

# **PRE-BUDGET SUBMISSION**

TO THE

**Standing Committee on Finance  
and Economic Affairs**

SUBMITTED BY

**Canadian Restaurant and  
Foodservices Association**



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## INDUSTRY OVERVIEW

CRFA is Canada's largest hospitality industry association, with over 34,000 members across the country – including over 11,000 in Ontario. Members include restaurants, bars, cafeterias and institutional foodservice operators.

Ontario's \$22.6-billion restaurant industry has the potential to be an economic leader creating more jobs, more investment and more dining destinations throughout the province. With nearly 33,000 locations across Ontario and a workforce of 406,100 employees, the industry is uniquely positioned to contribute to the economy of every community in Ontario.

In 2009, Ontario restaurant operators are going to face their toughest year in over a decade. Real foodservice sales are expected to fall across the country in 2009, and Ontario will lead the decline with an expected 6.3% drop in sales compared to 2008. Between 2000 and 2008, real foodservice sales in Ontario rose just 2.7%, compared to an 11.0% increase in the rest of Canada.

Over the past several years, restaurant and foodservice operators have faced serious challenges – from a dramatic decline in travel and tourism to the soaring costs of doing business. Increased costs include the rising costs for labour, food, beverages, utilities and insurance. In addition, the foodservice industry faces the constant threat of new regulations and tax increases.

The introduction of the City of Toronto Act, as one example, leaves the industry particularly vulnerable to the city's ability to levy fees and taxes on areas such as beverage alcohol and in-store packaging. Any fees introduced by the city of Toronto, would leave Toronto's restaurants and bars at a distinct competitive disadvantage in their own province.

The foodservice industry is particularly sensitive to increased taxation due to the close relationship between disposable income and foodservice spending. As disposable income rises, foodservice sales increase. For every 1% increase in disposable income, the industry experiences a 1% increase in foodservice sales, and for every additional \$1 million in sales, 34 jobs are created in the industry.

Every tax increase, regardless of how small it is perceived to be, has a serious impact on small business due to the already narrow profit margins. Average pre-tax profit margins for foodservice operators in Ontario are the lowest in the country, and now represent only 2.9% of operating revenue. Ontario bars have hit an average profit of 1.0% of revenue.

Tax increases that reduce consumers' disposable income or increase the cost of doing business compromise the industry's ability to create jobs. In the past five years, the number of restaurants, caterers and bars in Ontario has declined by 2,800 units.

The Canadian Restaurant and Foodservices Association (CRFA) has twelve recommendations for Budget 2009 that will assist the industry with its ongoing challenges, mitigate some of the impact of these challenges, and help stimulate Ontario's economy.

## **Summary of Recommendations from the Canadian Restaurant and Foodservices Association (CRFA)**

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### **CRFA RECOMMENDS**

- ❖ The Ontario government reconfirm their commitment not to harmonize the PST/GST.
- ❖ The PST tax exemption on foods be increased to include restaurant meals under \$8 (from the current level of \$4). Increasing the deminimus will assist the government in its commitment to providing healthy food choice alternatives to working families.
- ❖ The Ontario government, in conjunction with an industry committee, monitor the ongoing economic impacts of its decision to increase minimum wage and consider slowing down the pace of increases based on economic indicators.
- ❖ The Ontario government freeze the minimum wage rates of students and liquor servers at 2008 levels (Students \$8.20 / Liquor Server \$7.60), recognizing the current economic circumstances and findings of the Gunderson report.
- ❖ The Ontario government increase the EHT exemption threshold to payroll costs of \$600,000 from \$400,000.
- ❖ The Ontario government renew the 50/50 cost sharing arrangement for the blue box, currently in place between industry and municipalities, which promotes public and private partnerships to meet recycling goals. It is critical that in these economic times new government regulations encourage and support business investment in Ontario, not impede it.

- ❖ Ontario's bars and restaurants receive a true wholesale price, similar to the 11.5% discount that is given to LCBO agency stores.
- ❖ Licensees be extended the opportunity to use credit cards for purchases at The Beer Store. Retail consumers in Ontario are permitted to use credit cards and yet large volume licensees are not.
- ❖ The Ontario government reduce the provincial liquor tax from 10% to 9%.
- ❖ The Ontario government remove the environmental levy on non-refillable containers since these containers are now subject to Ontario's deposit-return program.
- ❖ The admission criteria for the Ontario Provincial Nominee Program be revised to recognize Canadian job experience of lower skilled workers and to better match labour market needs.
- ❖ The Ontario government work with industry on a long-term comprehensive labour shortage strategy to ensure labour supply can match industry requirements.

### BACKGROUND

CRFA supports the Ontario government's decision not to harmonize the GST and PST. Harmonization would shift the retail tax burden from businesses to consumers – forcing a broadening of the tax base or an increase in the rate to compensate for the revenue loss from the removal of retail sales taxes on business purchases.

In Ontario, harmonization means an increase in taxes for the consumer. For example, the \$4.00 threshold exemption for meals purchased at restaurants would be eliminated. This would have a disproportionate impact on senior and lower income Ontarians. Everyday items such as a coffee, muffin or yogurt would be subject to an increase in taxes. In percentage terms, low-income families spend twice as much of their income on meals away from home (4.2% of disposable income) than higher income families, which spend just 2.1%. If the GST is harmonized with provincial sales taxes, restaurant patrons will be left holding the bill.

By zero-rating food sold in grocery stores or convenience stores, such as a 250ml carton of milk, but taxing similar and identical products in a restaurant or cafeteria, the GST puts the foodservice industry at a unique competitive disadvantage. A customer can buy a carton of milk at a convenience store tax free, but will pay GST when they buy the same item at a cafeteria. A harmonized sales tax would only exacerbate the discriminatory application of the GST on food. In 1991, the introduction of the GST resulted in a 10.6% decline in real sales. It took the restaurant industry nearly a decade to recover. Eliminating the \$4.00 de minimus in Ontario, without leveling the food competitive playing field, will lead to a 1.1% decline in sales, and cost the industry \$91.5 million in 2009 in quick-service restaurants alone.

The \$4.00 threshold exemption for meals purchased in restaurants remains at the level set in 1987. While food costs increase, the amount available to consumers exempt from PST has not increased. It has not increased in line with basic inflation and menu advancements. In keeping with the growth in the minimum wage rate, the de minimus would now be \$7.70. Currently, the average check per person in Ontario is \$6.72. In the 2009 budget, CRFA recommends that rather than harmonize the GST and eliminate the de minimus, the Ontario government should increase the de minimus to \$8.00.

Restaurants are offering healthier alternatives and menu selections have been changing in step with consumer demands. As an example, the quick service industry is expanding its menu options to include salads, yogurts and fruit. Restaurants are also moving to trans fat free menus and CRFA is pleased to be a resource for the restaurant and foodservice industry supporting this initiative.

#### **RECOMMENDATION**

- ❖ The Ontario government should reconfirm their commitment not to harmonize the PST/GST.
- ❖ The PST tax exemption on foods should be increased to include restaurant meals under \$8 (from the current level of \$4). Increasing the deminimus will assist the government in its commitment to providing healthy food choice alternatives to working families.

## **MINIMUM WAGE INCREASES**

### **BACKGROUND**

The March 2007 decision to increase Ontario's general minimum wage 28% will cost Ontario's foodservice industry \$765 million in higher wages and payroll taxes over three years. At the same time, Ontario restaurant operators can expect to see sales fall in 2009 with the weakest real growth since 1991. With profit margins of only 2.9%, Ontario is already the least profitable place to operate a foodservice establishment in the country.

Foodservice establishments in Ontario are very labour intensive by nature with 31.5% of sales going towards payroll. On the other hand establishments operate in an environment where competition is fierce and where consumers are resistant to price increases. When faced with the paradox of government mandated wage increases, increased inflationary pressures and the inability to pass on increased costs, operators have little choice but to cut hours or jobs.

Increasing minimum wage does not improve outcomes for the majority of Ontarians living in poverty or for many low-income Ontarians. Empirical research studies in Canada and internationally confirm standard economic theory that mandated minimum wages set above the market-clearing wage reduce aggregate employment rates.

The research also indicates that those who experience the worst disemployment effects of a minimum wage increase are the young, inexperienced and unskilled. The Ontario foodservice industry is a major source of youth and entry-level jobs, employing 176,900 young-people between the ages of 15 and 24. This represents 18.2% of total youth employment in Ontario and 43.6% of the jobs in foodservice. The industry provides these young people with valuable job experience and training.

Increasing Ontario's minimum wage will not improve outcomes for low-income Ontarians. According to the February, 2007 report commissioned by the Ontario Ministry of Finance by Dr. Morley Gunderson, more than 80 percent of minimum wage earners in Ontario are teens or youth that live with their parents, or are part of a couple (with almost 70% having a spouse employed at a job above the minimum wage).<sup>1</sup>

Like minimum wage earners in Ontario, minimum wage earners in the foodservice industry are not serving as their family's primary income earner. The overwhelming majority of minimum wage earners in the foodservice industry are under the age of 25 (74.2% during the school year; 78.9% in the summer months). Over 57% of those earning minimum wage are students; and over 74% of those earning minimum wage work part-time. In addition, approximately 30% of foodservice minimum wage earners in Ontario earn gratuities in addition to wages. Increasing minimum wage in Ontario will do more harm than good, making fewer jobs and hours available to students and youth that require the ability to build a savings, and also acquire valuable work experience.

The industry opposed the dramatic minimum wage increases planned in Ontario. Fully 31.5 cents of every dollar spent at a restaurant goes directly to payroll costs. These businesses simply don't have the financial flexibility to absorb a large minimum wage hike. When minimum wage increases too quickly, foodservice operators have little choice but to cut hours and jobs – reducing entry-level employment opportunities and removing valuable stepping stones for young people entering the labour force.

#### **RECOMMENDATIONS**

- ❖ CRFA recommends that the Ontario government in conjunction with an industry committee should monitor the ongoing economic impacts of its decision to increase minimum wage and consider slowing down the pace of increases based on economic indicators.
- ❖ CRFA recommends that the student and liquor server differential wage rates be held at 2008 levels in 2009 (Students \$8.20 / Liquor Server \$7.60).

<sup>1</sup> Gunderson, Morley (2007), "Minimum Wages: Issues and Options for Ontario", Prepared for the Ontario Ministry of Finance

## EMPLOYER HEALTH TAX (EHT)

### BACKGROUND

The employer health tax (EHT) like all payroll taxes is a tax on jobs. It encourages businesses to invest in labour-saving devices such as automatic French Fry machines, or pre-cooked bacon, instead of hiring entry level employees to prepare the fries and bacon.

Employer payroll taxes can have permanent employment consequences for those unable to acquire basic skills. This is particularly true in industries such as foodservice where minimum wage and the competitive marketplace limit foodservice employers' ability to recoup payroll tax costs.

An increase in the EHT payroll exemption from \$400,000 to \$600,000 would be beneficial to foodservice employers as they try to cope with high mandated wage costs.

### RECOMMENDATION

- ❖ CRFA recommends that the EHT exemption threshold be increased to payroll costs of \$600,000 from \$400,000.

## ENVIRONMENT

### BACKGROUND

Meaningful and measurable standards designed to protect the environment are crucial. The restaurant and foodservice industry has identified the environment as a priority along with all levels of government. The industry fully participates in the Ontario government's waste diversion program governed by Stewardship Ontario.

Many challenges are on the horizon for the industry such as moving from a cost sharing model – where industry contributes 50% of blue box program costs, and municipalities contribute 50% – to one that would have industry pay 100% of waste diversion costs,

without any additional service to industry from municipalities. This radical change to the Blue Box funding formula will not deliver environmental gains, and will at least double and more likely triple costs to industry.

The Ontario Blue box program is a success story. Under the shared responsibility model, the Ontario blue box program has achieved great success. Over 90% of Ontarians use the Blue Box on a habitual basis. The province's 60% diversion goals have been exceeded – achieving a 63% diversion rate in 2007, and diversion rates continue to improve as municipalities expand services and materials collected. The shared responsibility model incents municipalities to control costs while increasing diversion.

The responsibility for waste management programs should lie with the Provincial government. The myriad of patchwork municipal diversion programs creates confusion amongst consumers and industry trying to innovate and design national packaging for the environment. Recycling programs today vary from municipality to municipality. This exacerbates the perception that the industry – in particular, quick-service restaurants – does not produce environmentally friendly packaging. The industry subsidizes the Blue Box program, but not all jurisdictions recycle all packaging. In reality, some municipalities deal with packaging by recycling it, or encouraging industry to use certain material, while others like the City of Toronto, then ban the very same packaging – creating confusion and stifling innovation due to uncertainty.

In addition, though provincial legislation requires stewards to conduct waste audits, some municipalities duplicate this process by passing regulations mandating additional waste audits of industry stewards. The province should implement a regulation that prevents this duplication and permits easy access for municipalities to already compiled information.

#### **RECOMMENDATIONS**

- ❖ CRFA recommends that the Ontario government renew the 50/50 cost sharing arrangement currently in place between industry and municipalities for the blue box, which promotes public and private partnerships to meet recycling goals. It is critical that in these economic times new government regulations encourage and support business investment in Ontario, not impede it.

### BACKGROUND

The bar and restaurant industry is the single largest customer of the LCBO and The Beer Store, and provides substantial economic spin-offs in the service of these beverages to their customers. And yet, liquor licensees have been denied wholesale pricing and pay hefty taxes and levies that further drive up their costs. Bar and restaurant operators pay as much as, or more for, their liquor inventories than consumers pay at their local beer or LCBO outlet.

Liquor licensees don't receive volume discounts. Nor can they take advantage of beer specials or samplers offered to regular retail customers. And, they are forced to pay taxes on beverage alcohol that are the second highest in the Western world.

The Ontario government continues to collect an environmental levy of nearly nine cents for every non-refillable container – on top of the deposits paid on wine and spirit containers under the new deposit-return program.

In Ontario, consumers who order a meal with a licensed beverage must pay three different sales taxes: the 6% federal goods and services tax, the 8% provincial sales tax and the 10% provincial liquor tax. With the taxation powers included in the City of Toronto Act, the almost 2.5 million Ontarians living in Toronto are now faced with the possibility of even more taxes when they dine out with the province's ability to levy a fourth, municipal tax on liquor in licensed establishments. Unfortunately, business owners and taxpayers across Ontario face the same threat of increased taxes, as municipalities look for ways to generate additional revenue.

The foodservice industry is particularly sensitive to increased taxation due to the close relationship between disposable income and foodservice spending. As disposable income rises, foodservice sales increase. For every 1% increase in disposable income, the industry experiences a 1% increase in foodservice sales, and for every additional million dollars in sales, 34 jobs are created in the industry.

## RECOMMENDATIONS

- ❖ CRFA recommends that as the single largest customer of the LCBO and The Beer Store, Ontario's bars and restaurants receive a true wholesale price, similar to the 11.5% discount that is given to LCBO agency stores.
- ❖ CRFA recommends that licensees be extended the opportunity to use credit cards for purchases at The Beer Store. Retail consumers in Ontario are permitted to use credit cards and yet large volume licensees are not.
- ❖ CRFA recommends the Ontario government reduce the provincial liquor tax from 10% to 9%.
- ❖ CRFA recommends the removal of the environmental levy on non-refillable containers since these containers are now subject to Ontario's deposit-return program.

## LABOUR SHORTAGE

### BACKGROUND

The foodservice industry provides excellent job opportunities for people of all ages and backgrounds. With 406,100 employees, foodservice is one of the largest private sector employers in Ontario.

The flexibility and seasonal nature of the foodservice industry makes it particularly appealing to students who are working part-time to save for and contribute to their education. The industry provides jobs for 176,900 young people under the age of 25, or 18% of the youth workforce in Ontario. These young people represent nearly 44% of the foodservice workforce. In addition, the industry offers a launching pad for new Canadians and citizens re-entering the workforce.

Provinces such as Alberta have faced significant challenges due to labour shortages and the workforce shortage in Ontario is looming. Ontario must get ahead of this curve. The foodservice industry has raised wages in an attempt to attract qualified workers, but these increases are constrained by rising operating and food costs and well as slim profit margins. Furthermore, operators are limited in their ability to pass on wage increases in the form of higher menu prices because consumers are extremely price sensitive.

Over the next 10 years, the foodservice industry will require an additional 94,000 employees as rising disposable income and an aging population lead to greater household spending on foodservice.

In order to counter the labour shortage, some industries have increased productivity by replacing people with machines. Foodservice is by definition a people business, so the chance of significant productivity improvements through labour saving technologies is slim. In Ontario, the demand for foodservice employees will grow by 23%.

#### **RECOMMENDATIONS**

- ❖ CRFA recommends revising the admission criteria for the Ontario Provincial Nominee Program to recognize Canadian job experience of lower skilled workers and to better match labour market needs.
- ❖ CRFA recommends that the Ontario government work with industry on a long-term comprehensive labour shortage strategy to ensure labour can meet industry requirements.