

# **PRE-BUDGET SUBMISSION**

**To The**

**The Select Standing Committee on Finance &  
Government Services**

**&**

**The Honourable Carol Taylor  
Minister of Finance**

**Submitted by the**

**Canadian Restaurant and  
Foodservices Association**



**October 2007**

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## Executive Summary

The Canadian Restaurant and Foodservices Association (CRFA) appreciates the opportunity to present the Standing Committee on Finance & Government Services and Minister of Finance with the foodservice industry's priorities for the 2008 provincial budget. Senior CRFA Staff and British Columbia Directors would welcome the opportunity to discuss this submission with the Minister of Finance and Department of Finance officials prior to the 2008 budget.

Despite the fact that the industry has outpaced the rest of Canada in foodservice sales growth in recent years, high labour costs combined with other increasing costs of sales have contributed to declining profit margins in the industry where average pre-tax profitability declined from 4.9% in 2001 to 3.2% in 2005. British Columbia's foodservice industry is now the second least profitable in Canada. Unfortunately, the trend towards even higher labour and other costs continues to put pressure on industry profitability.

The two priority issues discussed in this submission are the necessity for continued government action to help the foodservice industry address its labour shortage and for the Government of British Columbia to resist any federal government pressure to harmonize GST with PST. While the growing labour shortage remains the number one challenge currently facing foodservice operators, the biggest threat to British Columbia's tourism and hospitality industry in 2008 is the federal government's proposal to harmonize GST with PST in British Columbia.

British Columbia's booming economy combined with a significant demographic shift where there is a significant gap between young people entering the workforce to replace retiring baby boomers in a growing economy is the number one current concern of foodservice industry operators that will restrict both foodservice industry and province wide economic growth. British Columbia must build on the actions taken in 2007 to help the tourism and hospitality industry address the growing skilled and non-skilled labour shortage for our industry.

The foodservice industry's health is very dependent on the amount of disposable income our customers have. When disposable income shrinks our industry is the first to suffer and when disposable income increases our industry is the first to benefit. The economic policies implemented by the government that increased disposable income have led to significant increases in foodservices sales. CRFA supports any tax measures that will effectively lower taxes and increase disposable income and opposes any tax measures that will increase taxes and decrease disposable income.

It is imperative for the Government of British Columbia to continue exempting all food from PST. Excluding restaurant meals from the PST food exemption or harmonizing GST with PST using the GST tax base would devastate British Columbia's foodservice industry and result in British Columbia taxpayers paying hundreds of millions in additional taxes through tax shifting and regressive new consumption taxes.

The federal government needs to fix the flaws in the GST before extending it to more provincial tax bases including British Columbia's.

Changing British Columbia's liquor mark-up system is also a priority. The current system of liquor retail, distribution, and taxation in British Columbia is outdated and inefficient and does not serve stakeholders including government well. Changes to British Columbia's liquor mark-up system that protect government liquor revenues, increase product selection and reduce the cost of liquor products for consumers are necessary and overdue. Applying a flat-tax mark-up structure to British Columbia's liquor sales as a base model will help all stakeholders including government, producers, licensees, and consumers by protecting government liquor revenues and increasing operating efficiency, while providing wholesale pricing for licensees and reducing prices and increasing product selection for consumers.

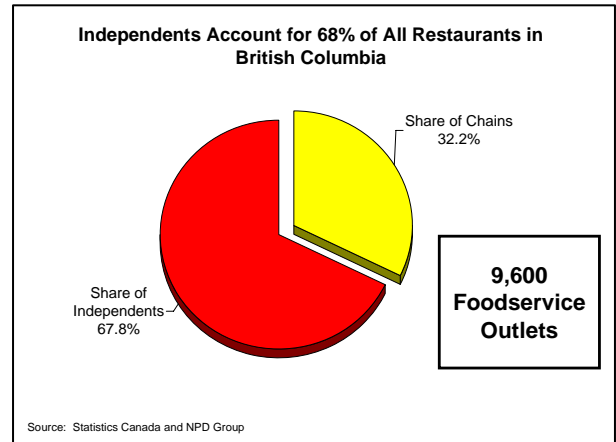
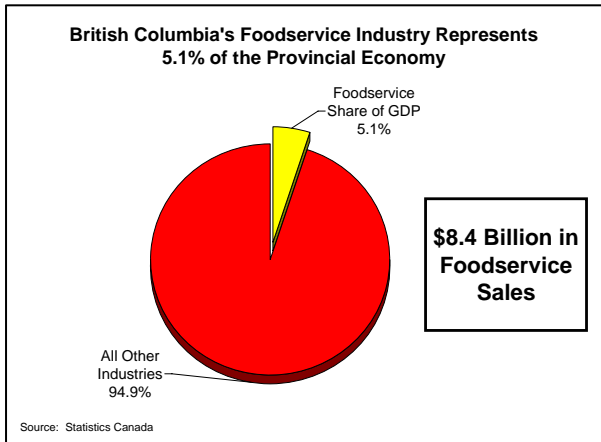
The most important priority for member licensees with respect to liquor retail and distribution is getting access to wholesale liquor prices. It is unfair that government is the liquor regulator, wholesaler and retailer. The government unfairly competes against private resellers of beverage alcohol by forcing resellers to purchase beverage alcohol from government at retail prices (or retail less 16% for Liquor Retail Stores). The costs for providing all licensees with wholesale pricing can be more than covered by changing British Columbia's current liquor mark-up structure to a flat-tax mark-up structure.

The government's prudent fiscal management over the past number of years has enabled the province to turn the corner from annual deficits to annual surpluses. These surpluses can now be used to further cut taxes and reduce debt to further improve British Columbia's economic competitiveness and improve the lives of all British Columbians. We are hopeful that the 2008 budget will reduce taxes to improve our competitiveness while maintaining a balanced budget. We hope that no new taxes will be introduced that try and affect social behaviour such as a junk food tax, as they are impractical and reduce rather than improve competitiveness.

The following submission provides an overview of the performance of British Columbia's foodservices industry for the past year and provides a number of recommendations that will assist the industry grow, increasing both employment and investment in British Columbia, as we increasingly welcome the world for a number of international events and conferences leading up to the 2010 Olympics.

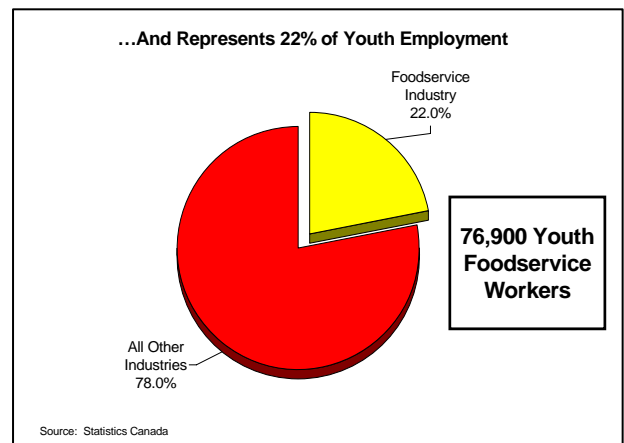
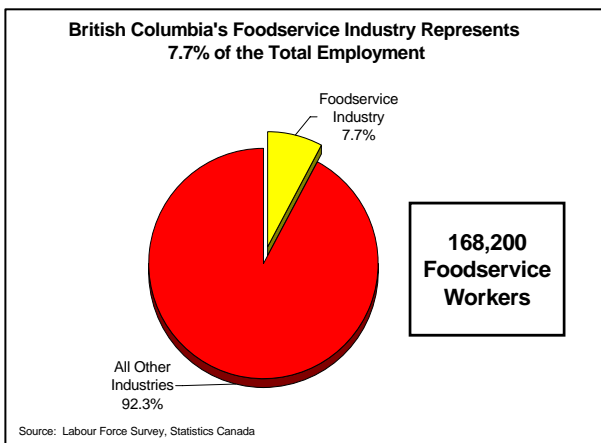
# British Columbia's Foodservices Industry

British Columbia's \$8.4 billion foodservice industry represents 5.1% of the province's GDP. British Columbia's annual per capita foodservice sales of \$1,950.27 are currently the highest in Canada. This dynamic industry includes a wide range of businesses -- from licensed, full-service restaurants to quick-service units, as well as hotel restaurants, institutional foodservice, pubs, clubs and caterers. Fully 68% of B.C.'s 9,600 foodservice outlets are independently owned and operated.



As one of the largest private-sector employers in the province, the foodservice industry directly employs 168,200 people in a wide range of full- and part-time jobs in every community throughout the province. British Columbia's foodservice industry provides nearly 8.0% of the province's total employment. Since 1996, the foodservice industry has generated one in eleven jobs in British Columbia. British Columbia has the highest foodservice share of employment in Canada largely due to British Columbia's dynamic tourism industry.

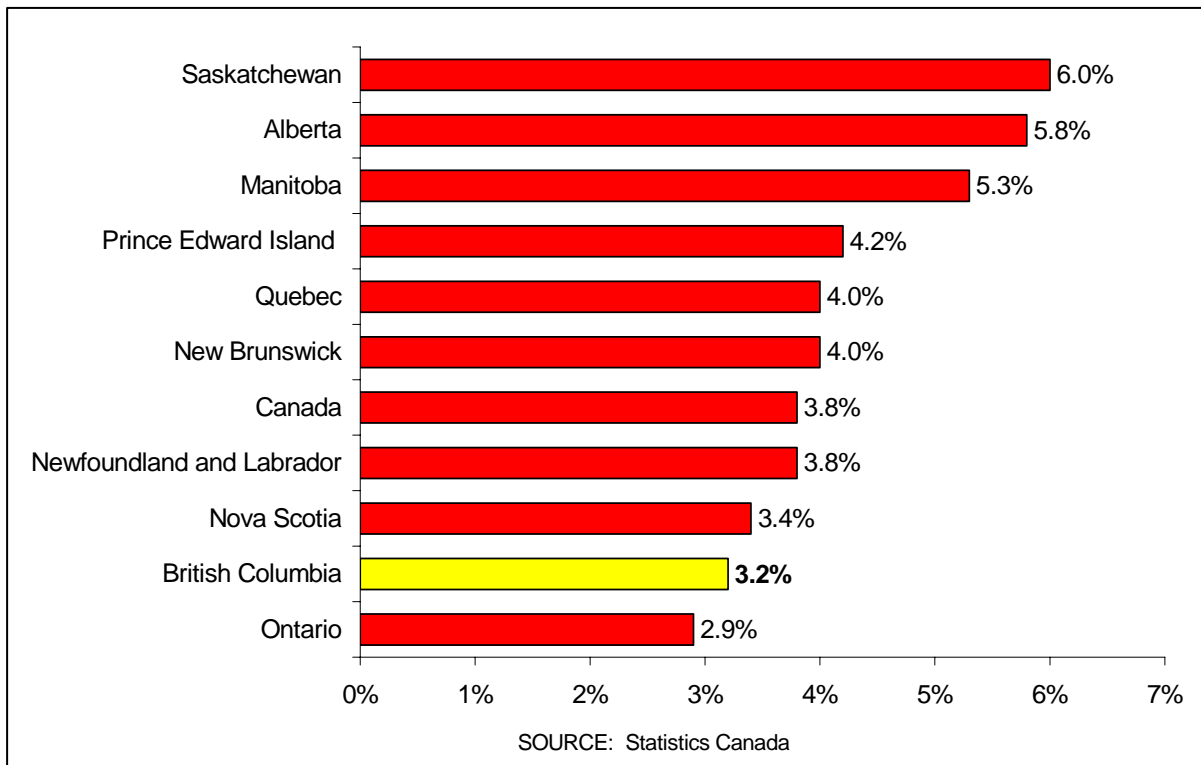
As one of the largest employer of youth and entry-level workers in the province, the foodservice industry provides jobs for nearly 77,000 young people between the ages of 15 and 24. That represents 22% of total youth employment in B.C. and 46% of total foodservice industry employment.



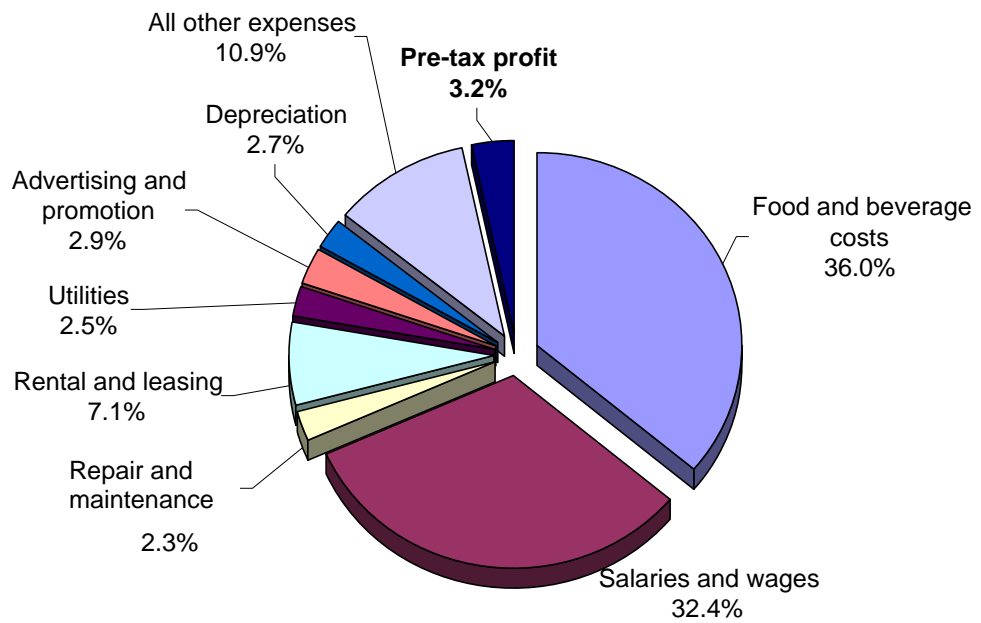
Our industry provides those young people with valuable job experience and training. The generic skills they acquire in our industry – communication, teamwork, customer service, and problem-solving, for example – can build a foundation for advancement within the foodservice industry, or provide a springboard to other career paths. The flexible work arrangements offered by our industry appeal to many people – especially students – looking to balance personal commitments with the need to earn income.

In part because foodservice is such a labour-intensive industry, and in part because the foodservice industry already pays 25% more in taxes than the average industry (Ernst & Young 1993), British Columbia’s operators survive on razor-thin margins. On average, British Columbia foodservice industry net income before taxes is only \$22,867, which is less than the average wage in British Columbia. British Columbia’s foodservice industry profitability has declined from 4.9% in 2001 to 3.2% in 2005. Despite improvement in industry sales in recent years, costs have increased by a larger margin making British Columbia’s foodservice industry the second least profitable in Canada. Operators are hard-pressed to absorb business input and wage cost increases. It is equally problematic to pass on new costs to consumers, who continue to be highly sensitive to menu price increases.

#### Average Foodservice Industry 2006 Pre-tax Profit By Province



## 2005 Operating Expense Ratios in British Columbia



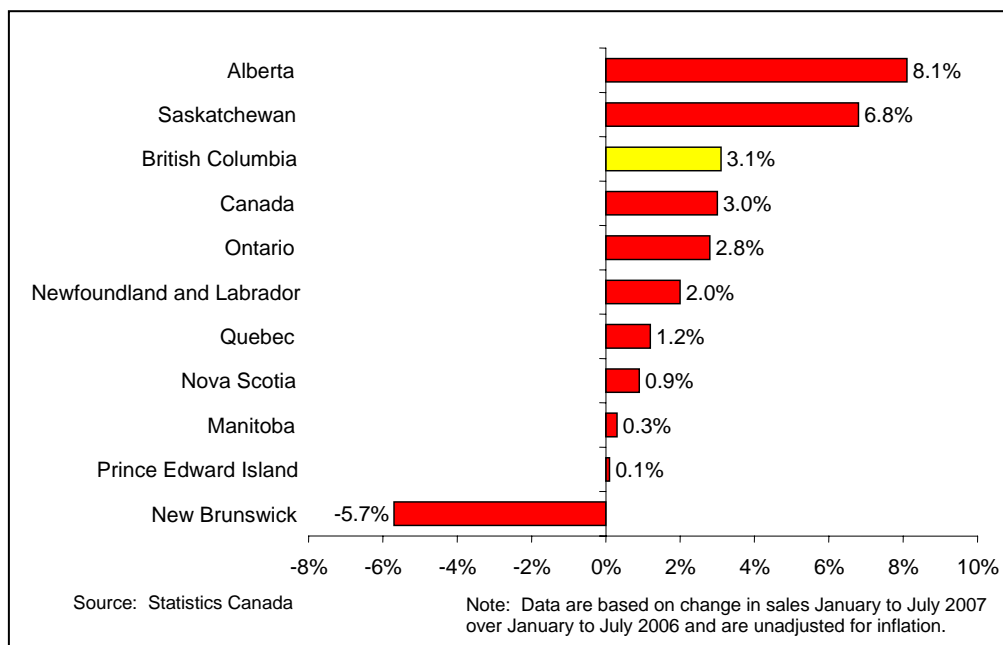
Source: 2007 Foodservice Operations Report, CRFA and Statistics Canada

## 2007 Year in Review

Following a 6.9% increase in foodservice sales in British Columbia in 2006, sales decelerated to 3.1% growth in the first seven months of 2007 over the same period in 2006. Adjusted for menu inflation, real foodservice sales in British Columbia have increased just 0.6% on a year-to-date basis. Despite modest foodservice sales growth in 2007, British Columbia's foodservice industry operators continue to display business confidence and optimism.

Many of the tax policies the government has implemented over the past few years have had a positive effect on our industry sales. The income and business tax cuts introduced have been filtering through the economy and are increasing the disposable income British Columbians' have in their pockets. Much of that disposable income has ended up in the tills of foodservice industry businesses and in their employees' pockets.

### British Columbia Equals National Average in Foodservice Sales Growth in 2007

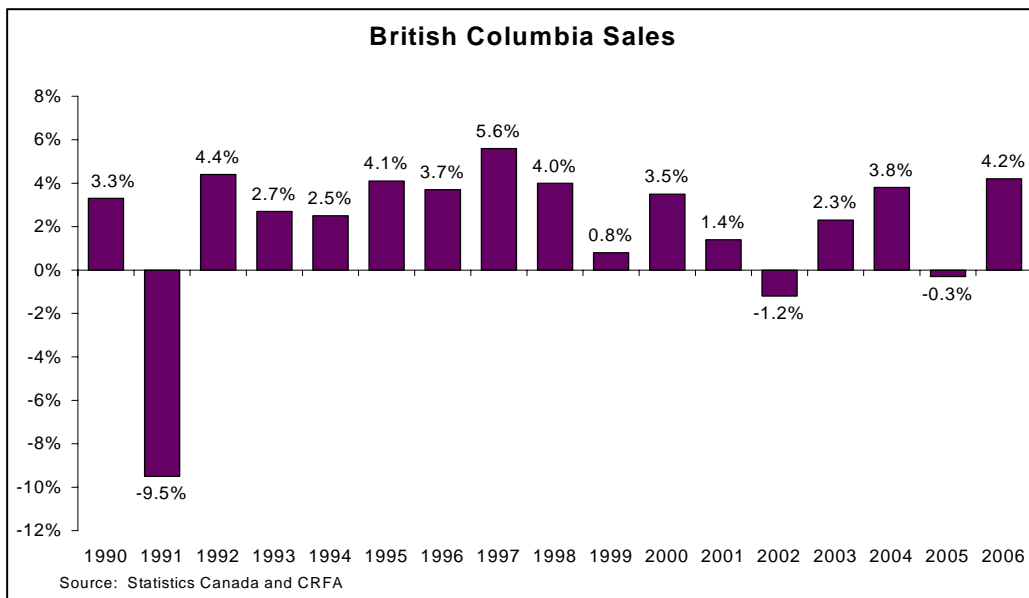
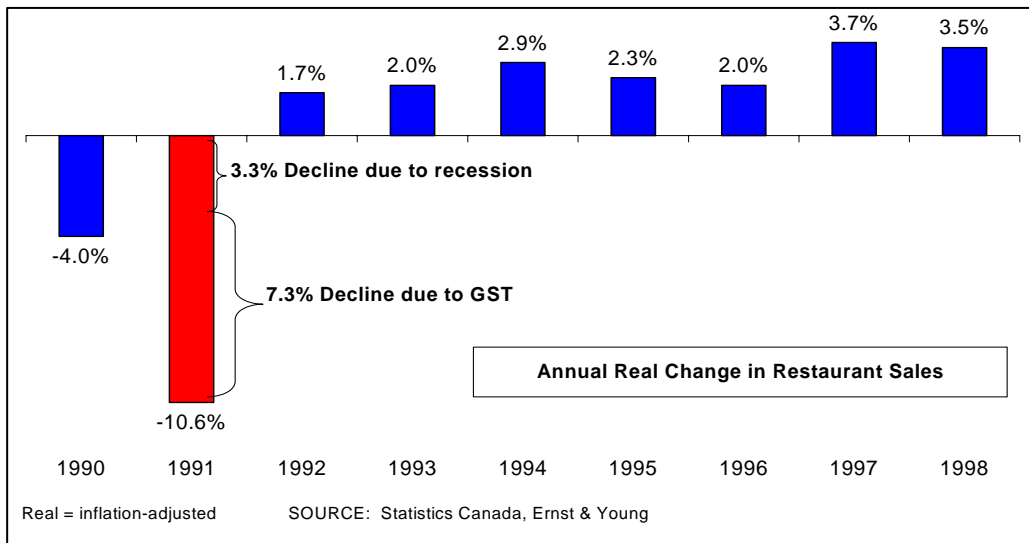


The government's financial plan to prudently eliminate annual deficits combined with the other positive business tax measures such as the reduction and elimination of most corporate capital tax and the increase in the small business tax threshold have also helped encourage investment in the foodservice industry and province generally. Numerous individuals have begun investing in new restaurants throughout the province and a number of national and regional restaurant chains that previously did not operate in British Columbia continue opening new stores in British Columbia. The largest obstacle to further industry growth and investment is the lack of labour, escalating costs and declining profitability. Government action to address British Columbia's foodservice industry labour shortage must continue and GST/PST harmonization resulting in new taxes on restaurant meals must be avoided at all costs to ensure continuing industry growth.

## GST/PST Harmonization

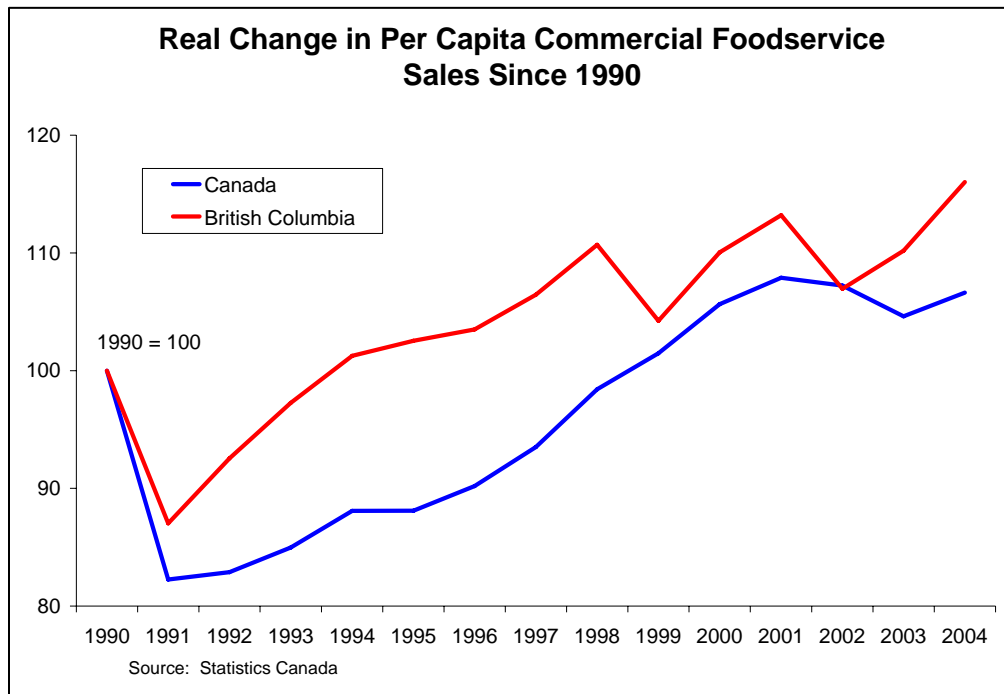
CRFA is very concerned that the federal government is increasing pressure on the provinces to harmonize GST with PST. Harmonizing GST with PST using the GST tax base would in effect create a new provincial restaurant meal tax in British Columbia. Harmonizing GST with PST and thereby introducing a new restaurant meal tax would devastate British Columbia's foodservice industry.

The year the GST was introduced the Canadian foodservice industry suffered the single greatest decline it has ever experienced. In 1991 the industry recorded a 10.6% drop in real foodservice sales of which 7.3% was directly due to GST implementation. Over 36,000 Canadian restaurant & foodservice workers were laid off in 12 months as a direct result of the new tax.

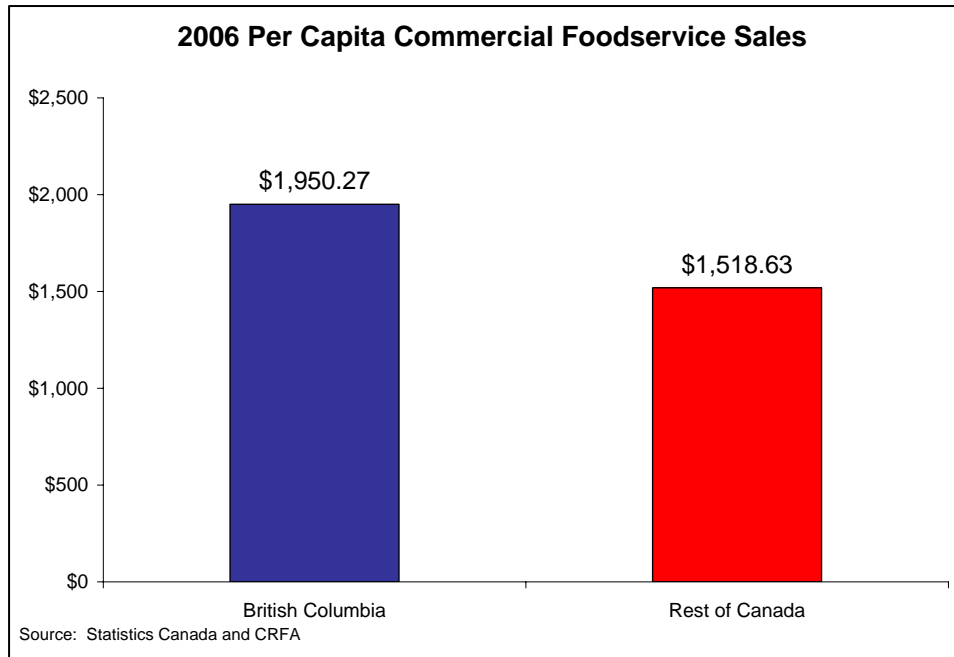


In British Columbia sales dropped 9.5% in 1991 but recovered more quickly than in other provinces where provincial sales tax was added to restaurant meals as well as the GST which compounded the damage. British Columbia's foodservice industry was very grateful to the Government of British Columbia for their decision to treat all food equally and not add PST to restaurant meals while food purchased at grocery stores remained completely tax exempt.

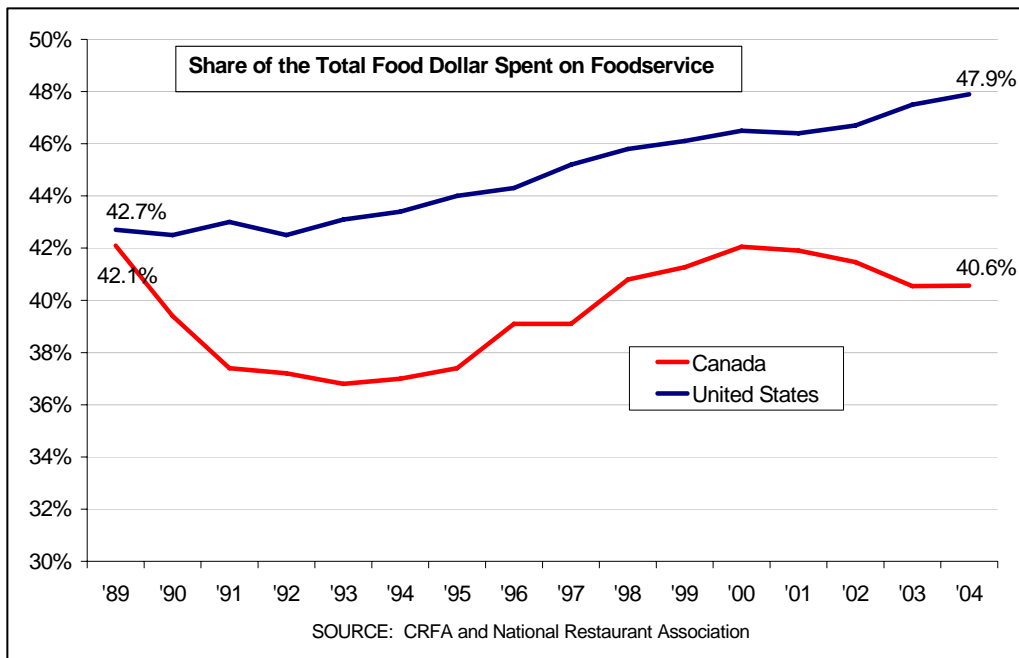
It is no coincidence that following the introduction of the devastating GST, foodservice sales in those provinces without provincial tax on restaurant meals or a harmonized tax recovered quicker and maintained higher sales than those provinces with restaurant meal taxes. This is true for British Columbia, where sales recovered quicker and were on average higher than the rest of Canada despite the challenging public policy environment of the 1990's in British Columbia.



One of the biggest reasons why British Columbia enjoys Canada's highest per capita expenditure on foodservices at \$1,950.27 compared to the rest of Canadian at \$1,518.63 is due to the fact that British Columbia does not apply PST to foodservice meals.



The effect of the GST, however, was not simply a one-time event. Because the industry's closest competitors, prepared meals available in grocery stores, remain tax-exempt, the foodservice industry's share of the food dollar declined as well. The Canadian foodservice industry's market share was at a high of 42% in 1989. Through the 1990s market share declined to a low of 36.7% in 1993, and has yet to return to 1989 levels. By contrast, the foodservice industry's market share in the United States has steadily risen from 42% in 1989 to 48% in 2004. GST has distorted the marketplace.



The perverse effect of the GST continues to be felt in the industry as price sensitive consumers are confronted with what appears to be a deliberate government policy aimed at favouring one part of the food industry over another. The restaurant and foodservice business is one of the most labour intensive industries, yet job creation in our sector is being deliberately stifled by the un-level playing field hardwired into the GST.

*“The restaurant and foodservice industry was placed in a uniquely unfavourable position as a result of the introduction of the Goods and Services Tax. In contrast to virtually all other sectors of the economy, the industry was made subject to the GST, while its closest competitor, food consumed at home, was zero-rated. Thus, federal sales tax reform not only raised the price of restaurant and catered meals, but also lowered the cost of eating at home (by eliminating previously hidden FST in basic groceries).” \**

\* Ernst & Young, The Impact of GST on Restaurant & Foodservice Sales, 1992.

The following CRFA advertisement from 1991 clearly demonstrates the serious flaw in the GST that taxes the same products differently depending on where they are purchased.



## WHAT'S THE DIFFERENCE?

**If you thought that food won't be subject to the new 9% federal sales tax, you're in for a big surprise.**

When the federal government promised to exempt groceries under the proposed goods and services tax it created a situation where similar and identical foods would be treated differently. Pizza, milk and chicken purchased in grocery stores would be tax free. The same products sold in school canteens, fast food restaurants and snack bars would be fully taxable. What's the difference?

### Food is food.

Today, Canadians spend 39% of their food dollar away from home... a response to changing lifestyles and the needs of two income families. Foodservices have become an everyday necessity and a fact of life in the 1980's. Should Canadians

be treated differently because they can't return to their home or apartment for every meal? Is that fair?

### Eating away from home isn't a luxury.

- 13 million Canadians eat away from home every week.
- The average expenditure in a Canadian restaurant is \$5.45 per person... a basic meal by any standard.
- Low income families, families with working women and tenants spend a higher proportion of their food dollars on restaurant meals.
- Foodservices are provided to Canadians in office, school and plant canteens; public and private health care facilities; snack bars and fast food restaurants; catering, take-out and home delivery; banquets and table service restaurants.

**A fair sales tax system would treat all food equally.**



CANADIAN RESTAURANT AND FOODSERVICES ASSOCIATION  
"A message from the 600,000 people employed in Canada's foodservice industry"

Harmonizing GST with PST will also reduce disposal income for British Columbians and shift taxation from businesses to consumers.

*“Harmonization creates a significant redistribution of who pays the PST. While some price reductions should occur over time as a result of the removal of PST from business purchases, the expansion in the tax base under harmonization creates a more immediate and significant effect on final consumers.” \**

\* Final Report of the Saskatchewan Business Tax Review Committee, 2006.

In British Columbia harmonizing GST with PST will add up to millions of dollars in new taxes. For foodservice purchases alone, the additional annual cost to British Columbia consumers will be \$539 million.

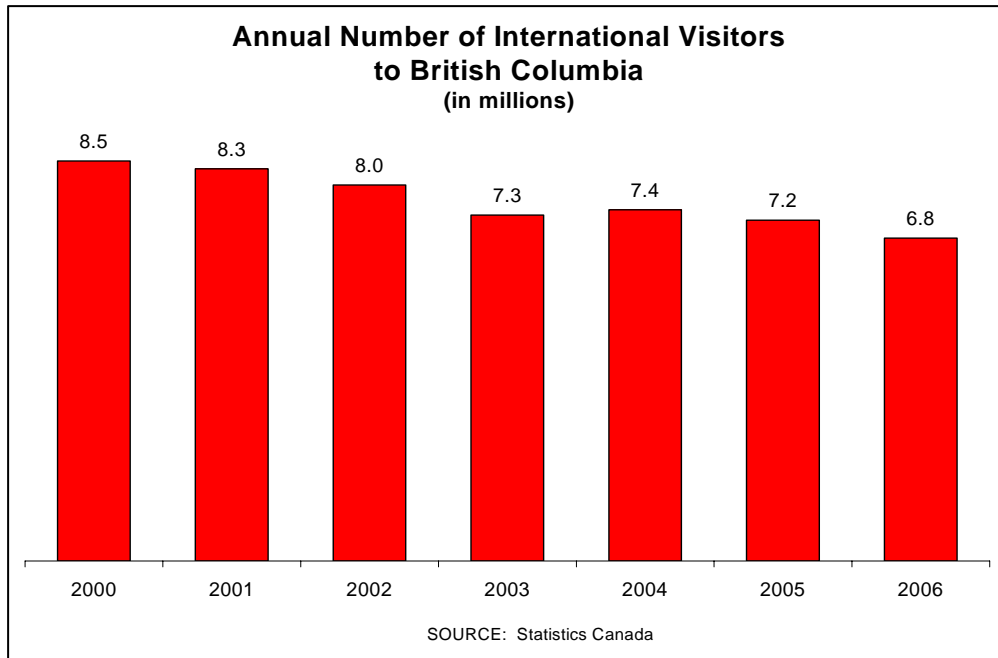
The GST is also a regressive because it taxes consumption and lower income consumers spend a much higher proportion of their incomes on goods and services. In terms of individual taxpayers, upper income earners tend to benefit the most because their savings and investments escape the GST. Harmonizing GST with PST will result in even more regressive taxation. The following table from the 2006 final report of the Saskatchewan Business Tax Review Committee highlights the regressive distributional consequences of harmonization.

Province of Saskatchewan				
Distributional Consequences of Harmonization				
Family	Current PST @ 7%	Harmonized @ 7%	Increase in Sales Tax	Increase as a % of income
<b>Family with 2 Children</b>				
\$10,000 – 19, 999	\$600	\$1,138	\$538	3.59%
\$20,000 – 34,999	\$990	\$1,834	\$844	3.07%
\$35,000 – 49,999	\$1,091	\$2,012	\$921	2.17%
\$50,000 – 99,999	\$1,179	\$2,241	\$1,062	1.42%
\$100,000+	\$1,942	\$3,620	\$1,678	1.68%

SOURCE: Saskatchewan Finance and Finance Canada

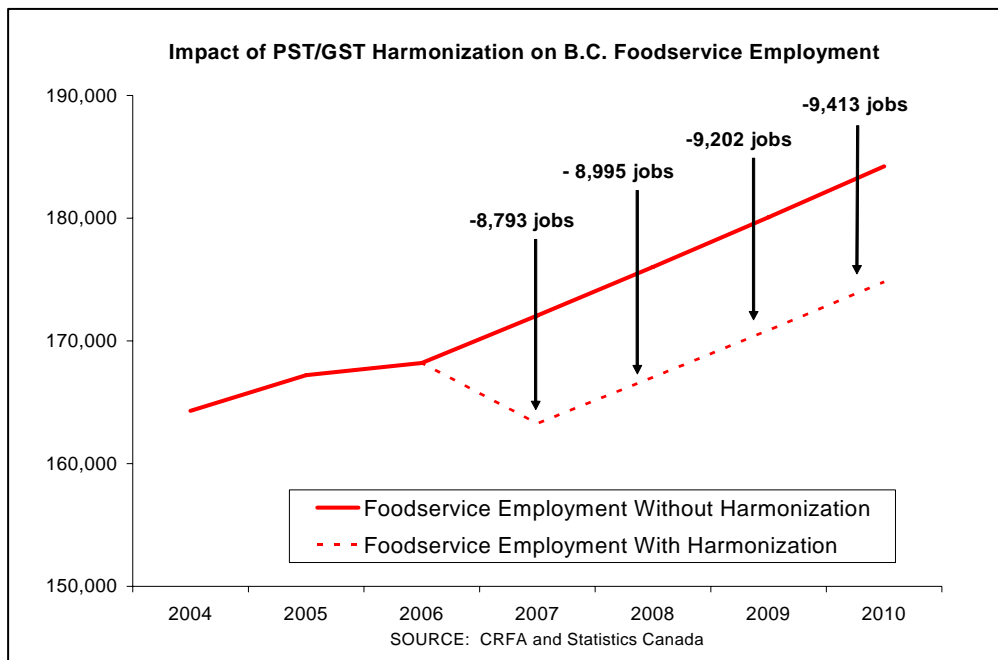
One of the biggest arguments for the GST initially was that it removed taxes on exports and made Canadian industry more competitive. However, in the case of tourism, the exact opposite occurs. Visitors end-up paying the GST and Canadians can escape it by vacationing outside the country.

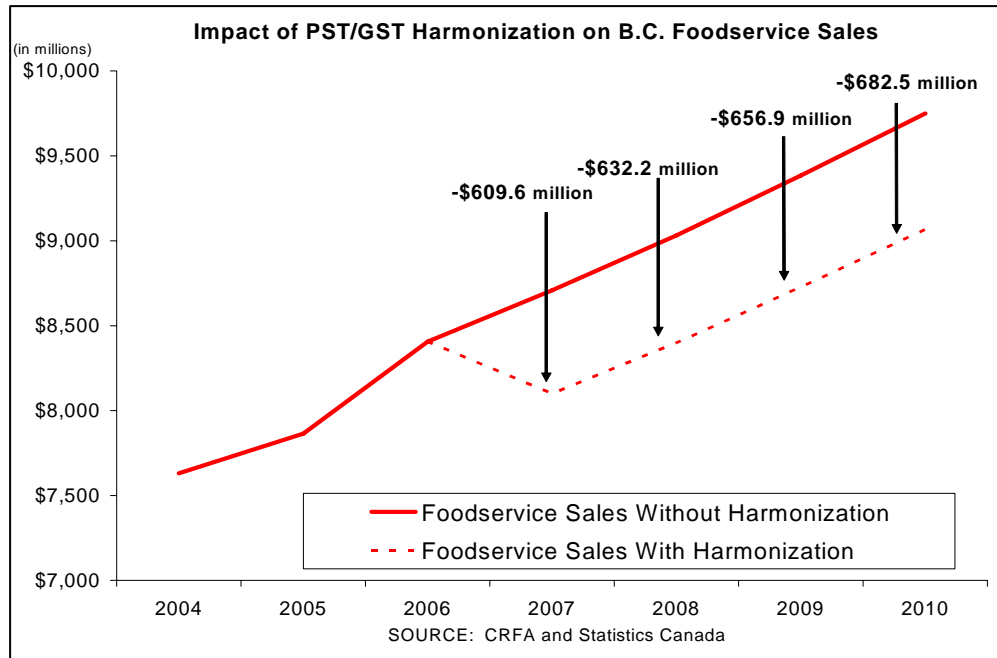
British Columbia’s tourism industry is suffering from a sharp decline in international visitors especially from the United States as a result of the surging Canadian dollar versus the U.S. dollar and other factors. Adding more taxes on tourists by harmonizing GST with PST will only accelerate this trend.



Achieving the Government of British Columbia’s goal of doubling tourism revenue by 2015 will be far more difficult to achieve by harmonizing GST with PST in British Columbia.

CRFA can not stress enough how devastating harmonizing GST with PST will be without exempting restaurant meals from the harmonized tax. Because provincial sales tax does not apply to restaurant meals in British Columbia, a harmonized tax would annually cost the industry more than \$600 million in sales and roughly 9,000 jobs.





NOTE: The impact of harmonization was quantified using an econometric model of the foodservice industry developed by the Conference Board of Canada and CRFA. The model, which includes factors such as real GDP, employment and disposable income, shows that 1% increase in the price of a restaurant meal reduces foodservice sales by 1%. Therefore, a 7% tax on meals would reduce foodservice sales by 7%. This model was tested for significance and accuracy using a variety of statistical analyses.

Therefore, it is critical to British Columbia's foodservice industry that the Government of British Columbia not agree to any further harmonization of the GST with PST using the GST base without exempting foodservice industry sales. The clear discrimination against the foodservice industry that is hardwired into the GST would only be compounded by further harmonization. All food must be taxed equally! The federal government needs to fix the problems with the national tax before it tries to extend its application to British Columbia's provincial sales tax.

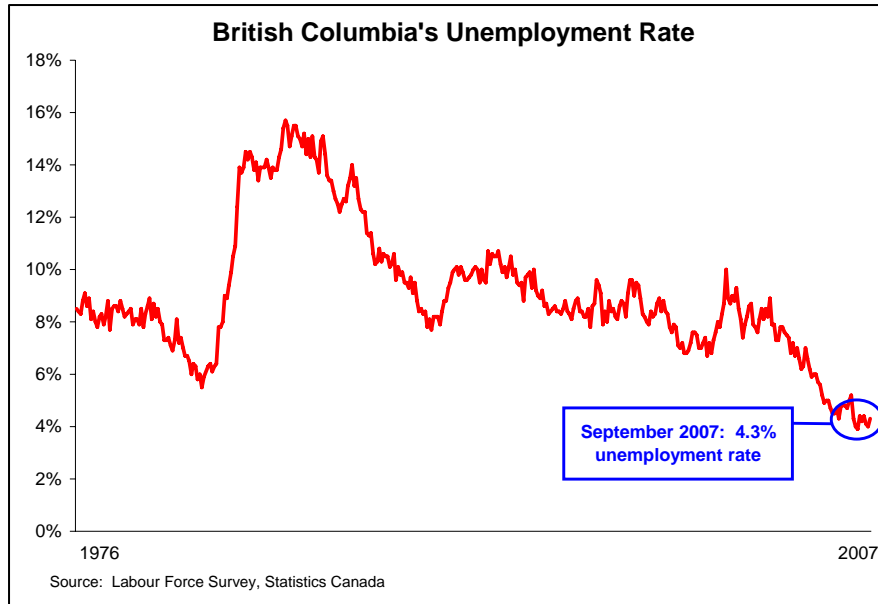
Expanding the provincial sales tax to include restaurant meals would be equally as devastating. The 1999/2000 and 2004 proposals to include PST on restaurant meals in Saskatchewan as part of tax reform packages was fought very aggressively by CRFA and Saskatchewan's foodservice industry. In both cases the Government of Saskatchewan listened to our industry's concerns and the concern's of the 150,000 Saskatchewan restaurant customers who signed petitions opposing the meal tax. As a result Saskatchewan continues to exempt restaurant meals from their PST base. Clearly, there is no appetite for a restaurant meal tax.

CRFA was pleased to hear the federal government's Throne Speech commitment to follow through on their pledge to lower the GST rate from 6% to 5%. The GST cut when complete will add an additional \$8.5 billion in disposable income for Canadians while reducing the tax inequity that exists between food sold in restaurants versus grocery stores. However, harmonization would decrease instead of increase disposable income.

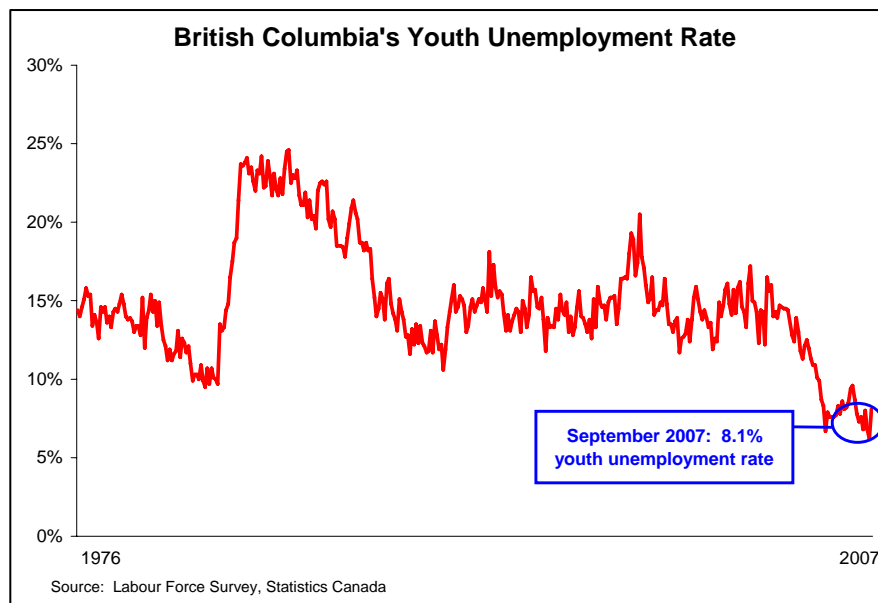
**CRFA strongly recommends that the British Columbia Government resist any federal government pressure to harmonize GST with PST or otherwise expand the provincial sales tax base to include restaurant meals.**

## British Columbia's Hospitality Industry Labour Shortage

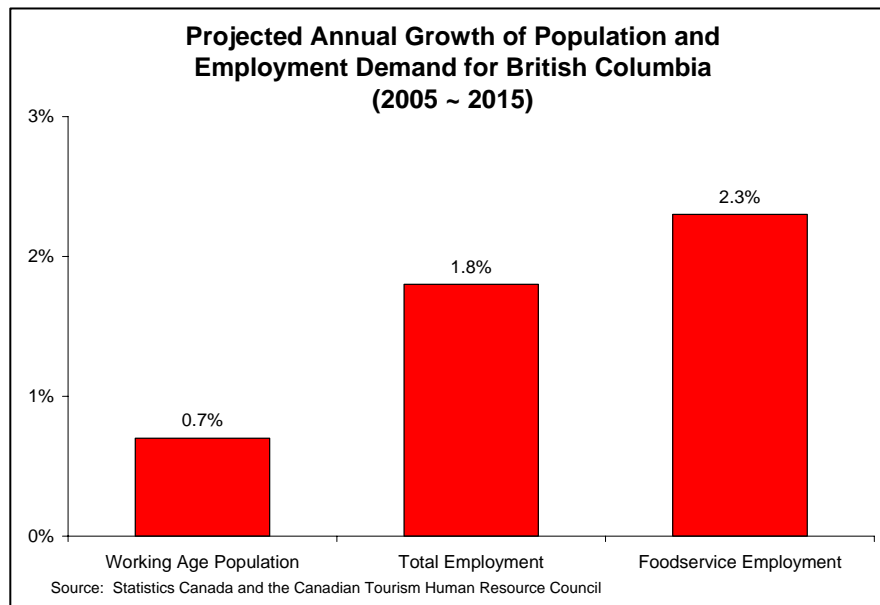
In March 2007, the unemployment rate in British Columbia plummeted to 3.9% – the lowest unemployment rate since the Labour Force Survey at Statistics Canada began collecting data back in 1976. British Columbia's unemployment rate is currently 4.3% and among the lowest in the country – and 1.6 percentage points lower than the national average of 5.9%.



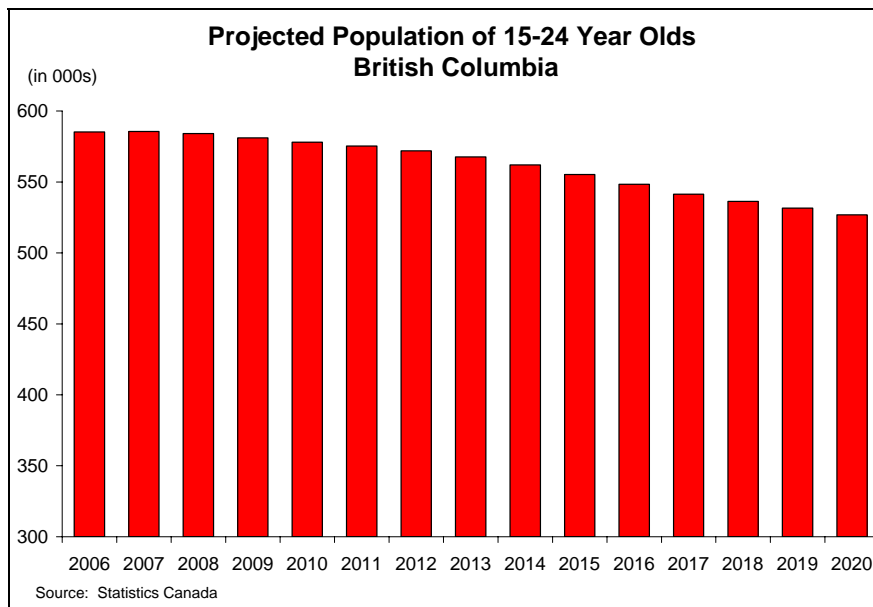
At the same time, the youth unemployment rate has fallen to 8.1% as of September 2007. With the number of unemployed youth falling by a staggering 35% in the past three years, there are now 17,000 fewer youth unemployed in British Columbia. While this is great news for youth looking for employment, the rapidly dwindling supply of available labour is making it difficult for foodservice operators to find workers to support the growing foodservice industry.



The current situation is just a small taste of what is expected over the next 10 years. A March 2005 report by the Canadian Tourism Human Resource Council projected total employment demand and employment demand for various tourism segments. Based on their projections, they found that overall employment demand for all industries in British Columbia is forecast to grow by 1.8% per year between 2005 and 2015. At the same time, however, forecasts from Statistics Canada shows the overall working-age population will grow by just 0.7%. With such a significant gap between labour supply and labour demand, employers across all industries will be impacted by labour shortages. Without enough labour, businesses can't expand, hindering overall GDP growth in the province.



The Canadian Tourism Human Resource Council report also showed demand for foodservice employment in British Columbia will grow by an average 2.3% per year between 2005 and 2015, representing the need for an additional 32,170 workers. Other studies indicate a shortage of 44,300 food and beverage workers in British Columbia during the same time period. In order for the foodservice industry to avoid labour shortages, British Columbia's working age population would have to expand by 2.3%, instead of the current projection of 0.7%. As a result, labour intensive industries, such as foodservice, will feel the brunt of the labour shortage. Nearly 50% of the foodservice industry is comprised of youth between the ages of 15 and 24. Yet over the next 10 years, the youth population will fall by 0.6% annually. By 2020, there will be 58,000 fewer youth in British Columbia.



With demand for employees outstripping the growth of the working-age population, many foodservice operators will not be able to meet the needs of its customers, resulting in lost output, business closures and reduced investment in the province.

The impact of the 2010 Winter Olympic Games on tourism and hospitality employment demand must also be taken into consideration. The following excerpts from Roslyn Kunin’s report<sup>1</sup> for the 2010 HR Planning Committee demonstrates that demand for tourism and hospitality employees would increase significantly even without the 2010 Olympics and that the additional demand for tourism and hospitality employment will be spread throughout the province. The Olympics will only accelerate demand for tourism and hospitality employment.

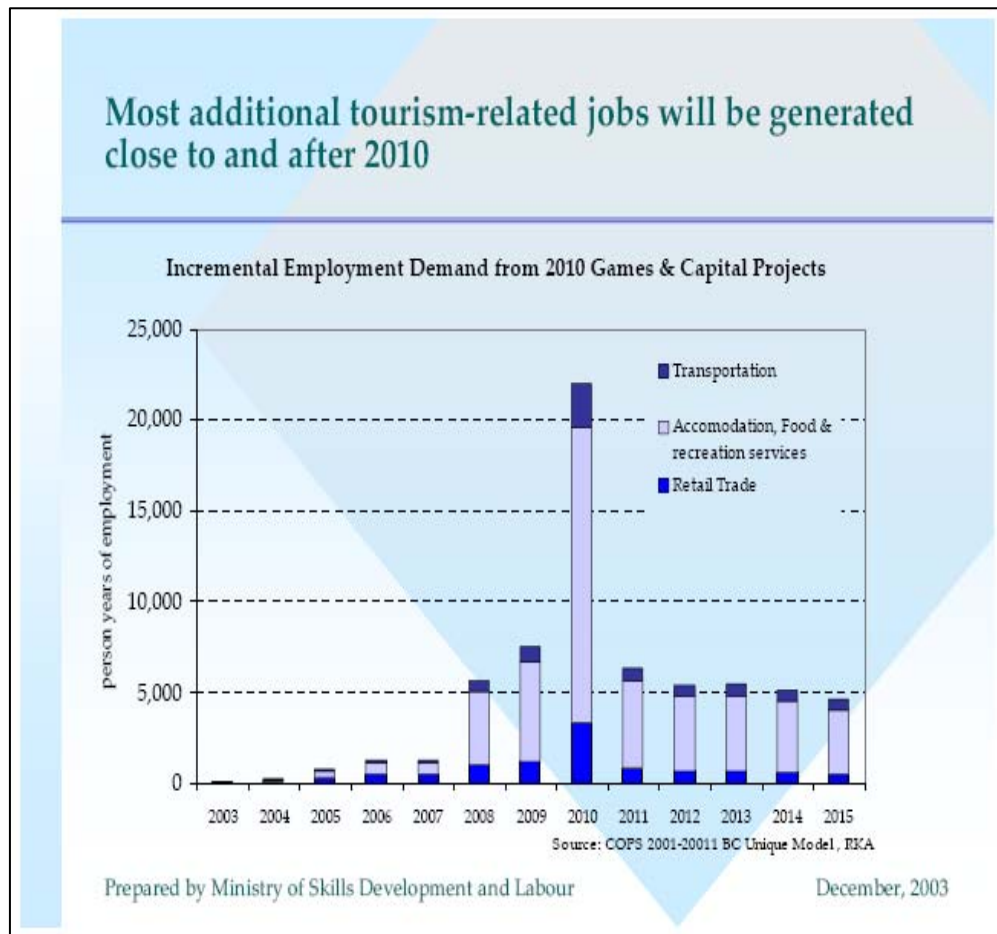
*“Much of the labour demand in tourism - accommodation, food and beverage, and recreational services in particular - is arising from strong expected growth even without the 2010 Games. Demand in accommodation, food and recreational services will experience large growth in the base model as well as high growth due to the 2010 Games.*

*All three of tourism-related components are large sectors, so even small growth rates will result in large numbers of job openings.*

<sup>1</sup> “Planning for Gold: Maximizing 2010- Related Employment & Skills Opportunities in British Columbia: Connecting Labour Market Supply and Demand – December 2003”, Roslyn Kunin, December 15, 2003

The incremental growth in demand in tourism-related sectors as a direct result of the 2010 Games and three major projects represents a 24% increase over and above the base level growth estimate (i.e. the expected increased demand without the Games and the three other capital projects). This is higher than the average across the economy, which is 14% over base openings. For the three key tourism-related sectors, growth over base is as follows:

- Accommodation, food & recreation services (43.4% above base growth)
- Retail trade (9.5%)
- Transportation (14.5%)



*The list of top 15 high-growth occupations for 2003-2015 includes many tourism-related jobs, such as Chefs & Cooks, Occupations in Food and Beverage, Managers in Food Service and Accommodation, Food Counter Attendants, etc.*

*Over the period 2003-2015, tourism-related job openings represent 51% of the incremental increase in jobs. While the greatest impact on job growth will occur around 2010, there are lasting impacts for the tourism sector. According to RKA, as one looks out in time, the tourism sector impacts accounts for a greater share of total impacts of anticipated employment opportunities. In 2006, tourism is 12% of total new jobs, while in 2015, tourism accounts for more than 70% of incremental new jobs. One issue that neither RKA nor the Committee had time to thoroughly investigate was the need to take into account that estimates are identified in how “person-years” translates into actual job openings during a given interval within the larger time period examined. In reality, the impacts at the firm level may be more dramatic in terms of people needed (i.e. work could be part-time and the demand therefore much longer than a calendar year). Alternatively, a new person-year may actually reflect several positions (and people needed), but only be required for shorter spells.*

*As mentioned previously, the incremental impact of tourism employment increases is expected to be spread throughout the province. Forty-two percent of incremental job openings will be in areas outside of the Lower Mainland.”*

British Columbia’s labour shortage is a complex challenge that requires bold and innovative solutions from both business and government. Business must be more flexible and imaginative in their recruitment of workers and must place a higher priority on the retention of existing employees. Government must remove the structural impediments in the labour market and change employment and immigration policies that were developed in an era when unemployment was the challenge.

CRFA is pleased that the Government of British Columbia has responded to CRFA’s previous labour shortage recommendations through a number of initiatives such as launching the WorkBC initiative last spring. There appears to be ongoing positive co-operation between the federal government and the Government of British Columbia on improving the Temporary Foreign Worker Program and other initiatives to help the foodservice industry access foreign workers to partially address the growing foodservice industry labour shortage. While a number Temporary Foreign Worker Program challenges remain in the areas of prevailing wage rates, inadequate occupation under pressure lists (ie. not including cooks), lengthy domestic processing times and application backlogs at foreign Embassies, a great deal of progress has been made to improve the Temporary Foreign Worker Program such as extending lesser skilled permit duration to two years, allowing Labour Market Opinion applications and Foreign Worker Permit applications to be processed concurrently, and the recently announced expedited LMO process for under pressure occupations in British Columbia and Alberta.

CRFA has also been working with the Ministers of Tourism and Economic Development and Ministry of Economic Development officials advocating for changes to the British Columbia Provincial Nominee Program (PNP) to allow under pressure lesser skilled occupations to be considered under the program. CRFA hopes that a lesser skilled PNP pilot project will be developed and announced in the near future.

As a Strategy Group member of the Coalition of British Columbia Businesses, CRFA was also participated in developing the Coalition's labour shortage submission and recommendations submitted last June and appreciated the follow up meetings that took place to discuss the Coalition's recommendations. CRFA fully supports the Coalition's June recommendations and the prioritized goals that were submitted in September. The Coalition's top three goals are:

1. Increase Immigration of Skilled and Non-Skilled Workers to British Columbia
2. Increase the Economic Productivity of Small Businesses
3. Better Utilize Underrepresented Talent Pools

Each of these three priority goals were accompanied by supporting recommendations for action by various Ministries of the Government of British Columbia.

**CRFA recommends that the Government of British Columbia continue to work with CRFA on expanding the Provincial Nominee Program to allow lesser skilled occupations to be included under the program.**

**CRFA also recommends that the Government of British Columbia continue to work with CRFA and the Coalition of British Columbia Businesses on implementing the Coalition's recommendations to achieve the three priority goals identified.**

## The First Job Wage and Minimum Wage

Since the “First Job” training wage was introduced in November 2001 it has provided an incentive for the foodservices industry, and the quick service sector in particular, to hire thousands of young first time employees who otherwise would not have had the opportunity to enter the work force. The training wage has enabled employers to hire, train and provide valuable work experience to young entry-level British Columbians in order that they may move up the employment ladder in the foodservices industry or the general workforce while also enabling them to earn supplementary income to help with their education and other teenage expenses. The First Job Wage is helping thousands of young people avoid the trap of “no experience no job”.

An additional benefit of the First Job Wage is that it allows quick service operators more flexibility in scheduling to ensure the more experienced student employees are not being asked to work more hours than they are comfortable with in order to balance school and other activities.

The quick service segment of the foodservice industry hires the most entry-level inexperienced employees. A 2004 review of the training wage discovered that roughly 80% of quick service operators in the province were utilizing the First Job Wage. Of those utilizing the training wage more than two-thirds reported that they employed more employees per location than before the First Job Wage was introduced. Quick service restaurants report increasing crew sizes as a result of the training wage by 14% to 21%. It is also interesting to note that 90% of those utilizing the training wage also either started first time employees at the above the \$6.00/hour minimum or increased their wages to the \$8.00/hour general minimum wage in increments before reaching the maximum 500 training hours allowed. They also report that without a doubt the First Job Wage acted as an incentive to hire more first time employees.

Prior to the introduction of the First Job Wage British Columbia’s youth unemployment rate was 15.7% and as of June 2006 British Columbia’s youth unemployment rate dropped in half to a low of 7.6%. The First Job Wage certainly played a role in reducing the youth unemployment rate and increasing the number of employees per store from 12.4 in 2000 to 14.3 in 2005.

However, a less detailed but more recent 2006 review of First Job Wage utilization indicates that while the First Job Wage is still be utilized by some quick service restaurant chains, it is being used less frequently as the labour shortage intensifies. There are certain British Columbia communities where intense labour shortages and a lack of entry level aged youth entering the work force have rendered the First Job Wage obsolete. Instead, operators are worried about the wage inflation caused by the labour shortage and losing staff to other more profitable higher paying industries.

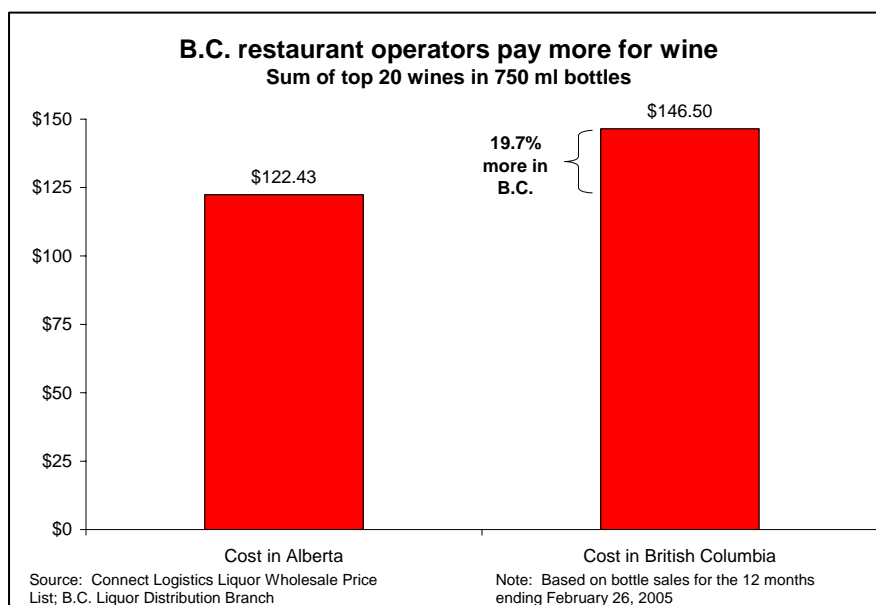
The growing labour shortage caused by the combination of a strong economy and a demographic shift resulting in fewer young employees entering the workforce has replaced minimum wage as the number one foodservice industry labour issue.

## Liquor Taxation and Pricing

The current system of liquor pricing and taxation in British Columbia is inefficient and does not serve the stakeholders including government particularly well. Changes to the liquor mark-up system that will protect government liquor revenues and increase efficiencies, increase product selection, and reduce the cost of liquor products for licensees and consumers are long overdue. Numerous studies including reports by the Montreal Economic Institute and the Ontario Beverage Alcohol System Review Panel (Lacey Report) strongly recommend that provincial governments should get out of the distribution and retail of beverage alcohol business and move to a flat tax liquor mark-up system while maintaining their responsibility as the liquor regulator. Adjusting the mark-up system even without moving to privatization would protect government liquor revenue and increase operating efficiency while reducing prices and increasing product selection for licensees and consumers.

The most important priority for licensees with respect to liquor retail and distribution is getting access to wholesale liquor prices. The cost for providing all licensees with wholesale pricing can be covered by changing British Columbia's current liquor mark-up structure to a flat tax mark-up system for beverage alcohol.

Liquor pricing was a key issue raised during both our 2001 and 2005 B.C. Election "Menu of Issues" and it remains so today. When any other commodity is purchased for resale to consumers, buyers receive a significant wholesale discount. Restaurant owners, however, are forced to pay full retail prices for the licensed beverages they sell in their restaurants. The impact of this retail pricing system is dramatic – B.C. restaurateurs pay roughly 20% more for wines than restaurateurs in neighbouring Alberta. Cross border smuggling of premium liquor products results in lost provincial revenue of between \$50-\$80 million.



All licensees and private liquor retail stores (LRSs) should receive access to wholesale liquor prices. It is unfair on all resellers of liquor that the Liquor Distribution Branch (LDB) acts as the liquor regulator, the wholesaler, and a as a liquor retail competitor. LDB unfairly competes against private resellers of beverage alcohol by forcing resellers to purchase beverage alcohol from LDB at retail prices. After purchasing beverage alcohol for resale at retail prices the licensee, as the most labour intensive liquor retailer, must also charge the end consumer a social service tax (really a liquor consumption tax) that is 3% higher than the regular PST. LDB liquor stores sell beverage alcohol to the same consumer for considerably less than licensees while providing less economic benefit from the sale of beverage alcohol than licensees.

Furthermore, currently liquor primary licensees who own Liquor Retail Stores indirectly receive an unfair cost advantage over other liquor primary and food primary licensees by being able to purchase beverage alcohol for their retail operations cheaper than other licensees. Liquor Retail Store profits also help to subsidize liquor primary licensees' food and beverage operations. In the absence of a flat-tax liquor mark-up structure and wholesale pricing for resellers of beverage alcohol, at the very least all licensees, not just Liquor Primary Licensees with Liquor Retail Stores, should receive a discount on their beverage alcohol purchases.

British Columbia administers a complicated and seemingly arbitrary mark-up system on many liquor products. Premium brands attract a tax proportionately higher than other brands, for no apparent reason. Moving to a flat-tax mark-up system will remove all the hidden or discriminatory cost elements involved in liquor mark-ups, making it easier for operators to serve products preferred by their customers while better securing and forecasting government revenues from beverage alcohol.

Flat-tax mark-ups on average reduce the price of liquor products, especially those products mostly used by licensees, while both reducing government's administrative costs and increasing government's net revenues.

At an August 2006 meeting of the four associations representing the vast majority of licensed establishments and liquor suppliers came up with a number of specific reasons why the Government of British Columbia should change the current mark-up structure to a flat-tax model. A summary of the reasons identified are as follows:

1. Public perception of value. There is a public perception that the BCLDB is not offering value because people believe that wine in BC is more expensive. The reality is that wines in the lower price points \$7.95 to \$12.95 are not necessarily more expensive and may even be slightly lower priced than those same products in Alberta. However, wines above \$15 are significantly higher in BC when compared to Alberta. This is due to the "flat-tax" system in Alberta. A flat-tax based system, while maintaining the same tax revenue, could change this perception by lowering the price on a broad range of wines and spirits. The BCLDB would benefit from a more positive image in the media and with consumers.

2. Revenue lost from Wine and Spirits smuggled from out of Province. There are significant quantities of premium wine and spirits being carried into British Columbia by private consumers. The BCLDB is losing the revenue on these products and the government is losing the Social Services consumption tax on this liquor. Liquor products being brought into the province are typically at the higher price points (above \$20/btl) where the price differential between BC and Alberta are the greatest. A flat-tax based system would reduce the price differential and would reduce, or eliminate, the liquor smuggling problem.
  - a. In the meeting there was reference to an Alberta report that estimated that \$80 million worth of beverage alcohol is being purchased in Alberta but shipped out of Alberta to other jurisdictions each year.
  - b. An article in *Business in Vancouver* (August 1-7, 2006) was referenced where it was stated that many private BC wine cellars, while being valued by wine professionals, have been reported to contain a high volume of wine labeled from Alberta and presumably smuggled into the province by the consumer who owned the cellar.
  - c. Wine agents noted that ultra-premium wine sales of products sold in both Alberta and BC have seen increasing sales volumes in Alberta while at the same time seen declining sales volumes in BC. This suggests that more and more BC wine collectors are choosing to purchase their wine in Alberta. This trend has been increasing for the past 5 years suggesting the problem of consumer wine smuggling is getting worse not better.
3. Premium liquor is priced too high above world prices. Most collectable wines are not being offered in BC at competitive prices. They are priced well above world prices. The ad valorem price system is making these wines significantly more expensive than the wine is in other markets. In the past the BCLDB has struggled with the pricing of ultra-premium products, such as, top Bordeaux and Burgundy where the application of the ad valorem tax makes the wine too expensive by global standards. The same is true for premium spirits.
4. Discouraging tourism. High prices on premium liquor and no wholesale pricing for restaurants, results in very high liquor prices on restaurant menus. Tourism is an important business and an important source of revenue for the province. This will become even more important in the years that lead up to the 2010 Olympics. While the Canadian dollar was weak international tourists were buffered by their stronger currency from the very high restaurant prices for liquor. Now with a strong Canadian dollar restaurants are finding resistance and complaints from international tourists because liquor prices are too high.

5. A Flat Tax provides more certainty/predictability of revenue for the BCLDB. Under the existing ad valorem system, the BCLDB is subject to less predictable revenue.
  - a. With an ad valorem system, trends, or one-time events, in wine purchases may result in lower revenue to the government. For example, when a lower value product (such as Farnese \$7.75 per bottle Italian wine) suddenly grows in popularity at the expense of a higher priced products the tax revenue to government declines.
  - b. With the expansion of private retail in the province the risk of lost revenue increases.
    - i. When there is private retail a flat-tax based on litres of liquor imported increases the predictability of revenue to the government. When a private retailer's has an exclusive product, it is possible for the liquor costs, or importing costs, to be shifted from the FOB price and added at the cash register of the private retailer thus lowering the base the ad valorem tax is calculated from and resulting in lower revenue to the government.
    - ii. The current system with prices determined by ad valorem mark-ups and then discounted to private retailers creates uncertainty of revenue for the BCLDB. As private liquor store sales increase the total cost of discounts to private retailers will increase creating an environment of less predictability for BCLDB. A flat-tax based system based on the volume of liquor sold, would make revenue more predictable.
6. A flat-tax system is easier to administer.
7. **A flat-tax system would provide the basis for a wholesale pricing system for private retail and restaurants.**
8. A flat-tax system reduces customs processing for consumers and samples coming into the province. The current system requires the Canada Customs Agent and the BCLDB to research the value of liquor to ensure the ad valorem tax is calculated fairly. Under a flat-tax system only the quantity in litres is an issue. Lower administration costs and less risk of error.
9. A flat-tax based system is supported by a broad base and highly representative group of businesses and industry associations. Those associations supporting reform of the current liquor mark-up system in favour of a system based on a "flat-tax" include:
  - Importers Vintners and Spirits Association (IVSA)
  - Canadian Restaurant & Foodservices Association (CRFA)
  - British Columbia Restaurant & Food Services Association (BCRFA)
  - Alliance of Beverage Licensees (ABLE)

The four associations listed above were very disappointed with last year's decision not to pursue the hospitality industry's proposal to move to a flat-tax liquor mark-up and wholesale liquor pricing modal and would encourage the Government of British Columbia to reconsider implementing a flat-tax liquor mark-up and wholesale liquor pricing system as a better more efficient way to serve all liquor stakeholders including the provincial government and consumers.

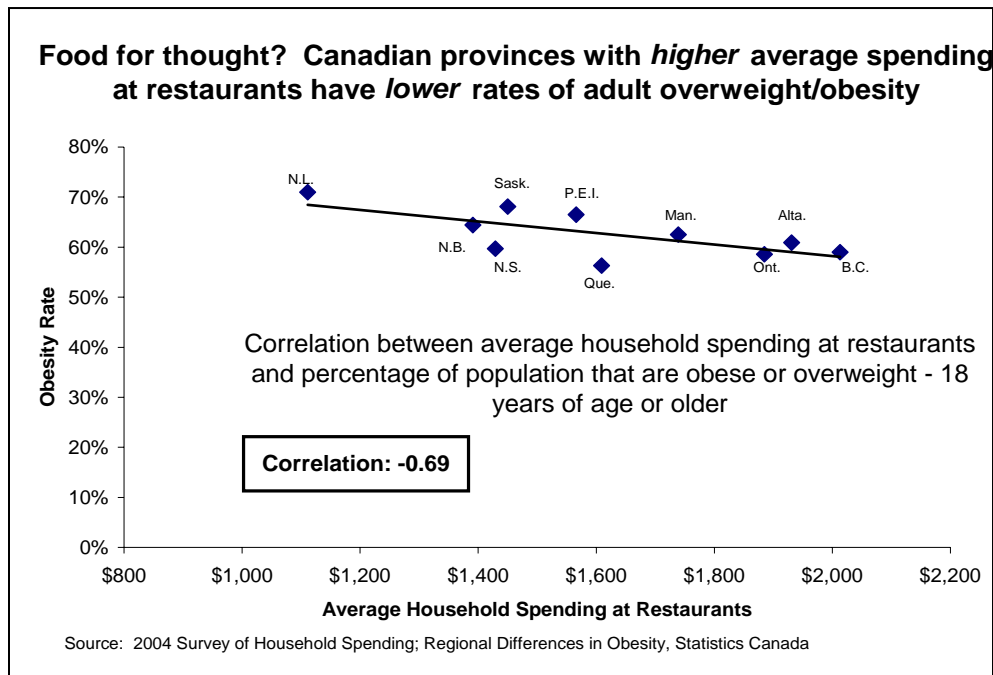
**CRFA recommends a simpler more transparent flat-tax mark-up system for all liquor products that will allow for more government control in calculating and predicting liquor revenues and that will stop the leakage of provincial liquor revenue due to illicit liquor coming in from across the border.**

**CRFA recommends that all resellers of liquor be provided with wholesale prices to reduce consumer prices and provide a level playing field for all sellers of beverage alcohol. The costs of moving to wholesale pricing can be more than offset by moving to flat-tax liquor mark-ups for all liquor products.**

**In the absence of a flat-tax liquor mark-up structure and wholesale pricing for resellers of beverage alcohol, CRFA recommends that at the very least ALL licensees, not just Liquor Primary Licensees with Liquor Retail Stores, should receive a discount on their beverage alcohol purchases.**

## Nutrition, Fitness and Taxation

While the foodservice industry makes up only a small portion of the total food industry, CRFA and the foodservice industry recognizes that we have an important role to play in encouraging British Columbians and Canadians to live healthier lives. While obesity in British Columbia is less of a problem than in other Canadian jurisdictions (as the following graph demonstrates), CRFA and the foodservice industry have taken the initiative to help make the healthy choice the easy choice.



CRFA and the foodservice industry have been members of the Act Now BC Agri-food Partners in Healthy Eating Initiative. Member companies are also involved in the Health Check BC healthy dining pilot project. CRFA and the industry have been involved in a number of initiatives over the past few years to help make the healthy choice the easy choice for restaurant customers.

CRFA formed a Nutrition and Fitness Roundtable in January 2003, which brings together Canada's leading foodservice companies to explore opportunities on how the industry can work with government and other stakeholders to educate consumers about the importance of a balanced diet and physical activity.

Through the Roundtable, the foodservice industry:

- Introduced a Nutrition Information Program that includes voluntary guidelines on providing nutrition information to consumers and a how-to guide for restaurant operators who wish to provide more nutrition information to their customers;
- Is actively engaged with Health Canada on developing and implementing the Pan-Canadian Healthy Active Living Strategy;

- Presented industry seminars to help smaller foodservice operators respond to growing customer concern about nutrition and fitness; and
- Participated in a Health Canada task force aimed at reducing trans-fat in foods to the lowest level possible and supported task force recommendations.
- CRFA produced a “How to Reduce or Eliminate Trans Fats on Menu Items” guide for foodservice operators.

When the Nutrition and Fitness Roundtable first met early in 2003 they recognized that restaurant consumers had a growing interest in obtaining nutrition information about food and beverages served in restaurants. However, given the “made to order” nature of food served in a restaurant, supplier substitutions and daily and seasonal specials, it can be a challenge for restaurants to provide nutrition information in an accurate, thorough and legible manner. The Roundtable recognized that there was a need to standardize the manner in which this information is provided so that consumers would know how to find it on a consistent basis. As a result, it began to develop voluntary guidelines for providing nutrition information to consumers which resulted in the February 2005 launch of the Nutrition Information Program which coincided with the launch of Act Now BC.

The program requires participating companies to provide consumer information on the same 13 nutrients provided on the Food Facts panel of packaged foods, in brochure form, at point of sale, and to let consumers know that the information is available on the premises. In addition, restaurant operators are encouraged to identify ingredients that are common causes of food allergies.

By the end of 2006, participating restaurants across Canada provided the nutrition information in brochures at each of their locations, and placed a notice on menu boards or menus to let consumers know the information is available on the premises. In some cases nutrition and allergen information have also been posted on restaurant websites. Since the launch of the nutrition information program in February 2005, 28 restaurant chains representing 40% of restaurant chain restaurant establishments have signed on to the program and are now at various stages of complying with the voluntary guidelines.

Also, given the current high level of interest in nutrition and fitness among consumers, restaurants are introducing a wide range of lighter, leaner menu options that are growing in popularity. More items are being added all the time, and patrons are responding.

Part of the reason for the growth of these healthy menu items can be attributed to most restaurants now offering cost free healthy substitutions on various menu items where a salad can replace fries, or juice and milk can replace soft drinks. This healthy substitution trend is happening more and more as consumers become increasingly interested healthy eating and living.

Many fine dining restaurateurs are also becoming increasingly strong advocates of thinking globally but acting locally by supporting local farmers where possible so that they can provide their customers with more fresh tasty ingredients that also happen to be more nutritious.

Restaurant operators realize that eating better is only half the solution to living more healthy lives which is why they are also major sponsors and promoters of physical activities both nationally and in every local community throughout British Columbia. Today, many restaurant companies are leading the way in offering consumers nutritious menu choices and encouraging physical activity.

CRFA and the foodservices industry believe the most effective way to combat obesity is through education on the importance of healthy food choices and physical activity.

In September 2006, CRFA met with the BC Standing Committee on Health to discuss the obesity issue. We provided the Committee with detailed information on the above mentioned industry initiatives to combat obesity recognizing we all have a role to play to educate people to make the healthy choice the easy choice.

However, CRFA and the foodservice industry do not support using the tax system to try and influence consumers into eating healthier. You might think that foodservice operators would jump at the chance of getting a tax break on the fastest growing components of their menus. However, using the tax system as a tool to modify consumer behaviour on the basis of nutrition would be a logistical nightmare for restaurant operators.

For example, an item high in fat may contribute essential fiber and nutrients, while an item low in fat may provide few nutritional benefits. What would a counter person charge a customer who ordered the whole-wheat thin-crust vegetarian pizza and then asked for extra cheese and bacon? Singling out any food item in a restaurant for special tax treatment ignores the human reality that foods are eaten in combination, and that health and nutrition depends upon balance as well as moderation.

The Dieticians of Canada (DOC) reviewed the possibility of taxing so called “junk food” and as a result of the review DOC “*cautions that it is premature to endorse taxation as a solution to our obesity problem.*” DOC provides three reasons why using taxation to combat obesity is not an effective solution.

First, “*it is difficult to link individual foods to health impacts.*”

“*A second challenge recognizes the complexity of administering a differential tax. Given that new products are constantly appearing on the market, and that manufacturers may change product specifications, a continual monitoring, evaluation and classification system would be required.*”

“*A third and equally important issue in this debate, is whether or not a consumption tax would actually have the desired impact of changing eating habits and curbing obesity. Evidence supporting these outcomes is difficult to find...*”

**CRFA recommends that junk food taxes or healthy food tax credits/deductions not be used in an attempt to modify consumers eating behaviour in addressing obesity.**

## Training Tax Credits

CRFA and British Columbia's foodservice industry appreciates the British Columbia Government's commitment to enhance training and skills development especially considering our industry's labour shortage. However, structuring the training tax credit component of the commitment is problematic for the foodservices industry.

Foodservice industry operators recognise that the proper development of the skills and competencies of employees is a key component of success. When training can help operators improve the quality of their products and service, and make their operations more competitive and profitable, they do more training. In fact, foodservice companies tell us that their unique training programs are what give their company a competitive advantage. The friendliness of their staff, the efficiency of their service, the quality of their products, is a result of the training they provide. Many operators consider their staff training as a competitive advantage. The quality of their training is what differentiates them from their competitors.

It would be very difficult for government to accurately quantify the various formal and informal training available through employers in the private sector. Because there is no established methodology to quantify training, particularly on-the-job training, the marketplace would be distorted in favour of large companies and "school room" type institutional training. Ironically, it is informal, workplace based training that is increasingly recognised as the most effective. A training tax credit that attempts to define specific training requirements would be difficult to administer fairly to ensure all employers' workplace training is covered equally and will likely add government red tape to businesses attempting to qualify for the tax credit. A training tax credit could end up discouraging informal on-the-job training in favour of less effective institutional training for certain skills.

Government should be responsible for establishing minimum training standards in areas such as health and safety and should provide funding to help potential employees into the workforce by providing additional English as a second language (ESL) training but should not introduce training tax credits based on difficult to quantify training requirements as an incentive for employers to do more training. Employers do not need incentives to train their staff as their success increasingly depends on staff training.

**CRFA recommends that either the training tax credit be expanded to include easy to define more informal practical employer based training or that the tax credit funding be redirected to programs such as ESL training to help potential workers become more employment ready.**

## Other Tax Measures

British Columbia's foodservice industry supports any tax measures that will have the effect of lowering tax levels and increasing disposable income. According to an Ernst & Young study Canada's foodservice industry pays 25% more in taxes than the average industry. The foodservice industry is most successful in jurisdictions where disposable income is the highest and taxes are the lowest.

- **Tourism Levies On Restaurant Meals**

CRFA also opposes tourism levies on restaurants for the same reason we oppose restaurant meal taxes. A levy has the same effect as a restaurant meal tax. Tourism is an important industry that all British Columbians benefit from and we recommend that the Government of British Columbia continue to increase tourism marketing funding as resources allow.

It is impossible to fairly determine which businesses should pay a tourism levy based on their benefit from tourism and which businesses should not. Any parameters around which businesses to include and exempt would inevitably be arbitrary and considered unfair to some of those businesses included. According to the Canadian Tourism Commission, only 25% of restaurant revenues can be attributed to tourist spending. Furthermore, there are geographic differences in the province where tourism spending fluctuates dramatically. For example, tourism spending will not be as important to a foodservice operator in Prince George as it will be for an operator in Whistler.

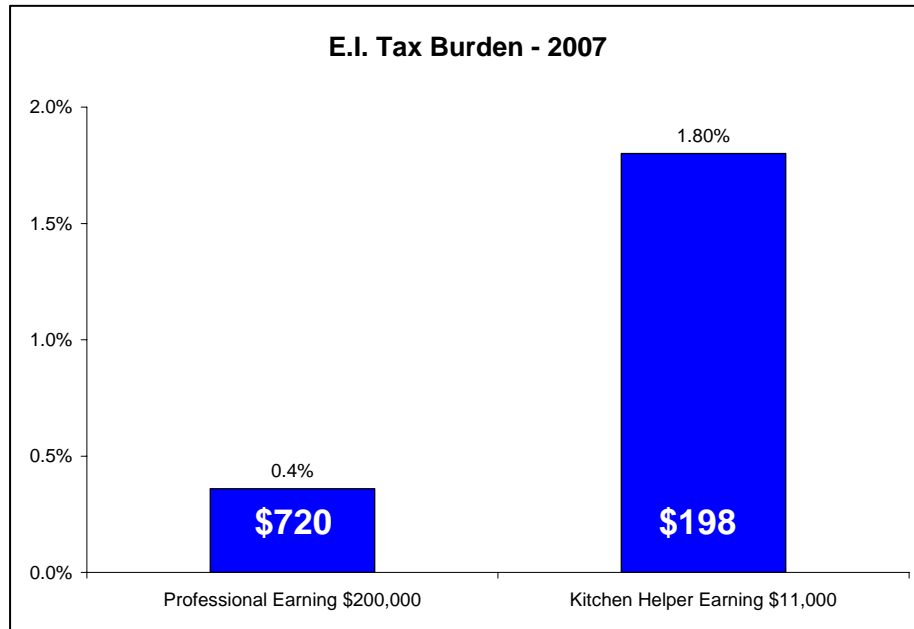
A Mustel Group poll commissioned in 2004 clearly demonstrates that there is no appetite for foodservice tourism levies. The poll results indicated that 89% of British Columbians oppose a tourism levy on restaurant meals and 90% oppose a restaurant meal tax to fund the Vancouver Trade and Convention Center. The opposition is equally as strong within the industry with 87% of restaurateurs and 76% of hoteliers opposing a tourism levy on restaurant meals.

**CRFA recommends that funding for tourism promotion be increased as finances allow but opposes foodservice tourism levies.** Every marketing dollar invested in tourism promotion and more will come back to the provincial government in revenue by leveraging increased tourism spending in the province. However, increased tourism promotion funding should come from existing revenues not through additional taxes or levies.

- **Payroll Taxes**

Payroll taxes are the worst kind of taxes. They are regressive, profit-insensitive and they discourage job creation. According to the Conference Board of Canada, 40% of all taxes paid by the foodservice industry are payroll taxes.

Low-income earners are the hardest hit by payroll taxes as they pay a larger proportion of their income to payroll taxes than do high-income earners, even though their premium payments are the same. At the same time, businesses that are labour intensive like foodservice industry businesses are hit with a higher tax because payroll taxes must be paid on every employee, regardless of whether or not revenues and profits are rising.



A fair and affordable way to resolve this inequity is a yearly basic exemption (YBE) in the Employment Insurance plan, similar to the one in the Canada Pension Plan. A YBE would provide much-needed tax relief to labour-intensive businesses, entry-level and low-income workers and would put more money in the hands of all Canadians. Two Parliamentary Committees agree, and have repeatedly endorsed this solution.

The participation rate of youth in the Canadian workforce fell by an unprecedented amount in the last decade. The number of Canadians reaching the age of 25 without ever having had a job doubled during that time period. Youths in the 15 to 19 year old range were particularly hard hit. Not coincidentally, this period coincides with the introduction of the GST, increasing minimum wages and skyrocketing payroll taxes.

The Federal Government acknowledged that the increases in Employment Insurance (EI) premiums fueled layoffs during the time of the increases. In fact, Human Resources Development studies attribute 200,000 lost jobs directly to increased EI premium costs.

Recognizing the burden that artificially high rates place on labour-intensive industries, CRFA is on record as objecting to the setting of EI premiums at artificially high levels, and has argued against the use of EI funds for purposes unrelated to employment insurance.

While EI premiums have been reduced in small increments recently, sharp increases in CPP premiums and legislated changes to the basic exemptions in both the EI and CPP programs have resulted in a steady increase in payroll taxes for entry-level workers and their employers.

These excessive payroll taxes have had a serious effect on business growth in Canada limiting business expansion, economic growth and job creation. The impact on Canada's labour-intensive foodservice industry has been particularly harsh. The average restaurant now pays more in payroll taxes than any other form of tax, forcing restaurants to reduce the labour component of their operations. The average number of workers per foodservice establishment in Canada has slipped from 13.7 per restaurant in 1990 to 13.1 in 2006. This translates into fewer than 37,600 fewer industry jobs in Canada.

CRFA encourages the Government of British Columbia to pressure the federal government to continue to reduce employment insurance premiums for both employers and employees while introducing a yearly basic exemption on Employment Insurance premiums as exists with CPP.

On the positive side, there continues to be good news on payroll taxes provincially. Average WorkSafe BC premiums have either decreased or remained stable for the foodservice industry in British Columbia over the past five years. British Columbia's foodservice industry pays the lowest Workers Compensation premiums in Canada.

- **General and Small Business Tax Rate and Threshold**

The Government of British Columbia should be applauded for implementing a number of policies over the past five years to improve the competitiveness and increase investment in the foodservice industry and small businesses throughout the province. However, the Government of British Columbia must not lose its focus on competitiveness and continue to introduce tax measures, such as liquor flat-tax mark-ups and wholesale liquor pricing, that will help our industry and British Columbia businesses generally compete with our closest competitors and attract more investment to the province.

**CRFA recommends that taxation measures that will help businesses compete with our closest competitors continue to be implemented.**

- **Increasing the Provincial Personal Income Tax Exemption**

CRFA was also very pleased that the Government of British Columbia listened to our recommendation to increase the provincial income tax exemption level for lower income British Columbians by eliminating provincial income taxes for those earning less than \$15,500 and reducing them significantly for those earning less than \$26,000. This measure provided many lower income British Columbians and students working in our industry with a significant increase in take home pay.

## Conclusion

Despite the fact that the industry has outpaced the rest of Canada in foodservice sales growth in recent years, high labour costs combined with other increasing costs of sales have contributed to declining profit margins in the industry where average pre-tax profitability declined from 4.9% in 2001 to 3.2% in 2005. British Columbia's foodservice industry is now the second least profitable in Canada. Unfortunately, the trend towards even higher labour and other costs continues to put pressure on industry profitability.

The two priority issues discussed in this submission are the necessity for continued government action to help the foodservice industry address its growing labour shortage and for the Government of British Columbia to resist any federal government pressure to harmonize GST with PST. While the growing labour shortage remains the number one challenge currently facing foodservice operators, the biggest threat to British Columbia's tourism and hospitality industry in 2008 is the federal government's proposal to harmonize GST with PST in British Columbia.

British Columbia's booming economy combined with a significant demographic shift where there is a significant gap between young people entering the workforce to replace retiring baby boomers in a growing economy is the number one current concern of foodservice industry operators that will restrict both foodservice industry and province wide economic growth. British Columbia must build on the actions taken in 2007 to help the tourism and hospitality industry address the growing skilled and non-skilled labour shortage.

It is also imperative for the Government of British Columbia to continue exempting all food from PST. Excluding restaurant meals from the PST food exemption or harmonizing GST with PST using the GST tax base would devastate British Columbia's foodservice industry and result in British Columbia taxpayers paying hundreds of millions in additional taxes through tax shifting and regressive new consumption taxes. The federal government needs to fix the flaws in the GST before extending it to more provincial tax bases including British Columbia's.

The government's prudent fiscal management over the past number of years has enabled the province to turn the corner from annual deficits to annual surpluses. These surpluses can now be used to further cut taxes and reduce debt to further improve British Columbia's economic competitiveness and improve the lives of all British Columbians. We are hopeful that the 2008 budget will reduce taxes to improve our competitiveness while maintaining a balanced budget. We hope that no new taxes will be introduced that try and affect social behaviour as they are impractical and reduce rather than improve competitiveness.

The Canadian Restaurant & Foodservices Association supports the Government of British Columbia's fiscal priorities and is encouraged to see that the government's fiscal plan remains on track with better than projected budget surpluses going forward. CRFA strongly recommends that the government stay on track despite the many pressures to increase spending and return to deficit financing.

## Summary of Recommendations

- 1) CRFA strongly recommends that the British Columbia Government resist any federal government pressure to harmonize GST with PST or otherwise expand the provincial sales tax base to include restaurant meals.
- 2) CRFA recommends that the Government of British Columbia continue to work with CRFA on expanding the Provincial Nominee Program to allow lesser skilled occupations to be included under the program.
- 3) CRFA recommends that the Government of British Columbia continue to work with CRFA and the Coalition of British Columbia Businesses on implementing the Coalition's recommendations to achieve the three priority goals identified.
- 4) CRFA recommends a simpler more transparent flat-tax mark-up system for all liquor products that will allow for more government control in calculating and predicting liquor revenues and that will stop the leakage of provincial liquor revenue due to illicit liquor coming in from across the border.
- 5) CRFA recommends that all resellers of liquor be provided with wholesale prices to reduce consumer prices and provide a level playing field for all sellers of beverage alcohol. The costs of moving to wholesale pricing can be more than offset by moving to flat-tax liquor mark-ups for all liquor products.
- 6) In the absence of a flat-tax liquor mark-up structure and wholesale pricing for resellers of beverage alcohol, CRFA recommends that at the very least ALL licensees, not just Liquor Primary Licensees with Liquor Retail Stores, should receive a discount on their beverage alcohol purchases.
- 7) CRFA recommends that junk food taxes or healthy food tax credits/deductions not be used in an attempt to modify consumers eating behaviour in addressing obesity.
- 8) CRFA recommends that either the training tax credit be expanded to include easy to define more informal practical employer based training or that the training tax credit funding be redirected to programs such as ESL training to help potential workers become more employment ready.
- 9) CRFA recommends that tourism promotion funding continue to be increased as finances allow but opposes foodservice tourism levies.
- 10) CRFA recommends that taxation measures that will help businesses compete with our closest competitors continue to be implemented.

## Canadian Restaurant and Foodservices Association

The Canadian Restaurant and Foodservices Association (CRFA) is the largest hospitality industry association in Canada and in British Columbia. Since its founding in 1944, CRFA has grown to more than 34,000 members, including more than 4,000 British Columbia based members. Members include restaurants, quick-service establishments, hotels, caterers, institutions, educators and foodservice suppliers.

The association is funded by membership fees and non-dues income from member services and trade shows. CRFA's mission statement expresses our function: ***“We will create a favourable business environment and deliver tangible value to our members in all sectors of Canada's foodservice industry”***. Creating a “favourable business environment” includes working to influence government policy in a fashion that will allow our industry to grow and employ more Canadians.

For more information about the Canadian Restaurant and Foodservices Association please visit our website at [www.crfa.ca](http://www.crfa.ca).

