Restaurants Canada

The voice of foodservice | La voix des services alimentaires

SURVIVING INFLATION: RESTAURANTS TEETERING AT THE EDGE

Submission for the 2024-25 Federal Budget

OUR RECOMMENDATIONS

Improving Business Conditions for Foodservice Businesses

- Lower Federal Small Business Tax Rate from 9% to 8%
- Index the Passive Investment Income Threshold to Inflation
- Permanently Maintain Cap on Alcohol Excise Tax Escalator
- Allow Restaurant Meals to be an Entirely Deductible Business Expense
- Support Alignment on Recycling and Packaging Initiatives

Creating Jobs and Streamlining Pathways to Employment

- Create a New Temporary Foreign Worker Program Stream for the Food Sector
- Create a Program for Food Service Workers to Become Permanent Residents
- Expedite Implementation of the Trusted Employer Program
- Provide a Temporary Reprieve on the Labour Market Information Assessment

ABOUT RESTAURANTS CANADA

Restaurants Canada is a national, not-for-profit member-based trade association advancing the potential of Canada's diverse and dynamic foodservice industry through member programs, research, advocacy, resources, and events.

SECTOR AT A GLANCE

Restaurants and the many small and medium-sized businesses that make up the Canadian foodservice sector are critical pillars of our culture, economy, labor market. They are key drivers within their local communities, while contributing $100 billion annually to the Canadian economy.

WE ARE:

- **More than 1.1 million employees** from coast to coast to coast
- Canada's **fourth-largest** employer
- **The number one source** of first-time jobs for youth
- **Inclusive** - 58% of the foodservice workforce are women
- **Diverse** -31% of restaurant owners belong to visible minority groups
- **The largest employer** of immigrants and newcomers to Canada
- **An economic driver** – contributing $3 billion annually to tourism

Our sector was disproportionately hard-hit by the pandemic and continues to face lingering impacts that will persist into 2024-25. Wages in our industry grew at the second-fastest rate between 2022 and 2023 (+9.9% for full-time workers compared to the industrial average of +4.9%).

BACKGROUND

Surviving Inflation: Restaurants Teetering At The Edge

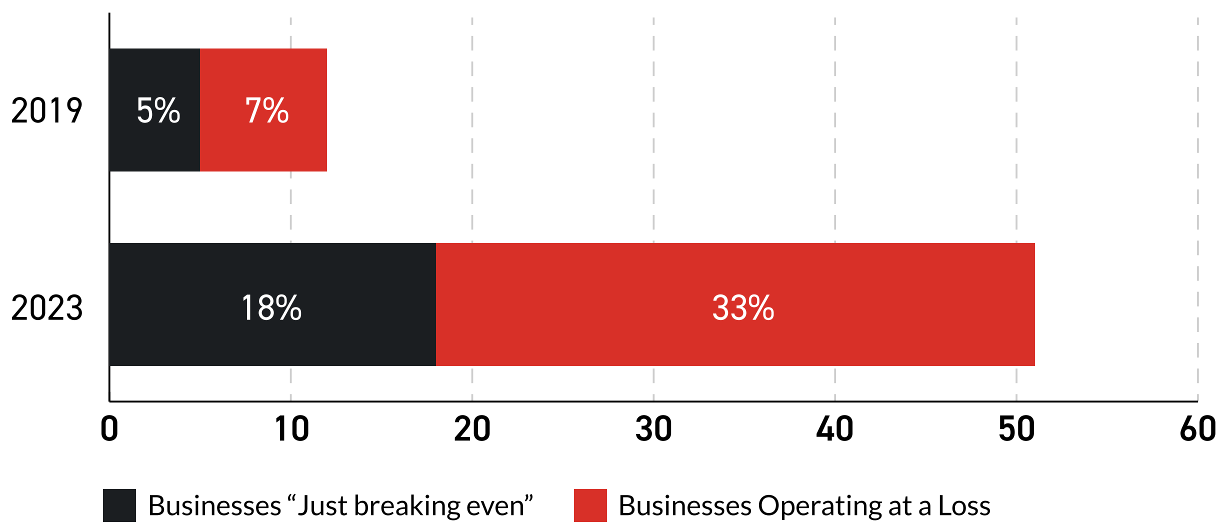
Canada's food-service sector is struggling. Industry-wide, the severity of challenges we face in 2023 rival the challenges we faced in 2020.

Restaurants are resilient, but the threats they face are severe. Half of restaurants and food service companies report operating at a loss or just breaking-even as food costs continue to grow. Urgent changes are needed to help restaurant businesses survive and thrive over the months ahead.

Urgent changes are needed to help restaurant businesses survive and thrive over the months ahead. Before the pandemic, only 7% of the industry was operating at a loss compared to 33% today, and only 5% reported "just breaking even" compared to 18% today. **Overall, 84% of restaurants report lower profitability today than in 2019.**

OVER HALF OF RESTAURANTS ON THE BRINK OF FAILURE

Source: Restaurants Canada Outlook Survey (July 2023)



It is clear the pressures facing the industry - from food and transportation costs to debt and labor shortages – are severe. Budget 2024-25 is a critical opportunity to ensure our industry can move from survival to revival: continuing to employ 1.1 million Canadians, keeping businesses alive, driving the economy and feeding Canada's recovery.

"One-third of restaurants in Canada are operating at a loss due to the high costs of food, a lack of available labour, and new rules are making it harder every day to eke out a profit."

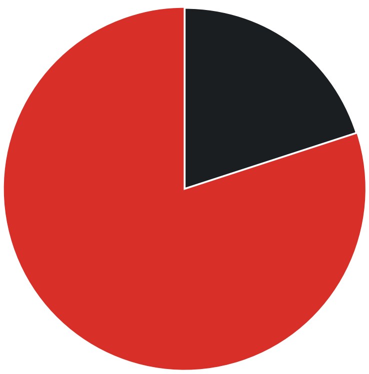
Kelly Higginson
President and CEO, Restaurants Canada

Improving Business Conditions for Foodservice Businesses

Four-in-ten Restaurants Canada members expect profit margins to be worse in 2023 than 2022. That should come as no surprise. Right now, 8-in-10 food service companies report lower profits in 2023 than 2019 and 70% of Canadians are visiting full-service restaurants less frequently. These statistics make clear the challenges facing the sector are not limited to pandemic recovery and will only worsen without increased support. Many small businesses' bottom lines have been further stretched as measures such as the Canada Emergency Business Account (CEBA) enter repayment.

FINANCIAL PRESSURES WORSEN IN 2023

Source: Restaurants Canada Outlook Survey (July 2023)



8 in 10 restaurant companies reported lower profits in 2023 than in 2019.

With food and labor costs confounded by pre-existing financial pressures, rising operational expenses have further eroded narrow profit margins and led a record number of restaurants to close their doors. The sector saw 300 bankruptcies in the first 5 months of 2023 - an increase of 89% from the same period in 2022 compared to an average of 30% across other sectors. This is the fastest this number has been reached in over a decade; in contrast the same number was not reached until November of 2021 and August of 2022.

> 300 restaurants declared bankruptcy in the first 5 months of 2023, 89% more than in 2022.

Global inflation challenges are coupled with added expenses for produce and livestock businesses, wholesalers and distributors, retailers and restaurants brought about by the carbon tax. While recognizing the importance of reducing carbon emissions, we also believe measures supporting individuals and families, like tax refunds, do not make up for added costs throughout supply chains falling on our members. Relief is needed in other areas to make business conditions more favorable and ensure thousands of businesses can support the incomes of 1.2 million Canadians.

In the 2008-09 economic downturn, restaurants were hard-hit, with full-service restaurants taking 4 post-recession quarters to fully recover. Though the current economic context is also dire, the magnitude and length of recovery can be mediated by timely sector support.

OUR RECOMMENDATIONS

Lower Federal Small Business Tax Rate from 9% to 8%

With the razor-thin profit margins many restaurants faced pre-pandemic, exacerbated by added inflationary pressures, transportation taxes and business loan repayment, many restaurants have little to no capital to reinvest in their operations. Lowering the small business tax rate will allow them to pay off outstanding debt, invest in automation and energy saving equipment, expand employee benefits and invest in training and retention.

Index Passive Investment Income Threshold to Inflation

In 2018, the federal budget set limits on the amount of passive income that can be kept in a business before higher taxes kick in at $50,000. This limit has not increased since 2019, even as inflation has increased by 15.4% in the same time. This has limited the capacity for food service businesses to invest in growing their operations. Indexing the passive investment threshold to inflation will encourage restauranteurs to make investments in technology, sustainability and benefits and professional development for their employees.

Allow Restaurant Meals to be an Entirely Deductible Business Expense

Though the sector has rebounded somewhat since the sharp decreases in traffic over the course of the pandemic, continued work-from-home and hybrid work options have led to lingering effects. Allowing restaurant meals to be a deductible business expense would further incentivize business owners and their employees to hold meetings or events in restaurants, which would further increase patronage and traffic for other businesses in downtown cores and community hubs across Canada.

Permanently Maintain Cap on Alcohol Excise Tax Escalator

Alcohol excise duties in Canada are automatically indexed to inflation at the start of each fiscal year. In the context of current and unprecedented inflationary pressures, this was projected to equate to 6.3% for 2023, which would result in a $750M hit to the food service – an average of $36,000 per restaurant. However, the 2023 federal budget recognized the challenging inflationary context and capped annual excise tax increases to 2%. Though this measure was lauded across food and beverage industries, the cap is set to expire in April 2024. The removal of this vital measure would leave the sector vulnerable to unpredictable year-over-year increases in 2024-25 and beyond. We recommend keeping the alcohol excise duty at the 2% cap for the immediate future.

Support Alignment on Recycling and Packaging Initiatives

Restaurants have been working to proactively meet evolving single-use packaging legislation in the transition to a circular economy. However, they require clear timelines, viable alternatives, and cross-sector consistency to do so.

The federal government can play a leadership role in helping the sector source viable, cost-effective alternatives to traditional plastic products. Similarly, there is a lack of jurisdictional harmonization when it comes to sustainability legislation, with many provinces and municipalities lacking a framework for best practices.

It is imperative that government work with provinces and territories to develop consistent guidelines that promote harmonization of packaging, labelling, and recycling legislation and support businesses adjusting to these changes. Doing so will help to ensure businesses operating in multiple jurisdictions are not unnecessarily duplicating overhead costs as they adapt to regionalized rules.

Creating Jobs and Streamlining Pathways to Employment

Accounting for 1 of every 6 vacancies, the food service and accommodation sector has one of the highest vacancy rates of any Canadian industry with nearly 100,000 empty jobs. Staff shortages have limited restaurant capacity, driving many even further into debt as they struggle to recoup their bottom line.

Notably, the sector is also the largest employer of immigrants and newcomers to Canada. As such, the restaurant sector is uniquely positioned to support Canada in achieving its population growth targets through expanded immigration policies and programs, while helping small businesses from coast to coast to keep their lights on.

Create a New Temporary Foreign Worker Program Stream for the Food Sector

One key mechanism to augment workforce capacity is the Temporary Foreign Worker Program (TFWP), which ensures employers can quickly bring in workers to fill short-term labor market gaps. However, program capacity is limited, and it does not include food-sector specific streams despite the industry's unique needs and historic vacancies.

One model of a sector specific TFWP stream is in the agriculture industry. To be eligible for the Agriculture Stream, employers must be hiring for production in specific commodity sectors with activity that relates to on-farm primary agriculture. Creation of a similar model in the food services industry would address key and sector-specific labour demands.

We recommend that this new food-service-specific stream include the following features:

- Employers submitting an LMIA application who are experiencing long term vacancies may request an employment duration of 2 years, as opposed to the standard 1 year (available in the Agricultural Stream, as well as the meat processing pilot project).
- Employers submitting an LMIA application for a high wage position may request an employment duration of up to 3 years (available in the Agricultural Stream).
- Make permanent the measure allowing food service to hire up to 30% of the workforce through TFWP for low-wage positions.
- Enable companies with several restaurants or franchises to file a single labor market impact assessment (LMIA) application for up to 20 workers in up to 10 restaurants.
- Waive fees for a single restaurant owner with a profit margin of less than 10%.

Create a Sectoral Program for Food Service Workers to Become Permanent Residents

As Canada seeks to achieve ambitious population growth targets in coming years, Temporary Foreign Workers (TFWs) are an important group to consider, having familiarity with the Canadian landscape and having relevant Canadian work experience. We recommend the creation of a new pathway for TFWs in food service to obtain permanent residence similar to the Agri-Food Immigration pilot (engages up to 2750 workers annually).

Expedite Implementation of the Trusted Employer Program

Budget 2022 invested $29.3 million over three years to introduce a Trusted Employer Model that reduces red tape for employers meeting the highest standards of living and working conditions. In June 2023, the Standing Committee on Agriculture and Agri-Food released its Grocery Affordability Report which included a recommendation that the Government expedite the implementation timeline for the Trusted Employer Program.

Accelerating implementation of the program ahead of the 2025 deadline would be a significant and meaningful step towards relieving current administrative burdens, addressing pressing labor shortages, and strengthening the sector.

Provide a Temporary Reprieve on the Labour Market Information Assessment

With nearly 100,000 job vacancies across the restaurant sector, many employers are turning to foreign workers to fill growing labour shortages. When undertaking the process of hiring foreign workers, employers must first complete a Labour Market Information Assessment (LMIA), which confirms the need to hire a foreign worker while also highlighting the lack of domestic workers to fill the role. The prospective foreign worker is unable to apply for a work permit until their employer's LMIA application is approved.

Against a backdrop of historic job vacancies, the LMIA only contributes to red tape and makes it more challenging for employers to acquire the staff necessary to keep their operations running. As such, we recommend that the LMIA requirement be waived for employers in the restaurant industry for a period of six months, allowing them to address critical upfront labour shortages while seeking out ways to sustainably augment capacity in the long term.

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