for their families would be appreciated.

Mr. WRIGHT. Yeah. Removing burdensome regulations is critical to the process. So we have talked a lot this morning about the joint employer, but I would also add that the tax policies that are going to—that are being reviewed right now are also critical to the growth of the franchise committee.

Ms. BEAUDOIN. Yeah, I would agree. It is the tax policies and also one that we have talked about but haven't really talked about thoroughly is the increased estate tax as well as addition—in addition to the 199A and the EBITDA standard. And then just really it was—I appreciate Mr. Kalman explaining the difference between willful negligence. That being said, that is not true of all the provisions that franchise owners and small businesses face. So it is just—it is really what we don't know, what we don't know as far as some of these things that come along administratively.

Mr. KALMAN. Very quickly I just want to reiterate that if there are improvements to streamline the system for small business, we would be first in line to join that process.

Mr. OLSZEWSKI. Hear, hear. Me too. Thank you all again so much for your time. I yield back.

Chairman WILLIAMS. Gentleman yields back. And I want to thank the witnesses today for your testimony and for your appearing before us. And without objection, Members have 5 legislative days to submit additional materials and written questions for the witnesses to the Chair, which will be forwarded to the witnesses. So I want to ask the witnesses to please respond promptly. If there is no further business, again, I want to thank all of you. You did a great job today. It is a great hearing. I think you see we have got a really good committee here representing you here in Washington. So with that, done. Thank you.

[Whereupon, at 12:00 p.m., the committee was adjourned.]

APPENDIX

INTERNATIONAL FRANCHISE ASSOCIATION

RANDY CROSS

FRANCHISE OWNER
FISH WINDOW CLEANING
GRAND RAPIDS, MI

TESTIMONY BEFORE THE U.S.HOUSE SMALL BUSINESS COMMITTEE

HEARING ON "A SMALL PART IN A BIG COMPANY: EXAMINING THE POWER OF FRANCHISING IN THE AMERICAN ECONOMY"

THURSDAY, MAY 15

Good morning, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee. My name is Randy Cross, and I am the President of Fish Window Cleaning, which is the nation's premier window cleaning service with more than 275 franchise locations nationwide, including in several districts represented on the Committee. I am also a franchisee of Fish Window Cleaning.

I got my start in franchising when I opened the first Fish Window Cleaning franchise location in Grand Rapids, Michigan, in 2003, where I proudly employ 31 employees today. A few years after opening my franchise, I decided to join the FISH corporate team, to help other entrepreneurs open and operate their own window cleaning small businesses. I now have the unique perspective of working in the business as both a franchisee and franchisor. I also serve on the Board of Directors of the International Franchise Association (IFA), working to protect, enhance, and promote the franchise business model in Washington, D.C. and around the states.

Today's hearing is a great opportunity to highlight the power of franchising, an all-American business model that supports nearly 9 million direct jobs at 831,000 establishments in America, contributing a staggering $897 billion to the economy. But franchising is far more than numbers on a page – it is a powerful method for and business growth in hundreds of industries, including restaurants, hospitality, personal care, pet care, security, home care, fitness, and real estate and providing business ownership opportunities to individuals who may not have the opportunity otherwise The business model allows franchisees to immediately benefit from the franchisor's existing supply chain, marketing tools, and operational systems, while maintaining control of day-to-day operations. The benefits of franchising speak for themselves: for example, franchising drives 1.8 times higher sales than comparable non-franchise establishments, and 2.3 times as many jobs than non-franchise counterparts. For franchisors and franchisees alike, the model is a win-win.

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.

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. 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 window cleaning services, like Fish Window Cleaning. So again, franchising is utilized far beyond the fast food brands that most associate with it. In fact, 60% of franchises are outside of the restaurant sector.

Franchising is often confused with "big business" when it is in fact the exact opposite. According to market research and advisory firm FRANdata, most franchise owners (81.6% or 191,685 franchisees) own and operate one location. FRANdata reports that franchisees pay an average of a 6 percent royalty to a brand for the right to operate a business under its trademark and sell the brand's products or services. This means franchisees retain an average of 94 percent of their business revenue. Indeed, franchising requires a symbiotic relationship between two business entities (franchisors and franchisees) whose interests are inextricably linked, yet different in their roles and their responsibilities to maximize success.

Furthermore, most franchisors are also very small enterprises. The majority (51.1%) of the nearly 3,500 franchise brands in operation today have less than twenty franchised units in their system. Nearly a third of all franchisors (30.4% or 1,059 brands) have annualized systemwide sales of less than $5 million.

A franchisee is first a local business, distinguished from other local businesses because it licenses the branding and operational processes of a franchisor, or brand company, while operating independently in a set location. The franchise model provides a smoother path to entrepreneurship than developing an independent business, with franchisors sharing confidential and proprietary information regarding site selection and development strategies, training programs and branding campaigns to facilitate faster speed to market for franchisees in addition to providing continuing operational support throughout the long-term franchise relationship. The local owner, or franchisee, is responsible for hiring staff, organizing schedules, managing payroll and all daily operational tasks—and critically, creating a distinct company culture and direct relationship with employees—as well as local sales and marketing.

The value of franchising 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. The franchise business model gives aspiring small business owners head starts 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.

Congress Should Make the Section 199A Deduction and Other Pro-Small Business Tax Provisions Permanent

With that, I'd like to discuss the importance of tax policy that allows small businesses to flourish. In 2017, Congress passed the *Tax Cuts and Jobs Act* (TCJA), which created the Section 199A deduction, providing passthrough businesses like mine with a 20% deduction for qualified business income. The vast majority of franchise businesses are organized as pass-through entities, including S-Corporations and LLCs, and Section 199A is essential to ensuring parity with C-corporations that pay taxes at the corporate level. Unless Congress acts by the end of the year, Section 199A deduction will expire, resulting in a massive tax increase on small businesses in every state and district. For me personally, losing Section 199A would mean a tax hike of tens of thousands of dollars, hurting my ability to grow, hire more workers, and reinvest in my business and employees. According to a study by the S-Corporation Association, Section 199A supports 2.6 million jobs and contributes $161 billion to employee compensation.

My first recommendation is for Congress to make Section 199A and other pro-small business provisions permanent this year in its forthcoming budget reconciliation bill. I was pleased to see the pass-through deduction extended to 23% in the House Ways and Means bill. Permanency would provide small businesses with much-needed certainty in a volatile economy.

In addition to Section 199A, Congress should make permanent "bonus depreciation" provisions from the 2017 tax law that allow businesses to immediately write off 100% of the cost of capital investments, lowering taxable income and increasing cash flow. Franchise businesses also benefit from the TCJA's expanded interest deductibility provisions, and provisions providing relief from the federal estate tax. Each of these provisions should be made permanent as soon as possible.

Congress Should Repeal the Anti-Small Business "Corporate Transparency Act"

Second, I'd like to discuss the harmful impact of the Corporate Transparency Act (CTA). Enacted by Congress in 2021, the CTA was ostensibly intended to crack down on so-called "shell" companies by requiring nearly all small businesses, including franchisees, to report sensitive and personal information to the Treasury Department's Financial Crimes Enforcement Network (FinCEN). While I certainly support the goal of reducing illicit activity, the reality is that franchise businesses are not criminals, and the CTA would simply heap a massive paperwork burden on small businesses already drowning in regulatory and compliance costs. The CTA is an invasive and confusing law that is arguably unconstitutional, and I commend the Committee for shining a spotlight on the unintended consequences it would have for small businesses.

My second recommendation is for Congress to fully repeal the *Corporate Transparency Act*. This could be accomplished by passing commonsense legislation like the *Repealing Big Brother Overreach Act,* introduced by Congressman Warren Davidson and Senator Tommy Tuberville, legislation strongly supported by IFA.

Fortunately, in March, the Treasury Department announced that it will not enforce any fines of penalties associated with the benefit ownership reporting requirements in the CTA. I applaud the Treasury Department, led by Secretary Scott Bessent, for recognizing that the CTA is an unworkable law for small businesses and for providing relief in lieu of a full repeal by Congress.

Congress Should Codify a Narrow Joint Employer Standard

Third, I'd like to discuss an existential issue for franchising: a volatile and ambiguous joint employer standard that has plagued the franchise model since the National Labor Relations Board's (NLRB) 2015 *Browning-Ferris* decision, a shift that upended decades of precedent and expanded the factors determinative of a joint employer relationship under the National Labor Relations Act (NLRA) to include not only direct control but also indirect and reserved control over broadly-defined essential terms and conditions of employment. Put more simply, franchise businesses have faced four different definitions of a joint employer standard over the past decade.

In 2023, during the Biden Administration, the NLRB doubled down on its overreach, rescinding without any basis the joint employer rule issued during the first Trump Administration and issuing a new rule more expansive than the standard established by *Browning-Ferris*. The rule—like *Browning-Ferris*—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 under *Browning-Ferris*, it cost franchised businesses $33 billion per year in operational costs and led to a 93% increase in lawsuits.

Last Congress, both the House and Senate passed a resolution of disapproval under the Congressional Review Act (CRA) to overturn the harmful 2023 joint employer rule on a bipartisan basis. Although then-President Biden vetoed the resolution, this vote was a clear indication that Congress does not support unelected regulators at the NLRB or elsewhere dramatically rewriting federal labor law with the stroke of a pen. Fortunately, just over a year ago, the NLRB's flawed 2023 joint employer rule was struck down by the courts.

My third recommendation is for Congress to pass legislation codifying a joint employer standard that provides clear rules of the road for franchisors and franchisees alike. This could be accomplished by passing the *Save Local Business Act,* introduced by Congressman James Comer and Senator Roger Marshall. This unfortunate pendulum of the past decade has disrupted the franchisor-franchisee relationship and threatens the sustainability of the franchise model, in turn jeopardizing workers' job opportunities and workforce development, consumer choice and competition. Franchising needs a statutory solution to the partisan volleying of the joint employer standard by the NLRB, and I urge Congress to continue working towards this goal.

Conclusion: Congress Should Support and Celebrate Franchising

In conclusion, I'd like to express my gratitude to the Committee for holding this hearing on franchising, a business model that has benefited not just myself and Fish Window Cleaning, but also the millions of Americans that work at small businesses and enjoy the diverse products and services franchising offers every day. Congress should not only support this business model through sound tax and regulation, but celebrate as a uniquely American business model that provides incredibly upward mobility that could only exist in the greatest country on earth.

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

CRAIG WRIGHT

CEO
AQUA-TOTS SWIM SCHOOL

TESTIMONY BEFORE THE U.S. HOUSE SMALL BUSINESS COMMITTEE

HEARING ON ""A SMALL PART IN A BIG COMPANY: EXAMINING THE POWER OF FRANCHISING IN THE AMERICAN ECONOMY""

MAY 15, 2025

Good morning, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee. My name is Craig Wright, CEO of Aqua-Tots Swim School, a swim school franchise based in Mesa, Arizona.

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.

Aqua-Tots Swim School is a family-owned business that began in 1991 with one simple goal: to make quality swim instruction accessible, safe, and convenient for families. What started as a single swim lesson taught by a teenage lifeguard in Tempe, Arizona, has grown into one of the world's largest swim school franchises.

Initially operating in backyard and hotel pools, Aqua-Tots pioneered one of Arizona's first indoor, year-round swim facility – an innovation that removed seasonal limitations and allowed children to build life-saving skills in a safe, dedicated environment throughout the year. The success of this business concept laid the foundation for the brand's expansion under the franchise model. In 2007, Aqua-Tots launched its franchise in Phoenix, Arizona, with the goal of empowering local entrepreneurs to bring professional swim instruction to their communities. Today, Aqua-Tots operates in more than 170 locations across 14 countries, having provided over 47 million swim lessons to more than 2.5 million children worldwide. The majority of our 75+ franchise groups are made up of first-time business owners and families who are passionate about water safety and childhood development.

Since 2017, I have had the distinction of leading Aqua-Tots as Chief Executive Officer. My background consists of more than three decades of executive leadership experience across the grocery, logistics, and specialty retail industries. Under my leadership, the Aqua-Tots brand has strengthened our operational systems, global footprint, and franchise support network, equipping franchisee owners to build sustainable businesses while helping children become safe and confident swimmers for life.

It's an honor to be here today to give my perspective on the impact of franchising and its hundreds of thousands of small businesses. Further, I look forward to giving my perspective as a franchisor on the National Labor Relations Board's joint employer rule, the need to extend Tax Cut and Jobs Act provisions, such as bonus depreciation, interest deductibility, and Section 199A deductions for Qualified Business Income (QBI) – which are important to both franchisors and franchisees alike, as well as shine light to the welcome news of the return of the Small Business Administration's Franchise Directory and the importance for a review and renewal of the Federal Trade Commission's Franchise Rule.

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.

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. 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, school systems, like Aqua-Tots swim school. So again, franchising is utilized far beyond the fast food brands that most associate with it. In fact, 60% of franchises are outside of the restaurant sector.

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. A franchise relationship is a long-term relationship that spans a decade and in many cases more than 20 years. These long-term relationships only work where the parties can trust that the relationship and the expectations each party has of the other will remain stable.

Often mischaracterized 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, 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 financing than a traditional business.

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 so many franchisees purchase a franchise. Franchisees look to the franchisor to protect the brand, trade names, trademarks and service marks (collectively the "Marks") 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.

Joint Employer Rule

Beyond explaining how the franchise model allows for the creation of small businesses, I first want to bring attention to and highlight a volatile and ambiguous joint employer standard that has plagued the franchise model since the National Labor Relations Board's (NLRB) 2015 *Browning-Ferris* decision, a shift that upended decades of precedent and expanded the factors determinative of a joint employer relationship under the National Labor Relations Act (NLRA) to include not only direct control but also indirect and reserved control over broadly-defined essential terms and conditions of employment. Put more simply, franchise businesses have faced four different definitions of a joint employer standard over the past decade.

In 2023, during the Biden Administration, the NLRB doubled down on its overreach, rescinding without any basis the joint employer rule issued during the first Trump Administration and issuing a new rule more expansive than the standard established by *Browning-Ferris*. The rule—like *Browning-Ferris*—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 under *Browning-Ferris*, it cost franchised businesses $33 billion per year in operational costs and led to a 93% increase in lawsuits.

Last Congress, both the House and Senate passed a resolution of disapproval under the Congressional Review Act (CRA) to overturn the harmful 2023 joint employer rule on a bipartisan basis. Although then-President Biden vetoed the resolution, this vote was a clear indication that Congress does not support unelected regulators at the NLRB or elsewhere dramatically rewriting federal labor law with the stroke of a pen. Fortunately, just over a year ago, the NLRB's flawed 2023 joint employer rule was struck down by the courts.

While a reprieve from the previous NLRB's joint employer rule has been welcome news, I wanted to stress the importance that the current, commonsense standard in federal labor law has on franchises, like Aqua-Tots, 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 invested into their stores, community, and workers.

The Importance of Tax Policies that Support Small Businesses

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 for both franchisors and their locally owned franchises. 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.

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 new equipment, technology, and other qualifying assets, leading to increased 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.

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.

Deductibility of Interest

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.

I was pleased to see this standard extended for another 5 years in the House Ways and Means reconciliation bill. I urge Congress to support this limitation to an EBITDA basis.

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 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.

More importantly, this deduction has helped level the playing field, allowing our franchisee businesses to compete, providing 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.

It was welcome news to see the House Ways and Means committee include the pass-through deduction in their reconciliation bill, further increasing it to 23% and potentially made permanent. I recommend Congress support this important provision to provide relief to all small business owners.

Estate Tax

The TCJA made permanent the $5 million estate tax 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 to be passed down to the next generation without selling or taking on crushing debt burdens. This is especially critical as most of our franchisees are family-owned and operated.

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.

I appreciate the House Ways and Means committee for potentially making this provision permanent and providing relief to all family-owned businesses.

SBA Lending and the Franchise Directory

The Small Business Administration (SBA) and the access to capital that its lending programs provide are an instrumental part of the franchise success story. In fiscal year 2024, the SBA guaranteed $31.1 billion in 7(a) loan volume and $6.7 billion in 504 loan volume. Historically, franchises have represented about 20% of SBA loans by dollar volume.

On April 25th, the franchise community welcomed the SBA's news that it would be reinstating the Franchise Directory. The Directory, which was unfortunately eliminated in 2023, is an essential and centralized tool for lenders to assess SBA loan eligibility and financing for franchisees, like some of ours at Aqua-Tots. The SBA Directory has also served as a beneficial tool for prospective franchisees as they evaluate franchise opportunities, like the ones we offer at Aqua-Tots.

In reinstating the Franchise Directory, the SBA identified opportunities to optimize the process for determining if a franchise meets the criteria for listing in the Directory. Key improvements advocated for by IFA and reflected in the updated version of the Franchise Directory include:

- Replacing the SBA Addendum (Form 2462 or negotiated addendum) with a certification signed by the franchisor acknowledging the conditions required to be listed on the Directory, including many conditions franchisors will recognize from the prior Franchise Directory.
- Franchisors previously included in the Directory may sign the certification within a specified period to remain on the Directory.
- Franchisors not previously included in the Directory must submit an application to the SBA demonstrating they meet the eligibility criteria for listing in the Direcotry.
- Listing on the Franchise Directory will remain at no cost to franchisors, which is important because a franchisor must be listed in the Directory for its franchisees to access SBA funding.

On behalf of IFA, we appreciate the Committee's attention to this issue given how critical SBA lending is to new franchisees and appreciate your efforts to once again have the use of the Franchise Directory for both banks and borrowers.

FTC Franchise Rule

Lastly, I want to bring to the Committee's attention the Federal Trade Commission's (FTC) Franchise Rule, which requires franchisors, like me, to disclose key details to potential franchisees in the sale of a franchise. The Franchise Rule is subject to review every 10 years, and the review of the current Franchise Rule began in 2019 but was never completed. It is of utmost importance that the FTC's Franchise Rule is reviewed and renewed regularly, so that it can be modernized to improve transparency and create an environment where franchisees are able to make well-informed decisions with a clear understanding of the risks and rewards of beginning a franchise. The current Franchise Rule was issued before the very first iPhone and is wholly out of touch with the method by which consumers engage with information, yet we are bound to this antiquated disclosure regime in our franchise sales process.

With modernized pre-sale disclosure requirements, a renewed FTC Franchise Rule will provide a strong foundation for the decades-long relationships we establish with our franchisees by providing clarity regarding the rights and obligations of franchisees and us—the franchisor—under the franchise agreement. A strong foundation is critical to the sustainability of long-term contractual relationships that underpin the franchise model. Absent modernization of the current disclosure regime, prospective franchisees turn to AI tools and unqualified advisors to assist them in navigating n complicated document spanning hundreds of pages that is intended to serve as a "plain English" tool for understanding a franchise opportunity.

In May 2024, IFA put forward a series of policy recommendations to improve pre-sale disclosure requirements and to make due diligence more robust, facilitating a stronger foundation for all franchise relationships.

As the 119th Congress continues, we will continue to stress the importance of modernizing the FTC Franchise Rule and appreciate the Committee's consideration to the matter.

Conclusion

Mr. Chairman, and distinguished members of the Committee, thank you again for the opportunity to testify. I am happy to answer any questions you may have.

JENNY BEAUDOIN

FRANCHISEE/OWNER
BUFFALO WILD WINGS
VIRGINIA

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

HEARING ON "A SMALL PART IN A BIG COMPANY: EXAMINING THE POWER OF FRANCHISING IN THE AMERICAN ECONOMY"

THURSDAY, MAY 15

Good morning Chair Williams, Ranking Member Velazquez, and distinguished members of the Committee. My name is Jenny Beaudoin, and I am a proud small business owner. I operate four Buffalo Wild Wings restaurants – three here in Virginia and one in West Virginia – as well as an independent steakhouse in Maryland.

My story, like that of many small business owners, is a personal one. My parents weren't born into wealth or privilege; they worked tirelessly to build a life for our family. When I was three years old, they took a leap of faith and opened their own restaurant. I grew up in that restaurant, quite literally. We lived in the apartment above it. I saw firsthand the long hours, the financial risks, and the sheer grit it takes to make a small business succeed. There were no days off, no paid vacations, and every dollar earned was a victory.

That experience shaped my understanding of entrepreneurship and instilled in me a deep appreciation for the challenges and rewards of owning a business. I learned that being a small business owner isn't just about making a profit; it's about being a part of a community, providing for your family, and creating opportunities for others.

Fast forward to my college years. My father, a seasoned restaurant owner, was looking to expand, but he wasn't sure how to do it. He was hesitant to take on more debt and replicate the challenges of starting from scratch. That's when I suggested franchising. I remember inviting him to a local Buffalo Wild Wings. He was struck by the vibrant atmosphere, the loyal customer base, and the efficient systems. He saw a model that offered the potential for growth with a proven framework. In fact, he was so impressed that he called the number on the back of the menu to inquire about franchise opportunities.

That decision changed our lives. We became part of the Buffalo Wild Wings brand 26 years ago, and I opened my first franchise 24 years ago. Over the years, I've expanded my operations, always reinvesting in my business and my people. And now, I'm incredibly proud to say that my daughter has recently graduated from James Madison University and is preparing to join our family business. She represents the third generation of our family dedicated to serving our communities, creating jobs, and building a legacy.

This personal history is important because it highlights a fundamental truth: **franchisees are small business owners.** We are not simply managers of corporate stores. We are entrepreneurs who invest our own capital, take on significant financial risk, and are deeply committed to our local communities.

I appear today on behalf of myself, as a franchise owner of Buffalo Wild Wings through S&J Enterprises, LLC.

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 tax provisions that will benefit franchisees and the joint employer model that allows us to thrive. It is important that small business perspectives are heard by our nation's leaders.

Franchising and the misconceptions of the business model

The franchise business model offers a significant advantage by providing a structured, lower-risk pathway to entrepreneurship. By leveraging an established brand, proven systems, comprehensive support, and collective resources, franchisees can significantly increase their chances of conducting business successfully compared to starting an independent venture. It's like having a strong partner and a well-tested roadmap to guide your entrepreneurial journey. Franchising has contributed to robust job creation and a skills development platform for small business owners and workers. Today, more than 831,000 franchise establishments exist, which support nearly 8.8 million jobs in the United States.

As a franchise owner, you have access to a proven business model and brand. This is a major draw. The franchisor has already ironed out the kinks, tested the market, and developed successful operational procedures. You're not guessing about what works – you're following a blueprint that has a higher likelihood of success compared to an independent startup. You benefit from instant brand awareness and customer trust. People are already familiar with the franchisor's name, products, and reputation, giving you a significant head start in attracting customers. You don't have to spend years and significant capital building brand recognition from the ground up.

The franchisor provides detailed operating manuals, training programs, and established workflows for everything from inventory management and customer service to marketing and financial reporting. This structure helps ensure consistency, efficiency, and quality in your operations. Furthermore, franchisees typically receive extensive initial training on all aspects of the business, equipping them with the knowledge and skills needed to operate effectively. This can cover everything from product preparation and service delivery to hiring and managing staff. Ultimately, this training and support ensures the equity my family has built in our restaurants is protected from potential dilution of the brand through poor operations elsewhere.

Franchisees often benefit from national or regional marketing campaigns developed and funded (at least in part) by the franchisor. This can significantly reduce the burden and cost of local marketing efforts while leveraging the power of a larger brand.

While not a guarantee of success, the franchise model generally has a lower failure rate compared to independent startups. This is largely due to the established brand, proven systems, and ongoing support provided by the franchisor. You have access to the franchisor's expertise and experience, which can help you avoid common pitfalls that new business owners often face. The established systems and brand recognition can often lead to a quicker ramp-up period and faster customer acquisition compared to a new, independent business. For successful franchisees, there may be opportunities to open additional franchise locations, further expanding their business.

Most importantly, being part of a franchise network connects you with other franchisees who share similar experiences and challenges. This peer network can be a valuable source of advice, support, and best practice sharing.

As franchisees, we bear the financial risk. We secure loans, sign leases, and invest our personal savings to start and grow our businesses. Our financial well-being is directly tied to the success of our individual locations.

We are responsible for recruiting, hiring, training, and managing our employees. We create jobs in our communities and provide opportunities for individuals to grow and develop their careers. I have over 200 employees across my businesses. We are active participants in our local economies. We support local suppliers, sponsor community events, and contribute to local charities. For instance, this year we encouraged our team members to pick local organizations to support, then paid them to volunteer at a local Boys and Girls Club, a local rescue mission, and an animal shelter. Every year at our Winchester, Virginia location, the team reaches out to social services and "adopts a family" by providing them Christmas gifts. For the past four years, we have supported the Brody Michael Foundation by donating an entire day of sales from each of our locations, ultimately donating $100,000 towards scholarships for local high school athletes. We also frequently donate food police departments and schools.

We manage everything from inventory and staffing to marketing and customer service, and are on the front lines, ensuring that our businesses operate smoothly and efficiently. According to a study conducted by Oxford Economics, franchise establishments pay higher wages and are more likely to offer benefits than their non-franchise counterparts. Notably, franchises pay 2.2 – 3.4% higher wages than similar non-franchises.

Despite these realities, there are many misconceptions about the franchise model. One of the most prevalent is the idea that franchise locations are simply extensions of large corporations. This couldn't be further from the truth. While we benefit from the brand recognition and established systems of a franchisor, we operate as independent business owners.

Here are a few of the key misconceptions I'd like to address:

- **Misconception #1: Franchisees are not independent business owners.** As I've outlined, we make the critical decisions that determine the success or failure of our businesses. We are not passive investors or employees.

- **Misconception #2: Franchisors control every aspect of the business.** While franchisors provide guidelines and support, franchisees have significant autonomy in how they operate their locations. We adapt to local market conditions, make all decisions related to our workers, including hiring, wages, and benefits, and manage our day-to-day operations.

- **Misconception #3: All franchisees are wealthy.** The reality is that many franchisees are small business owners who are working hard to make a living. My margins are tight. Like any small business, there are financial risks, and success is not guaranteed.

- **Misconception #4: Franchising is only for large investors.** While some franchisees operate multiple locations, many are individuals or families who have invested their life savings to own a single business. In fact, 81% of franchise owners are single-unit operators.

The franchise model offers a unique opportunity for individuals to achieve the American dream of business ownership. It combines the support and brand recognition of a larger entity with the entrepreneurial drive and local knowledge of individual owners. It's a model that has proven to be a powerful engine for economic growth and job creation.

However, it's crucial that policymakers understand the realities of franchising and recognize that franchisees are, in fact, small business owners. Policies that treat franchisees as large corporations or employees of the franchisor can have unintended consequences, harming the very small businesses that this committee is intended to support.

The Impact of the Tax Cuts and Jobs Act
I also want to take a moment to discuss how the Tax Cuts and Jobs Act (TCJA) has impacted my business and other small businesses like mine. Several provisions of this legislation have been particularly beneficial:

- **Section 199A: Qualified Business Income Deduction**
    - The Section 199A deduction has been very helpful, allowing me to deduct up to 20% of my qualified business income. This has significantly reduced my tax burden and freed up capital that I've been able to reinvest in my restaurants, my employees, and my community.
    - Making Section 199A a permanent part of the tax code would provide long-term certainty for small business owners like me. It would allow us to plan for the future with confidence, knowing that this important deduction will continue to support our growth and our ability to provide good-paying jobs.
    - For example, the savings from Section 199A have enabled me to offer better health insurance benefits to my employees, which is crucial for attracting and retaining a skilled and dedicated workforce. It's allowed us to offer paid parental leave for mothers and fathers and a generous PTO program for our managers, many of whom started as servers or cooks and have worked their way up through the organization.

- **100% Bonus Depreciation of Assets**
    - The ability to immediately expense 100% of the cost of qualifying assets has also been a major benefit. In the restaurant industry, we constantly need to invest in new equipment, technology, and renovations.
    - Restoring and expanding 100% bonus depreciation would allow businesses like mine to invest in these critical improvements and upgrades, stimulating economic growth. This provision encourages us to modernize our facilities, improve efficiency, and enhance the customer experience. For instance, I was able to use this provision to upgrade the kitchen equipment in one of my restaurants, which not only improved productivity but also created a safer and more comfortable work environment for my kitchen staff. I also recently remodeled two locations, creating a fresh and exciting atmosphere for our team members and guests. It's important to note that our equipment suppliers expect payment upon delivery, so the ability to expense equipment in the year it is paid is a huge help to us – and just makes sense.

- **Interest Deductibility**
    - The use of an EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) standard can provide a clearer picture of a business's operating performance. This can be particularly helpful when seeking financing or evaluating the overall health of a business.
    - By focusing on operational profitability, EBITDA allows for a more accurate comparison of businesses, regardless of their capital structure or accounting methods. This can help small businesses like mine demonstrate their value and creditworthiness, making it easier to access the capital we need to grow and expand.
    - Access to debt for expansion is critical for franchise businesses, who do not typically have access to other forms of capital. Because I sign my name on all my own loans – not the franchisor – it's important that I have the ability to deduct interest on this debt. I hope to expand my business by opening two more restaurant locations, and this provision would be extremely helpful in order for me to secure access to the capital I will need.

- This is an important issue for many franchisees, and I hear about it as the Vice Chair of the BWW FBS, our franchise association, through which I represent other BWW franchisees as a leader within our community.

I urge you to consider the positive impact of these provisions on small businesses as you consider future tax policies, and particularly the tax reform provision of the reconciliation bill being discussed. I'm pleased to hear these provisions are in the draft the House Ways & Means Committee marked up earlier this week.

The Joint Employer Standard

I also want to address the issue of the joint employer standard, which has significant implications for the franchisee-franchisor relationship. The joint employer standard determines when a business can be held liable for the labor and employment practices of another business with which it has a relationship.

The uncertainty surrounding the joint employer standard creates a substantial burden for franchisees. Under an expansive definition, the independence and autonomy of franchisees to operate their franchised businesses is blurred, franchisors can be required to engage in collective bargaining discussions related to franchisees' employees and be held liable for the actions of their franchisees, even when they do not directly control the franchisee's day-to-day operations or employment decisions. The optics of me not controlling my business and my employees essentially guts the value of my businesses in addition to leading to increased litigation and legal costs for both franchisors and franchisees. The impact of a decade of volatility of the joint employer standard has resulted in reduced investment by franchisors in franchisee support and training, as they seek to limit their potential liability and hindered growth and job creation by franchisees, who may be reluctant to expand their businesses due to the risk of increased liability.

Conversely, a clear, consistent, and predictable joint employer standard is essential to the success of the franchise model. Such a standard would provide franchisors and franchisees with the certainty they need to operate their respective businesses with confidence. It would encourage franchisors to return to providing necessary support and guidance to franchisees without fear of undue liability and empower franchisees to grow and manage their businesses effectively, fostering entrepreneurship and job creation.

By clarifying the types of control that are and are not demonstrative of a true joint employer relationship, Congress can help to ensure that the franchise model continues to thrive, benefiting both small business owners and the communities they serve.

Conclusion

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. I urge you to consider the perspective of franchisees like myself as you deliberate on policies that affect our businesses. We are a vital part of the American economy, and our success is essential to the well-being of our communities. Thank you for your time and attention. I would be happy to answer any questions you may have.

United States House of Representatives
Committee on Small Business

Hearing on
"A Small Part in A Big Company: Examining the Power of Franchising in the American Economy"
May 15, 2025

Testimony of

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Chairman Williams, Ranking Member Velázquez, and Members of the Committee,

Thank you for inviting me to testify today. On behalf of Transparency International U.S. (TI US), I appreciate the opportunity to discuss the critical role of the Corporate Transparency Act (CTA) in providing law enforcement with fundamental and necessary tools to do their jobs and keep us safe. I also hope to share how this law benefits small business and to help dispel some of the misconceptions that have surfaced, which have generated unwarranted and unfortunate concern.

TI US is part of the world's largest and oldest coalition dedicated to fighting corruption. In collaboration with national chapters in more than 100 countries, we work with governments, businesses, and citizens to stop the abuse of entrusted power. Through a combination of research, advocacy, and policy, we engage with stakeholders to increase public understanding of corruption and hold institutions and individuals accountable.[1]

The historic role of the U.S. in combatting transnational crime and corruption

Dating back to the 1970s, following the bipartisan passage of the Bank Secrecy Act[2] and the Foreign Corrupt Practices Act[3], both the first of their kind in the world, the U.S. has been at the vanguard in combatting cross-border financial crime and corruption. This makes sense since we are the world's largest economy and holder of the world's reserve currency. More than half of all cross-border financial transactions use the U.S. dollar.[4] Banks across the globe have correspondent relationships with our financial institutions giving our laws and enforcement practices global resonance. The American people have much at stake in the stability of the global economy.

As a result of this unique interest, the U.S. has also been more consistent and better resourced in the enforcement of its transnational anti-corruption laws. Consider that a 2022 Transparency International study, *Exporting Corruption*[5], found that of the 47 largest exporting countries – those with the most or largest multinational corporations – only the U.S. and Switzerland were actively enforcing their foreign anti bribery laws. Of the remaining 45 countries, the median number of new cases started in the four-year period reviewed from 2018 to 2021 was zero. And when, in 2023, the U.S. Congress passed the

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[1] Transparency International U.S., "*About Us*," https://us.transparency.org/

[2] Financial Crimes Enforcement Network (FinCEN), "*Bank Secrecy Act*," FinCEN.gov, https://www.fincen.gov/resources/statutes-and-regulations/bank-secrecy-act.
[3] U.S. Department of Justice, "*Foreign Corrupt Practices Act*," Justice.gov, https://www.justice.gov/criminal/criminal-fraud/foreign-corrupt-practices-act.
[4] Carter Johnson, "*US Dollar's Use in Global Transactions Tops 50%, Swift Says,*" Bloomberg.org, February 19, 2025, https://www.bloomberg.com/news/articles/2025-02-20/us-dollar-s-use-in-global-transactions-tops-50-swift-says?embedded-checkout=true
[5] Gillian Dell and Andrew McDevitt, "*Exporting Corruption 2022: Assessing Enforcement of the OECD Anti-Bribery Convention*," Transparency International, October 2022, https://files.transparencycdn.org/images/2022-Report-Slim-version-Exporting-Corruption-English.pdf.

Foreign Extortion Prevention Act[6] extending our foreign anti-bribery framework beyond covering just those who offer bribes to those who ask for them, the world took notice. Suddenly, corrupt foreign officials who enjoyed local impunity were faced with possibility of prosecution by the U.S. Department of Justice.

Thankfully, ally engagement on these issues is improving. As the US has continued, through both Republican and Democratic administrations, to modernize our response to transnational crime and corruption through the adoption of transparency and accountability laws, the rest of the world has been pushed to follow suit. The U.S. was the first country to create a distinct, targeted sanctions program for foreign officials who engage in significant acts of corruption with the adoption of the Magnitsky Act in 2012[7] and the Global Magnitsky Act in 2016[8]. Since then, the United Kingdom[9], Canada[10] and the European Union[11] have all adopted similar laws. Additionally, more than 100 countries have now committed to update their anti-money laundering laws to require the collection of beneficial ownership information.[12]

The current Administration has made clear its prioritization of disrupting – even "eliminating" – drug cartels and transnational criminal organizations. Any suspension of enforcement or weakening of our anti-money laundering and cross-border anti-corruption rules undermines their ability to deliver on that promise.

The Importance of the CTA

When I testified before this Committee in the spring of last year[13], I offered more than a dozen examples in my written testimony in which anonymous companies were used to cover up the laundering of proceeds of drug trafficking, human trafficking, sanctions evasion, counterfeiting operations, and scams that harm small businesses, including stolen contracts and disruptions to supply chains. For example:

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[6] Mengqi Sun, *"U.S. Prosecutors Can Charge Foreign Officials With Bribery Under New Provision,"* The Wall Street Journal, January 2, 2024, *https://www.wsj.com/articles/u-s-prosecutors-can-charge-foreign-officials-with-bribery-under-new-provision-ec3a4dfc*

[7] Michael A. Weber, "*Human Rights and Anti-Corruption Sanctions: The Global Magnitsky Human Rights Accountability Act*," Congressional Research Service: In Focus, November 7, 2024, https://crsreports.congress.gov/product/pdf/IF/IF10576/12.

[8] Ibid

[9] Nicola Newson, "*Magnitsky Sanctions*," House of Lords Library, June 18, 2021, https://lordslibrary.parliament.uk/magnitsky-sanctions/.

[10] Government of Canada, "*Justice for Victims of Corrupt Foreign Officials Act (Sergei Magnitsky Law)*," S.C. 2017, c. 21, October 18, 2017, https://laws-lois.justice.gc.ca/eng/acts/j-2.3/FullText.html.

[11] European Parliament, "*A European Magnitsky Act*," Legislative Train Schedule, April 20, 2025, https://www.europarl.europa.eu/legislative-train/theme-a-stronger-europe-in-the-world/file-a-european-magnitsky-act.

[12] Open Ownership, "*Open Ownership Map: Worldwide Action on Beneficial Ownership Transparency*," Website, https://www.openownership.org/en/map/.

[13] Gary Kalman, "*Testimony before the U.S. House Committee on Small Business: 'Under the Microscope: Examining FinCEN's Implementation of the Corporate Transparency Act'*", Transparency International U.S., April 30, 2024, https://us.transparency.org/app/uploads/2024/05/Testimony-for-Kalman-4-30-2024-Final.pdf.

1. The Zheng drug trafficking organization—run by Chinese synthetic opioid trafficker Fujing Zheng— manufactured and shipped deadly fentanyl analogues and 250 other drugs to some 37 U.S. states, with drugs sold by the group directly tied to the fatal overdoses of two people in Ohio. The traffickers used shell companies formed in Massachusetts as they mailed, repackaged, and redistributed the drugs across the country.[14]

2. In February 2022, a New York man pled guilty to helping launder over $650 million worth of illegal narcotics proceeds through bank accounts associated with shell companies in multiple U.S. states before wiring funds back to entities in China.[15]

To be clear, the type of data that the CTA would provide law enforcement has a long record[16]of being instrumental in detecting, preventing, and prosecuting crime across the United States. In particular, we ask you to consider the following examples of how data collected by the Financial Crimes Enforcement Network (FinCEN) has assisted law enforcement in the past.

FinCEN data has been instrumental in the investigation of fentanyl trafficking operations. Just last month, FinCEN released a report[17]analyzing financial data tied to fentanyl-related crimes; according to the report, in 2024, banks flagged over $1.4 billion in suspicious transactions linked to fentanyl trafficking, chemical purchases, and money laundering.

1. A multi-year investigation[18]targeting a global money laundering network tied to the Sinaloa and Jalisco New Generation cartels used over 100 Bank Secrecy Act (BSA) records to dismantle the organization, leading to 162 arrests and the seizure of 562 kilos of narcotics—including the largest volume of fentanyl in U.S. history—and $165 million in illicit proceeds. The probe uncovered complex financial schemes across multiple countries, including laundering narcotics

[14] U.S. Department of Justice, *"Two Chinese Nationals Charged with Operating Global Opioid and Drug Manufacturing Conspiracy Resulting in Deaths,"* Press Release, August 22, 2018, https://www.justice.gov/archives/opa/pr/two-chinese-nationals-charged-operating-global-opioid-and-drug-manufacturing-conspiracy.
[15] U.S. Department of Justice, *"Queens Man Admits Orchestrating $653 Million Money Laundering Conspiracy, Operating Unlicensed Money Transmitting Business, and Bribing Bank Employees,"* Press Release, February 22, 2022, https://www.justice.gov/usao-nj/pr/queens-man-admits-orchestrating-653-million-money-laundering-conspiracy-operating.
[16] FinCEN, "*Investigations Assisted by FinCEN Data*", Website, https://www.fincen.gov/investigations-assisted-fincen-data

[17] FinCEN, "*Fentanyl–Related Illicit Finance: 2024 Threat Pattern and Trend Information,*" Financial Trend Analysis, April 2025, https://www.fincen.gov/sites/default/files/shared/FinCEN-FTA-Fentanyl.pdf

[18] FinCEN, "*FinCEN Recognizes Law Enforcement Cases Significantly Impacted by Bank Secrecy Act Filings,*" Press Release, May 19, 2020, *https://www.fincen.gov/news/news-releases/fincen-recognizes-law-enforcement-cases-significantly-impacted-bank-secrecy-act*

profits through U.S. real estate and investment accounts, resulting in the seizure of nearly $85 million in assets and exposing how cartels use financial systems to legitimize and repatriate drug money.

2. The FBI uncovered a proliferation financing scheme[19]involving a telecommunications company that concealed its operations in Iran, including over $100 million in U.S. dollar transactions. FinCEN's BSA data was instrumental in identifying illicit financial flows and individuals facilitating the scheme, which included $7.5 million in payments to Iran-based contractors. The case resulted in charges under the International Emergency Economic Powers Act (IEEPA), highlighting how financial deception can mask transactions that may contribute to the proliferation of weapons or related technologies.

3. The New York State Police Financial Crimes Unit identified suspicious transaction patterns in the Hudson Valley Region through Suspicious Activity Report (SAR) reviews, which led to the discovery of a large criminal enterprise[20]engaged in extensive money laundering. Further investigation revealed the organization was responsible for trafficking large quantities of narcotics, weapons smuggling, bulk cash movement, and widespread gang activity, including murder. The operation culminated in the seizure of drugs, firearms, vehicles, and cash, and resulted in the arrest and indictment of 55 individuals in the Northern and Southern Districts of New York.

The CTA builds upon this record of success by making available to law enforcement an additional, highly valuable type of data: information about the true owners of anonymous shell companies.

I also cited several studies by leading researchers in the field to explain that, beyond anecdotes, anonymous companies are an all-too-common feature of criminal and corrupt enterprises.

Since then, studies and investigations with new or previously underreported evidence continue to surface.

<u>Fraud that Hurts Small Business Competition and American Consumers</u>

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[19] FinCEN, "*Compilation of Award Recipient & Nominated Cases*," Website, https://www.fincen.gov/sites/default/files/shared/Compilation%20of%20Award%20Recipient%20and%20Nominated%20Cases%20FINAL%20508C.pdf

[20] FinCEN, *"FinCEN Awards Recognize Law Enforcement Success Stories Supported by Bank Secrecy Act Reporting"*, Press Release, May 9, 2017, *https://www.fincen.gov/news/news-releases/fincen-awards-recognize-law-enforcement-success-stories-supported-bank-secrecy*

Consider that a new, April 2025 GAO study, *Fraud in Federal Programs*,[21] found that fraud is a "significant and persistent problem" in federal procurement practices and that some of this "fraud is perpetrated by private companies obscuring beneficial ownership information when they compete for government contracts or apply for federal benefits." The GAO detailed several illustrative examples including anonymous companies implicated in the diversion of contracts meant for small businesses and veteran-owned businesses to otherwise ineligible parties. They also noted the serious national security concerns including an example of a Department of Defense contract that, due to the sensitivity of the contract, was earmarked for a domestically owned company. Masking foreign ownership, a U.S. registered company took the contract, undermining national security and robbing U.S.-owned businesses of opportunity.

Focusing more domestically, TI US recently published a briefing paper[22] on the use of anonymous companies in perpetuating fraud against American consumers. We listed more than a dozen examples in which anonymous companies were used to complete the fraud scheme.

In the paper, we noted that:

> Fraud reportedly cost American consumers at least $12 billion in 2024: Medicare scams harm seniors, taxpayers, and legitimate healthcare providers; counterfeit medicines harm patients; small business scams rob entrepreneurs of scarce capital; and investment scams drain the retirement accounts of workers and retirees. The insidious ingenuity of these criminals preys upon the trust of Americans in our consumer marketplace. The criminals behind consumer scams often employ anonymous companies to execute their schemes and evade detection. What the getaway car is to a bank heist, the anonymous company often is to a fraud scheme.

<u>China and the Enforcement of U.S. Tariffs</u>

In 2020, the Center for a New American Security released a paper, *Rising to the China Challenge*[23], that found that requiring the collection of beneficial ownership information "will limit the ability of China to set up anonymous front companies in the United States to purchase U.S. assets or technology and otherwise threaten critical sectors, data, or infrastructure."

<u>The effective implementation of the CTA is also integral to the President's tariff plans.</u> Whether one supports or opposes the tariffs, we should all be able to agree that additional uncertainties in supply chain integrity and price variability created by tariff dodging via anonymous companies is harmful to

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[21] U.S. General Accounting Office, "*Fraud in Federal Programs*," Report to Congressional requesters, April, 2025, https://files.gao.gov/reports/GAO-25-107143/index.html?_gl=1*1o0aqty*_ga*MTM4MTI2MzA1OC4xNzQ2NDY1MDY3*_ga_V393SNS3SR*MTc0NjQ2NTA2Ni4xLjAuMTc0NjQ2NTA2Ni4wLjAuMA..

[22] Transparency International U.S., "*Exposing the Fraudsters: How Anonymous Companies Formed in the U.S. Have Been Used to Defraud Americans, and How the Corporate Transparency Act Can Stop Such Scams*," Fact Sheet, March 27, 2025, https://us.transparency.org/resource/exposing-the-fraudsters-how-anonymous-companies-formed-in-the-u-s-have-been-used-to-defraud-americans-and-how-the-corporate-transparency-act-can-stop-such-scams/.

[23] Ely Ratner et al., "*Rising to the China Challenge: Renewing American Competitiveness in the Indo-Pacific*," Center for a New American Security, January 2020, https://www.cnas.org/publications/reports/rising-to-the-china-challenge.CNAS+7Ciao+7Ciao+7

small businesses already trying to navigate the policy change. To further explain, I would note that The Financial Times recently reported that, “Chinese logistics managers told Nikkei Asia last month they were creating shell companies to evade tariffs.” The FT also reported that, “In a statement, the [Customs and Border Protection] said that “enforcement will include the most severe penalties permitted by law’.”[24] While the intention is, no doubt, genuine, you cannot prosecute what you cannot find.

Without the CTA, this tariff dodge creates gaps for law enforcement and raises questions for small businesses about their role in and any implications of undermining federal tax policy.

Broad support for the CTA across the political spectrum

I think it is important to reiterate the strong, broad and bipartisan support behind the CTA. This includes cops, chiefs of police, sheriffs, prosecutors, national security experts, antihuman trafficking organizations, faith-based networks, business trade associations, banks, real estate associations, consumer and housing advocates, accountable governance organizations, and scholars at both conservative and liberal leaning think tanks, among many others.[25]

A typical and recent example of support comes from March of this year. Frank Russo from the Conservative Political Action Conference’s (CPAC) Center for Combating Human Trafficking was quoted in a Thomson Reuters article:

> [T]here are “organizations, both domestic and international, that are intended to harm your community for [the] profit of others.” But when it comes to combating crimes perpetuated by these organizations — like human trafficking, fentanyl poisoning, and violent crimes — “there’s a missing link in the chain,” said Russo.
>
> The CTA, as originally intended, would provide law enforcement with the tools to uncover who is funding these organizations, added Russo. He called the CTA “the financial equivalent of installing streetlights in a neighborhood.” Russo said that law enforcement groups like the National District Attorneys Association, the Fraternal Order of Police, the National Sheriffs Association, and the Federal Law Enforcement Officers Association all supported the beneficial ownership reporting requirements.
>
> Russo called Treasury’s shift on the CTA’s reporting requirements “a huge step back.” He added that he hopes the Trump administration can “thread the needle back to where we began, which is giving this missing link to law enforcement.”[26]

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[24] Joe Miller, “*Chinese Exporters Undervalue Cargo to Skirt Trump Tariffs*,” Financial Times, May 6, 2025, https://www.ft.com/content/960787b5-693a-47e9-b1df-661d315e4729.

[25] FACT Coalition, ”*Endorsements for Beneficial Ownership Transparency*,“ Fact Sheet, November 18, 2020, https://thefactcoalition.org/endorsements-beneficial-ownership-transparency/

[26] Maureen Leddy, *”Groups Sound Alarm After Treasury Backtracks on Beneficial Ownership Reporting,”* Thomson Reuters, March 10, 2025, https://tax.thomsonreuters.com/news/groups-sound-alarm-after-treasury-backtracks-on-beneficial-ownership-reporting/

I would also add that, in the lead up to the vote on the legislation in the House, the first Trump Administration issued a supportive Statement of Administrative Policy[27] that included the following:

> [This legislation will] help prevent malign actors from leveraging anonymity to exploit these entities for criminal gain. It would also assist law enforcement in detecting and preventing illicit activity such as terrorist financing and money laundering. Additionally, this bill would substantially update the Bank Secrecy Act (BSA) for the first time since 2001. These reforms will modernize financial institutions' compliance with anti-money laundering regulations, counter the financing of terrorism requirements, and close loopholes in existing law.

And:

> For these reasons, the Administration believes this legislation represents important progress in strengthening national security, supporting law enforcement, and clarifying regulatory requirements.

The Interim Final Rule is inconsistent with the CTA and Congressional Intent

On March 21, 2025, the Treasury Department issued an Interim Final Rule (IFR)[28] that narrows the scope of the Corporate Transparency Act (CTA) to apply only to certain foreign companies that register to do business in the United States. The IFR, which was effective immediately, exempts all domestic companies, as well as all beneficial owners of covered foreign companies who are U.S. persons.

When issued, TI US said the rule "threatens to make the United States a magnet for foreign criminals across the world."[29] The rule allows criminals around the world to register a company in this country to move drug money, evade sanctions, and launder all manner of illicit funds with impunity thanks to secrecy. The CTA, and the U.S. AML framework writ large, has been tailored to address risk. The exemption of domestic companies from the CTA does not, in any way, comport with FinCEN's approach, over multiple administrations, to a risk-based approach.

In addition to TI US, numerous stakeholders raised similar concerns including the National District Attorneys Association and the National Narcotics Officers Association.[30] A headline in the *The Daily Caller*

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[27] Executive Office of the President, Office of Management and Budget, "*Statement of Administration Policy: H.R. 2513 – Corporate Transparency Act of 2019, as amended by Manager's Amendment*," Statement of Administrative Policy, October 22, 2019, https://trumpwhitehouse.archives.gov/wp-content/uploads/2019/10/SAP_HR-2513.pdf.
[28] FinCEN, "*FinCEN Removes Beneficial Ownership Reporting Requirements for U.S. Companies and U.S. Persons, Sets New Deadlines for Foreign Companies*," Press Releases, March 21, 2025, https://www.fincen.gov/news/news-releases/fincen-removes-beneficial-ownership-reporting-requirements-us-companies-and-us.
[29] Transparency International U.S., "*New Treasury Rule Opens U.S. Financial Borders, Provides Secrecy to Fentanyl Traffickers and Other Criminals*," Press Release, March 21, 2025, https://us.transparency.org/news/new-treasury-rule-opens-u-s-financial-borders-provides-secrecy-to-fentanyl-traffickers-and-other-criminals/.
[30] The FACT Coalition, "*Fentanyl Traffickers, U.S. Adversaries Biggest Winners in New Treasury Proposal Benefitting Money Launderers",* Press Release, March 21, 2025, *https://thefactcoalition.org/fentanyl-traffickers-u-s-adversaries-biggest-winners-in-new-treasury-proposal/*

may have captured it best: *Trump Admin may have Accidently Empowered Cartels To Flood American With Fentanyl, Republican Legal Experts Warn*.[31]

The Treasury Department has invited comments on the IFR and will make final determinations on the scope of the CTA in the coming months. TI US strongly urges the Treasury Department to return the scope to the intent of Congress and provide law enforcement with the tools necessary to protect Americans from both foreign and domestic threats. The current rule does neither.

Dispelling misconceptions about the CTA

During the decade-long negotiation to pass the CTA, members of Congress debated numerous provisions, and amendments were made to accommodate concerns that were raised by a diverse set of stakeholders. Since passage, the passage of time and changes in personnel have allowed some of the old concerns to resurface without familiarity with the history of the amendments included to address them. As such, incorrect information has fostered unwarranted concerns. The following are some of the most often repeated misconceptions that have emerged.

Misconception #1: Millions of honest business owners could go to jail for simply not knowing about the CTA.

I was present for many of the debates over the final compromise language in the CTA. To gain the support of certain CTA skeptics and to ensure that honest mistakes or inadvertent, easily fixable errors by business owners could be corrected with impunity, the text of the bill was amended from a "knowing" to a "willful" culpability standard. To my knowledge, there was never a version of the bill, through more than a decade of discussion and debate, that included a "negligence" or "reckless" standard.

Suggesting that the CTA makes instant criminals of millions of businesses that are unaware of the new law is, at best, a grossly uninformed misreading of the legislative text. Missing a filing because the business owner was unaware of the CTA's requirements or deadlines is not punishable. A violation must be *willful*, with a knowing failure to follow the law.

In discussions with numerous lawyers, including both congressional and outside counsel, I am told that debates regarding the "willful standard" in criminal and civil law are more often focused on whether the standard is too narrow – that the bar is too high -- not whether it is vague or too encompassing.

"Willful" is a common and well litigated standard in U.S. law. Based on the robust debates and discussions in the lead up to passage of the CTA, if I were working with lawyers who claimed they could not advise me on my obligations and liabilities for compliance with the CTA, or any law, because they did not understand the "willful" standard, I would seek new counsel.

Misconception #2: The reporting requirements for most businesses will take hours.

In the lead up to the passage of the CTA, members of Congress and the first Trump Administration were briefed on the compliance burden of a similar beneficial ownership collection law in the United Kingdom

[31] Robert McGreevy, "*Trump Admin May Have Accidentally Empowered Cartels To Flood America With Fentanyl, Republican Legal Experts Warn*," The Daily Caller, April 23, 2025, https://dailycaller.com/2025/04/23/trump-cartels-fentanyl-traffickers-republican-biden-treasury-corporate-transparency-act-scott-bessent/.

(UK). Companies House, the UK agency responsible for managing the beneficial ownership register, ran a post-implementation survey and analysis and found ongoing compliance costs for the equivalent law ran less than $3 per year, with minimal time for compliance for small businesses.[32] Given similar profiles of small businesses in the two countries, there was little reason to assume U.S. business owners would be less capable than their overseas counterparts.

That assumption appears to be true. When the CTA was first implemented, the business group Small Business Majority surveyed members who were early registrants under the law. Sixty-eight percent of those surveyed said it was "easy" to file. Only six percent found it very difficult.[33] FinCEN has said that from feedback it received, filing takes small businesses, on average, less than 20 minutes to register.[34] Many of these small business owners will not change ownership information and, therefore, never have to spend any time on compliance ever again.

These numbers are as one would expect by looking at the makeup of CTA covered entities. The vast majority – more than 80 per cent – of U.S. firms are non-employer firms,[35] meaning they have no employees aside from the owner. The simple structure for these firms makes the filing of four pieces of readily known information, including one's name, address, date of birth and government identification number (e.g., driver's license or passport number), a straightforward exercise.

For those firms that do have more complex structures, I would suggest that it is impossible to have the resources to pay the lawyers and corporate service providers to create the complex structure but not have the resources or wherewithal to then name who sits on the top of the corporate food chain.

No one should conflate the simple filings of truly small businesses with those of more complex and better resourced firms.

Misconception #3: The database is not secure.

The beneficial ownership directory is secure. Unlike many other countries, the database is only accessible to law enforcement and designated financial institutions with legally mandated anti-money laundering responsibilities. Any authorized persons seeking to access the data must first complete a training and certification process. They must attest that any searches part of an ongoing investigation – no fishing expeditions -- and gain approval for access from a court officer. All inquiries are tracked and

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[32] Global Witness, "*Getting the UK's House in Order*", Website, May 6, 2019, https://globalwitness.org/en/campaigns/corruption-and-money-laundering/getting-the-uks-house-in-order/

[33] Small Business Majority, "*2024 Beneficial Ownership Report: Small Business Owners Share Their Experiences with New Beneficial Ownership Information Reporting Requirements*," Survey, February 15, 2024, https://smallbusinessmajority.org/sites/default/files/research-reports/2024-Beneficial-Ownership-Report.pdf.

[34] FinCEN, "*Beneficial Ownership Reporting Outreach and Education Toolkit*," Website, https://www.fincen.gov/boi/toolkit

[35] Small Business Administration, "*Frequently Asked Questions About Small Business*," Website, July 2024, https://advocacy.sba.gov/wp-content/uploads/2024/12/Frequently-Asked-Questions-About-Small-Business_2024-508.pdf

logged to ensure accountability. And penalties of breaches of the protocols, including unauthorized sharing of the information, are criminal violations with potential punishment more severe than for willfully violating the registration requirement.

The CTA's beneficial ownership directory has strong and comprehensive security protections.

Misconception #4: This is a major concern for small businesses.

When we spoke with small businesses and some small business trade associations all seemed to agree, that compliance is not a major concern for their members.

John Arensmeyer, Founder and CEO of Small Business Majority, wrote that:

> Small businesses across America are grappling with the devastating impact of capricious draconian tariffs, cuts to vital government programs supporting entrepreneurial innovation, and threats to Medicaid and tax credits that help ensure healthcare coverage for small business owners and employees. The CTA is a law that is critically important for law enforcement to crack down on scammers and drug cartels and it requires a minimal compliance effort. Enforcement of this law is quite simply not close to a major concern for the Main Street small business owners with whom we are in contact every day.

Richard Trent, Executive Director of Main Street Alliance wrote:

> Rather than delivering what small businesses actually need – sensible tax measures, proper resources and staffing for the Small Business Administration, a predictable business environment free of tariffs – Administration officials instead seem to be responding to pressure from well-funded lobbying groups working to gut this law, even though it was passed with bipartisan support during the first Trump administration. Let's be honest: these efforts don't reflect the needs or views of real small business owners. Weakening or failing to enforce the CTA would send a troubling message that corruption is tolerated, that those willing to cut corners will continue to get ahead, and that ethical small business owners will be left behind.

In fact, one of the most vocal opponents of the CTA, the National Federation of Independent Businesses, surveyed their members in 2024, after the CTA went into effect, on the most severe problems they faced. No laws, including the CTA, were mentioned specifically. "Federal paperwork" was fifteenth on the list and, even assuming the CTA is viewed by some as unreasonable, the category of "unreasonable government regulation" came in seventh, below the cost of health insurance, cost of supplies, and locating qualified employees, among other concerns.[36]

When deciding how best to support small business going forward, I would strongly urge Committee members to consider the apparent disconnect between K Street and Main Street on what are the top challenges facing America's entrepreneurs.

CTA improvements that would help both small businesses and law enforcement

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[36] National Federation of Independent Business (NFIB), *Small Business Problems and Priorities*, Website, July 2024, https://www.nfib.com/small-business-problems-and-priorities/?tab=Executive%20Summary

TI US has called upon the Treasury Department to restore full coverage of the CTA to both U.S.- and foreign-formed entities that register in the U.S. and thus close the loophole that allows bad actors to easily access and abuse the U.S. financial system. In so doing, there are also improvements to implementation that could help both small business and law enforcement work with the CTA.

- Simplify the reporting form. As noted above, more than 80 per cent of U.S. small businesses are nonemployer firms. These firms generally have one owner and simple structures. They do not need FinCEN identifiers, many may file themselves to save money on using a third party. These business owners could be provided with a shortened form that omits categories meant for entities with more complicated corporate structures. Eligible businesses could file more quickly by avoiding nonrelevant categories and avoid unnecessary confusion over what might apply to their filing.

- Instant verification. Currently, registration requires reporting companies to upload a copy of the government issued identification document to guard against fraud. With some additional resources, FinCEN could electronically verify the data itself, similar to the verification process used by credit card companies for online shopping. This would accomplish several goals, including removing the need for document upload. This would save businesses time and money and improve the data quality making it highly useful for law enforcement and financial institutions with AML responsibilities.

- Sufficient resources for outreach and implementation. To the extent that small businesses are not fully informed about the law, Congress should provide sufficient resources to do appropriate outreach, perhaps partnering with the Small Business Administration, to spread awareness. There continues to be bipartisan support for increased funding, and I would urge Congress to take advantage of that cross-partisan support and ensure that the financial police are appropriately funded.

  Additionally, the President and the Attorney General have been clear that they want to focus resources on taking down drug cartels and transnational criminal organizations. The President has called for increasing funding for Customs and Border Protection to stop drugs at the border. That is only one part of the equation. Congress should ensure that the Trump Administration use all its tools to find and seize the money that funds criminals' illicit operations, targeting their Achilles' Heel.

Thank you for the opportunity to present this testimony and I look forward to your questions.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 22, 2019
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 2513 – Corporate Transparency Act of 2019, as amended by Manager's Amendment
(Rep. Maloney, D-NY, and 10 cosponsors)

The Administration commends the bipartisan work undertaken to develop H.R. 2513, the *Corporate Transparency Act of 2019*. This legislation would require corporations and limited liability companies in the United States to disclose their beneficial owners, a measure that will help prevent malign actors from leveraging anonymity to exploit these entities for criminal gain. It would also assist law enforcement in detecting and preventing illicit activity such as terrorist financing and money laundering. Additionally, this bill would substantially update the Bank Secrecy Act (BSA) for the first time since 2001. These reforms will modernize financial institutions' compliance with anti-money laundering regulations, counter the financing of terrorism requirements, and close loopholes in existing law.

For these reasons, the Administration believes this legislation represents important progress in strengthening national security, supporting law enforcement, and clarifying regulatory requirements. Nevertheless, certain steps must be taken to improve H.R. 2513 as it moves through the legislative process. These include aligning the definition of "beneficial owner" to the Financial Crimes Enforcement Network's Customer Due Diligence Final Rule, protecting small businesses from unduly burdensome disclosure requirements, and providing for adequate access controls with respect to the information gathered under this bill's new disclosure regime. The Administration looks forward to continuing to engage in a bipartisan fashion with the House and Senate to address these important issues.

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FACTCOALITION
Financial Accountability & Corporate Transparency

Briefing Memo

Updated: November 18, 2020

Endorsements for Beneficial Ownership Transparency

Endorsed Legislation

Anti-Corruption/Transparency:
- Citizens for Responsibility & Ethics in Washington (CREW)
- Coalition for Integrity
- Corruption Watch UK
- Financial Accountability and Corporate Transparency (FACT) Coalition
- Financial Transparency Coalition
- Global Financial Integrity
- Global Integrity
- Global Witness
- Government Accountability Project (GAP)
- Natural Resource Governance Institute
- Open Contracting Partnership
- Open Ownership
- Open the Government
- Project on Government Oversight (POGO)
- Publish What You Pay – U.S.
- Repatriation Group International
- RepresentUs
- Sunlight Foundation
- Transparency International

Anti-Human Trafficking:
- Alliance to End Slavery and Trafficking (ATEST)
- Humanity United Action
- Liberty Shared
- Polaris
- Street Grace
- Verité

Business (Large):
- Allianz
- The B Team
- Broad Group
- Celtel International
- Chobani
- Danone
- Dow Chemical
- Engie
- GSM Association
- Kering Group
- Mastercard
- National Foreign Trade Council
- Natura & Co.
- NRG Energy
- Safaricom
- Safeproof Foundation
- Salesforce
- Thrive Global
- Unilever
- U.S. Chamber of Commerce
- U.S. Council for International Business
- Virgin Group

Business (Small):
- American Sustainable Business Council
- Harpy IT Solutions, LLC (St. Louis, MO)
- Luna Global Networks & Convergence Strategies, LLC (Washington, DC)
- Maine Small Business Coalition
- Main Street Alliance
- Pax Advisory, Inc. (Vienna, VA)
- Small Business Majority
- South Carolina Small Business Chamber of Commerce

Business (Financial Institutions):
- Alabama Bankers Association
- Alaska Bankers Association
- American Bankers Association
- Arizona Bankers Association
- Arkansas Bankers Association
- Aquesta Bank (North Carolina)
- Bank Policy Institute
- Bankers Association for Finance and Trade (BAFT)
- Bluegrass Community Bankers Association
- The Clearing House Association
- Colorado Bankers Association
- Connecticut Bankers Association
- Consumer Bankers Association
- Credit Union National Association (CUNA)
- Delaware Bankers Association
- Financial Services Roundtable
- Florida Bankers Association
- Georgia Bankers Association
- Hawaii Bankers Association
- HomeTrust Bank (North Carolina)
- Idaho Bankers Association
- Illinois Bankers Association

- Independent Community Bankers of America (ICBA)
- Indiana Bankers Association
- Institute of International Bankers (IIB)
- Institute of International Finance (IIF)
- Iowa Bankers Association
- Kansas Bankers Association
- Kentucky Bankers Association
- Louisiana Bankers Association
- Maine Bankers Association
- Maryland Bankers Association
- Massachusetts Bankers Association
- Michigan Bankers Association
- Mid-Size Bank Coalition of America
- Minnesota Bankers Association
- Mississippi Bankers Association
- Missouri Bankers Association
- Montana Bankers Association
- National Association of Federally-Insured Credit Unions (NAFCU)
- Nebraska Bankers Association
- Nevada Bankers Association
- New Hampshire Bankers Association
- New Jersey Bankers Association
- New Mexico Bankers Association
- New York Bankers Association
- North Carolina Bankers Association
- North Dakota Bankers Association
- Ohio Bankers League
- Oklahoma Bankers Association
- Oregon Bankers Association
- Pennsylvania Bankers Association
- Puerto Rico Bankers Association
- Regional Bank Coalition
- Rhode Island Bankers Association
- Securities Industry & Financial Markets Association (SIFMA)
- South Carolina Bankers Association
- South Dakota Bankers Association
- Tennessee Bankers Association
- Texas Bankers Association
- Utah Bankers Association
- Vermont Bankers Association
- Virginia Bankers Association
- Washington Bankers Association
- Western Bankers Association
- West Virginia Bankers Association
- Wisconsin Bankers Association
- Wyoming Bankers Association

Business (Insurance):

- Coalition Against Insurance Fraud

Business (Real Estate):

- American Escrow Association
- American Land Title Association (ALTA)
- CRE Finance Council (CREFC)
- National Association of REALTORS©
- Real Estate Services Providers Council, Inc. (RESPRO)

Faith (Denominations and Denominational Representations):

- The Episcopal Church
- The Evangelical Lutheran Church in America
- The United Church of Christ
- The United Methodist Church, General Board of Church and Society
- The Presbyterian Church (USA)
- The National Council of Churches

Faith (Religious Institutions, Faith Organizations and Denomination Offices):

- American Friends Service Committee
- Africa Faith and Justice Network
- Africa Women and Youth Initiative
- Church of the Brethren Office of Peacebuilding and Policy
- Christians United for Israel (CUFI)
- Disciples Center for Public Witness
- Disciples Home Missions of the Christian Church (Disciples of Christ)
- Interfaith Center on Corporate Responsibility (ICCR)
- Interfaith Worker Justice
- Jubilee USA Network
- Leadership Conference of Women Religious
- Maryknoll Fathers and Brothers
- Maryknoll Office for Global Concerns
- NETWORK Lobby for Catholic Social Justice
- Pax Christi USA
- Society of African Missions (SMA Fathers)
- Sojourners
- United Church of Christ, Justice and Witness Ministries

Faith (Congregations, Faith Communities and Religious Groups):

- All Saints Episcopal Church — Salt Lake City, UT
- Ascension Lutheran Church — Thousand Oaks, CA
- Athens Catholic Community Peace and Justice Committee — Athens, OH
- B'nai Harim — Pocono Pines, PA
- Bernardine Franciscan Sisters — Reading, PA
- Bethel Lutheran Church — Los Angeles, CA
- California Lutheran University
- Central Pacific Conference United Church of Christ — OR

- Congregation Gates of Heaven — Schenectady, NY
- Crossroads United Church of Christ — Indianola, IA
- Dominicans of Sinsinawa — Sinsinawa, WI
- First Congregational Church of Alameda, CA
- First Congregational Church of Chicago UCC
- First Presbyterian Church — Portland, OR
- Grey Nuns of the Sacred Heart — Philadelphia, PA
- Harbor House — Thousand Oaks, CA
- Holy Spirit Missionary Sisters, USA JPIC — Waukegan, IL
- IHM Sisters – Justice, Peace and Sustainability Office — Monroe, MI
- Immanuel Lutheran Church of Los Altos, California — Los Altos, CA
- Interfaith Worker Justice, New Mexico
- InterReligious Task Force On Central America and Colombia — Cleveland, OH
- Iowa City Pax Christi — IA
- Jubilee Albany Capitol Region, NY
- Jubilee Massachusetts
- Jubilee Northwest — Seattle, WA
- Jubilee San Diego
- Jubilee Southern California
- Jubilee Ventura County — CA
- Jubilee Vermont
- Lutheran Office of Public Policy — California
- Mary House Inc — New Providence, NJ
- Messiah Lutheran Church — Schenectady, NY
- Middlebury Friends Meeting — Middlebury, VT
- Mission Committee of the First Trinitarian Congregational Church (United Church of Christ) — Concord, MA
- Missionary Oblates of Mary Immaculate
- Mount Tabor Lutheran Church — Salt Lake City, UT
- Muslims for Economic Justice
- Nicaragua Center for Community Action — Berkley, CA
- Pax Christi Dallas — TX
- Pax Christi Florida
- Pax Christi Hazel Crest — IL
- Pax Christi Hilton Head — SC
- Pax Christi Illinois
- Pax Christi Metro New York
- Pax Christi San Antonio — TX
- Pax Christi Seed Planters — Crete, IL
- Pax Christi St. Maurice/Broward Florida
- Pax Christi Western NY
- Peace Lutheran Church — Danville, CA
- Pilgrim United Church Of Christ — Carlsbad, CA
- Provincial Council Clerics of St. Viator — Las Vegas, NV
- Roswell Presbyterian Church — Roswell, GA
- Saint Mark's Episcopal Cathedral — Seattle, WA
- San Dieguito United Methodist Church — Encinitas, CA
- Sinsinawa Dominican Peace and Justice Office — WI
- Sisters of Charity of Leavenworth JPIC Office, KS
- Sisters of Charity of New York
- Sisters of St. Francis of Philadelphia — Aston, PA
- South Coast Interfaith Council — Long Beach, CA
- South East Area Mission and Justice Committee of the Massachusetts Conference of the United Church of Christ — Framingham, MA
- St. Alban's Episcopal Church — Albany, CA
- St. Mary's Episcopal Church — New York, NY
- Temple Beth El of South Orange County — Aliso Viejo, CA
- The River Church South — Quincy, MA
- University Christian Church (Disciples of Christ)/United Church of Christ — San Diego, CA
- Ursuline Sisters of Cleveland — Cleveland, OH

Human Rights:

- Accountability Counsel
- African Coalition for Corporate Accountability (ACCA)
- Amnesty International USA
- Business and Human Rights (BHR)
- Business & Human Rights Resource Centre
- Center for Constitutional Rights
- EarthRights International
- EG Justice
- Enough Project
- Freedom House
- Human Rights First
- Human Rights Watch
- International Corporate Accountability Roundtable (ICAR)
- International Labor Rights Forum
- International Rights Advocates
- National Association for the Advancement of Colored People (NAACP)
- Responsible Sourcing Network
- Rights and Accountability in Development (RAID)
- Rights CoLab
- The Sentry

International Development:

- ActionAid USA
- Bread for the World
- ONE Campaign
- Oxfam America

Law Enforcement:

- Alabama State Lodge of the Fraternal Order of Police

- Arizona Fraternal Order of Police
- ATF Association
- Federal Law Enforcement Officers Association (FLEOA)
- Dennis Lormel, former Chief of the FBI Financial Crimes and Terrorist Financing Operations Sections
- Donald C. Semesky Jr., Former Chief of Financial Operations, Drug Enforcement Administration
- Georgia Fraternal Order of Police
- John Cassara, former U.S. Treasury Special Agent
- Kentucky Commonwealth's Attorneys' Association
- Kentucky State Fraternal Order of Police
- National Association of Assistant United States Attorneys (NAAUSA)
- National Association of Attorney Generals (NAAG)
- National District Attorneys Association (NDAA)
- National Fraternal Order of Police (FOP)
- National Narcotic Officers' Associations Coalition (NNOAC)
- North Carolina Fraternal Order of Police
- Pennsylvania State Lodge, Fraternal Order of Police
- Pennsylvania State Troopers Association
- Society of Former Special Agents of the FBI
- U.S. Marshals Service Association

Lawyers:

- Group of 11 business and human rights lawyers

National Security Officials:

- FDD Action
- Michael Chertoff, former Secretary of Homeland Security (2005–2009)
- National Security Action

NGOs (Misc.):

- Africa Faith & Justice Network
- Amazon Watch
- American Family Voices
- Americans for Democratic Action (ADA)
- Americans for Financial Reform
- Americans for Tax Fairness
- Association of Concerned Africa Scholars (ACAS)
- Campaign for America's Future
- Center for International Policy
- Center for Popular Democracy Action
- Coalition on Human Needs
- Columban Center for Advocacy and Outreach
- Columbia Center on Sustainable Investment
- Consumer Action
- Consumer Federation of America
- Corporate Accountability Lab
- CREDO Action
- Demand Progress
- Economic Policy Institute
- Environmental Investigation Agency
- Fair Share
- First Amendment Media Group
- Foundation Earth
- Friends of the Earth
- Fund for Constitutional Government
- Greenpeace USA
- Health Care for America Now
- Heartland Initiative
- Institute for Policy Studies – Program on Inequality and the Common Good
- Institute on Taxation and Economic Policy
- International Campaign for Responsible Technology
- iSolon.org
- MomsRising
- National Employment Law Project
- National Organization for Women (NOW)
- New Rules for Global Finance
- Patriotic Millionaires
- People Demanding Action
- Project Expedite Justice
- Project on Organizing, Development, Education, and Research (PODER)
- Public Citizen
- Responsible Sourcing Network
- Responsible Wealth
- Responsive to Our Community II, LLC
- RootsAction.org
- Stand Up America
- Sustentia
- Take On Wall Street
- Tax Justice Network
- Tax Justice Network USA
- Tax March
- Trailblazers PAC
- United for a Fair Economy
- U.S.-Africa Network
- U.S. Public Interest Research Group (U.S. PIRG)
- Voices for Progress
- Win Without War
- Working America
- World Wildlife Fund International

Shareholders:

- Avaron Asset Management
- Bâtirente
- Boston Common Asset Management
- Candriam Investors Group
- Capricorn Investment Group
- Clean Yield Asset Management

- CtW Investment Group
- Domini Social Investment LLC
- Dominican Sisters of Hope
- Hermes Equity Ownership Services
- Hexavest
- Inflection Point Capital Management
- Local Authority Pension Fund Forum
- Magni Global Asset Management LLC
- Maryknoll Sisters
- Mercy Investment Services, Inc.
- NorthStar Asset Management, Inc.
- Oblate International Pastoral Investment Trust
- Sisters of Charity, BVM
- Sisters of Saint Joseph of Chestnut Hill, Philadelphia, PA
- Sisters of St. Dominic of Blauvelt, New York
- Sisters of St. Francis of Philadelphia
- Trillium Asset Management
- Triodos Investment Advisory & Services BV
- Ursuline Sisters of Tildonk, U.S. Province
- Verka VK Kirchliche Vorsorge VVaG
- Zevin Asset Management

State Attorneys General:

- Alabama
- Alaska
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- District of Columbia
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Maine
- Maryland
- Massachusetts
- Minnesota
- Mississippi
- Nebraska
- New Jersey
- New Mexico
- North Carolina
- North Dakota
- Northern Mariana Islands
- Oklahoma
- Oregon
- Pennsylvania
- Puerto Rico
- Rhode Island
- South Carolina
- South Dakota
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Wisconsin

State Secretaries of State:

- Delaware

Unions:

- Alliance for Retired Americans
- American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
- American Federation of State, County and Municipal Employees (AFCSME)
- American Federation of Teachers
- Communications Workers of America (CWA)
- International Brotherhood of Teamsters
- International Trade Union Confederation
- International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America, UAW
- National Education Association
- National Latino Farmers & Ranchers Trade Association
- Service Employees International Union (SEIU)

U.S. Administration Officials:

- The White House

Endorsed Concept

Anti-Corruption/Transparency:

- Center for Responsive Politics

Anti-Human Trafficking:

- 3 Strands Global Foundation

- Agape International Missions
- Amirah, Inc.
- Baptist Resource Network
- Candle of Hope Foundation
- Freedom Network USA
- International Justice Mission
- Shared Hope International
- Youth Underground

Business (Large):
- Business 20 (B20), the private sector´s voice of the G20 community
- BHP
- Deloitte
- International Chamber of Commerce
- Philip Morris International
- Rio Tinto
- Siemens AG
- Thomson Reuters

Business (Financial Institutions):
- BMO Capital Markets
- Citigroup

Business (Small):
- 77% of U.S. small business owners.
- O'Neill Electric (Portland, OR)
- Paperjam Press (Portland, OR)
- Popcorn Heaven (Waterloo, IA)
- Rivanna Natural Designs, Inc. (Charlottesville, VA)

Human Rights:
- Better World Campaign
- Center for Justice and Accountability
- Center for Victims of Torture
- Futures without Violence
- Global Rights
- Global Solutions
- Physicians for Human Rights
- Project on Middle East Democracy
- United to End Genocide

Law Enforcement:
- National Sheriffs' Association

Lawyers:
- Tom Firestone, Baker & McKenzie LLP

National Security Experts:
- 2019 letter from bipartisan group of over 100 national security experts
- 2018 letter from bipartisan group of 3 dozen former national security leaders (military and civilian)
- David Petraeus, GEN (Ret.) USA, former director of the Central Intelligence Agency
- Ben Rhodes, former deputy national security adviser to President Barack Obama
- Eric Edelman, Amb., former Undersecretary of Defense for Policy
- Celeste Ward Gventer, U.S. Deputy Assistant Secretary of Defense during the George W. Bush administration
- Philip Zelikow, former executive director of the 9/11 Commission
- Kristofer Harrison, Defense and State Department advisor during the George W. Bush administration

Scholars (Think Tanks):
- Anders Åslund, **Atlantic Council**
- David Mortlock, **Atlantic Council**
- Josh Rudolph, **Atlantic Council**
- William F. Wechsler, **Atlantic Council**
- Clay Fuller, **American Enterprise Institute**
- Dalibor Rohac, **American Enterprise Institute**
- Michael Rubin, **American Enterprise Institute**
- Norm Eisen, **Brookings Institution**
- Aaron Klein, **Brookings Institution**
- Jeff Hauser, **Center for Economic and Policy Research**
- Jarrett Blanc, **Carnegie Endowment for International Peace**
- Sarah Chayes, **Carnegie Endowment for International Peace**
- Jake Sullivan, **Carnegie Endowment for International Peace**
- Jodi Vittori, **Carnegie Endowment for International Peace**
- Andrew Weiss, **Carnegie Endowment for International Peace**
- Molly Elgin-Cossart, **Center for American Progress**
- Diana Pilipenko, **Center for American Progress**
- Trevor Sutton, **Center for American Progress**
- Neil Bhatiya, **Center for a New American Security**
- Ashley Feng, **Center for a New American Security**
- Elizabeth Rosenberg, **Center for a New American Security**
- Daleep Singh, **Center for a New American Security**
- Heather Conley, **Center for Strategic and International Studies**
- Matthew M. Taylor, **Council on Foreign Relations**
- David Hamon, **Economic Warfare Institute**
- David Asher, **Foundation for Defense of Democracies**
- Yaya J. Fanusie, **Foundation for Defense of Democracies**
- Eric Lorber, **Foundation for Defense of Democracies**
- Emanuele Ottolenghi, **Foundation for Defense of Democracies**

- Chip Poncy, **Foundation for Defense of Democracies**
- Jonathan Schanzer, **Foundation for Defense of Democracies**
- Juan C. Zarate, **Foundation for Defense of Democracies**
- Jamie Fly, **German Marshall Fund of the United States**
- Joshua Kirschenbaum, **German Marshall Fund of the United States**
- Laura Rosenberger, **German Marshall Fund of the United States**
- David Salvo, **German Marshall Fund of the United States**
- Larry Diamond, **Hoover Institution**
- Michael McFaul, Amb. (Ret.), **Hoover Institution**
- Ben Judah, **Hudson Institute**
- Ken Weinstein, **Hudson Institute**
- Nate Sibley, **Hudson Institute**
- Michael Pregent, **Hudson Institute**
- Richard Phillips, **Institute on Taxation and Economic Policy**
- Michael Camilleri, **Inter-American Dialogue**
- David J. Kramer, **McCain Institute**
- Paul D. Hughes, COL (Ret.), USA, **U.S. Institute of Peace**

Scholars (Universities):

- Allyson Shortle, **University of Oklahoma**
- E.J. Fagan, **University of Illinois at Chicago**
- Smriti Rao, **Assumption College (MA)**
- Daniel Nielson, **Brigham Young University**
- Branko Milanovic, **City University of New York**
- Martin Guzman **Columbia University**
- Matthew Murray, **Columbia University**
- Jose Antonio Ocampo, **Columbia University**
- Jeffrey D. Sachs, **Columbia University**
- Joseph Stiglitz, **Columbia University**
- Spencer J. Pack, **Connecticut College**
- Lourdes Beneria, **Cornell University**
- John Hoddinott, **Cornell University**
- Ravi Kanbur, **Cornell University**
- David Blanchflower, **Dartmouth College**
- Mark Paul, **Duke University**
- Michael J. Dziedzic, Col. (Ret.), USA, **George Mason University**
- David M. Luna, **George Mason University**
- Louise Shelley, **George Mason University**
- Laurie Nisonoff, **Hampshire College**
- Matthew Stephenson, **Harvard Law School**
- Dani Rodrik, **Harvard University**
- June Zaccone, **Hofstra University**
- Matteo M Galizzi, **London School of Economics (UK)**
- John Hills, **London School of Economics (UK)**
- Simona Iammarino, **London School of Economics (UK)**
- Stephen Machin, **London School of Economics (UK)**
- Vassilis Monastiriotis, **London School of Economics (UK)**
- Cecilia Ann Winters, **Manhattanville College (NY)**
- Richard D. Wolff, **New School University**
- Bilge Erten, **Northeastern University**
- Mary C. King, **Portland State University (OR)**
- Angus Deaton, **Princeton University**
- Kimberly A. Clausing, **Reed College**
- Charles P. Rock, **Rollins College (FL)**
- Radhika Balakrishnan, **Rutgers University**
- Aaron Pacitti, **Siena College (NY)**
- Smita Ramnarain, **Siena College (NY)**
- Vanessa Bouché, **Texas Christian University**
- Nora Lustig, **Tulane University**
- Karen J. Finkenbinder, **U.S. Army War College**
- Max G. Manwaring, COL (Ret.), USA, **U.S. Army War College**
- Gabriel Zucman, **University of California, Berkeley**
- Ha-Joon Chang, **University of Cambridge (UK)**
- Ilene Grabel, **University of Denver**
- Tracy Mott, **University of Denver**
- Arthur MacEwan, **University of Massachusetts, Boston**
- Valpy Fitzgerald, **University of Oxford (UK)**
- Frances Stewart, **University of Oxford (UK)**
- Michael Carpenter, **University of Pennsylvania**
- Dorene Isenberg, **University of Redlands (CA)**
- Mike Findley, **University of Texas**
- Gunseli Berik, **University of Utah**
- Al Campbell, **University of Utah**
- Elaine McCrate, **University of Vermont**
- Stephanie Seguino, **University of Vermont**
- Thomas Pogge, **Yale University**

State Attorneys General:

- California
- Colorado
- Connecticut
- Delaware
- District of Columbia
- Hawaii
- Illinois
- Iowa
- Maine
- Maryland
- Massachusetts
- Minnesota
- Mississippi

- New Jersey
- New Mexico
- North Carolina
- Northern Mariana Islands
- Oregon
- Pennsylvania
- Puerto Rico
- Rhode Island
- Vermont
- Virginia
- Washington

U.S. Administration Officials:
- Department of Justice
- Department of the Treasury
- Federal Bureau of Investigation (FBI)
- Financial Crimes Enforcement Network (FinCEN)
- Immigration and Customs Enforcement (ICE)
- Office of the Comptroller of the Currency (OCC)
- Special Inspector General for Afghanistan Reconstruction (SIGAR)

FACTCOALITION
Financial Accountability & Corporate Transparency

May 15, 2025

The Honorable Roger Williams
Chairman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

RE: Hearing Titled: "A Small Part in A Big Company: Examining the Power of Franchising in the American Economy"

Dear Chairman Williams and Ranking Member Velázquez,

On behalf of the Financial Accountability and Corporate Transparency (FACT) Coalition, we appreciate the opportunity to comment on your hearing titled, "A Small Part in A Big Company: Examining the Power of Franchising in the American Economy." The FACT Coalition is a non-partisan alliance of more than 100 state, national, and international organizations promoting policies to combat the harmful impacts of corrupt financial practices. We have been a leading champion of financial transparency reform in the United States for more than 14 years.

We are writing to reiterate the importance of the Corporate Transparency Act (CTA) to defend U.S national security, protect Americans from fraud, and provide investigators and law enforcement the tools they need to fight against financial crime. Any attempt to repeal or otherwise defang the CTA would further enable U.S adversaries and drug traffickers to take advantage of our financial system to launder their ill-gotten gains.

Treasury's Interim Final Rule Violates the Plain Language of the CTA

Despite clear evidence of the risks posed by anonymous shell companies to national security, law enforcement, U.S. consumers, and small businesses, on March 21 Treasury issued an interim final rule (IFR) exempting domestic entities – more than 99 percent of all entities originally covered under the CTA – from reporting requirements. This move flies in the face of more than 10 years of Treasury National Risk Assessments and Congress' own findings, which make it clear that domestic anonymous entities represent a significant money laundering risk.

The Corporate Transparency Act, as enacted into law, is the product of 20 years of congressional deliberation, debate, and refinement. Throughout that process, lawmakers recognized the risks posed by domestic entities, and at no stage did they seriously consider exempting all domestic entities from reporting requirements. Ultimately, the statute grants Treasury limited authority to make reporting exemptions only with concurrence from both the Department of Homeland Security and the Attorney General that reporting by the entities in question "would not serve the public interest" and "would not be highly useful" to investigators.

It is precisely because the information required to be reported is "highly useful" to law enforcement that the Act garnered support from dozens of stakeholders including 42 state Attorneys General, the Fraternal Order of Police, and the National District Attorneys Association. In a statement reacting to the release of the IFR, National District Attorneys Association Executive Director Nelson Bunn said that "Treasury's interim final rule threatens to deny law enforcement the vital information they need to pursue illegitimate business fronts that jeopardize U.S. national security and public safety."

Congress should exercise its oversight authority and ensure that Treasury faithfully implements the plain language of the bipartisan Corporate Transparency Act, as a means to protect U.S. national security and give our law enforcement the tools they need to keep the public safe.

Abuse of Anonymous U.S. Companies Threatens National Security

Anonymous shell companies are an invaluable tool for U.S adversaries and terrorist groups to finance their operations. For example, in 2023, the Department of Justice indicted affiliates of the Iranian Revolutionary Guard-Quds Force (IRGC-QF) and Chinese buyers for schemes to traffic and sell Iranian oil to Chinese government-owned refineries, in violation of U.S. sanctions. The defendants in this case used U.S.-based anonymous shell companies to launder their proceeds, provide false information to the U.S. government, and even used these shell companies as a "trust" to hold the profits for the IRGC. In addition, the Treasury's 2024 National Money Laundering Risk Assessment (NMLRA) found that Russia and Russian-linked actors use a vast network of anonymous shell companies to evade U.S sanctions and assist in their illicit financial activities.

The Corporate Transparency Act was intended to close a glaring loophole in the U.S. anti-money laundering framework that allows our adversaries to undermine our national security interests. However, the Treasury's IFR severely limits the effectiveness of these measures, leaving our financial system vulnerable to exploitation by threat actors.

U.S. Beneficial Ownership Information Vital to Law Enforcement's Ability to Investigate Drug Trafficking

As our staff has explained in testimony before the Senate Caucus on International Narcotics Control, U.S adversaries are not the only ones benefiting from vulnerabilities in the U.S. financial system: drug cartels and other drug profiteers also rely on anonymous U.S companies. In 2024, a leader of the Sinaloa cartel was sentenced to ten years, for his role in laundering more than $16 million for the Sinaloa cartel's meth and heroin trafficking operations. This laundering racket was enabled and facilitated by the use of U.S. shell companies. Earlier this year, another indictment was unsealed charging a Florida resident with laundering over $300 million in Sinaloa cartel drug money through the use of anonymous companies in Florida, among others.

Law enforcement groups recognize the threat posed by anonymous entities, but they lack the necessary tools to properly investigate and prosecute the illicit actors that use them. According to Frank Russo, vice president of Modern Fortis Public Safety Strategies and the director of the CPAC's Center for Combating Human Trafficking, and National District Attorneys Association Executive Director Nelson Bunn, Treasury's IFR is "an alarming reversal that directly undercuts law enforcement's ability to fight trafficking and fentanyl distribution."

Congress Should Reject Calls to Repeal the CTA, Focusing Instead on Commonsense Reforms to Help Small Businesses Comply

Further, Congress should reject calls to repeal the Corporate Transparency Act. H.R. 425, the Repealing Big Brother Overreach Act, led by Rep. Davidson on this committee, would double down on Treasury's harmful interim rule by fully repealing the CTA, undoing decades of anti-money laundering progress with a single stroke and crippling law enforcement's ability to effectively patrol our nation's financial borders.

Repealing the CTA would have particularly dire consequences for ongoing efforts to combat the illicit flow of narcotics into our communities. According to Eric Brown, President of the National Narcotic Officers' Associations' Coalition (NNOAC), "Following the money is a proven strategy in investigations that involve organized criminal activity, especially fentanyl and other illicit drug trafficking. Law enforcement resources are stretched thin, and the Corporate Transparency Act – if fully implemented – would enable narcotic enforcement officers to be more effective in protecting the public from drug trafficking."

Instead of exempting all domestic entities, Congress could ensure that Treasury takes steps to ease compliance costs for small businesses. For instance, Congress could ensure that Treasury improve its outreach to small businesses in collaboration with the Small Business Administration. Likewise, Congress, in its oversight function, could encourage Treasury and the Department of Justice to formally clarify their enforcement policy and prioritize prosecutions in cases that also involve evidence of other crimes. Such an approach would build and elaborate on the statutory requirement that only wilful violations, and not mere negligence, are punishable. Likewise, Congress could urge Treasury to create an even more streamlined version of filing for businesses with the simplest ownership, to ensure that filing is even more efficient.

We urge members of the Committee to refrain from supporting any legislation that undermines U.S. national security and ties the hands of law enforcement officials pursuing foreign and domestic financial criminals.

Thank you for the opportunity to comment. If you have questions, you can contact Erica Hanichak (ehanichak@thefactcoalition.org).

Sincerely,

Ian Gary
Executive Director

Erica Hanichak
Deputy Director

National District Attorneys Association
Staff Contact: Frank Russo
703-519-1655 or frusso@ndaajustice.org
www.ndaa.org

July 20, 2020

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

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

Dear Speaker Pelosi & Leader McCarthy,

I am reaching out on behalf of the National District Attorneys Association (NDAA), the oldest and largest national organization representing state and local prosecutors in the country. With more than 5,000 members nationwide NDAA is recognized as the leading source of national expertise on the prosecution function and is a valuable resource for the media, academia, government, and community leaders. Today, I write in support of Representative Carolyn Maloney's *Amendment #1*, the *Corporate Transparency Act*, included in *En Bloc Amendment #1* to the *National Defense Authorization Act*.

NDAA continues to support legislative efforts that provide beneficial ownership information to state and local law enforcement agencies. The need for the collection of this ownership information is critical to law enforcement investigations into organized transnational criminal operations, terrorism financing and other unlawful activity. On July 12, 2018, the U.S. Secretary of the Treasury, Steven T. Mnuchin, called on Congress to find a way to facilitate the collection of this information "in the next six months," and stated further, "I don't want to be coming back here next year and [not] have this solved."

As end users of evidence collected throughout the investigative process, it is imperative that prosecutors have as much information as possible in order to determine the best course of action for prosecuting an individual or entity that has committed a crime. Beneficial ownership data collection is vital to this effort, and law enforcement and prosecutors must have lawful access to that information. Any approach to beneficial ownership that limits law enforcement's access to this data is inadequate to address the threats caused by criminal organizations operating in the United States through shell corporations.

We appreciate your willingness to lead on this landmark issue and look forward to working with your staff to move beneficial ownership legislation forward.

Sincerely,

Duffie Stone,
President

NATIONAL
FRATERNAL ORDER OF POLICE ®

328 MASSACHUSETTS AVE., N.E.
WASHINGTON, DC 20002

PATRICK YOES
NATIONAL PRESIDENT

JIM PASCO
EXECUTIVE DIRECTOR

20 July 2020

The Honorable Nancy P. Pelosi
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin O. McCarthy
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Madam Speaker and Representative McCarthy,

I am writing on behalf of the members of the Fraternal Order of Police to advise you of our support for H. Amdt 1, the "Corporate Transparency Act and COUNTER Act," a pending amendment to the National Defense Authorization Act for Fiscal Year 2021, offered by Representative Carolyn B. Maloney (D- NY). This will be included in the first *en bloc* amendment that will be voted on by the House tomorrow. This comprehensive legislation provides much-needed tools to better combat money laundering, including the crucial collection of beneficial ownership information, and we urge the House to adopt it.

Transnational criminal organizations and terrorist operations are using our banks, financial institutions, and other means to profit from their illegal activity. This is a well-documented problem for our financial institutions and for law enforcement as we work together to shut down these sophisticated criminal enterprises. In addition, this Administration also agrees with many of the amendment's provisions. Last Congress, U.S. Secretary of the Treasury Steven T. Mnuchin testified before the House Financial Services Committee and stated that there is a real need to "have access to beneficial ownership information for law enforcement and for combating terrorist financing." Furthermore, the House has shown its support on this issue when it passed H.R. 2513, the "Corporate Transparency Act" last year in a bipartisan vote of 249-173. Similar to this amendment, H.R. 2513 requires the collection of beneficial ownership information.

It is very clear that this is a pressing issue and the vulnerability of our financial institutions is a genuine threat to public safety and national security. Under current laws, shell corporations may be used as front organizations by criminals conducting illegal activity, such as money laundering, fraud, and tax evasion. This amendment will allow for the collection of simple, yet actionable, information to be used in combating this misuse of U.S. companies. By requiring the Financial Crimes Enforcement Network (FinCEN) to collect beneficial ownership information from corporations and limited liability companies, law enforcement will finally be able to properly investigate shell companies that deal in illicit financing and human, sex, gun, and drug trafficking. This legislation ensures that this information, once collected, will be available to law enforcement at every level—local, State, tribal, and Federal.

This allows law enforcement to use this information to further existing investigations to uncover connections between these corporations and criminal activity. All too often, investigations hit a dead end when we encounter a company with hidden ownership. Just as robbers or burglars wear masks to hide their faces and make identifying them more difficult; the criminals we are chasing in these cases use shell corporations as masks, concealing themselves while still profiting from their crimes. When we are able to expose the link between shell companies and drug trafficking, corruption, organized crime, and terrorist financing, law enforcement will be able to bring these criminals to justice and make our citizens and our nation safer. This legislation will help law enforcement by removing the masks that hide these illicit actors.

On behalf of the more than 354,000 members of the Fraternal Order of Police, I urge the House to pass this amendment. If I can provide any additional information on this matter, please do not hesitate to contact me or my Executive Director, Jim Pasco, in my Washington office.

Sincerely,

Patrick Yoes
National President

NATIONAL NARCOTIC OFFICERS' ASSOCIATIONS' COALITION
455 Massachusetts Avenue NW, Box 112, Washington, DC 20001
www.nnoac.com

July 20, 2020

The Honorable Nancy Pelosi
Speaker of the House
United States House of Representatives
Washington, DC 20515

The Honorable Kevin McCarthy
House Minority Leader
United States House of Representatives
Washington, DC 20515

The Honorable Adam Smith
Chairman
House Armed Services Committee
Washington, DC 20515

The Honorable Mac Thornberry
Ranking Member
House Armed Services Committee
Washington, DC 20515

RE: FY 2021 NDAA Maloney Beneficial Ownership Amendment

Dear Speaker Pelosi, Minority Leader McCarthy, Chairman Smith, and Ranking Member Thornberry,

I am writing on behalf of the 40 state associations and more than 60,000 law enforcement officers represented by the National Narcotic Officers' Associations' Coalition in support of the Maloney Amendment to the FY 2021 National Defense Authorization Act that would require businesses to disclose their true beneficial owners. We believe this Amendment would help law enforcement by reducing the ability of criminals to hide their tracks via "shell corporations."

"Following the money" is a proven strategy in investigations that involve organized criminal activity including drug trafficking. Sometimes in narcotics investigations the money trail goes cold because shell corporations, which have no personally identifying information listed in filings, anonymously shield the wrongdoer.

The Maloney Amendment would address this problem by requiring the names of beneficial owners of corporations to be listed in filings. This would remove anonymity and enable investigations into organized criminal activity including drug trafficking to proceed. In a time of greatly diminished law enforcement resources, requirements under this Amendment would enable us to be more effective in protecting the public and enforcing the law.

Please consider us as a resource at your disposal as you move forward with this legislation and other policy initiatives. Thank you for your consideration.

Sincerely,

Bob Bushman

Bob Bushman
President
National Narcotic Officers' Associations' Coalition

Trump tariffs

Chinese exporters undervalue cargo to skirt Trump tariffs

Suppliers to small US businesses claim to reduce costs of duties in fraud that is difficult to police

Some of the Chinese companies that approached US businesses offered to register as a 'foreign importer of record', which would make them legally responsible for paying any duties owed © Franck Robichon/EPA-EFE/REX/Shutterstock

Joe Miller in Washington

Published MAY 6 2025

Chinese manufacturers are attempting to avoid the Trump administration's tariffs by fraudulently undervaluing cargo sent to the US, exploiting a system that American authorities have struggled to police.

The Financial Times reviewed offers by Chinese chemicals and packaging suppliers to send goods to small US companies with "delivery duties paid" — a process known as DDP that allows the exporter to cover tariffs.

The suppliers said the process would enable them to drastically reduce the cost of tariffs because they would deliberately undervalue the goods sent, or alter their descriptions to lessen the duties owed.

"We see more instances of factories in China offering to pay the customs duties for companies, and then sell them the merchandise in the US at prices below what the duties should be," said Ryan Petersen, chief executive of logistics platform Flexport.

The practice threatens to undermine efforts to incentivise US companies to source products from domestic manufacturers, one of the aims of President Donald Trump's tariffs. It might also temporarily insulate American consumers from some price increases to everyday goods.

"This is nothing but a tariff dodge," said Dan Harris, a US lawyer who works with companies that source goods from China. While federal prosecutors would go after US companies colluding in the practice, "there is not much that [they] can do" to pursue Chinese counterparts, Harris added.

Aaron Rubin, who owns logistics company ShipHero and a martial arts equipment distributor, 93 Brand, said his Chinese suppliers "have offered to do DDP and pay [the additional tariffs]. They said 'we are going to cover 100 per cent of the duties' . . . I would never get a bill."

Businesses such as Rubin's, which have reported such approaches to US Customs and Border Protection, are concerned that competitors are accepting the deals, leaving law-abiding companies at a disadvantage.

The practice "shuts down my ecommerce business", said Rubin. "I can't afford to pay a 175 per cent tariff if my competition isn't going to pay it; no one is going to buy my [more expensive] goods."

The owner of a California-based food manufacturer, who asked not to be named, said one Chinese supplier "offered to change the cogs on invoices to help me evade tariffs" soon after Trump rolled out the increased duties.

"My option is to lay off my team or join in the fraud," the owner said.

Some of the Chinese companies that approached US businesses offered to register as a "foreign importer of record", which would make them legally responsible for paying any duties owed.

The US is unusual among major economies for allowing foreign companies without a presence in the country to post a small bond to register as importers, making it hard for authorities to enforce large penalties.

A government report in 2008 found that the Department of Justice rarely pursued cases of fraud by "foreign importers of record", because "it is unlikely that collection actions based upon delinquent duties can be successfully brought in [a] foreign court".

The problem was also highlighted in conservative think-tank Heritage Foundation's Project 2025 report, which has functioned as a blueprint for some of the Trump administration's policymaking.

The paper suggested that the US government "either require foreign importers of record (IORs) to make cash deposits far in excess of established duty rates at the time of entry" or "require IORs to register sufficient US assets to ensure timely payment of duties".

Callie Milford, who runs soap and beauty products company No Tox Life, has also been approached by suppliers offering to dodge tariffs.

Callie Milford, co-founder of No Tox Life, says some of her suppliers have offered to dodge tariffs © Handout

Her Texas business manufactures in the US but sources some packaging from China. After the Trump administration first imposed higher tariffs on Chinese goods in February, she asked her long-standing suppliers how much her costs would increase as a result.

The majority of responses, which were shown to the FT, were: "Your price won't really go up, because we're going to use DPP shipping and essentially under-declare the shipment," Milford said.

They added that due to a recent jump in transport costs, the shipping price would "go up a little bit, but the amount that it was going to go up was nothing compared to the tariffs", Milford added.

Louisiana Senator Bill Cassidy, who has long campaigned for customs reform, said the government needed to "give CBP the tools to properly police shipments coming from China".

Cassidy said he was working on a bill "to increase visibility in our international supply chains" and planned to introduce it in this session of Congress.

In a statement, the CBP said it "enforces tariffs through a combination of legal authority, advanced systems, and operational procedures" and that "as a result of recent presidential actions, enforcement will include the most severe penalties permitted by law".

Chinese logistics managers told Nikkei Asia last month they were creating shell companies to evade tariffs. The FT also reported that Chinese exporters were attempting to avoid tariffs by shipping goods via third countries.

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