2011 -2012

Pre-Budget Submission

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Restaurant
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Executive Summary

The restaurant industry (an all encompassing term used herein to refer to restaurants, cafes and catering business) is a small business dominated industry with a large, generally unrecognised turnover. The labour intensive nature of the business provides unprecedented levels of additional regulation and cost burden.

Several Clear initiatives would help ease the load. These include:-

Portfolio	Initiative	Indicative Cost to Budget
Treasury	Remove business meals from FBT coverage and make all business meals non-deductible.	$0
Tourism	Commonwealth to resource specific initiatives to promote Australia Food and Wine Experiences to potential international investors.	$2.5 Million
Health & Ageing	Commonwealth to resource the promotion of best practice in food safety management including training for food handlers nation-wide.	$650,000
Small Business	Commonwealth to adequately resource an employer education campaign on IR changes.	$1.2 Million
Treasury	Raise the Superannuation Guarantee Threshold to $600 per month ($1800 per quarter) and index it to CPI.	$0
Treasury	Remove the superannuation refund for Working Holiday Makers	$0
Employment, Education & Workplace Relations	Grant employers a 120% tax deduction for expenditure on training and development.	$950 Million

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Background

The Australian Bureau of Statistics reported 37,699 restaurants, café and catering business that are registered for GST in 2004. Since that time business count data for the whole of Division H (Accommodation, Cafes and Restaurants) has grown substantially. On the basis of this data it is estimated that the number of café and restaurant businesses in Australia in 2010 was approximately 45,000. The café, restaurant and take-away food sector is 2.6% per annum and is projected to grow at a faster rate than the Accommodation and Food Services industry as a whole[i].

Of these businesses, 84% employ 20 people or less. There are 161 restaurant, café and catering businesses Australia wide that employ in excess of 200 people. Employment in the café, restaurant and take-away sector accounts for 456,600 workers, but there is still a short fall and the industry needs more full-time and casual employees. Looking ahead to 2014-2015 it is estimated that the café restaurant and take-away sector will need more than 65,000 employees.

Australia Bureau of Statistics Retail Trade Figures show the overall retail sales increased 0.7% for July 2010 (seasonally adjusted) compared to 0.4% increase for June 2010. The restaurant & catering industry has turned over 2,696 Million in July which was up 5.3% on June 2010 figures (seasonally adjusted). *Meals out* include turnover from cafes, restaurants and catering services and quick services restaurants (including take-way).

The traditional (full service) part of the industry generated $1.540 Billion, this was a huge increase of 14% on June 2010 figures and more importantly, July turnover was 17.3% upon July 2009, indicating the absolute reliance of the industry.

Nationally, there has been a significant growth in the restaurant industry across most states. Figure 1 below shows a negative trend for Tasmania and South Australia, however R&CA believe there will be a positive increase.

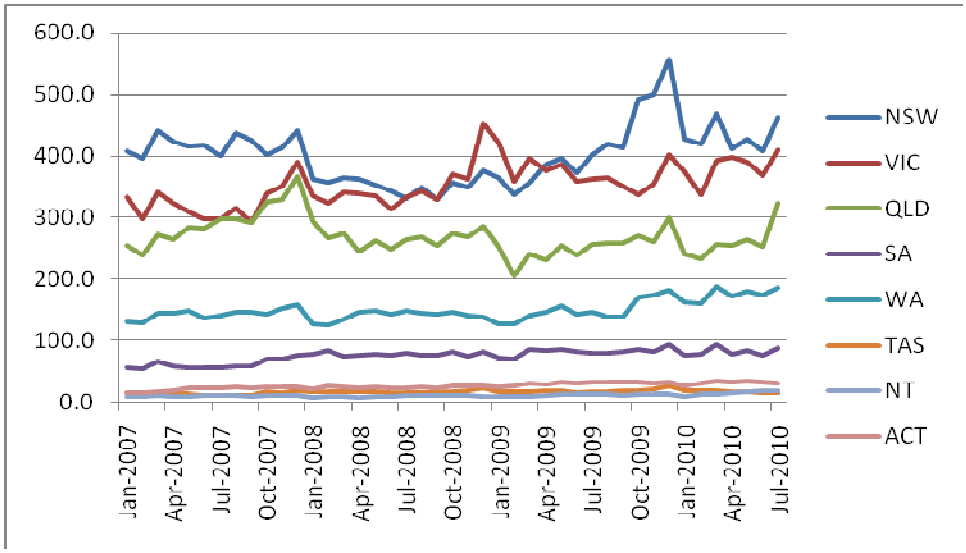

Figure 1 - *Turnover (Millions) – Cafes, restaurants and Catering Businesses by State*

Despite sustained revenue, a report released by the Australian Bureau of Statistics in April 2008 shows a slowing in restaurant profits (as forecast by the R&CA) with overall net return sitting at 3.6% of turnover and small business (under 5 employees) facing an average loss of -0.3% .

The Employment Outlook publication from the Department of Education, Employment and Workplace Relations reported 456, 600 people employed in the cafes and restaurants in February 2010. The projection in the report is for the growth of 2.6% per annum in employment in cafes and restaurants.

The major occupations in the wider hospitality industry include waiters, kitchenhands and bar attendants. These occupations are all regarded as having good to very good career prospects or are in other words still undergoing significant growth and are in shortage.

On the back of concerns expressed by Restaurant & Catering Australia, in 2003 the then office of Small Business conducted research into the regulatory burden faced by restaurants. The regulatory burden faced by restaurants was noticeably greater than for other businesses due to the small business, labour intensive nature of the industry.

According to the report, the areas of the greatest regulatory burden identified are as detailed in table (i). The areas in bold were those raised most often.

Regulation	**Area Of Government**
Business Name Registration	State
Australian Business Number application	Commonwealth
Registration Pay as You Go Withholding	Commonwealth
Goods and Services Tax	Commonwealth
Development approval	Local Govt
Business Activity Statement	Commonwealth
Income Tax Return	Commonwealth
Tax file number declarations – new employees	Commonwealth
Superannuation Guarantee	Commonwealth
Centrelink forms	Commonwealth
Occupation Health & Safety Requirements	State
Workers Compensation	State
Liquor Licence	State
Food Hygiene licensing/inspections	State / Local Govt
Food Hygiene Requirements	State / Local Govt
Agreement to discharge trade waste into sewers	Local Govt
Employment Awards	Commonwealth / State
Apprentice/trainee awards and arrangements	Commonwealth / State
Unfair dismissal	Commonwealth / State

Table (i)

The area of reform noted in this pre-budget submission have been arrived at by Restaurant & Catering Australia as a means of returning some level of sustainability to the restaurant business, either through benefits that flow to the business' bottom line or in lowering regulatory burden.

Budget Initiatives

Remove business meals from FBT coverage and make all business meals non-deductible

Since the huge downturn in commercial business in 1987 when FBT was introduced on business meals, the restaurant & catering industry has been advocating a way to get business back to the dining table. The imposed disincentive to dine out was compounded upon the introduction of GST due to input credits not being able to be claimed on business meals. The GST was tagged 'not a tax business' but it was a tax on business meals.

Business meals provided to employees are generally NOT fringe benefits they are a legitimate part of doing business – they are a legitimate part of doing business – they are a business cost.

The current legislation governing the taxation treatment of business meals is overly complex. In 2001 Access Economics stated that "In its tax treatment of business meals, Australia leads the world in complexity, in discriminating against business dining as a legitimate business input and, as a result in efficiency, and in unfairness.

There are three key problems with the current legislation, as follows:

- It does not recognise that business meals are legitimate, necessary, business costs;
- It results in the over-taxation of all but those on top marginal tax rate; and
- It is very complex and leads to very high compliance costs.

Meals are a Legitimate Business Expenses

Even though most meal expenses are a genuine cost of doing business, they incur FBT.

Not allowing a deduction of meal expenses at the same rate as other legitimate business costs, distort the economy.

FBT over taxes most Australians

FBT at 46.5% over taxes 87% of the Australian population.

FBT is very complex

There are 39 different ways of treating a business meal for taxation purposes.

Small businesses use hotels, restaurants and cafes as their boardroom. The very businesses that can not afford additional taxation are being disadvantaged.

FBT reforms would generate 7,500 jobs in the hospitality industry.

Food producers, processors and suppliers to the industry can expect a volume increase of between 0.05% and 0.19%.

The attached report "Analysis of Reforms to Tax Legislation Relating to Business meals', ECONTECH, 2005 details the Associations' proposal.

Tourism

Commonwealth to resource specific initiatives to promote Australian Food and Wine Experiences to potential international visitors

The restaurant and catering industry is a major part of the tourism industry. Restaurant and take-away meals now account for 15.0% of all tourism expenditure (both internationally and domestic). Expenditure on restaurant and take away meals by tourists accounts for 9.97 billion in earnings of restaurant business in tourism business.

Whilst this is so, there is little acknowledgement that restaurants drive tourism spend and do impact on the choice of destination, the length of stay or the satisfaction with the tourism experience, recent research has proven that restaurant meals are a driver of destination choice and satisfaction.

Work undertaken by the Bureau of Tourism research has demonstrated the high yield nature of 'Culinary Tourism'. 52% of total tourism spend is by Culinary Tourists and on average these individuals spend 30% more than other tourist classes. They are a high yield international, domestic and day-tripper market.

The food and wine industries are working together to identify strategic initiatives that will see the emergence of a strong food and wine tourism niche market.

In particular the development, promotion and operation of an International Food & Wine Festival in Melbourne from 2008 and the development and marketing of international food and wine tours of Australia, promoted under the Savour Australia™ brand, would be initiatives that we believe are worthy of support.

Food Standards

Commonwealth to resource the promotion of best practice in food safety management including mandatory training for food handlers nation-wide

The restaurant industry has been targeted for reforms within the food safety standards. These reforms initially proposed mandatory Food Safety Plans for these businesses. A guideline from the Food Ministerial Council recommends that restaurants are carved out of proposed arrangements due to the lack of cost: benefit for the industry.

A two-year work program, entered into by the Commonwealth in the mid 2000's, detailed findings noted above but also suggested other strategies that would be of benefit to the restaurant industry. They included the promotion of best practice food safety management strategies and the piloting of mandatory training of food handlers in a range of areas for eating establishments, including restaurants and cafes.

Small Business

Commonwealth to adequately resource an employer education campaign on IR changes

It is clear from considerable research undertaken in the past years that industry associations are where a small business turn for advice on employment matters. Restaurants, café owners and caterers are no exception.

Restaurant & Catering Australia urges the Government to adequately resource the implementation of industrial relations reform through an information campaign with industry associations.

Restaurant & Catering Australia acknowledges (and appreciates) the investment in education through the Fair Work Education and Information Program. This program requires additional resources to cover the considerable demand being experienced form small business in the restaurant, café and catering industry.

Eliminating Wastage in the Superannuation Guarantee Scheme

Raise the Superannuation Guarantee Threshold to $600 per Month ($1800 per quarter) and indexing it to CPI and remove the superannuation refund for Working Holiday Makers.

There are some key areas of leakage in the current superannuation arrangements. One of the significant areas of wastage is the payment of superannuation contributions for individuals who will never collect the amounts deposited. In general this is either because the amount of contribution is so small that it is not worth the hassle of rolling it over into another fund (or the amount has been 'eaten up' by administration fees), or, in the case of working holiday-makers they are unable to collect the monies from outside Australia.

Even in the face of changed legislation enabling and promoting the collection of contributions by working holiday makers) very few collections are being made.

This wastage should be eliminated. In these cases the employer is making a financial commitment for no end gain. It is therefore recommended that:

(a) Superannuation guarantee threshold be raised to $1800 per quarter (from $450 per month) and that it be indexed to CPI.
(b) That superannuation contributions for working holiday makers be contributed to a training and education fund.

To make the situation worse, in relation to the SGL threshold, the Restaurant Industry Award 2010 has lowered the threshold, under that, to $350 per month.

Education & Training

Grant employers a 120% tax deduction for expenditure on training and development

In the 2007 Election campaign the Government provided considerable detail on the planned education revolution. In order to achieve the well conceived objectives of the reforms a significant commitment will be required by the nation's employers.

The Skilling Australia policy statement acknowledges that 'Australia will require an additional 2.5 million people with VET qualifications between 2006 and 2016, of whom around 1.7 million will need to be qualified at Certificate III level or above'. This is unlikely to be achieved through the measures alone. A significant contribution by employers will be required.

Rather than the previous approach of instituting a Training levy on employers (that encourages arbitrage of reporting), a true incentive to investing in training, would be to provide a tax advantage.

The most recent Australia Bureau of Statistics report into training expenditure by employers was in 2001 (6362.0 – Employer Training Expenditure and Practices, Australia). This report estimated net direct expenditure on structured training during the 2001-02 financial year totalled $3.652.8 million. This reflected gross expenditure of $1,036.7 million on trainers; wages and salaries and 2,981.5 million on other direct structured training costs offset by receipt of 365.5 million in training related subsidies and payments. Net direct training expenditure averaged $458 per employee and 1.3% of total gross wages and salaries.

Overall employment in June 2002 was 9.304,000 and today it stands at 10,287,400. In the event that the claim that investment has not increased in these four years is correct, the initiative would cost no more than $942 Million plus what ever the benefit is generated through additional investment, if every employer claimed the deduction on every amount spent on training.

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[i] Australian Government – Department of Education, Employment and Workplace Relations. Employment Outlook for Accommodation and Food Services, SkillsInfo – Making the skills connection at 7.