



Canadian Restaurant  
and Foodservices  
Association

Association canadienne  
des restaurateurs et  
des services alimentaires

5121 Sackville Street,  
Suite 201  
Halifax, Nova Scotia  
B3J 1K1

Tel: (902) 425-0061  
Fax: (902) 422-1161  
Email: lerjavec@crfa.ca  
www.crfa.ca

May 31, 2007

Tax Reform Committee  
Halifax Regional Municipality  
P.O. Box 1749  
Halifax, Nova Scotia

Dear Members of the Tax Reform Committee:

I am writing on behalf of the Canadian Restaurant and Foodservices Association (CRFA) regarding discussions now underway surrounding municipal tax reform in Halifax Regional Municipality (HRM) and more specifically Proposal #10 which calls for the introduction of a municipal sales tax on beverage alcohol. CRFA opposes any new tax measures that would increase the tax burden on the already over-taxed foodservice industry in HRM. The proposed tax, due to its impact on disposable income and the current state of the restaurant and foodservice industry in Nova Scotia, will have a devastating consequence and lead to a less competitive business environment in HRM.

CRFA is Canada's largest hospitality association, representing over 34,000 members across the country, including 1,000 members in Nova Scotia. Nova Scotia's restaurant and foodservice industry represents one of the largest sectors of the provincial economy with sales of \$1.2 billion representing 4.0% of GDP. With 32,000 people in Nova Scotia on its payroll, it is one of the province's largest private sector employers, representing 7.0% of the province's total employment.

Foodservice is an important contributor to HRM's economy. The city's 835 restaurants, caterers and bars generate \$772 million in revenues. Every dollar spent at a bar or restaurant generates an additional \$1.78 in economic spin offs<sup>1</sup>. And it's an industry that creates jobs: foodservice directly employs nearly 12,000 people in HRM, 4,800 of whom work at licensed establishments. At a time when Atlantic Canada is struggling to retain the exodus of its youth to western Canada it is important to maintain a strong hospitality industry. A vibrant hospitality sector is essential to economic development and urban renewal. Young and creative people tend to live or migrate to areas with a thriving hospitality and social scene.<sup>2</sup>

- **State of the Foodservice Industry**

In recent years, Nova Scotia's foodservice industry has under performed the rest of Canada. Between 1999 and 2006, real foodservice sales in Nova Scotia fell by 6.3%. This compares to an 8.5% increase in the rest of Canada. The bar/nightclub sector has been even more hard hit

<sup>1</sup> Input Output Division, Statistics Canada.

<sup>2</sup> The Rise of the Creative Class (2002), Richard Florida, 2002 Basic Books

with the province's sector declining a whopping 32.6% over the same period. During the same period, the number of establishments in the province has dropped by 11.3%.<sup>3</sup>

Average profit margins in Nova Scotia's foodservice industry continue to decline and are the lowest in Atlantic Canada at just 3.4% of operating revenues. For bars, taverns and nightclubs, pre-tax profit margins hit an all time low in 2006, now measuring just 1.2%, making it impossible for operators to adjust to higher costs in any form<sup>4</sup>.

The industry has been hard hit by rising food costs, smoking bans, escalating beverage alcohol costs and weak disposable income to name a few. This is compounded a severe decline in tourism following the September 11, 2001 terrorist attacks, the soaring Canadian dollar and skyrocketing gas prices. Tourism accounts for almost 20% of total foodservice sales in Canada<sup>5</sup> and Atlantic Canada was one of the areas hardest hit by this calamitous series of events. The number of international visitors coming to Nova Scotia has dropped by a third since 2001, and is only just beginning to recover.

- **Business Tax Environment**

The business tax rate in HRM is approximately 4 times more than that of residential taxpayers yet few businesses receive comparable services. Numerous studies from across Canada as well as preliminary results from HRM's own study conclude that businesses pay considerable more than the cost for services while residents receive considerably more service than they pay for.

CRFA believes there should be a direct correlation between the amount of tax paid and the benefits received. This will instill a level of accountability between ratepayers and service providers.

CRFA strongly opposes any new taxing powers for Halifax Regional Municipality, especially suggestions for a municipal sales tax on beverage alcohol. HRM cannot expect the city's struggling bars and licensed restaurants – the majority of which are small, independent businesses -- to solve the city's budget woes. The city must look a reducing and rationalizing spending as well as distributing the tax load more equitably between residents and businesses.

- **Impact of New Taxes on Foodservice Industry**

In the foodservice industry alone, for every 1% increase in disposable income, there is a 1% increase in foodservice sales<sup>6</sup>. Every \$1 million in sales leads to the creation of 34 more jobs in the restaurant and foodservices industry<sup>7</sup>. New taxes of any sort will decrease disposable income of Haligonians. In an industry reliant on disposable income for its success, any new taxes will negatively impact the restaurant and foodservices industry.

---

<sup>3</sup> Foodservice Operations Report (2007), Prepared by Canadian Restaurant and Foodservice Association based on data from Statistics Canada.

<sup>4</sup> Foodservice Operations Report (2007), Prepared by Canadian Restaurant and Foodservice Association based on data from Statistics Canada.

<sup>5</sup> Foodservice Facts (2007), Prepared by the Canadian Restaurant and foodservices Association based on data from Statistics Canada.

<sup>6</sup> Statistics Canada and Canadian Restaurant and Foodservices Association.

<sup>7</sup> Input Output Division, Statistics Canada.

As sales taxes go up, sales at restaurants and bars go down, and reduced sales mean fewer jobs and fewer restaurants in the city. **Every 2% in new alcohol sales tax would reduce spending at HRM's licensed restaurants and bars by nearly a million dollars annually.** Bars would bear the brunt of a new tax on drinks as alcohol sales generate 80% of their revenue<sup>8</sup>. This is blatantly unfair and targets an already struggling sector with punitive taxes. Since the average profit margin for a bar owner in Nova Scotia is just 1.2% of operating revenue, it will be just a matter of time until more businesses fail and employees lose their jobs.

Dining out at restaurants is one of the top three activities that attract tourists to Canada<sup>9</sup>. It is counterproductive for government to invest millions of dollars promoting Nova Scotia and HRM as tourist and convention destinations on one hand, while on the other hand erecting roadblocks that stifle innovation and investment by restaurant and bar operators.

New taxes threaten the viability of operators in HRM, and creates an un-level playing field between operators in HRM and other municipalities or other provinces. No other jurisdiction in Canada has a municipal sales tax on beverage alcohol and this tax would make it difficult for HRM operators to compete for tourist or convention business. The impact of new taxes on HRM businesses bordering other municipalities will be catastrophic. Simply absorbing tax increases or offering inducements to customers is not an option for employers in an industry with already razor-thin margins.

Trying to incorporate the cost of new taxes and costs in higher prices is also self-defeating because it will reduce the demand for the industry's goods and services. Consumers are extremely resistant to menu price increases and will have the option of choosing less expensive restaurant meals potentially one street over or at home. Overall, imposing new taxes in HRM, will lead to less economic activity and will not solve the budgetary woes that the city claims to face.

I trust you will give the views of this important industry careful consideration as you develop proposals for tax reform in HRM and not travel a path that will stifle growth in this vibrant, job rich industry. In the meantime, if you have any questions or would like to discuss this submission further, please do not hesitate to contact me @ (902) 425-8190 ext. 101.

Sincerely,



Luc Erjavec, P.Eng.  
Vice-President, Atlantic Canada.

---

<sup>8</sup> Foodservice Operations Report (2007), Prepared by the Canadian Restaurant and Foodservices Association based on data from Statistics Canada.

<sup>9</sup> Tourism Statistical Digest, Statistics Canada.