



Restaurants
Canada

The voice of foodservice | La voix des services alimentaires

2024 Ontario

PRE-BUDGET SUBMISSION

ABOUT RESTAURANTS CANADA

Restaurants Canada is a growing community of **60,000 foodservice businesses**, including restaurants, bars, caterers, institutions, and suppliers. We connect our members through services, research, & advocacy. Canada's foodservice sector is a **\$100 billion industry**. As Canada's number one source of first jobs, we directly employ more than **one million people**.

In Ontario, there are currently: 38,636 food service businesses in operation **employing over 416,000** which makes up 5.4% of the province's workforce. The foodservice sector produced **\$39 billion in revenues** in Ontario in 2022 and **spent \$13 billion** on food and beverage products.



INTRODUCTION

Ontario's Restaurant Sector: An Industry In Crisis

Post-COVID, Ontario's restaurant sector has experienced a very slow recovery which has been hampered by skyrocketing operational cost increases across the board, significant pandemic-related debt levels, and acute labour shortages. Restaurant operators — especially some of the smallest restaurants, are carrying massive COVID-related debt that must be repaid, including federal government CEBA loans which are due January 18, 2024.

The Canadian foodservice industry has achieved remarkable growth, surpassing \$100 billion in 2022 with further forecasts of \$110 billion in 2023. However, this growth has not translated into financial stability for the majority of businesses. **While sales have improved, restaurant operators are simply not able to turn a profit due to soaring operating costs, coupled with guest traffic that remains stuck below pre-pandemic levels.**

Recent Restaurants Canada and Statscan Data Revealed:

- In Ontario, 56% of restaurants are operating at a loss or just breaking even.
 - Thirty-six percent of restaurants are operating at a loss compared with just 5% pre-pandemic
 - A further 20% are only breaking even, compared with 5% pre-pandemic
- Real GDP in the foodservice industry is still 12% below pre-pandemic (2019) levels — one of the worst rebounds, with only the arts, entertainment, and recreation sector seeing a steeper decline since the start of the pandemic.
- Bankruptcy filings in the food service industry have increased 53% since 2022, and more restaurants are expected to shutter in the coming months.

Ontario's restaurants strive to keep meals affordable for those they serve. Restaurants want to continue to do their part to be great community builders and supporters of local charities, but they are at a crisis point. They need help to offset skyrocketing costs, including those that result from government policies.

As the government prepares for the budget, Restaurants Canada urges the Ontario government to consider our critical recommendations to help struggling foodservice operators across the province to keep their doors open, protect jobs, feed communities, and ensure they remain vibrant gathering places and community pillars.

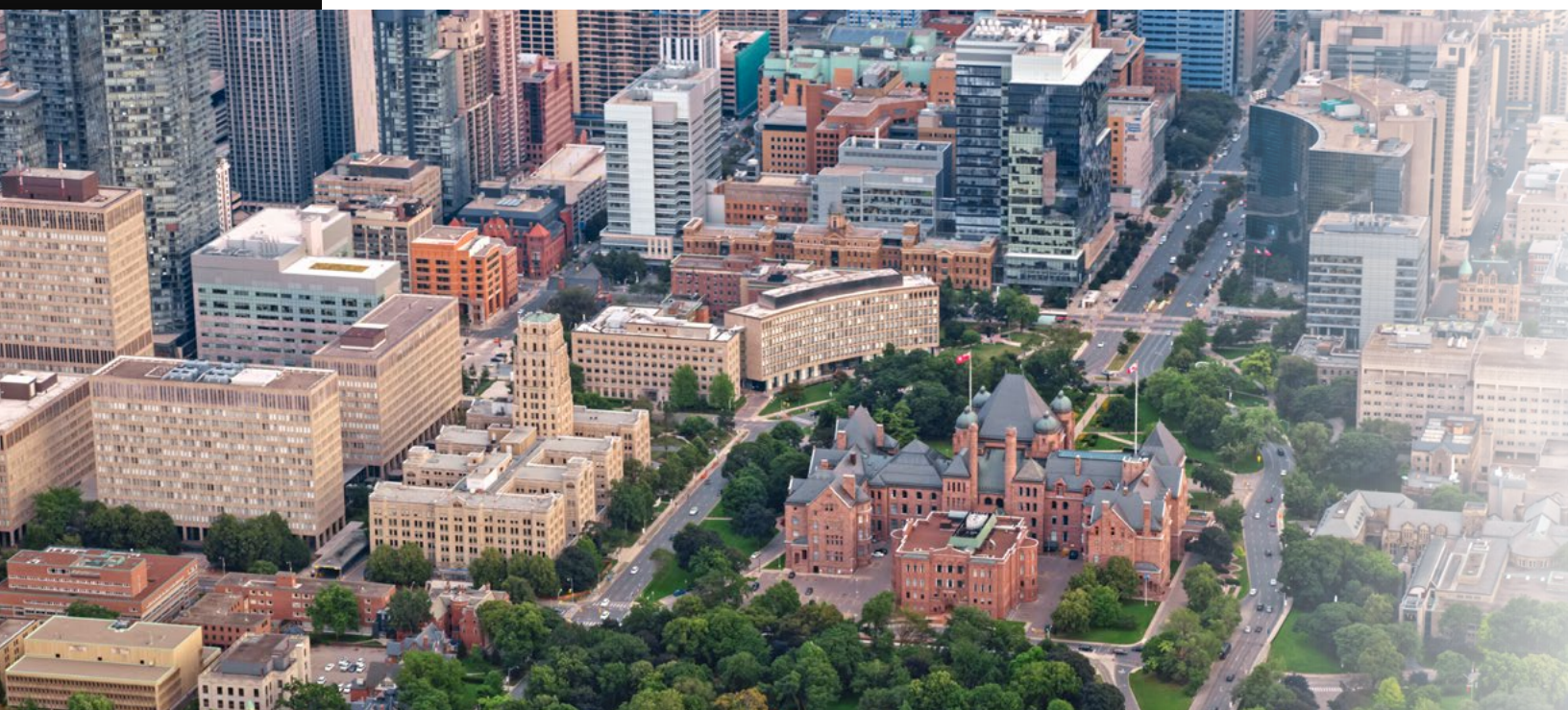


INDUSTRY PRIORITIES

TOP 10 CHALLENGES FACING RESTAURANT OWNERS (SHARE OF RESPONDENTS)

FOOD COST	90%
LABOUR COSTS	88%
LABOUR SHORTAGES	54%
REPAYING DEBT INCURRED DURING THE PANDEMIC	46%
HIGH INTEREST RATES	45%
WEAK ECONOMY	43%
SUPPLY DISRUPTIONS	33%
CARBON TAXES	25%
SOURCING ALTERNATIVES TO SINGLE-USE PLASTICS	22%
WEAK CUSTOMER DEMAND	20%

Source: Restaurants Canada



SUMMARY OF RECOMMENDATIONS

1. Financial Relief

- a. Deepen Wholesale Discount from the LCBO
- b. Increase Employer Health Tax (EHT) Threshold
- c. Increase the Exemption Threshold for the Small Business Tax Rate

2. Enabling Growth

- a. Raise the HST Exemption (PST portion) on Prepared Meals
- b. Increase the Business Expense on Restaurant Meals
- c. Stabilize the Cost of the Blue Box and EPR Programs

3. Workforce

- a. Immigration (OINP)
- b. Training Grants

RECOMMENDATIONS

1. Financial Relief

DEEPEN WHOLESALE FROM THE LCBO

In December of 2021, the Ontario government announced its plan “to support bars, restaurants and other businesses with a license to operate liquor consumption premises by cutting wholesale prices for the alcohol they purchase from the LCBO, saving these businesses an effective 20 percent when compared to retail prices.” Ontario estimated that this permanent move would provide roughly \$60 million in relief to impacted sectors. In December 2023, the government announced a more open marketplace for Ontario consumers to purchase beer, cider, wine, and low-alcohol ready-to-drink beverages at more competitive prices. The government committed to continuing to consult with industry partners and stakeholders on licensing, wholesale pricing and taxes, mark-ups, and fees.

The Ask: Offer a deeper discount to businesses with a license to operate liquor consumption premises. Taking this action offers restaurants an opportunity to recover margin and/or lower prices for consumers, potentially helping to drive more sales. It targets one of the most struggling parts of the restaurant sector that has been most impacted by lingering COVID impact, inflation, and wage growth. Offering a deeper wholesale discount will help improve the industry’s profitability and make it more affordable to operate a licensed establishment in Ontario.



INCREASE EMPLOYER HEALTH TAX (EHT) THRESHOLD

Ontario increased the EHT exemption for 2020 to \$ 1 Million as part of its COVID response. It moved in budget 2020 to make this measure permanent. Our understanding is that the Government of Ontario periodically adjusts the exemptions to match inflation. Our research leads us to understand the Ontario government does not intend to revisit EHT exemptions again until January 2029.

The Ask: Move to again accelerate growth in the exemption and ensure that exemptions move upward at least at the pace of minimum wage to ensure that minimum wage pressure does not disproportionately grow EHT burden for those offering minimum wage jobs. Ontario could also consider offering a lower rate to smaller businesses and/or struggling sectors.

As Restaurants Canada expects the Government of Ontario's own numbers would show, we project that immediately moving from \$1 million to **\$1.5 million** could save an eligible business up to \$29,250 per year, or as much as \$39,000 per year if moved to **\$2 million**.

INCREASE THE EXEMPTION THRESHOLD FOR THE SMALL BUSINESS TAX RATE

Recovery in the foodservice industry has been painfully slow because of several factors beyond the control of restaurateurs, including record-high inflation, the rising cost of food, and labour shortages. When a restaurant thrives, so does the community - .96 cents of every dollar spent at a restaurant goes back into the economy. Help provide relief to small businesses by cutting taxes for small businesses.

The Ask: Increase the exemption threshold for the small business tax rate from \$500,000 to \$750,000 this would benefit the small businesses that are struggling with profitability and recovery.

2. Enabling Growth

RAISE THE HST EXEMPTION (PST PORTION) ON PREPARED MEALS

Ontario offers an exemption on the PST portion of HST for prepared meals under 4 dollars. Adjusted for inflation, this amount would be more than doubled — the 4 dollar amount has been in place since 1989.

This exemption was put in place to ensure that busy Ontarians could access convenient prepared meals tax exempt. In 1990, for example, a child's Happy Meal or an Adult Combo would both meet this threshold. Meals that were tax exempt in the 1990s are now taxed, thus creating a tax hike by stealth that was never part of a conscious public policy decision.

The Ask: Raise the threshold for the PST portion exemption for prepared meals from 4 dollars to twelve dollars to ensure that meals that were exempt are again exempt. Ontario could also choose to exempt the PST portion of the first twelve dollars of any meal purchased at a restaurant, thus widening the benefit to a wider restaurant group. The exemption should be indexed to inflation.

The tax exemption targets lower priced meals that are not luxury and that are commonly consumed for convenience and families on the go — a win for both restaurants and consumers.



INCREASE THE BUSINESS EXPENSE ON RESTAURANT MEALS

Work with the federal government to boost restaurant on-premise visitation by allowing businesses to deduct more than fifty percent of reasonable costs spent on business meals. In 2021 and 2022, the USA Consolidated Appropriations Act (the CAA) allowed 100% deductions for business-related food and beverages provided by restaurants.

The Ask: Work with the federal government to allow businesses to expense restaurant meals at 100% from the current fifty percent deduction.

STABILIZE THE COST OF THE BLUE BOX AND EPR PROGRAMS

Ontario has the highest costs in the country for EPR and it is growing.

Producers are burdened with the highest costs in the country for implementing full EPR. The program will be the most expensive program in the country. The costs of the common collection system in Ontario alone will be more than 50% higher than the total program cost in other jurisdictions, without the added benefits. When comparing total program costs, including program management and post-collection, the costs of the Ontario system will be roughly double the costs of programs in other jurisdictions. This is not a sustainable path forward.

The multi-pro system within Ontario has created widespread uncertainty which has led to increased costs as vendors across the blue box system have incorporated that into the pricing for their supply chain services. In addition, the ongoing costs of operating a separate common collection system solely for Ontario and the complexity of allocating and then reconciling collected tonnes within multiple PROs, provides further layers of cost that have been avoided in other jurisdictions.

The Ask: To ensure the future viability of the restaurant industry, government must stabilize the cost structure of the Blue Box program to create certainty and predictability for operators.

As Ontario continues to evolve producer responsibility regulations, it is critical that policymakers engage regularly in thoughtful conversations with foodservice operators and work closely with them to bring processes and costs in line. As foodservice operators continue to recover from the pandemic, Restaurants Canada believes that any government action on this file needs to be focused on making it easier and less expensive for the industry to mitigate its waste footprint.

3. Workforce

IMMIGRATION (OINP)

In March 2023, Ontario announced it is doubling the number of economic immigrants it selects in 2025 to over 18,000 to help solve the province's critical labour shortage, per the Ontario Immigrant Nominee Program.

Ontario's Express Entry Skilled Trades stream is one of several streams designated in the OINP. Ontario's Minister of Labour has the ability to designate what skill sets are in demand in the province for a portion of the seats within the OINP.

The Ask: With the highest private sector job vacancy rate, Ontario could help the struggling restaurant sector by targeting more immigrants with the in-demand skills required in the foodservice sector.

TRAINING GRANTS

The foodservice sector lost many employees due to the uncertainty of closures and restrictions due to the pandemic. Those that left for more predictable jobs in customer service, did not return to the industry. Labour shortages, already a challenge prior to the pandemic, continue to impact both the financial and operational capacities of restaurants.

Employers are struggling to find talent and increased costs to attract and train employees have more than doubled. Assistance is needed to help employers address workforce shortages and training.

Ontario announced in September of 2022 its plans to invest an additional \$90 million in the Skills Development Fund. The government's September 26, 2022 news release notes the programs objectives, including Ontario's goal to "help support innovative projects that upskill workers and jobseekers preparing for meaningful careers in their communities". Ontario could also target supports for businesses hiring individuals who have been out of the labour market for a prolonged period of time or who face barriers to employment.

The Ask: Future funding rounds could specifically target the restaurant sector and program criteria could specifically welcome proposals for funding support for: employee recruitment costs; direct wage subsidies for trainers and trainees; help for employers wishing to help employees with training and housing costs (potentially in target regions).

Ontario could also consider modeling a program after Alberta's *Alberta Jobs Now Program* or New Brunswick's *Recovery Hiring Program*. These programs help provide hiring, onboarding, training and/or wage subsidy funding for new hires.

CONCLUSION

The Ontario foodservice industry is a dynamic and integral part of our society. It has weathered the storm of the pandemic, but challenges remain. To secure its strong future, the government's support is crucial. Our recommendations are to help reinforce the resilience and adaptability of the industry and make recommendations that will help operators to navigate the current storm they are facing.

Together, we can build a more stable, sustainable, and prosperous future for the foodservice sector in Ontario and ensure its continued contribution to the province's growth and well-being. We look forward to advocating on behalf of Ontario's foodservice sector and engaging with the government to achieve these goals.





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