

PRE-BUDGET SUBMISSION

**Hon. Greg Selinger
Minister of Finance**

Submitted by

**Canadian Restaurant and
Foodservices Association**



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Canadian Restaurant and Foodservices Association 2008 Pre-Budget Recommendations

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Executive Summary

The Canadian Restaurant and Foodservices Association (CRFA) appreciates the opportunity to present Government of Manitoba and the Minister of Finance with the foodservice industry's priorities for the 2008 provincial budget. Senior CRFA staff and Manitoba members would welcome the opportunity to discuss this submission with the Minister of Finance and Department of Finance officials prior to the 2008 budget.

High labour costs combined with other increasing costs of sales and a decrease in real growth have contributed to declining profit margins in the industry where average pre-tax profitability reached only 5.3% in 2006. Unfortunately, the trend towards even higher labour and other costs continues to put pressure on industry profitability.

The two most pressing issues for Manitoba operators today are the increasing cost of labour and the looming labour shortage. In recent years, increases to the minimum wage, and new measures like the introduction of a new statutory holiday and the extension of statutory holiday pay to part time employees, have shrunk profit margins and threatened jobs. The culmination of these changes has led to a steady decline in the number of foodservice establishments in Manitoba.

CRFA believes government should examine alternatives to minimum wage increases in their fight against poverty. Increasing the minimum wage greatly increases the financial burden of employers, and does not guarantee that those living in poverty will benefit. Enriched tax credits are a superior strategy to increase disposable income for the working poor than a minimum wage increase. Last year, the government made a positive first step by increasing the personal basic exemption by \$200. The government should continue to increase the exemption to bring Manitoba in line with neighbouring provinces.

In addition to income transfers, government should also consider introducing minimum wage differentials for tipped and inexperienced employees. Implementing a tip differential in Manitoba in concert with the next increase to the minimum wage would allow foodservice employers more flexibility to increase the wages for non-tipped or "back-of-the-house" employees whose earnings are substantially less than their "front-of-the-house" counterparts earning minimum wage plus tips.

A youth or training wage differential should also be considered to offset additional costs associated with hiring inexperienced youth for their first job. The hardest hit in terms of disemployment effects of a minimum wage increase are inexperienced and unskilled youth. Introducing a training wage gives employers the incentive to hire thousands of first time employees who may not otherwise be employed.

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. 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.

The looming labour shortage is a very serious concern for foodservice operators across the country. A March 2005 report by the Canadian Tourism Human Resource Council (CTHRC) forecasts that demand for foodservice employees in Manitoba will grow by an average 1.0% per year between 2005 and 2015, representing an additional 2,068 workers. Statistics Canada's population projections show that the working age population of 15 to 69 year olds will not grow at the same pace. For the foodservice industry to avoid labour shortages, Manitoba's working age population would have to expand by 1.0%, but Statistics Canada is only forecasting a population growth of 0.8% during this time.

Manitoba'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.

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. CRFA supports the creation of a Yearly Basic Exemption (YBE) for the Employment Insurance (EI) program, similar to the one in place for contributors to the Canada Pension Plan (CPP). CRFA encourages the Government of Manitoba to pressure the federal government to establish the YBE.

It is unfair on all resellers of liquor that the MLCC acts as the liquor regulator, the wholesaler, and a as a liquor retail competitor. MLCC unfairly competes against private resellers of wine and spirits by forcing resellers to purchase their product from MLCC at retail prices. To increase fairness, government should consider moving to a flat-tax mark-up system, which will guarantee government revenues while decreasing prices for licensees. The MLCC should also extend credit card payment as an option to licensees, as is done by virtually every other provincial liquor board in Canada.

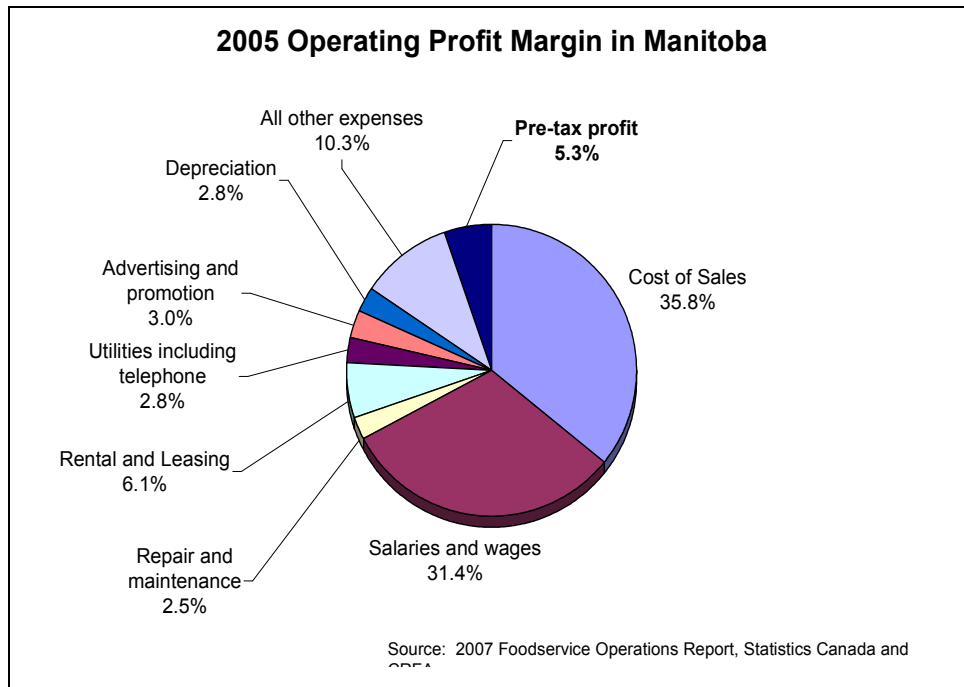
Manitoba's Foodservice Industry

Manitoba's \$1.9 billion foodservice industry represents 3.2% of the province's GDP and is one of the province's largest private-sector employers, with 39,100 people on its payroll. 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. Almost 60% of Manitoba's 1,817 foodservice outlets are independently owned and operated.

As one of the province's leading private sector employers, Manitoba's foodservice operators provide a wide range of full and part-time jobs in virtually every community in the province. Manitoba's foodservice sector employs nearly 7% of the province's working population, including 20,000 young people between the ages of 15 and 24. That number represents 19.6% of total youth employment in Manitoba, and over 51% of foodservice employment in the province.

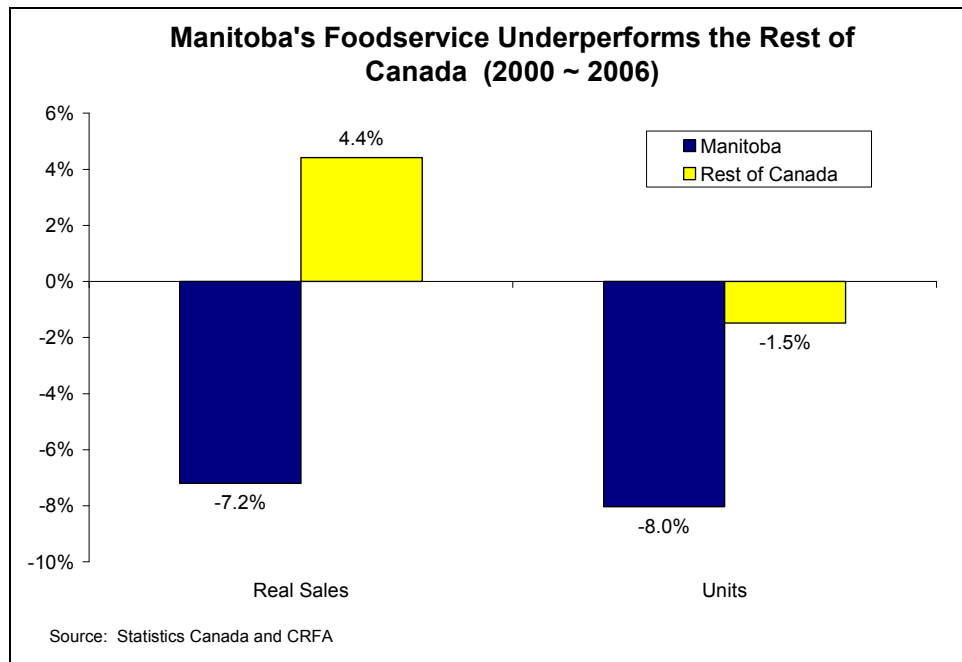
Manitoba's foodservice industry provides those young people with valuable job experience and training. The generic skills they acquire in the industry – communication, teamwork, customer service, and problem-solving, for example – can build a foundation for advancement within the foodservice industry, or provide a springboard to other career paths. The flexible work arrangements offered by the 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), Manitoba's foodservice operators survive on razor-thin margins. On average, the Manitoba foodservice industry net income before taxes is only 5.3% or \$30,412 which is less than the average industrial wage in Manitoba.



Unfortunately, in recent years growth in Manitoba's foodservice industry has not kept pace with the rest of Canada. Since 2000, the number of foodservice establishments in Manitoba has tumbled by 8% representing 158 fewer establishments.

Over the past six years, the industry has seen a troubling trend of declining real sales and a drop in the number of foodservice businesses. Job growth in Manitoba's foodservice industry has been lower than in any other Canadian province over the past 15 years. Increased labour costs, higher rents and more expensive food costs have pushed many marginal operations out of business.



Working Towards a Brighter Future for Foodservice

The last six years, by any measure, have presented enormous challenges for the foodservice industry, and 2008 offers little cause for hope. Manitoba is forecast to experience a 1.1% decline in real foodservice sales in 2008, hot on the heels of a 1.6% real decline in 2007. With the substantial contribution foodservice makes to the economy and its disproportionate employment impact, all Manitobans have a stake in ensuring a vibrant and successful foodservice industry in the years ahead.

Below are suggestions in the areas of labour, beverage alcohol, and personal tax reform that will help the industry better respond to consumer demand and play a more vital role in the growth of Manitoba's economy.

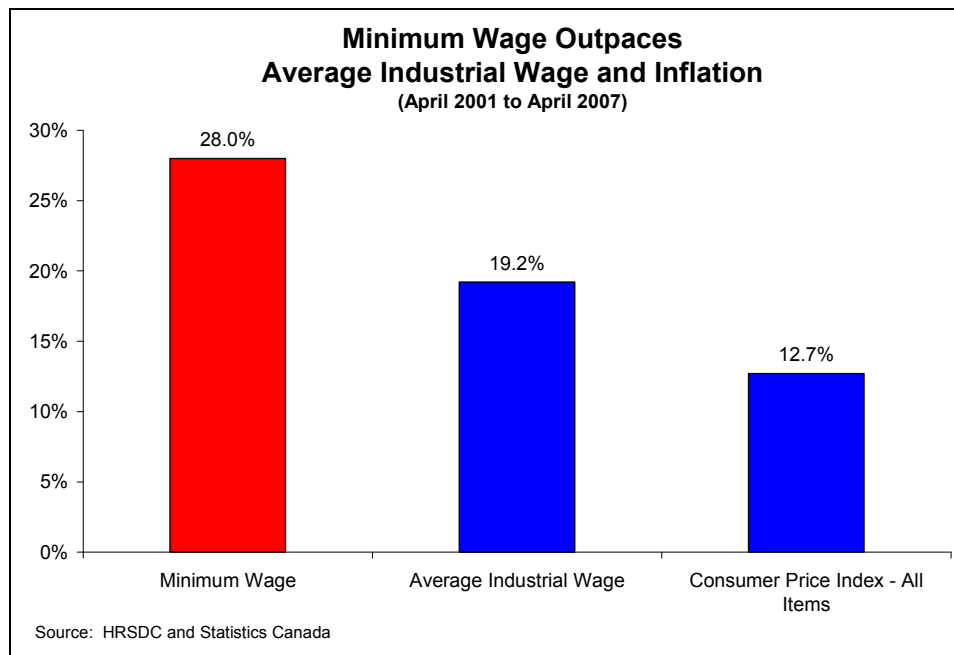
Labour

Almost one third of the input costs of the average foodservice establishment go directly to payroll. This means that roughly 30% of every dollar spent in a restaurant goes directly back into the pockets of employees. Manitoba's foodservice operators survive on thin profit margins, and any change to the minimum wage or increases to payroll taxes that boost labour costs can make the difference between a successful business and a shuttered business.

Minimum Wage

Lately, there has been a push across the country to increase provincial minimum wage rates to \$10.00/hour or more. Many governments have been promoting the minimum wage increases as a tool in the fight against poverty. CRFA believes there are other, more effective ways to ensure more money goes into the pockets of low income earners than raising the minimum wage.

Over the past six years, minimum wage increases have outpaced the rate of inflation and increases in the average industrial wage, yet anti-poverty activists still point to the minimum wage as the most effective tool to increase take home pay.



One has to wonder why a \$10 minimum wage is being touted as an anti-poverty tool when more than one third (37%) of Manitobans living in poverty are unemployed. For them, a higher minimum wage is inconsequential. IN addition, nearly a quarter (21%) of those living in poverty has completed post-secondary education. A higher minimum wage won't help them find employment in their chosen fields. Nor will a higher minimum wage assist the tens of thousands of seniors living in poverty.

In fact, increasing the minimum wage too high, too fast can worsen the situation by creating a ripple effect throughout the economy. As other wages rise to keep pace with a skyrocketing minimum wage, the cost of basic goods and services rises as well. At the same time, employers in labour intensive industries, like foodservice, are left with little choice but to control costs by cutting back on their staffing levels. Entry-level job opportunities are typically the first casualty.

Those who feel minimum wage is a good way to fight poverty must ask themselves, why stop at \$10.00? Why not impose a \$15.00 or \$25.00 minimum wage? Obviously this would create a lot of potential employees, but far fewer jobs and far more expensive goods and services.

This scenario was reinforced in a 2006 study for the Government of Canada that concluded minimum wage is an “exceedingly blunt instrument for dealing with poverty, and may actually have a perverse effect, exacerbating poverty.” Other studies have found that a 10% increase in minimum wage leads to a 2.5% decrease in employment for teenagers.

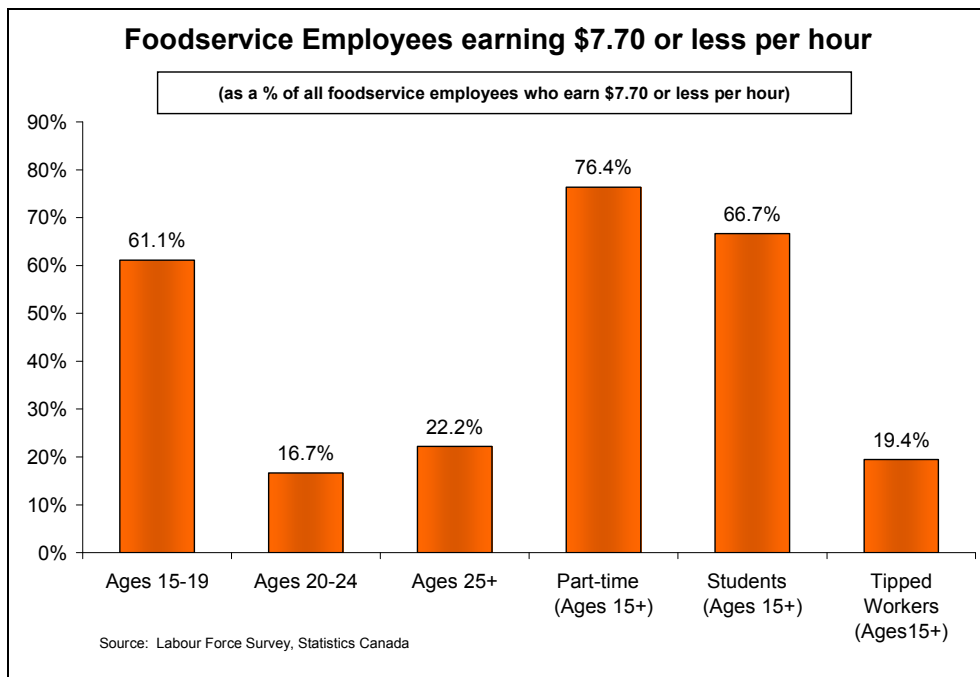
Most employers don't have a pool of extra cash to cover the higher wages and payroll taxes that would result from a 25% minimum wage increase. In Manitoba's foodservice industry, the average employer is running his or her business on a 5.3% pre-tax profit margin, due to higher payroll costs and low disposable income levels.

Some argue that restaurateurs could simply raise their menu prices to pay for higher wages. In a highly competitive industry, with price-sensitive consumers, this is rarely an option.

Reasonable minimum wage rates serve an important purpose by allowing students and other entry-level employees to gain a foothold in the world of work. The vast majority of minimum wage earners are young, first-time employees who voluntarily work part-time and do not rely on their minimum wage income for their livelihoods.

More than 60% of minimum wage earners in Manitoba's foodservice industry are young people between the ages of 15 and 19, while just 22.2% of foodservice employees 25 years or older earn the minimum wage. Many of these employees also earn tips that push their hourly wage well above \$10/hour.

Far from living in poverty, these minimum wage earners are more than likely living at home and working part-time to gain job experience, work skills, extra income and savings for further education.

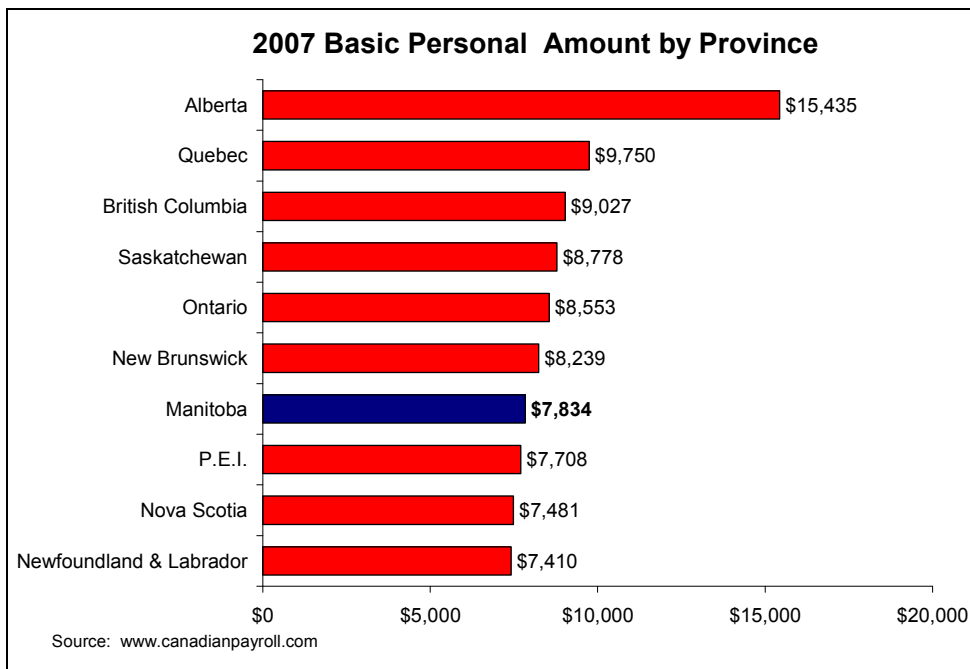


Ironically, a steep minimum wage increase could put the future of many of these students at risk. Studies have shown that school enrollment rates are lower when minimum wage rates are high. In tight labour markets, as is the case in many regions in western Canada, a high minimum wage can entice teenagers to quit school early only to find themselves without skills and education when labour market conditions change.

Clearly government cannot generate prosperity through minimum wage legislation. A more effective strategy is to concentrate on helping people upgrade their skills to qualify for better-paying positions. Proponents of a \$10 minimum wage ought to shift their focus to more targeted anti-poverty strategies.

Even if the disemployment effects are minimal, minimum wage policy as an income redistribution tool or anti-poverty tool is ineffective relative to other policies such as income transfers to low income families through the tax system. This is because the minimum wage applies to an individual, while poverty depends on family need and the number of wage earners in the family.

The Government of Manitoba has begun to target income supplementation for low-income earners by increasing the basic personal income tax exemption level to \$8,034. This is a good start, but more needs to be done. Manitoba is more than \$500 behind Saskatchewan, and those who choose to live here enjoy only half of the exemption than those in Alberta. Raising the personal income tax exemption level by roughly \$500 to match neighbouring Saskatchewan's income tax exemption level of \$8,778 will provide all Manitobans, including low-income earners, with a substantial real increase in take home pay.



CRFA recommends that the government focus on transfers through the tax system to address concerns of low wage employees. Enriched tax credits are a much superior strategy to increase disposable income for the working poor than a minimum wage increase.

Training Wages and Tip Differentials

Most minimum wage earners in tipped positions earn income far in excess of the minimum wage. It is not uncommon for servers to earn \$25.00 per hour with tips. A comprehensive Ontario study entitled “Tipping Practices in Licensed Establishments in Ontario” sponsored by the Ministry of Labour, the Ministry of Tourism and Recreation, the Ontario Women’s Directorate as well as two trade association and two unions (1993), confirmed that tipped income is significant in the restaurant sector.

In Ontario, the results of the Tipping Practices Study convinced the then-NDP government to retain the tip differential. As part of its recent commitment to raise the minimum wage to \$10.25/hour, the Liberal government has committed to maintain the beverage alcohol server and student differentials. The minimum wage for tipped employees is currently \$.95 lower than the general minimum wage of \$8.00. The regulation is applied as follows:

“If an employee serves liquor as a regular part of their employment, regardless of the length of time during the shift they actually serve liquor directly to patrons, they will be considered to be entitled to the liquor servers minimum wage for all hours worked during that shift.”

In Quebec a \$.75 tip differential also applies with the general minimum wage currently at \$7.45 and tip wage at \$6.70. Quebec defines a tipped worker as follows:

“Workers Receiving Tips ... Workers that usually receive tips and work in an establishment considered to be a hotel, restaurant or on a camping ground, under the Tourist Establishment Act, in a local where alcoholic beverages are sold for consumption on the premises, or for an enterprise which sells, delivers or serves meals for consumption off-premise.”

The minimum wage tip differentials continue to work well in both of these jurisdictions where the intent of the regulation/legislation is clearly understood by employers and employees. The administrators of the *Employment Standards Act* in Ontario and the Commission des normes du travail in Quebec report less than a handful of complaints about this policy each year.

Implementing a tip differential in Manitoba in concert with the next increase to the minimum wage would allow foodservice employers more flexibility to increase the wages for non-tipped or “back-of-the-house” employees whose earnings are substantially less than their “front-of-the-house” counterparts earning minimum wage plus tips.

It would also ensure that tipped employees do not experience a net drop in income as a result of their hours being reduced when the minimum wage increases.

CRFA recommends that a minimum wage differential for tipped employees be introduced in concert with the next provincial minimum wage increase.

A youth or training wage differential should also be considered to offset additional costs associated with hiring inexperienced youth for their first job. It has already been illustrated that the hardest hit in terms of disemployment effects of a minimum wage increase are inexperienced and unskilled youth. The case has also been made that using the minimum wage as a tool for alleviating poverty has little application to teenagers and young adults. They are evenly spread throughout the family income distribution spectrum. However, youth are the group most in need of work experience in order to get established in the labour market.

The OECD (1997)ⁱⁱ makes a case for differentiating the minimum wage by age using the argument that a high minimum wage for teenagers and inexperienced young workers may negatively affect their employment opportunities. Out of 17 OECD countries with a national minimum wage, 9 countries have a reduced rate for younger employees (Belgium, France, Luxembourg, Netherlands, New Zealand, Portugal, Spain and Turkey, Canada (Ontario)). The OECD also suggests that distributional arguments in favour of a minimum wage may be less relevant in the case of young workers since low-paid jobs for many are often a stepping-stone into better ones in the future. Minimum wage jobs can provide the needed experience and training for school-to-work transitions as evidenced by the increasing importance of volunteer work with no pay.

Many provinces in Canada have removed the youth minimum wage differential and the incentive for businesses to create first-time employment and skills training opportunities for young people because of concerns about court challenges under the Charter of Rights and Freedoms. The solution lies in a training wage, which would apply to any new worker. After 3 to 6 months of on-the-job training, the new worker’s pay would be increased.

This approach would encourage job creation and skill development and would ensure more young people can enter and are prepared to progress within the workplace. This currently exists in Nova Scotia where the base rate of minimum wage is \$7.60 but the hiring of inexperienced workers is encouraged through a lower rate of \$7.15 per hour for the first three months for every new hire. The Nova Scotia definition of an inexperienced employee is as follows:

“Inexperienced employee means an employee who has not been employed by his or her employer or other employer for a total period of three calendar months to do the work for which the employee is employed, but it does not include a person in the employ of an employer for whom he or she has completed three calendar months of employment”.

Fears that employee turnover would increase with a training wage differential have not been borne out in Nova Scotia because the investment by employers in training new employees is too high. Once these inexperienced workers learn workplace protocol and accumulate workplace skills such as teamwork, punctuality, taking direction, time management and independent decision-making, their value to the employer increases and the employer is then able to offer more pay.

In November 2001, British Columbia also introduced a First Job Wage differential of \$2.00/hour less than the \$8.00 per hour general minimum wage for the first 500 hours of work. This policy gives employers the incentive to hire thousands of first time employees who may not otherwise be employed. It is important to note that many employers start first job employees at a higher starting rate than the minimum allowed and often bring them up to the general minimum wage level when their skill levels match other employees in the workplace prior to using up the full 500 hours.

High minimum wages can be detrimental to young, inexperienced youth in other ways. Neumark and Wascher (1995, 1996)ⁱⁱⁱ show that higher minimum wages are associated with lower school enrollment. A high minimum wage encourages teenagers to leave school in search of full-time employment. The cruel joke is that once lured into the workforce, job opportunities become scarcer. The result is more idle teenagers without school or a job.

One of the worst results of a broad-brush approach to the minimum wage is that it robs small businesses of the ability to create first time job experiences. A youth/training wage differential ensures youth are not locked out of valuable work experience or denied the opportunity to save for and contribute to their education.

Entry-level jobs which introduce students to the world of work, customers, co-workers and managers, provide inestimable benefits to students that can never be replicated in the classroom.

The quick service segment of the foodservice industry hires the most entry-level inexperienced employees. A 2004 review of British Columbia’s 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.

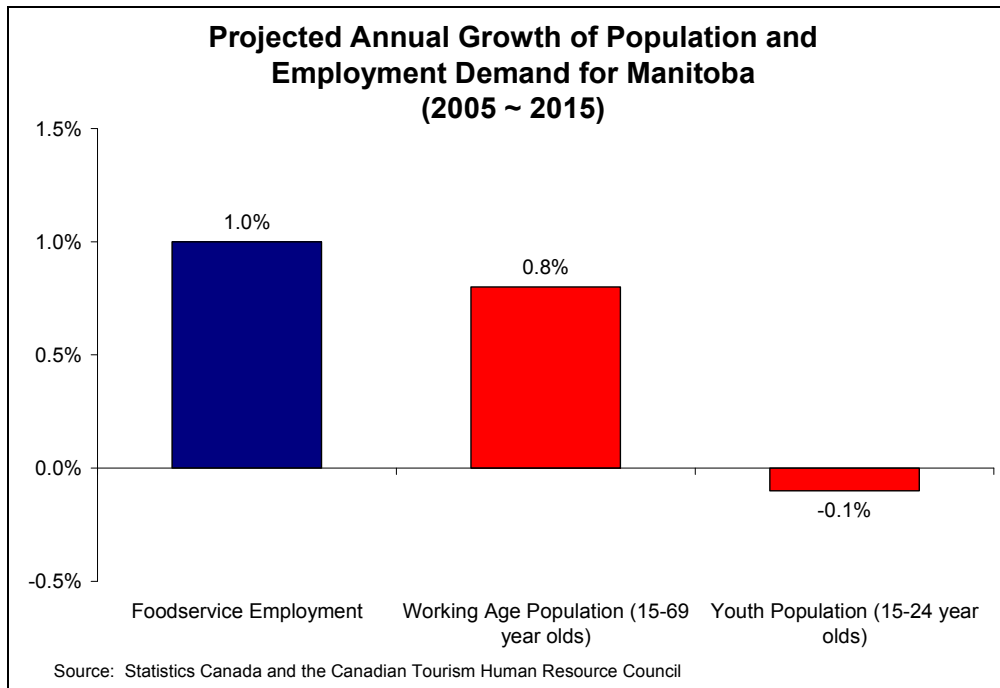
CRFA recommends that a training wage for inexperienced employees be introduced in concert with the next provincial minimum wage increase.

Labour Shortage

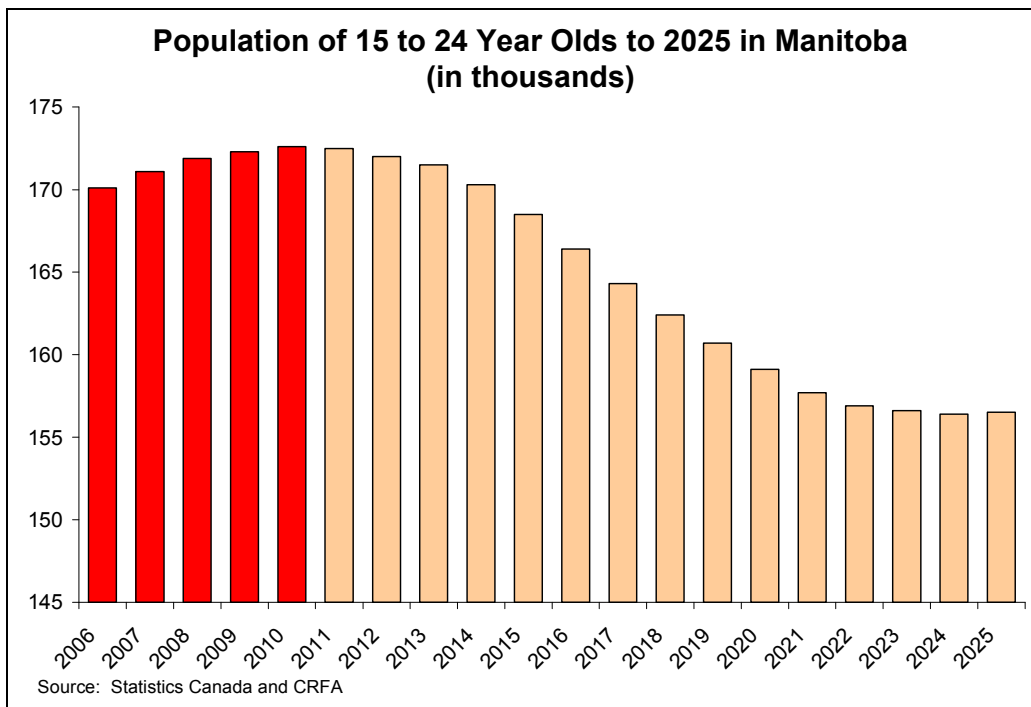
The looming shortage of workers is the most significant challenge facing foodservice operators across Canada. Over the next 20 years, the combination of low fertility rates and the retirement of baby boomers will create a labour market crisis of unparalleled proportions. Restaurant owners -- along with employers in other industries -- will not have enough staff to run their businesses, resulting in lost investment and business closures. The Conference Board of Canada predicts a national labour shortage of nearly one million people by 2020. Economic forecasting company Global Insight expects the labour shortage will reduce real GDP from 3% annual growth to less than 2%, costing the Canadian economy billions of dollars in lost output.

In June 2006, the unemployment rate in Manitoba fell to 3.6% – the lowest since Statistics Canada began collecting data in 1976. At the same time, the youth unemployment rate tumbled to 6.4% -- also its lowest level since 1976. As of October 2007, Manitoba has the second lowest unemployment rate in the country, second only to Alberta, at 5.8%. The provincial youth unemployment rate has risen slightly to 9.5%, but is still lower than the national rate of 11.1%. While this is great news for Manitobans, the rapidly dwindling supply of available labour is making it difficult to find workers in the foodservice industry.

The current situation is a small taste of what is expected over the next 10 years. A March 2005 report by the Canadian Tourism Human Resource Council (CTHRC) forecasts that demand for foodservice employees in Manitoba will grow by an average 1.0% per year between 2005 and 2015, representing an additional 2,068 workers. Statistics Canada's population projections show that the working age population of 15 to 69 year olds will not grow at the same pace. For the foodservice industry to avoid labour shortages, Manitoba's working age population would have to expand by 1.0%, but Statistics Canada is only forecasting a population growth of 0.8% during this time.



While most businesses will face labour shortages due to baby boomers entering retirement age, the challenge in the foodservice industry will be exacerbated by an absolute decrease in the number of young people that have traditionally filled the industry's entry-level positions. More than half of foodservice employees are under the age of 25. Yet, the number of youth in Manitoba between the ages of 15 and 24 will actually decline by 9.3% between 2006 and 2025, representing 16,000 fewer youth.



With the demand for employees outstripping the growth of the working-age population, many foodservice operators will be unable to meet the needs of their customers, resulting in lost output, business closures and reduced investment in the province. As a result, both government and industry must make every effort to discover new ways to attract and retain new workers.

Manitoba'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 has also been working with Department of Labour and Immigration officials to increase awareness of the realities hospitality operators are facing, and developing strategies to build bridges between Manitoba employers and the existing pool of workers. CRFA will also be encouraging the government to consider changes to the Manitoba 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.

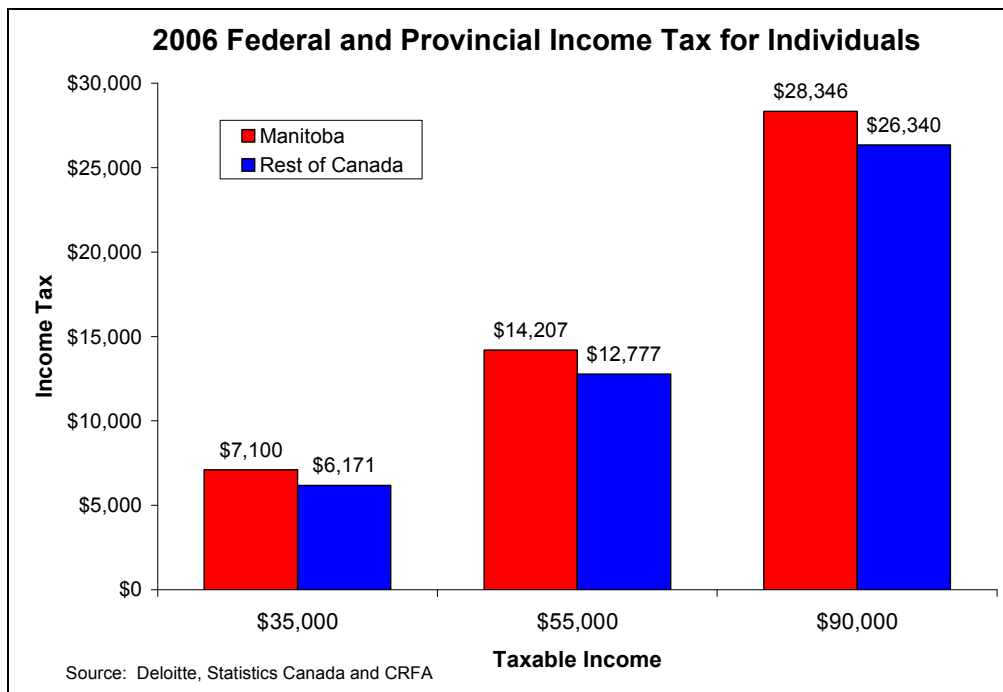
CRFA recommends that the Government of Manitoba continue to work with CRFA on expanding the Provincial Nominee Program to allow lesser skilled occupations to be included under the program.

Personal and Business Taxes

The best way to grow Manitoba's economy is by allowing taxpayers to keep more of their hard-earned dollars. Manitoba's economy grows when taxpayers have more of their income at their disposal.

Raising the personal basic exemption is a good start, and CRFA encourages the government to build on this foundation by looking at additional ways to decrease the tax burden of its citizens.

Manitoba'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.



Small Business Tax Rate and Threshold

The Government of Manitoba should be applauded for committing to reduce the small business tax rate by 2009. This move will help improve the competitiveness and increase investment in the foodservice industry and small businesses throughout the province. However, the Government of Manitoba 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 the foodservice industry and other Manitoba businesses 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.

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 Government of Canada acknowledged that the increases in Employment Insurance (EI) premiums fueled layoffs during the time of the increases. In fact, Human Resources Development Canada 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 to into fewer than 37,600 fewer industry jobs in Canada.

CRFA encourages the Government of Manitoba 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.

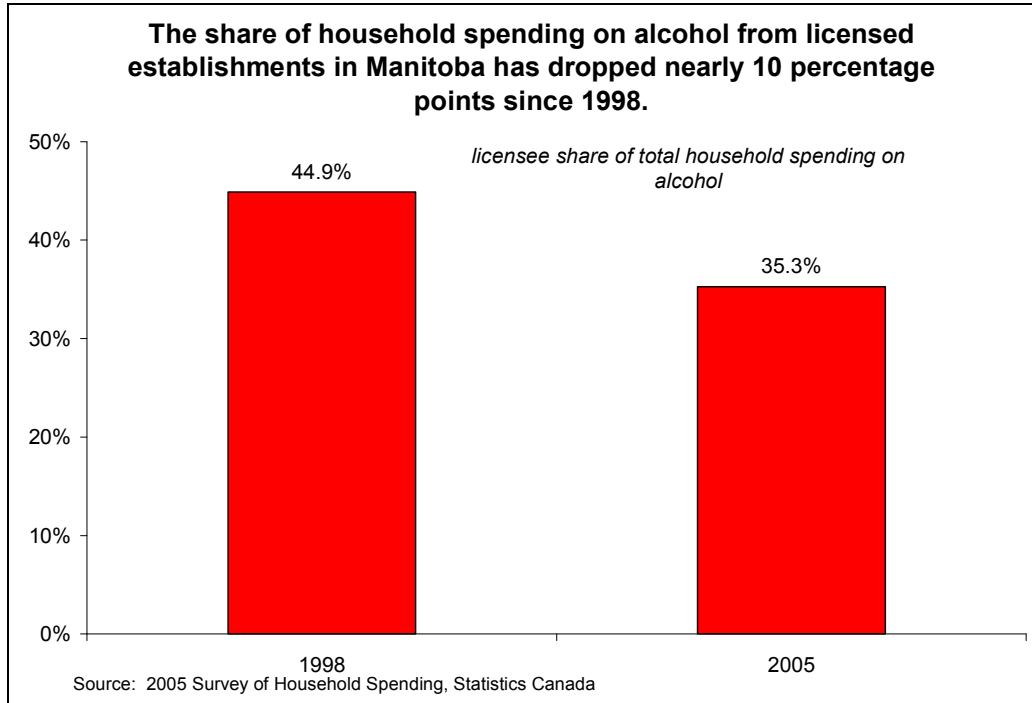
Manitoba's Health and Post Secondary Education Tax Levy is one of the most regressive taxes in the country. Manitoba is one of four Canadian provinces that collects a payroll tax. This type of tax effectively punishes businesses for succeeding and providing more Manitobans with jobs.

Not only does this tax punish individual employers, it also negatively impacts Manitoba's overall economy. The payroll tax acts as a disincentive for new business to open and grow here in Manitoba. To companies looking to expand to Manitoba, the mere existence of the payroll tax overshadows the positive steps taken to reduce the small business tax rate.

CRFA recommends the elimination of the Health and Post Secondary Education Tax levy, which reduces Manitoba's competitiveness and punishes businesses for growing and creating new jobs in the province.

Beverage Alcohol

Liquor licensees add value to the sale of wine, beer and spirits through the people and products that are required to serve beverage alcohol in Manitoba's bars and restaurants. The Manitoba Liquor Control Commission (MLCC) has recognized this fact by taking a number of steps to create a better business climate for licensees. As an example, licensees receive a 14% discount on the retail price of beer purchased for sale in their establishments. CRFA would like to see this type of volume discount available across the entire MLCC product spectrum.



Flat Tax Mark-Up

The current system of liquor pricing and taxation in Manitoba 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.

All licensees and private wine stores should receive access to wholesale liquor prices. It is unfair to all resellers of liquor that the MLCC acts as the liquor regulator, the wholesaler, and as a liquor retail competitor. MLCC unfairly competes against private resellers of wine and liquor licensees by forcing resellers to purchase wine and spirits

from MLCC at retail prices. MLCC liquor stores sell beverage alcohol to the same consumer, while providing less economic benefit from the sale of beverage alcohol than licensees.

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. Some of the benefits of a flat-tax markup system include:

1. A Flat Tax provides more certainty/predictability of revenue for the MLCC. Under the existing ad valorem system, the MLCC is subject to less predictable revenue.

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 Lambrusco Emilia, an \$8.32 per bottle Italian wine) suddenly grows in popularity at the expense of a higher priced products, the tax revenue to government declines. And, with the expansion of private retail in the province the risk of lost revenue increases.

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 or licensee 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.

The current system with prices determined by ad valorem mark-ups and then discounted to private retailers creates uncertainty of revenue for the MLCC. As private wine store sales increase the total cost of discounts to private retailers will increase creating an environment of less predictability for MLCC. A flat-tax based system based on the volume of liquor sold would make revenue more predictable.

2. A flat-tax system is easier to administer.
3. A flat-tax system would provide the basis for a wholesale pricing system for private retail and restaurants.
4. 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 MLCC 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.

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.

Credit Card Purchases for Licensees

One area where Manitoba continues to lag other provinces is credit card purchasing power for licensees. While MLCC provides 30 day payment terms, licensees do not have the flexibility to pay for their purchases by credit card – a courtesy that the MLCC extends to the general public. Credit card payment is available to licensees in **every other Canadian province**, and payment by credit card is a privilege that the foodservice industry enjoys from the vast majority of its commodity suppliers.

CRFA recommends that the MLCC join the rest of the country in allowing liquor licensees to make purchases by credit card.

Conclusion

The past six years have been difficult ones for Manitoba's foodservice industry. Sales and profitability of the industry in Manitoba lag well behind other provinces. Many of the causes of the difficulties have been a result of increased labour costs and slower sales, and the net effect is a fragile industry supporting over 39,000 Manitoba jobs.

In this submission, CRFA has recommended new and innovative approaches the government should consider with respect to the labour market and changes to the beverage alcohol system which would improve economic conditions for operators while maintaining government revenues.

Labour costs continue to burden Manitoba's employers, both big and small. The looming labour shortage has put Canada's labour market into an entirely new realm, where business and government must share the responsibility for identifying solutions.

Personal tax rates in Manitoba are among the highest in Canada. CRFA encourages the government to Manitoba's introduce tax measures that will lower personal tax levels and increase disposable income.

The government should be commended for committing to eliminating the small business tax rate by 2009, and should now focus on the elimination of the payroll tax.

Changes to the liquor mark up system can provide stability in government revenues, and reduce costs for licensees. Extending credit card payment options to licensees is long overdue, and Manitoba is the lone jurisdiction that does not extend this service to its licensee customers.

Canadian Restaurant and Foodservices Association

The Canadian Restaurant and Foodservices Association (CRFA) is the largest hospitality industry association in Canada and in Manitoba. Since its founding in 1944, CRFA has grown to more than 34,000 members, including 600 Manitoba 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.



Summary of Recommendations

- 1. CRFA recommends that the government focus on transfers through the tax system to address concerns of low wage employees. Enriched tax credits are a much superior strategy to increase disposable income for the working poor than a minimum wage increase.**
- 2. CRFA recommends that a minimum wage differential for tipped employees be introduced in concert with the next provincial minimum wage increase.**
- 3. CRFA recommends that a training wage for inexperienced employees be introduced in concert with the next provincial minimum wage increase.**
- 4. CRFA recommends that the Government of Manitoba continue to work with CRFA on expanding the Provincial Nominee Program to allow lesser skilled occupations to be included under the program.**
- 5. CRFA recommends that taxation measures that will help businesses compete with our closest competitors continue to be implemented.**
- 6. CRFA encourages the Government of Manitoba 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.**
- 7. CRFA recommends the elimination of the Health and Post Secondary Education Tax levy, which reduces Manitoba's competitiveness and punishes businesses for growing and creating new jobs in the province.**
- 8. 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.**
- 9. 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.**
- 10. CRFA recommends that the MLCC join the rest of the country in allowing liquor licensees to make purchases by credit card.**

Endnotes

- i Gunderson, Morley (2006), "*Minimum Wages in Canada: Theory, Evidence and Policy*", Federal Labour Standards Review Commission (italics added).
- ii OECD (1997), "*OECD Submission to the Irish National Minimum Wage Commission*", Labour Market and Social Policy Occasional Papers, No. 28
- iii Neumark, David and Wascher, William (1995), "*Minimum Wage Effects on Employment and School Enrollment*", Journal on Business and Economic Statistics, 13, pp. 199-206