

**Tax Review Commission Presentation**  
**Canadian Restaurant and Foodservices Association**  
**Speaking Notes**  
**July 10, 2008**

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## **New Brunswick's Foodservice Industry**

- The foodservice industry is a huge segment of the New Brunswick economy with nearly \$1 billion in sales, 1,700 establishments and over 25,000 employees. It must be noted that at a time when rural communities are under pressure, we are one of the few industries to span this divide and provide economic and job opportunities in nearly every single community in the province.
- Despite its size, the industry has struggled. In the past five years, real commercial foodservice sales in New Brunswick have tumbled by 17.5% - the second-worst growth in the industry.
- Per capita commercial foodservice sales in New Brunswick is the second lowest in the country.
- The number of commercial foodservice units has decreased by 17% in the past five years, meaning there are 353 fewer establishments in the province than there were 5 years ago.
- Over the past five years, employment in New Brunswick's foodservice industry has been flat compared to an 8.0% increase for the rest of Canada.
- With one of the goals of the self sufficiency plan being to keep young people here in New Brunswick, we play an important role with 20% or 11,000 youth in the province gaining employment in our industry.

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## **Proposed Changes to New Brunswick's Tax System**

### ***Income tax reduction***

- CRFA supports a reduction in income taxes because our industry depends on our customers having disposable income. According to CRFA's model of the commercial foodservice industry, every one-percentage point increase in disposable income leads to a one-percentage point increase in foodservice sales.

- Once the taxation cuts are fully implemented by the 2013-2014 fiscal year, disposable income would increase by roughly \$390 million, representing a 1.8% increase in sales.
- While the New Brunswick proposal to reduce income taxes will improve household take-home pay, lower income taxes will be mostly offset by higher consumer taxes, such as the HST and carbon tax.

### ***Corporate Sales Tax***

- Of the various tax changes proposed, this proposal would probably have the least impact on the foodservice industry for two reasons:
  - While the proposed new tax system would lower the general corporate tax rate for businesses, the proposal does not include reducing the small business corporate income tax rate – which would apply to many of the foodservice establishments in New Brunswick.
  - In recent years, rising food and labour costs have eroded pre-tax profit margins in New Brunswick's foodservice industry from 6.2% in 2001 to 5.5% in 2006. This means the average foodservice establishment in the province gets by with a pre-tax profit of just \$27,700. Because profits are so slim, the tax on them would not be as helpful.
- In theory, CRFA supports lower taxes as a means of increasing business productivity and employment.
- Lower corporate sales tax could help some operators invest in their business to help improve productivity, which would help offset eroding profit margins.

### ***Harmonized Sales Tax***

- CRFA is vehemently opposed to the New Brunswick proposal to raise the HST by two-percentage points to 15%. Raising the sales tax on meals from restaurants leads to lower foodservice sales and reduces employment in the industry.
- When the GST was introduced in 1991 and added an immediate 7% tax on all restaurant meals, restaurant sales dropped by a record 10.7% and the industry was forced to cut 42,000 jobs. A CRFA commissioned report by Ernst and Young concluded that fully two-thirds of the damage done to the industry could be directly attributed to the GST.

- The industry's biggest concern with the HST is the unequal treatment of food that puts our businesses at a competitive disadvantage . Our competitors, the grocery industry has exploited this advantage as witness by the explosion in prepared foods. Let me give you a few examples.

Milk in a grocery store versus a kids meal in a restaurant  
 Fresh and frozen pizzas. Stagnant restaurant sales and an explosion of grocery store sales  
 Chicken wings and other prepared foods

- Until all food receives similar tax treatment, our industry cannot support any package that contemplates exacerbating this inequity by increasing the HST.
- Our industry is also concerned that the increase in the HST will decrease disposable income. According to CRFA's model of the commercial foodservice industry, every one-percentage point increase in a sales tax on food reduces foodservice sales by between three-quarters and one-percentage point.
- Increasing the HST by two-percentage points would reduce foodservice sales in New Brunswick by approximately \$10 million (-1.5%). And reduce employment by over 300 jobs.
- Under the New Brunswick proposal, raising the HST would cost consumers \$250 million annually once fully implemented, taking away a significant amount of the disposable income that our industry depends on.

### ***Carbon Tax***

- From the discussion paper it is extremely difficult to gain a thorough understanding of the exact impact of a carbon tax because of the lack of details and treatment of various energy sources.
- The proposal to introduce a carbon tax in New Brunswick uses the B.C. model of imposing a fee on each unit of carbon-equivalent emissions from a fuel or energy source, such as heating oil, gasoline, diesel, propane, natural gas or coal. This is very worrisome to our industry.
- Based on industry information from PG&E's Food Service Technology Center, **Restaurants are the retail world's largest energy user. They use almost five times more energy per square foot than any other type of commercial building.** Nearly 80 percent of the amount that the commercial food service spends annually for its energy use is used in food cooking, holding and storage. The average restaurant annually consumes roughly 500,000 kilowatt hours of electricity, 20,000 therms of natural gas and 800,000 gallons of water. Using EPA carbon equivalents, that amounts to 490 tons of carbon dioxide produced per year per restaurant."

- If the U.S. average of 490 tons of carbon dioxide per restaurant is the same in New Brunswick, then a carbon tax of \$30 per tonne would cost the average operator \$14,700 annually. This tax alone would cost the industry more than \$25,000,000 and would reduce profit margins from 5.5% to 2.7%.
- While the aim of a carbon tax would be to reduce consumption, the industry's hands are tied in that we need energy to cook and store our food. The law requires us to heat to a certain temperature, to cool to a certain temperature and to ventilate our buildings at a certain rate. While in an ideal world we could stop using energy, this is just not an option and a carbon tax would be little more than a significant additional tax burden on both operators and our customers.
- The \$25,000,000 cost does not take into account that additional carbon tax amounts would be passed on to restaurant operators from suppliers, such as farmers, manufacturers and delivery services.
- Operators would be forced to either raise menu prices, which would reduce sales, or to absorb the cost, which would erode profit margins.
- The industry is also very concerned that a carbon tax would eat away at consumers disposable income, leading to a decline in foodservice sales.
- It is estimated that the carbon tax would cost New Brunswick consumers and businesses \$600 million annually once fully implemented with government netting \$100 million. Any rebate or offsets geared to reduce the impact must be developed to ensure businesses are treated fairly and proceeds used to reduce reliance on fossil fuels.

### ***Property taxes***

- CRFA supports the government in reviewing the property tax situation in the province because the current scheme is not transparent nor does it offer equal treatment for similarly valued properties. It should be noted that property taxes do not reflect fluctuations in income, profit and sales, therefore they can have a dramatic impact on business owners.
- The Commission studying property taxation should be allowed to finish its work, however, there are several key principles that must be adopted.
- Property tax has the most visible impact of all government levels on the business community. Apparent fairness of the tax system is one of the most important criteria that business owners use to rate the performance of their municipal

government. Fairness reflects both the level of taxes applied and the distribution of taxes among different types of properties.

- CRFA believes all property owners must pay their fair share of property taxes and there must be a direct correlation between the amount of tax paid and the benefits received. This will instill a level of accountability between ratepayers and service providers. Canadian studies have shown that in general businesses tend to subsidize residential services. General rule of thumb, businesses pay two dollars for every dollar of service and residents pay 50 cents for every dollar of service. This is not fair and this inequity must begin to be eliminated.
- Properties of equal value must attract the same level of taxation within property class and location

### ***Other Issues***

- The discussion paper talks about government gaining \$150 million in efficiencies. This should not mean an increase in fees or levies. The cost of a fee should never exceed the cost of providing a service.
- CRFA is particularly concerned that an increase in consumption would mean an increase in the taxes on beverage alcohol. Alcohol taxation has already reached a point of diminishing returns with the licensee share of the market continuing to decline.

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## **Summary**

Lower income and corporate taxes would benefit New Brunswick's foodservice industry, but raising the HST and introducing the carbon tax would more than offset these benefits. Raising the HST would cost the industry an estimated \$10,000,000 in lost sales and further increase the inequities we face with our competitors in the grocery business.

The carbon tax proposal is also a huge concern to our industry and would directly cost the foodservice industry in New Brunswick \$25,000,000 annually.

CRFA wants to ensure that property tax changes reflect the level of service received and that similar valued properties pay similar taxes between rate groups and area.

All these changes come at a time when New Brunswick's foodservice industry is lagging the rest of Canada in nearly every economic measure.



percentage pass through to households	75%
Carbon tax paid by households	\$75,000,000
<i>HST increase</i>	<i>\$250,000,000</i>
Household wealth change:	
<i>Income tax - carbon tax - HST</i>	<i>\$66,500,000</i>
Estimated total personal disposable income	\$22,139,248,765
New total provincial disposable income	\$22,205,748,765
<i>% change</i>	<i>0.3%</i>

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*\*\* model elasticities*

Income elasticity	1.00%
Price elasticity	0.75%

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*\*\*\* Carbon tax impact:*

Average U.S. restaurant carbon emissions (in tonnes)	490
Carbon tax	\$30
Carbon tax for an average restaurant	\$14,700