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

WRITTEN SUBMISSION

PRE-BUDGET CONSULTATIONS

August 2025

WRITTEN SUBMISSION FOR THE PRE-BUDGET CONSULTATIONS IN ADVANCE OF THE UPCOMING FEDERAL BUDGET

BY: RESTAURANTS CANADA

August 2025

LIST OF RECOMMENDATIONS

- **Recommendation #1**: Permanently exempt all food, including restaurant meals, from GST/HST to lower costs for Canadians and stimulate job creation in the foodservice industry.
- **Recommendation #2:** Prioritize immigration for rural, remote and tourist areas under existing allotments
- **Recommendation #3:** Reduce the Employment Insurance premium rate from 1.64% to 1.58% to support payroll relief, especially for youth-heavy sectors like foodservice.
- **Recommendation #4:** Establish a national jobs and training program for newcomers, modelled on the Ready to work employment program, to fill labour gaps in hospitality and improve newcomer integration.
- **Recommendation #5:** Implement a sector-specific investment incentive for the Restaurant Industry
- **Recommendation #6:** Expand the accelerated investment incentive to include the restaurant industry.
- **Recommendation #7:** Permanently eliminate the automatic alcohol excise tax escalator to help restaurants manage costs and protect affordability for consumers.

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RECOMMENDATION #1: PERMANENTLY EXEMPT ALL FOOD, INCLUDING RESTAURANT MEALS, FROM GST/HST

Unlike groceries, restaurant meals are taxed under GST/HST, making them pricier for consumers facing rising costs and adding pressure on struggling foodservice businesses. For many Canadians, restaurant food is an integral part of daily life, whether it's grabbing dinner between shifts, meal on the way home for a busy family, or relying on meal delivery services. When the GST was implemented in 1991, an Ernst and Young report found the tax resulted in a 7.3% drop in restaurant sales. The industry never recovered from that drop.

However, the recent GST/HST holiday increased foodservice sales by 8.6% nationally in January alone. The restaurant sector has a greater economic impact than others, generating $2.32 per dollar in sales compared to $1.90 in other industries.

During the tax holiday, 24,000 jobs were created, more than in the previous year; however, 10,300 jobs were shed following the end of the tax holiday. Eliminating GST/HST on restaurant meals would boost job creation, particularly for youth, who make up over 505,000 employees, or 42% of our sector.

The measure is widely supported, with 84% of Canadians agreeing that food should not be taxed, regardless of preparation. It offers a practical, popular, and fiscally responsible approach to promoting affordability and economic growth without incurring new spending.

Restaurants Canada estimates that permanently removing just the 5% GST on all food would lead to:

- 64,300 new foodservice jobs (40% of which are likely to go to people under 25)
- 15,685 additional spinoff jobs in related industries
- 2,680 new restaurants
- $5.4 billion in tax savings to consumers
- $1.5 billion in additional tax revenue and EI savings for the government

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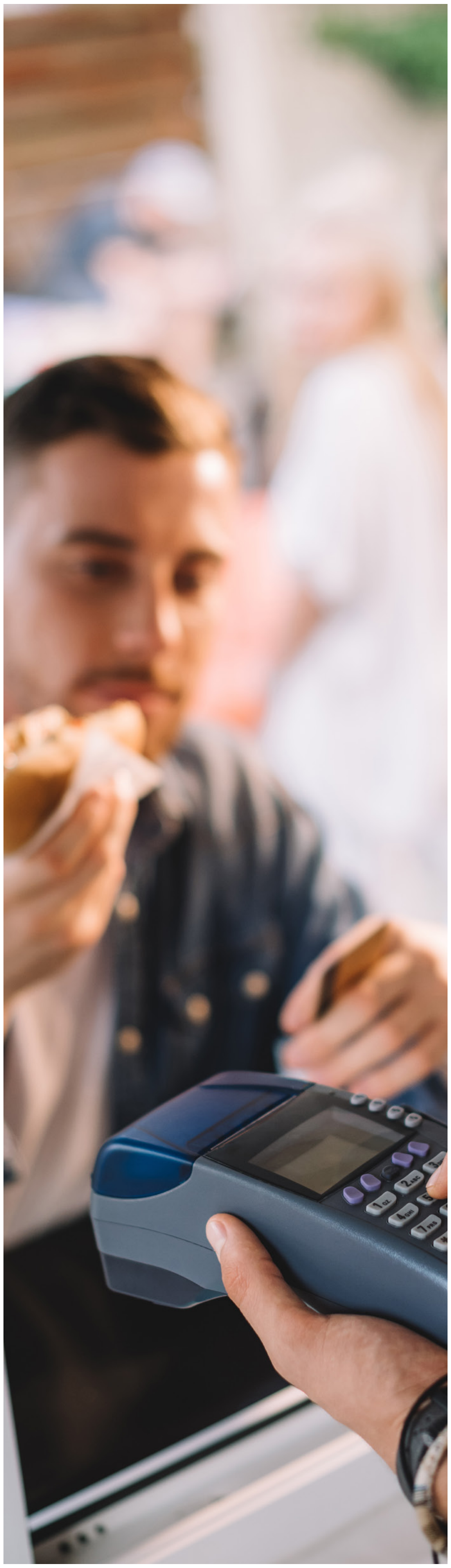

Restaurants Canada urges the federal government to modernize its tax policy and exempt all food, including restaurant meals, from GST/HST to protect jobs and strengthen communities.

RECOMMENDATION #2: OVERSEE GEOGRAPHICALLY ATTUNED IMMIGRATION REFORM

Canada is facing a shrinking labour force and ongoing productivity challenges. Persistent labour shortages continue to limit the restaurant industry's operational success, forcing businesses to focus on survival rather than expansion.

Between 2025 and 2027, modifications to Canada's immigration policies could result in a shortfall of up to 50,000 workers, boosting total vacancies to as many as 115,000 by 2027. Businesses in rural, remote, and tourist communities, already dealing with labour shortages, will be the most affected by these changes.

Restaurants Canada calls on the federal government to reform immigration and work permit policies to better meet regional labour requirements by prioritizing rural, remote, and tourist areas within the current immigration allocations. Targeted reforms based on geography would allow for quicker and more adaptable access to labour, helping to revitalize regional economies and foster sustainable growth where it is most needed.

RECOMMENDATION #3: LOWER EI PREMIUM RATE TO 1.58% FOR EMPLOYERS AND EMPLOYEES

The foodservice industry is a vital job creator in Canada's economy, ranking as the fourth-largest private-sector employer with 1.2 million workers. However, today 41% of restaurants are operating at a loss or barely breaking even. Due to its labour-intensive nature, the industry is heavily affected by even minor changes to payroll taxes. Therefore, reasonable measures to lower payroll taxes can help sustain and generate new jobs nationwide.

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The Employment Insurance (EI) premium rate rose from 1.58% in 2022 to 1.64% for 2025. Although it decreased from 1.66% to 1.64% from 2024 to 2025, this isn't enough to offset the affordability and trade war challenges impacting our industry. The trade war is costing the foodservice industry tens of millions of dollars per month. Lowering the rate to 2022 levels would significantly help an industry with thin profit margins and high insolvency risks.

Lower premiums would also help many young people in accommodation and food services. Over 505,000 youth work in restaurants, a fifth of youth jobs in Canada. This aligns with the government's goal to support youth employment and cut living costs. Reducing payroll expenses allows restaurants to keep prices affordable, hire more staff, allow employees to take home more of their pay.

Considering current bankruptcies and affordability issues, a reduction in EI premiums would provide relief for restaurants and taxpayers nationwide, without affecting Canada's consolidated fund. Restaurants Canada therefore urges the federal government to reduce the EI premium rate from the current 1.64% back to 1.58%.

RECOMMENDATION #4: LAUNCH A NATIONAL HOSPITALITY JOBS AND TRAINING PROGRAM FOR NEWCOMERS

Canada currently has one million newcomers with work permits, including asylum seekers, refugees, and international students. Unfortunately, these newcomers often face significant barriers to securing full-time employment, resulting in high unemployment rates and slower, more difficult integration into communities across the country.

The restaurant industry has 63,000 job vacancies nationwide. Investing in a program to match and train newcomers for these roles benefits the government, newcomers, and the sector. Many training initiatives have been tried over the years.

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The Ready to Work Program has been run successfully, many times, for hospitality and tourism, helping newcomers find jobs and improve skills through on-the-job language and job readiness training. A third-party review of one such program, praised its success and recommended expansion. Aimed at supporting permanent residents and refugees, the program aligns with government priorities on immigration and economic integration, offering newcomers a pathway to self-sufficiency and helping employers fill labour shortages without temporary worker programs.

It also aligns with the July 23, 2025, request of all premiers to issue work permits immediately to all asylum seekers. A similar program for asylum seekers is currently being run in New Brunswick at the request of Restaurants Canada.

Given the importance of integrating newcomers, industry labour shortages, and the program's successes, Restaurants Canada recommends a matching and training initiative modelled after the Ready to Work Program.

RECOMMENDATION #5: ESTABLISH AN AUTOMATION AND TECHNOLOGY INVESTMENT TAX CREDIT FOR THE RESTAURANT INDUSTRY

Labour productivity is a growing concern across the Canadian economy. Over the past decade, overall productivity across all industry grew by 4%; for the restaurant sector, labour productivity declined by 4%. As of 2024, the restaurant industry has the second-lowest labour productivity among all industries in the Canadian economy due to the labour-intensive nature of the sector.

Despite persistent staffing shortages and rising costs, many restaurants are unable to adopt productivity-enhancing technologies, primarily due to financial constraints. Consumer sentiment, however, signals an appetite for innovation.

A recent KPMG report found that 74% of consumers want to see automation in at least one area when a restaurant is not fully staffed.

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Technological adoption offers clear benefits for the industry, including increased labour efficiency and productivity, better data and analytics tracking, and improved customer experience. However, financial barriers such as access to consistent reasonable credit, prevent greater adoption in the restaurant industry.

Digital infrastructure enables restaurants to streamline operations, adapt to workforce challenges, and remain competitive and affordable, particularly in rural, remote, and tourist areas.

Restaurants Canada calls on the federal government to implement a dedicated technology adoption investment tax credit, prioritizing foodservice operators, with special provisions to promote digital adoption in rural and remote regions.

This tax credit would provide businesses with the financial flexibility to modernize their operations, increase productivity, and meet customer demands while promoting growth in the industry.

RECOMMENDATION #6: IMPLEMENT A SECTOR-SPECIFIC INVESTMENT INCENTIVE FOR THE RESTAURANT INDUSTRY

In the 2018 Fall Economic Statement, the federal government announced the introduction of the Accelerated Investment Incentive, which provides an enhanced first-year deduction for capital property that is subject to the Capital Cost Allowance (CCA) rules, with limited restrictions.

The restaurant industry—an essential driver of $28 billion in annual tax revenue, a major buyer of Canadian agricultural products, and a key contributor to employment, tourism, and community vitality—continues to face relentless financial pressures, including rising input costs, labour shortages, and ongoing post-pandemic debt recovery. These financial pressures along with impacts of the trade war have forced many businesses in our industry to shift focus to maintaining day-to-day operations, rather than investing in the long-term growth of their businesses.

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We therefore call on the federal government to introduce a sector-specific accelerated capital cost allowance, modelled after the Accelerated Investment Incentive and designed with the investment challenges unique to the restaurant industry in mind. Such programs would allow businesses the flexibility to make necessary investments in equipment, technology, and facility upgrades to enhance productivity, meet consumer demand for digital innovation, and support long-term competitiveness in the industry.

This measure would catalyze reinvestment in the industry, support small and medium-sized operators, and ensure the modernization and long-term sustainability of a sector critical to communities across the country.

RECOMMENDATION 7: PERMANENTLY ELIMINATE THE ALCOHOL ESCALATOR TAX

Alcohol excise tax at the federal level is automatically indexed to inflation at the start of each fiscal year. As a result, the excise taxes on beer, wine, and spirits have increased every year, without a vote in Parliament, since 2017.

As Canadians face rising living costs, a rapidly increasing alcohol excise tax significantly impacts prices, costing taxpayers over $1 billion since its implementation, according to Beer Canada. Local pubs and restaurants, once community hubs, now face severe challenges—41% operate at a loss or barely break even, up from 12% before the pandemic. The automatic tax increase worsens these issues for small businesses, with excise and other alcohol taxes now making up over half the cost of alcohol, further straining a sector already operating on thin margins.

As the federal government seeks to stimulate economic growth, address affordability for Canadians, and promote a competitive business environment, the elimination of the automatic escalator would help stabilize costs for both Canadians and restaurant operators, who are navigating affordability challenges on multiple fronts.

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