

October 9, 2018

BC Select Standing Committee on Finance and Government Services

Via Email: FinanceCommittee@leg.bc.ca

Dear Finance and Government Services Committee Members:

Thank you for providing Restaurants Canada with the opportunity to participate in the 2019 Budget consultation process. The following provides a summary of issues impacting the hospitality industry and recommendations to help one of British Columbia's largest industry sectors to continue to grow and create jobs.

Restaurants Canada is the largest hospitality industry trade association in Canada representing 30,000 members in communities all across British Columbia and Canada. Our 30,000 member businesses across Canada represent every segment of the industry, including full and quick service restaurants, bars, caterers, institutions and their suppliers. (See the attached *British Columbia foodservice industry infographic* for more information on our dynamic industry.)

British Columbia's \$14 billion restaurant industry is a highly competitive, labour-intensive, low margin industry with average pre-tax profitability of just 4.3%. Our industry is the third largest private sector employer and largest youth employer directly employing more than 180,000 British Columbians including more than 80,000 young people under the age of 25. Given the thin margins in the competitive foodservice industry, members tell us they are increasingly concerned that the cumulative effect of numerous unanticipated government imposed regulations and fees as they are like a death by a thousand cuts threatening the viability of their businesses.

The restaurant and foodservice industry brings jobs, investment, innovation and tourism to every community in the province, while creating a focal point for people to gather. Restaurants, cafeterias, coffee shops and bars are gathering spots for people from all walks of life, and operators are proud to serve as a social club for seniors, the sponsor of the local hockey or sports team, the boardroom of small business, and a meeting place for community groups.

A business climate that enables this important industry to compete and succeed should be a top public policy priority for the provincial government. A policy environment that solidifies a partnership between the innovative restaurant industry and government is a recipe for success. With the right policies and business conditions, we are uniquely positioned to contribute to economic and employment growth.

Following five years of solid industry and employment growth many small businesses in British Columbia's hospitality industry are concerned about the cumulative impact of several new mandated government policies that are raising operating costs to a level that will slow growth and industry job creation. The focus of this submission is to highlight some of the policies that are increasing costs and provide solutions that will help mitigate these cost increases and help the province's more than 14,000 small restaurant businesses remain viable.

Taxation

Amend Employer Health Tax (EHT)

The new Employer Health Tax (EHT) on payroll will significantly increase small business costs and may result in the elimination of other benefits, fewer hours of work, and even layoffs. Economists point out that payroll taxes such as the EHT are job killing taxes as they provide a disincentive rather than an incentive to hire more people. We agree. The EHT is also unfair as it amounts to double taxation for a year as the tax is introduced in 2019 but premiums will not be eliminated until 2020. Some employers will be paying both medical premiums and the new EHT in 2019. We recommend that government postpone the implementation of the tax until 2020 and raise the \$500,000 threshold to \$1.25 million which more accurately reflects the payroll of today's small businesses. Our members have also requested that the Committee consider exempting youth employers from paying the tax on employees under the age of 19. They argue it is unfair to pay EHT on youth employees as they are usually already covered under their parents' medical service premiums. Employers should therefore be exempt from paying EHT on youth employees under the age of 19.

1. **Restaurants Canada recommends that EHT implementation be postponed to 2020 to coincide with the elimination of medical services premiums.**
2. **Restaurants Canada recommends increasing the EHT payroll threshold to \$1.25 million as a fairer small business payroll threshold.**
3. **Restaurants Canada recommends employers be exempt from paying EHT premiums on employees under the age of 19.**

Maintain Provincial Sales Tax (PST) Restaurant Meal Exemption

British Columbia's hospitality industry has a different position on PST than a number of other business associations resulting from the uneven treatment of food in the GST where food purchased from restaurants is taxed while food purchased at grocery stores remains completely tax exempt. Our members fully support eliminating PST on business inputs but opposes the reintroduction of HST or a Value Added Tax (VAT) that uses the GST base or includes restaurant meals in the provincial sales tax base. Restaurants Canada appreciates the current government's opposition to the regressive HST when it was first introduced and its ongoing commitment to treat all food equally by not adding PST to restaurant meals while food purchased at grocery stores remains completely tax-exempt. Maintaining food tax fairness continues to be a public policy priority for British Columbia's hospitality industry.

Historical evidence has shown how devastating adding sales tax to restaurant meals, while basic food remains sales tax exempt, has been to our industry. In fact, the year the GST was introduced, the Canadian foodservice industry suffered the single greatest decline it has ever experienced. In 1991, the industry recorded a 10.6% drop in real foodservice sales of which 7.3% was directly due to GST implementation. Similarly, restaurant sales in BC fell dramatically during the two plus years HST was in place in British Columbia. **The HST experiment which included a new 7% tax on restaurant meals cost BC's foodservice industry a total of \$1.5 billion in lost sales.** British Columbia's cumulative restaurant industry sales grew at an anemic 1.4% while HST was in place. Once the British Columbia PST restaurant meal exemption was restored in April 2013 there was an immediate positive impact on restaurant sales and industry employment.

- 4. Restaurants Canada strongly recommends that restaurant meals continue to be exempted from PST as part of the food exemption should any changes to the PST be considered in order to maintain provincial food tax fairness.**

Restaurant Carbon Tax Rebate

With respect to the carbon tax the foodservice industry is by necessity an energy dependent industry relative to other businesses where 75% of a restaurant's energy use is directly associated with the foodservice process itself which involves a wide range of energy consuming equipment for cooking, hot food holding, refrigeration, ice making, exhaust ventilation, and cleanup/sanitation etc. Our members are already demonstrating environmental leadership on a number of fronts including investing to improve their energy efficiency. However, it must be acknowledged that significant amounts of energy will always be required in a restaurant in order to cook and preserve food safely limiting the ability of restaurants to significantly reduce their energy consumption. The objective of the carbon tax to incentivise consumers to reduce energy consumption does not apply to restaurateurs who rely on energy to safely store, prepare and cook the food for their guests. The carbon tax increases impact energy costs required for safe food storage, preparation and cooking, as well as increased food and beverage delivery costs. Our members believe that in recognition of their unique energy consumption reality they should be granted rebates on the carbon tax.

- 5. Restaurants Canada recommends that the provincial government provide carbon tax rebates to small businesses with commercial kitchens whose primary business purpose is food service.**

Municipal Fees and Taxes

Commercial Property Costs/Fees

In recent years British Columbia members, especially in the Metro Vancouver region, have increasingly been complaining about sky rocketing lease rates resulting from significant commercial property tax increases. They also believe they are paying an unfair portion of municipal taxes versus residential residents. The high lease costs have forced many restaurants out of desirable areas due to the significant increases in commercial lease/property costs.

- 6. Restaurants Canada recommends that the provincial government use its influence to convince municipal governments re-examine property tax policy to reduce the property tax burden for small businesses and cap commercial property taxes to no more than inflation until a fairer commercial/residential property tax formula is implemented.**

Single Use Item Packaging Waste – Fees and Costs

Restaurants Canada and its members support collaborative efforts to reduce waste and address issues associated with reducing single-use packaging where feasible. However, our members also need to maintain the ability to serve their guests who increasingly expect to be able to consume food and drinks on-the-go, out of safe practical packaging that guarantees hygiene, to make today's increasingly active lifestyles possible.

Restaurant Canada members are concerned that municipal and provincial governments are implementing costly bylaws and regulations that put most of the cost and responsibility for reducing single-use item waste on small businesses and not enough emphasis on government sponsored consumer education. The operational costs on small businesses of finding single-use item plastic alternatives that have the same food safety and heat retention qualities of current materials are significant and should only be implemented when these are readily available at a reasonable price and accompanied with a comprehensive government sponsored public education campaign. Some members believe that they are being singled out with costly new bylaws and regulations to solve waste disposal issues when more effective progress can be achieved through public education. Our members are prepared to do their part but only if they believe there is a comprehensive reduction plan involving all stakeholders including consumers. Only when business, government, and the public work together on a comprehensive plan to reduce single-use items can the societal shift be made.

- 7. Restaurants Canada recommends that any bylaws and regulations that are implemented towards reducing single-use item waste must include a comprehensive publicly funded education component to be effective.**

Labour

Minimum Wage – Elimination of Liquor Server Wage

Members are concerned about the government's decision to raise British Columbia's minimum wage to \$15.20/hour by 2021 and the decision to eliminate the liquor server wage. Such large arbitrary increases (several times the rate of inflation and average weekly wage inflation) in a short period of time will have a significant negative impact on the 14,000 small businesses in our industry and their ability to continue to be one of British Columbia's top job creators.

The highly competitive restaurant industry is one of the most labour intensive industries where roughly one third of every revenue dollar goes towards labour. Not only does the minimum wage policy impact our members' ability to hire entry level employees, the ratchet effect of such large annual increases will impact the entire payroll as employers have no choice but to increase wages by the same amount for all hourly employees to restore former relative wages.

The decision to eliminate the liquor server wage does not recognize that gratuity earning liquor servers are the highest paid hourly workers in any establishment earning well above \$30/hour when factoring in gratuities. They are minimum wage earners in name only. The liquor server wage allows restaurateurs to allocate more labour budget dollars towards higher salaries for harder to attract and retain non-gratuity earning career oriented kitchen staff.

Restaurants Canada also supports the introduction of a youth/student wage that provides an incentive to employers to hire and train young first time employees.

Our BC members do not want to see the significant hospitality industry job losses that have taken place in Alberta as that province moved to a \$15 minimum wage. According to Statistics Canada Alberta's hospitality industry alone lost more than 13,300 jobs since 2015 and the youth unemployment rate went from the lowest in Canada to the highest west of Atlantic Canada at over 13%.

- 8. Restaurants Canada recommends that the government consider slowing down the rapid annual minimum wage increases leading to \$15.20 by 2021 should the economy slow down and youth unemployment rate rise.**
- 9. Restaurants Canada recommends that government re-implement the liquor server wage and introduce a youth wage similar to the Ontario model which has been in place for years.**

Restaurants Canada members are also concerned about other proposed changes to labour laws such as Employment Standards, Labour Relations Code, and Workers Compensation, as these legislative changes can add significant direct labour and indirect administrative costs. Many Alberta members that lost their businesses in the past year indicate that costly labour legislative changes, especially with respect to more generous Employment Standards statutory holiday pay rules, on top of the significant annual minimum wage increases were the straw that broke the camel's back leading to all their employees losing their jobs and years of hard work and investment by the entrepreneur going down the drain. We should not make the same mistake in British Columbia.

- 10. Restaurants Canada recommends that government evaluate the business costs of any proposed labour law changes and only proceed with changes that do not result in additional labour related small business costs.**

Labour Shortage – Improve Access to Labour

As the largest employer of youth in British Columbia employing 81,200 youth under the age of 25, the hospitality industry is being increasingly challenged by both demographic and geographic trends that are reducing the number of youth entering the workforce. Many rural members cannot find enough youth in their area to fill their needs as many have moved to larger urban centres. Even in urban areas the booming economy and shrinking unemployment rate have made attracting and retaining both unskilled and skilled labour difficult. A lack of housing and transportation options for young people also contributes to the current labour shortage in the hospitality industry. The labour shortage is now so acute in some areas that restaurants simply do not have enough staff to stay open regular hours. These closures are costing economic growth, tax revenue, and employment for existing staff. Investment decisions are now being postponed or cancelled due to the lack of sufficient labour. Tackling labour shortages is an industry priority. The bottom line is that there are simply not enough youth and new entrants to the labour force to meet demand. As a result many employers have looked to foreign labour to meet their employment needs. Restaurants Canada supports the initiatives outlined in the access to labour section of the Small Business Task Force engagement summary paper.

- 11. Restaurants Canada supports the Small Business Task Force engagement report access to labour recommendations including; streamlining foreign and inter-provincial credential recognition processes, longer work terms, and special considerations for northern and rural and remote communities under the Provincial Nominee Program and Temporary Worker Program, as well as better access to underemployed groups.**

Liquor

Licensee Wholesale Pricing - Implement Hicken Report Recommendations

For years licensed members have complained about the high cost of liquor for licensed restaurants and bars who receive no wholesale discount when purchasing beverage alcohol and pay much higher costs associated with the purchase and sale of beverage alcohol in the province.

British Columbia's dynamic hospitality industry is the largest liquor stakeholder in terms of its economic and employment contributions to the province and by the number of liquor licensed stakeholder businesses. While the previous government's liquor review modernized a number liquor regulations, it did not address Restaurants Canada's priority recommendation to address licensee and customer concerns about the high cost of liquor in licensed establishments and to level the playing field for all resellers of beverage alcohol. Although government receives several times more PST liquor revenue per ounce of liquor sold in licensed establishments than retail liquor sold, licensees remain the only liquor wholesale stakeholder to receive absolutely no discount from the Liquor Distribution Branch on liquor purchases for resale to consumers.

The previous BC Government missed a significant liquor modernization opportunity by excluding a major liquor wholesale customer in addressing its wholesale pricing modal. Besides Alberta who implemented level playing field wholesale pricing for all wholesale liquor stakeholders including licensees more than two decades ago, other provinces have recently addressed the need to modernize their wholesale pricing models and create more wholesale pricing fairness by offering licensees varying degrees of wholesale pricing. The time is right for British Columbia to offer licensees a liquor wholesale price discount.

In November 2017 Restaurant Canada's released its second bi-annual "Raise the Bar" liquor report card comparing the restaurant friendliness of Canada's liquor jurisdictions providing each province with a letter grade. In 2015, British Columbia received a C+ grade based on the grading methodology we used to determine each province's score. In 2017 British Columbia received a lower C grade reflecting the lack of progress on wholesale pricing and other liquor distribution concerns. Restaurants Canada was pleased with Attorney General Eby's quick response to our report card in appointing well respected liquor lawyer Mark Hicken as his liquor policy advisor and giving him a mandate to appoint a Business Technical Advisory Panel (BTAP) of liquor stakeholders that he would chair to provide the government with a number of recommendations to improve British Columbia's liquor distribution system and policies.

Restaurants Canada was proud be appointed to the BTAP which worked through the spring to come up with a report that contained 24 recommendations where for the first time all liquor stakeholders unanimously supported all the recommendations. Included in those recommendations were wholesale pricing for hospitality licensees, improvements to the licensee special order process, and the ability for licensee to licensee sales allowing hospitality licensees to purchase product from private retailers. In June the government released the Mark Hicken BTAP [Report and Recommendations](#).

Adopting the Hicken BTAP liquor report recommendations would significantly reduce costs and red tape not only for small liquor licensed establishments but also for numerous other small liquor related businesses such as liquor agents and private liquor retailers.

12. Restaurants Canada strongly recommends that the provincial government implement the liquor policy Business Technical Advisory Panel report and all 24 recommendations.

On behalf of Restaurants Canada I would like to thank all Finance Committee members for taking the time to review and consider the above 12 recommendations made on behalf of British Columbia's hospitality industry. While we believe all 12 of the recommendations are important, as requested our top three recommendations are highlighted.

We hope that you adopt our industry recommendations as part of your report and recommendations as we prepare for Budget 2019. In the meantime please let me know if you have any questions with respect to the comments and recommendations above.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark von Schellwitz". The signature is fluid and cursive, with a large, stylized initial 'M'.

Mark von Schellwitz
Vice President, Western Canada

Attachment