2021 Federal Pre-Budget Submission

PRESENTED TO:

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

August 7, 2020

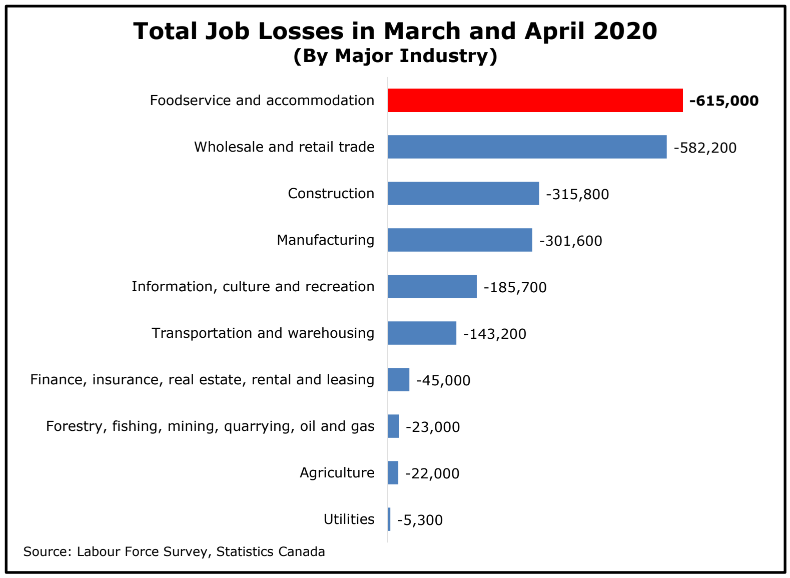
Restaurants Canada
The voice of foodservice | La voix des services alimentaires

RECOMMENDATION #1:	**Continue labour support for the foodservice sector via the Canada Emergency Wage Subsidy (CEWS) into 2021**
RECOMMENDATION #2:	**Simplify rent support for small business for up to 50 per cent of rent based on similar parameters to the CEWS**
RECOMMENDATION #3:	**Increase the amount available through the Canada Emergency Business Account (CEBA) and ensure a higher percentage of the loans is forgivable**
RECOMMENDATION #4:	**Adjust the tax regime to support businesses and improve cash flow**
RECOMMENDATION #5:	**Ensure that new legislation and measures that were paused during COVID-19 are reassessed to consider the new economic realities for businesses**
RECOMMENDATION #6:	**Ensure funding is available to support businesses until capacity and other restrictions can be safely lifted**

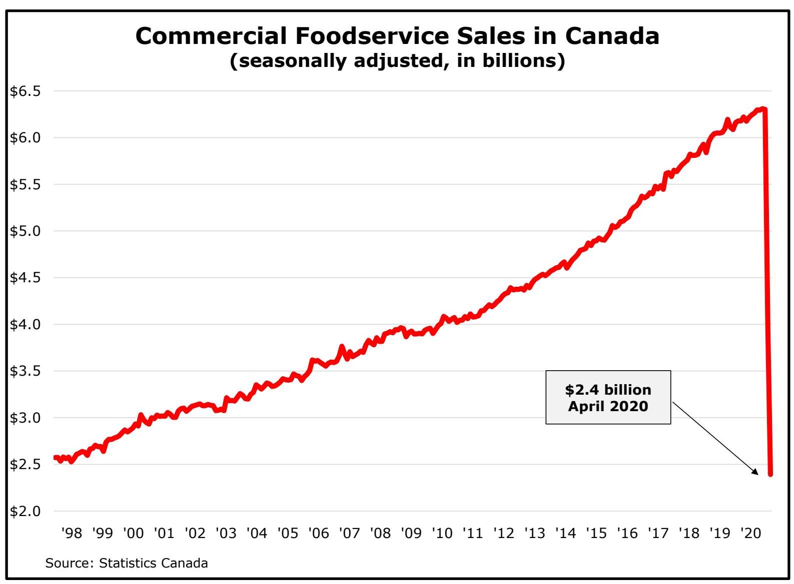
As the voice of foodservice and on behalf of our 30,000 members, Restaurants Canada submits our recommendations to the House of Commons Finance Committee to restart the Canadian economy as it recovers from the COVID-19 pandemic.

Before the start of the COVID-19 pandemic, Canada's foodservice sector was a $93 billion industry, directly employing 1.2 million people, providing Canada's number one source of first jobs, and serving 22 million customers across the country every day. The picture today is no longer the same. Much of the industry is now fighting for their existence and will need continued government support to survive and recover from the impacts COVID-19.

By April, more than 800,000 foodservice workers lost their jobs or had their hours cut down to zero. To provide some context, foodservice lost more jobs in six weeks during the pandemic than the entire Canadian economy lost during the 2008-2009 recession.



Not only was the foodservice industry among the first and hardest hit by the impacts of COVID-19, the road to recovery will be long given the razor-thin profitability with an average of 4.2 per cent nationally and the continued need for physical distancing as the economy gradually reopens. Due to the impacts of COVID-19, the industry could lose as much as $44.8 billion in annual sales compared to 2019.



According to Restaurants Canada's July survey, more than half of respondents whose operations are either open for takeout or delivery only, or now offering dine-in services under new restrictions, said they continue to operate at a loss, sometimes significant. When asked how many months they expect it will take their business to return to profitability 31 per cent said between seven months to a year, 36 per cent said between a year and 18 months and 20

per cent said more than 18 months; taking us well into, and in some cases, beyond 2021.

A thriving foodservice sector is critical to Canada's economic recovery. Our industry supports a wide variety of businesses, indirectly supporting more than 290,000 jobs and typically spending more than $30 billion per year on food and beverage purchases, playing a critical role for Canadian farmers and the agri-food sector.

While we recognize the significant support that the federal government has provided during this pandemic, given the reality of the foodservice industry, Restaurants Canada is calling on the federal government to extend and strengthen support for foodservice businesses so they can survive, continue to employ Canadians and contribute to Canada's economic recovery.

RECOMMENDATION #1:

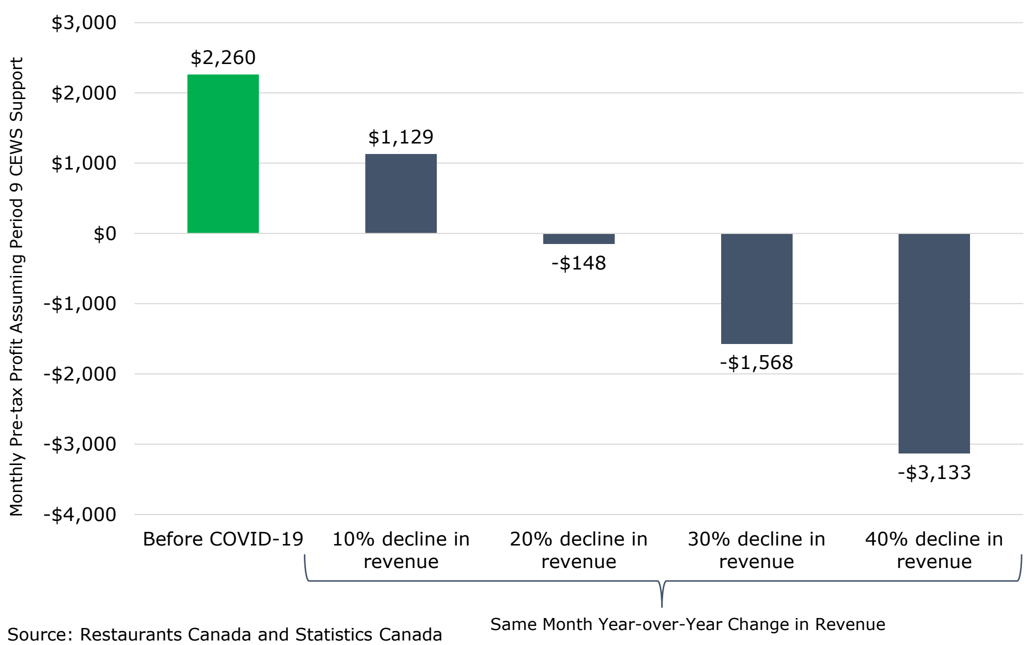
Continue labour support for the foodservice sector via the Canada Emergency Wage Subsidy (CEWS) into 2021

Changes to both the timeframe and eligibility for the CEWS were appreciated by many of our members. The extension to December provides predictability to the many restaurants and foodservice establishments seeking to employ/re-employ Canadians and the changes to eligibility may also ensure that more business can access this much needed support with labour costs.

With the long road to positive cash flow for our industry, we recommend that the government continue the CEWS program until businesses return to a normal variance of revenues as compared to pre-COVID rather than base the sunset of the program on a fixed calendar date.

By December 2020, projections by Restaurants Canada indicate that monthly restaurant revenues could decline between 12.5 per cent and 38.0 per cent on a year-over-year basis, depending on the segment. As shown below, an extension of the Period 9 wage subsidy into December and early 2021, would not be enough to offset the cumulative decline in revenues since the start of the crisis which may result in the permanent closure of many restaurants and thousands of job losses.

WAGE SUBSIDY INSUFFICIENT TO OFFSET REVENUE DECLINE
Estimated Monthly Pre-Tax Profit for an Average Full-service Restaurant Assuming Period 9 CEWS Support Based on Various Declines in Revenues



Source: Restaurants Canada and Statistics Canada

While the same linear sliding scale may be used for a longer period, consideration to reassessing the percentage of the wage subsidy will be needed in the context of the economic realities for the foodservice industry heading recognizing that an extension of the final CEWS period will not provide the level of support needed for recovery. This approach would continue to bring Canadians back to work, provide business stability and support an economic restart.

RECOMMENDATION #2:

Simplify rent support for business for up to 50 per cent of rent based on similar parameters to the CEWS

Rent has been the most significant fixed cost for restaurant operators before and during this crisis and is one of the main sources of debt accumulation resulting in bankruptcy and closure for numerous restaurants.

While the government's intention with the Canada Emergency Commercial Rent Assistance (CECRA) was to provide much needed relief for businesses, hyper-complexity and slow uptake has left many tenants without the funds needed to address the issue of rent. At the start of June, half of restaurant operators across the country were still dealing with landlords unwilling to participate in the CECRA program or any other rent relief arrangement.

To allow tenants to access much needed funds for rent, Restaurants Canada recommends that rent support be provided directly to businesses for up to 50 per cent, under similar parameters of a sliding scale as the CEWS program.

RECOMMENDATION #3:

Increase the amount available through the Canada Emergency Business Account (CEBA) and ensure a higher percentage of the loans is forgivable

When the CEBA was launched on April 9, it was intended to support businesses with their fixed costs during the shutdown due to the necessary measures to contain the spread of COVID-19. At the time no one predicted that that some businesses, including restaurants, would still be operating under severe restrictions across Canada to continue to protect the health and safety of Canadians.

Given the length of this crisis and the unknown return to regular conditions and sustainable revenues, we recommend eligibility to an amount greater than $40,000 and an increase in the forgivable portion of loan. Though the primary focus of foodservice operators is not to take on more debt, such a change may provide a lifeline to many small business owners and restaurateurs.

RECOMMENDATION #4:

Adjust the tax regime and offer tax credits to support businesses and improve cash flow

Adjusting the current tax regime offers the government an opportunity to help businesses and the foodservice industry recover from COVID-19.

To assist employers, the government may wish to also consider the **reduction of the employer portion of payroll taxes** to allow business owners to improve their liquidity.

Consideration of **additional tax credits** for losses and expenses related to COVID-19 may provide some relief to businesses that continue to struggle. Some examples as follows.

- *Tax credits for lost/donated perishable inventories for establishment that were closed for at least two weeks*
- *Tax credits for personal protection equipment bought for employees*
- *Tax credits for physical installations built to facilitate physical distancing in restaurants due to COVID-19 public health restrictions*
- *Tax credits for rebuilt inventories for restaurants that reopened and remained in operation for at least three months*
- *Consumer tax credits for dollars spent in the hospitality and tourism industry*

Another opportunity, and one that Restaurants Canada has long recommended, is the **abolishment of the escalator on the excise tax**. Since the escalator tax was introduced, our members have been subject to the compounding impacts and cost increases. The increase from 2020 to 2021 is expected to be $77.8 million for foodservice and retail liquor stores.

This annual increase based on CPI adds significant costs to operators and their customers that 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 low pre-tax profit margins.

RECOMMENDATION #5:

Ensure that new legislation and measures that were paused during COVID-19 are reassessed to consider the new economic realities for businesses

Considering the COVID-19 pandemic and its economic and social impacts, it is important to ensure that new legislation and measures that were paused due to the crisis are reassessed to consider the new economic realities for businesses.

As an example, the work of the federal government to ban single-use plastics as early as 2021 must reflect the role of single-use plastics while also remaining grounded in sound scientific research. This pandemic has demonstrated the role single-use items can play in the health and well-being of Canadians. The need to prevent the spread of COVID-19 has required operational changes, including ceasing the acceptance and use of customer reusable cups in foodservice establishments.

Sound scientific evidence, along with safe and affordable alternatives are needed in advance of any bans and it is imperative that restaurants are not put in a position where they need to take on additional costs while the industry continues to transition through this crisis and recovery.

This is only one example of measures that must be reassessed in advance of taking further action that may further negatively impact business profitability.

RECOMMENDATION #6:

Ensure funding is available to support businesses until capacity and other restrictions can be safely lifted

Given the unpredictable nature of the pandemic and possible resurgence, the government will need to be prepared to support businesses until there is a vaccine, or until restrictions can be safely lifted.

The potential for further COVID-19 waves, the change in consumer behaviour and necessary physical distancing measures are expected to have a significant business impacts until conditions allow for full reopening. While this is true for all industries, it is especially true for the foodservice sector.

Restaurants Canada recommends that the government takes an approach based on more than fixed deadlines, sunset dates and other arbitrary end dates for programs that do not reflect current realities. We recognize that support cannot be available in perpetuity, however, our industry needs to know the medium- and long-term landscape of support, legislation, and regulations under which we will evolve over the next months and years. The 2021 budget will set the course for this longer-term approach.

CONCLUSION

As we transition through the COVID-19 pandemic and look to recovery, there needs to be an evolution from emergency measures to a framework that supports business continuity and economic relaunch over the longer-term. Without additional support many restaurants will not survive and recover from the impacts of COVID-19. It is our perspective that the recommendations made in this submission will support the recovery of the foodservice industry and more broadly support the restart of the Canadian economy.