Small Business TRENDS

5 Ways Tax Reform is Helping Franchise Businesses

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The recent passage of the Tax Cuts and Jobs Act could have a major impact on franchise businesses. The tax reform will likely lead to changes ranging from increased deductions to a more financially stable customer base.

Ways Tax Reform Is Helping Franchises

Here are a few of the specific ways this new legislation could help franchises.

Increased Cash Flow

Because of the lower corporate tax rates and larger deductions for pass-through business structures, the new tax bill is expected to help businesses of all sizes save money on tax payments. According to President of Franchise Marketing Systems Christopher Conner, who has worked with franchise businesses ranging from Blimpie to UPS, this increase in cash flow and the ability to keep and reinvest that money into growth opportunities is the number one potential benefit of the new bill.
He said in an email to Small Business Trends, “Franchisors and Franchisees now have more cash flow and capital to put towards hiring, growth and investment into the people who support their business’ operations.”

Ability to Invest in Employees

Because of that potential increase in funds, franchise businesses should have more money available to hire new employees, invest in training and provide more competitive wages for existing employees to keep them happy. This can help you retain those team members for longer, decreasing turnover costs and strengthening your company culture, things that can have long-term benefits for your business.

Better Options for Structuring Your Business

One of the tax reform changes that’s most pertinent to the small business community is the new 20 percent deduction for pass-through entities. This is any type of business where the income passes through to the owner’s individual tax returns, including sole proprietorships, partnerships and S-Corps. For some franchise businesses, this could offer some opportunity to reap even more financial benefits by adjusting the structure of the business, though the actual impact will vary for each individual business.

Conner says, “We always recommend speaking to a CPA, but it has been recommended by several to transition your business to an S-Corp. The new tax regulations offer a larger degree of benefits to corporations than other business entity structures.”

More Write-Off Opportunities

Owning a franchise business requires some investment in equipment and supplies, some of which you can write off as deductions on your tax returns. And the new bill raises the limit on how much of those expenses you can deduct, potentially making it more financially beneficial for you to grow your business by making those investments.

Conner says, “The write off for capital investments has increased substantially where businesses are incentivized to now invest in equipment, real estate and other capital investments where with the new tax reform, business owners can write off up to $1 million in asset investments in the first year of ownership which is incredible and extremely advantageous for business owners.”

Potential for Economic Growth

Of course, the most general goal of tax reform is to support a healthy economy. Since many franchise businesses, like fast casual restaurants and automotive service providers, tend to target middle class consumers, a tax bill that puts more money in the pockets of those customers is likely to be a benefit for franchise owners as well.

The new tax bill adjusts the some of the tax rates for middle class families, lowering rates by a few percentage points in many cases. There’s also a larger standard deduction and child tax credit that could lead to more deductions for average families. These benefits might not have direct applications to franchise businesses right away. But over time if they have the desired effects on the economy as a whole, it could lead to a customer base with more money to spend.

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