2019-2020 Federal Pre-Budget Submission

PRESENTED TO:

The Honourable Wayne Easter, P.C., M.P.
Chair of the House of Commons Standing Committee on Finance

Restaurants Canada

The voice of foodservice | La voix des services alimentaires

RECOMMENDATION #1:	**Establish a National Labour Force Development Strategy for the foodservice industry.**
RECOMMENDATION #2:	**Abolish the Alcohol Excise Tax.**
RECOMMENDATION #3:	**Ensure that regulations around Bill S-228 (Marketing to Kids) reflects a comprehensive whole-of-society approach to healthy eating, food safety, and nutrition that is evidence-based, balanced, and appropriately scoped.**
RECOMMENDATION #4:	**Keep Canadian SMEs competitive: indexation of the passive income threshold.**
RECOMMENDATION #5:	**Cap credit card interchange fees and prohibit credit card issuers from adding new fees to recoup lost revenue.**
RECOMMENDATION #6:	**Increase federal funding to ensure the safety and sustainability of Canadian farming products.**
RECOMMENDATION #7:	**Establish federal funding for culinary tourism initiatives.**

As the House of Commons Finance Committee (FINA) asks for recommendations in preparation for next federal budget, Restaurants Canada is pleased to provide propositions on behalf of our members. As an $85 billion industry that employs 1.2 million people directly, we appreciate the opportunity to share our input and recommendations for a sustainable, strong middle class economy that supports all Canadians.

We are proud to be the number one first time job creator in the country – we open the door to opportunity for young Canadians, new Canadians, and those facing barriers to employment. More than two-thirds of Canada's restaurants are locally owned and operated by independent entrepreneurs with a strong farm-to-table commitment to their communities.

However, our industry is facing considerable challenges. The substantial rise in the cost of doing business in Canada has resulted in a difficult operating environment across the foodservice sector. Canadian restaurateurs have razor-thin profitability. From rising labour costs and labour shortages, to increases in operating costs and regulatory changes, the comprehensive effect of the legal and regulatory environment is having an impact on the sustainability and growth of the foodservice industry.

In our most recent quarterly industry survey, labour costs were identified by our 30,000 members as the biggest challenge for foodservice operators, surpassing even the cost of food itself. Increased competition from other industries for staff, changing demographics, and a challenging unemployment rate are making it difficult for restaurant operators to recruit and retain employees. When owners are unable to fill the back-of-house positions, establishments must either cut working hours or shut down their business entirely.

For this reason, our primary concern is identifying opportunities for Restaurants Canada to collaborate with the government to help secure a productive and competitive operating environment for our sector.

RECOMMENDATION #1:

Establish a National Labour Force Development Strategy for the foodservice industry

Components of this strategy would include:

- Establish a foodservice stream within the Temporary Foreign Worker Program (TFWP), similar to the program in place for the agricultural sector or the Employing Newcomers in Canadian Hotels Pilot Project, to address seasonal and long-term labour shortages
- Reduce the administrative burden on small business owners who use the TFWP by extending work permits to two years, reducing the $1,000 fee, and improving the search parameters of the Job Bank posting requirements
- Support for expanding pilot programs like the Atlantic Immigration Program and Alberta Foodservice Labour Connections, which help underrepresented employees (including women, youth, rehabilitated offenders, new immigrants, etc.) learn valuable skills and find positions in foodservice
- Increase federal funding to ensure efficient and effective processing of immigration applications by reducing wait times, administrative burdens, and increasing information-sharing between sponsors, applicants, and government regulators

Labour shortages are a top priority of the tourism and hospitality sector due to the immediate and significant impacts on business revenues, worker morale/fatigue, and diminished productivity. A National Labour Force Development Strategy would help ensure Canadians can continue to launch their careers in foodservice, and strengthen the middle class across urban and rural communities alike.

RECOMMENDATION #2:

Abolish the Alcohol Excise Tax

Excise is the first of many federal and provincial taxes on beverage alcohol, making Canadian alcohol taxes among the highest in the world. High taxes, combined with the fact that licensees in most provinces must pay retail prices or higher for their products, adds up to an extremely challenging situation for small business owners.

The government backtracked on a similar tax policy in the 1980s, because it had a devastating effect on Canada's beer, wine and spirits industries.

This annual increase based on CPI not only creates a dangerous precedent, but adds significant costs to operators and their customers that will accelerate quickly because of the cascading nature of alcohol taxes. Provincial mark-ups, fees and levies are all layered on to the excise tax increase along with provincial and federal sales taxes. Since alcohol prices are already subject to regular inflation, the total money collected via this excise tax already increases. Adding an automatic increase that is tied to CPI is essentially equivalent to double taxation, and unduly punishes an industry with already razor-thin pre-tax profit margins.

Restaurants Canada recommends that the excise tax escalator on alcohol be repealed in the 2019-2020 Federal Budget in line with the government's commitment to accountability, transparency, and fair taxation policies.

RECOMMENDATION #3:

Ensure that regulations around Bill S-228 (Marketing to Kids) reflects a comprehensive whole-of-society approach to healthy eating, food safety, and nutrition that is evidence-based, balanced, and appropriately scoped

The restaurant industry fully supports the health and wellness of Canadians and the objectives of the government's Healthy Eating Strategy, a comprehensive whole-of-society approach to improving the health of Canadians.

However the legislation, combined with the language used by Health Canada, is still tremendously wide-sweeping. While we appreciate the commitment put forward by MP Eyolfson to amend the definition of a child from "under 17" to "under 13," S-228 goes far beyond simply restricting marketing of unhealthy food and beverage to children and would limit a majority of all food and beverage advertising to adults.

Restaurants Canada recommends that a comprehensive Cost Benefit Analysis be conducted for the entire Healthy Eating Strategy – including Canada's Food Guide, Marketing to Kids and sodium reduction – that is balanced, comprehensive, evidence-based and equally considers the costs and benefits of all of the proposed policies and impacts on the entire food supply chain.

We further recommend that a whole-of-government approach be adopted for the Healthy Eating Strategy in order to ensure that the efforts of Health Canada do not undermine the efforts of other economic departments and the cumulative economic impacts and costs to industry - and consumers – are fairly addressed.

RECOMMENDATION #4:

Keep Canadian SMEs competitive: indexation of the passive income threshold for small and medium size businesses

Our industry is comprised primarily of small and medium-sized business with average pre-tax profit of only 4.3%. We give a real and fair chance to families that want to start a business, and put their collective hard-earned money and efforts into creating a good life for themselves. We therefore urge the government to consider the changing economic and business cycles that restaurants operate in. The reality is that investments serve as insurance against unforeseen costs, and help small and medium-sized business owners save for major investments, allowing them to remain competitive in the current uncertain economic climate. Foodservice is often seasonal and subject to ups and downs, with restaurants being especially vulnerable.

Passive income is essential to addressing this gap, providing a bulwark against frequent market volatility. We ask that the government help support honest business owners to ensure they are not penalized over the long-term by tax rules that don't sufficiently take into account the impact of inflation and price increases on their nest-egg.

Restaurants Canada recommends that the government build on the successful foundations laid by the 2018 Federal Budget and ensure the $50,000 passive income threshold for small and medium-sized businesses remain relevant by indexing the threshold and the accompanying tax table, which will prevent passive income from having to 'jump' brackets. This will allow owners to invest in growing their business, opening new locations and expanding their operations by hiring new equipment and staff.

RECOMMENDATION #5:

Cap credit card interchange fees and prohibit credit card issuers from adding new fees to recoup lost revenue

Merchant fees have long been a major concern for foodservice operators. Despite modest reductions negotiated in 2014, the billions of dollars that merchants pay annually in interchange and other fees continues to rise as more and more consumers are enticed by premium reward cards and point systems. Yet these rewards are financed by merchants through higher fees. In fact, the fees charged to merchants in Canada are amongst the highest in the world, and are still five times higher than in the European Union, Great Britain and Australia.

The current system benefits large, multi-national credit card issuers at the expense of small, independent businesses – the restaurants that serve their communities every day. For this reason, Restaurants Canada is recommending that the federal government regulate credit card interchange fees by:

- Capping the fees and preventing credit card issuers from adding new fees to recoup lost revenue
- Removing merchant fees from the tax portion of the restaurant bill, which currently allows credit card companies to profit from the taxes collected by business owners on behalf of the government

Regulating interchange fees will ensure a level playing field for all Canadian businesses and contribute to a competitive and sustainable middle class.

RECOMMENDATION #6:

Increase federal funding to ensure the safety and sustainability of Canadian farming products

The mission of the National Farm Animal Care Council (NFACC) is to develop codes of safe practice for farm animal welfare. In the coming years, many of the decade-old codes will need to be amended and updated to reflect changes in technology and production. With Canadian consumers increasingly invested in the supply chain and stewardship of products that feed their families, it is vital that the NFACC has sufficient funding to update and implement the codes. Usually, financing of the organization has been for new codes (on different species), but we need to ensure they have the funds to continue their work to also revise current codes.

Restaurants Canada therefore recommends that the 2019-2020 Federal Budget includes funding for the NFACC to develop and renew their codes of practice.

RECOMMENDATION #7:

Establish federal funding for culinary tourism initiatives

While the promotion of Canadian tourism and strengthening of the Canadian brand abroad for tourists is a stated priority for the government, Restaurants Canada is concerned about the lack of support around culinary tourism to-date. Previous budgets and throne speeches have highlighted the importance of culinary tourism to the integrity of the Canadian brand, but no funding or initiatives have been proposed or discussed with industry.

Canadian restaurants are serving food, beverages and products made and produced by Canadian farmers and food processors and we must keep finding innovative ways to showcase them to help attract more tourists to Canada, create new jobs and grow the economy.

Restaurants Canada recommends that the 2019-2020 Federal Budget include funding to implement a culinary tourism strategy, which we would help support as a private-sector partner.

CONCLUSION

As an $85 billion industry that employs 1.2 million people directly, we appreciate the opportunity to share our recommendations to ensure a sustainable future for an industry that is a key economic driver of the nation. In a 4.3% pre-tax profit margin environment, every penny counts.

Restaurants Canada looks forward to ongoing collaboration with the government to help streamline processes, find efficiencies, and ensure we have the people and tools in place to build customer-focused and community-building businesses. We look forward to discussing these recommendations further with you in the weeks and months ahead.