RESTAURANTS CANADA PRE-BUDGET CONSULTATION 2026

Department of Finance Canada

September 8, 2026

RECCOMENDATIONS

Recommendation 1

That the government permanently exempt all food, including restaurant meals across dine-in, takeout, and delivery, from GST/HST to lower food costs for Canadians and support job creation, including significant stimulation to youth jobs, and economic growth in communities across Canada.

Recommendation 2

That the government establish permanent full first-year expensing for qualifying restaurant capital investments, including leasehold improvements, equipment, accessibility upgrades, automation, digital technology, and energy-efficiency improvements.

Recommendation 3

That the government modernize the small business deduction by increasing the federal business limit from $500,000 to $1 million to reflect rising business costs and support reinvestment, business continuity, growth, and job creation among small and medium-sized businesses, including restaurant operators.

Recommendation 4

That the government establish a tax credit for restaurant technology investment and modernization to support productivity growth, operational resilience, and competitiveness among small and medium-sized restaurant operators.

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Recommendation 5

That the government work with the Canadian Food Inspection Agency and provincial and territorial counterparts to establish mutual recognition of food safety certifications and harmonized inspection standards through the Canadian Free Trade Agreement regulatory reconciliation process, reducing unnecessary administrative burdens and barriers to interprovincial commerce.

Recommendation 6

That the government enhance the Youth Employment and Skills Strategy by creating a dedicated funding stream for local employment service providers to develop sector-specific training programs for the restaurant industry, supporting youth employment and workforce development in communities across Canada.

RESTAURANTS CANADA

Restaurants Canada is a national, not-for-profit association representing Canada's diverse restaurant and foodservice industry, including restaurants, bars, caterers, quick-service operators, suppliers, and other foodservice providers. Founded in 1944, we advocate on behalf of more than 105,000 businesses across the country, from small family-run establishments to large national chains.

The restaurant industry is a jobs and economic powerhouse:

⇒ Canadians visit restaurants **23 MILLION** times every day in communities across the country.

⇒ Restaurants generate over **$125 BILLION** in annual sales, accounting for **4%** of Canada's GDP.

⇒ We are the fourth-largest private sector employer in Canada, with **1.2 MILLION WORKERS** representing six percent of the national labour force.

⇒ We employ more Canadians than auto manufacturing, aerospace, banking, primary agriculture, and steel combined.

⇒ We are the single largest source of first-time jobs in Canada, employing **480,000** young people, representing one in every six youth jobs in the country and over 40% of our workforce.

⇒ Our industry contributes **$28 BILLION** in federal, provincial, and municipal taxes annually and generates $2.25 in total economic output for every dollar spent, well above the national average of $1.92.

⇒ Our industry purchases **$43 BILLION** annually in food and beverages, of which approximately $30 billion is supplied by Canadian producers. An estimated 68% of all food and beverage

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purchases by restaurants are sourced domestically, with key categories such as dairy, chicken, and beef exceeding 80% domestic content.

These national figures reflect a sector rooted in local economies. Restaurants create entry points into the labour market, purchase from Canadian farmers and suppliers, animate main streets, and sustain employment in communities across Canada. But their scale does not remove their vulnerability. Most restaurant businesses are small and independently operated, with thin margins and limited capacity to absorb prolonged cost increases or finance major investments.

CURRENT CHALLENGES

Canada's restaurant industry is under growing financial strain, as persistent affordability challenges, rising operating costs, and uneven consumer spending continue to erode profitability. Consumer behaviour reflects the same strain: According to recent Angus Reid polling (May-June 2026), 73% of Canadians have reduced their non-essential activities and spending in order to save money over the past three months.

Cost Pressures

For many operators, even modest real sales growth is not translating into financial recovery. In Restaurants Canada's Q2 2026 operator survey, 64 percent of respondents reported lower profitability than a year earlier, and 46 percent reported lower guest counts. By June 2026, 41 percent of restaurant companies were operating at a loss or breaking even, up from 36 percent in March and 12 percent in 2019. Gross sales and nominal growth alone are not reflective for an operator's capacity to reinvest, hire, or withstand disruption.

The pressure comes from both sides of the ledger. Food, labour, rent, equipment, transportation, and other inputs remain costly, while household affordability pressures constrain guest traffic and spending. Higher transportation costs also move through restaurant supply chains, raising the cost of ingredients and deliveries. These pressures compress already thin margins and leave fewer retained earnings available for equipment, renovations, training, technology, expansion, or financial reserves.

Canada-US Trade

The escalation of the Canada–United States trade dispute adds a new source of cost and economic pressure. Restaurants Canada supports the Government of Canada in defending Canadian economic interests, but as Canada responds to U.S. trade action, retaliatory measures should be designed as carefully as possible to advance Canada's broader objectives without unnecessarily increasing costs for Canadian businesses and consumers.

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The risks extend beyond products directly subject to tariffs. Concern about prices, jobs, and the broader economy can weaken consumer confidence and discretionary spending, and restaurants often see that change early through lower guest traffic and reduced spending per visit. This creates a compounding pressure: operators may face higher input costs at the same time that consumers become less willing or able to absorb higher menu prices.

Restaurants cannot simply pass every tariff-related increase on to customers. New costs must instead be managed through some combination of already-thin margins, sourcing and menu changes, reduced hiring or hours, and deferred investment. With 41 percent of restaurant companies already operating at a loss or breaking even, the sector has little room to absorb another significant increase in food and operating costs.

Restaurants are where Canada's food supply chain meets the consumer. The sector purchases approximately $43 billion in food and beverages annually, including roughly $30 billion from Canadian suppliers. Approximately 68 percent of restaurant food and beverage purchases are sourced domestically, rising above 80 percent in categories such as dairy, cheese, chicken, and beef. A healthy restaurant sector therefore supports Canadian farmers, processors, distributors, and other businesses throughout the food supply chain.

Delayed Investment

Investment is being delayed at the moment Canada needs stronger productivity growth. In the Q2 2026 survey, 73 percent of respondents said tax policies at all levels of government were limiting investment; no respondent said current tax policies were encouraging investment or growth. Seventy-one percent said faster tax write-offs would make them more likely to invest in growth.

Broader economic uncertainty is also limiting operators' ability to invest and deploy capital for modernization, growth, and sustainability-related improvements. As the federal government advances a "one economy" approach focused on growth, resilience, and competitiveness, Budget 2026 should recognize the central economic role of the restaurant industry. The restaurant industry is typically the first to feel economic pressure when Canadians are struggling and when affordability is strained, it doesn't just affect restaurants, it ripples through communities, supply chains, and local economies.

Workforce Pressure

Workforce pressures add a further constraint. Labour shortages primarily in rural, remote and non-urban centres continue to compound pressures, with up to 105,000 job vacancies projected across the sector by 2030, threatening the stability of individual businesses and the broader network of employment they sustain. Back-of-house positions remain particularly difficult to staff, and recruitment challenges are more acute in suburban and rural or remote communities. At the same time, Statistics Canada data

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shows that the restaurant and accommodation industry employed an average of approximately 50,000 more youth in the first five months of 2026 than in the comparable period of 2025. The sector continues to provide essential labour-market access, but operators need stronger capacity to train workers and make scarce labour more productive. Restaurants Canada will continue its active conversations with the federal government and parliamentarians about the long-term workforce solutions our industry needs, including investments in youth training, technology, and immigration solutions with a path to permanent residency.

The measures outlined in our submission are targeted and practical. They will reduce the cost burden on operators, improve conditions for investment and growth, and provide more resilience to Canada's restaurant sector so that it can continue to contribute to job creation and economic growth in communities across the country.

RECOMMENDATION 1: PERMANENTLY EXEMPT ALL FOOD FROM GST/HST

Canada's tax treatment of food is inconsistent in a way that works against restaurants and the Canadians who rely on them. Grocery food is generally exempt from GST/HST; restaurant meals are not. This structural asymmetry raises the price of prepared meals and places restaurants at a disadvantage even though they are major employers, purchasers from Canadian supply chains, and anchors in communities across the country.

This affordability case has become more urgent in the current trade environment. Tariffs and supply-chain adjustments can increase the cost of food, packaging, equipment, and other restaurant inputs. At the same time, concern about prices, employment, and the broader economy can cause households to reduce discretionary spending. Permanently exempting restaurant meals from GST/HST would provide direct consumer relief while helping offset a new source of pressure on restaurant demand.

The temporary 2024–25 GST/HST holiday provides practical evidence of how consumers and employers respond when the tax burden on restaurant meals is reduced. During the temporary holiday, foodservice sales rose 8.6 percent in January, and sector employment increased by an estimated 24,000 jobs; 40% of which were youth jobs. Employment subsequently declined by 10,300 jobs after the measure ended. These results demonstrate the scale and speed of the activity observed during the temporary measure.

A permanent exemption would deliver direct and visible affordability relief across dine-in, takeout, and delivery. Restaurants Canada projects $5.4 billion in annual tax savings for Canadian consumers, 64,300

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new foodservice jobs, 15,685 additional spinoff jobs in related industries, and 2,680 new restaurant openings. Forty percent of the projected foodservice jobs would go to Canadians under age 25.

The broader economic case is reinforced by the sector's multiplier. Every dollar spent in foodservice generates an estimated $2.25 in total economic output. Restaurants Canada also projects $1.5 billion in additional federal tax revenue and Employment Insurance savings through expanded employment and economic activity.

The benefits would extend beyond restaurant operators. Restaurants purchase food and beverage products from Canadian farmers, processors, distributors, and other suppliers, linking restaurant demand to employment and activity throughout the domestic supply chain. When restaurant traffic falls, the consequences are therefore not confined to dining rooms and kitchens. A permanent exemption would support demand across this broader network while delivering immediate savings to consumers.

Restaurants already purchase approximately $30 billion in food and beverages from Canadian suppliers each year and buy Canadian wherever practical. A permanent GST/HST exemption would support demand not only in restaurants, but throughout the network of Canadian farmers, processors, distributors, and other businesses that supply them.

Permanent treatment matters. A short holiday can support demand temporarily, but it cannot provide the certainty operators need for hiring, investment, and business planning. A permanent exemption would correct the longstanding tax asymmetry between grocery food and restaurant meals while giving households ongoing relief and strengthening local employment.

Restaurants Canada calls on the government to permanently exempt all food, including restaurant meals across dine-in, takeout, and delivery, from GST/HST to lower food costs for Canadians and support job creation and economic growth in the restaurant industry and related industries, including Canadian agriculture, in communities across Canada.

RECOMMENDATION 2: ESTABLISH PERMANENT FULL FIRST-YEAR EXPENSING FOR RESTAURANT CAPITAL INVESTMENTS

Restaurants have a distinct capital-investment profile. Operators invest in leasehold improvements, kitchen and refrigeration equipment, ventilation systems, accessibility upgrades, digital technology, automation, and energy-efficiency improvements. These assets are essential to opening and renewing locations, meeting regulatory requirements, improving the guest experience, and increasing productivity.

A new full-service restaurant location can require between $8 million and $12 million in capital before opening.

Under the current Capital Cost Allowance regime, restaurants recover these costs over time. Slow recovery weakens early-stage cash flow and reduces the after-tax return precisely when an operator is deciding whether to renovate, replace equipment, modernize a kitchen, or open a location. The closest available federal measure, the Accelerated Investment Incentive, is temporary and being phased out. Restaurants Canada's materials also identify a competitive gap with the United States, where expanded immediate-expensing measures can make competing markets more attractive for investment.

The tariff environment creates an additional investment challenge. Restaurants rely on specialized ovens, refrigeration systems, ventilation equipment, replacement parts, and established North American supply and servicing networks. When critical equipment fails, an operator may not be able to wait months for a new supply chain to develop.

This is a structural disadvantage for an employment-intensive sector operating on margins that are typically only 3 to 5 percent. The Q2 2026 survey confirms that the timing of cost recovery affects investment decisions: 71 percent of respondents said faster write-offs would make them more likely to invest in growth. Those investments include equipment, renovations, technology upgrades, and expansion.

This investment cannot be deferred indefinitely without consequences. Refrigeration, ventilation, kitchen, accessibility, and digital systems must be maintained and replaced regardless of short-term profitability. When cost recovery is slow and cash flow is constrained, operators may postpone necessary upgrades, narrow the scope of renovations, or abandon expansion plans altogether. The result is older capital, weaker productivity growth, and fewer opportunities for suppliers, construction trades, workers, and communities.

Permanent full first-year expensing would improve the timing of cost recovery across a broad range of qualifying restaurant capital. It would strengthen cash flow, reduce uncertainty, and allow investment decisions to proceed on a more competitive basis. The practical outcomes would include safer and more efficient kitchens, upgraded refrigeration and ventilation, improved accessibility, lower-energy equipment, renewed dining spaces, stronger digital capacity, and new or expanded locations.

Restaurants Canada calls on the government to establish permanent full first-year expensing for restaurant capital investments under the Accelerated Investment Incentive, including leasehold improvements, equipment, modernization, automation, and digital technology investments, to support reinvestment, productivity growth, and modernization in a sector that contributes nearly 4% of Canada's GDP.

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RECOMMENDATION 3: INCREASE THE FEDERAL SMALL BUSINESS LIMIT TO $1 MILLION

The small business deduction is intended to leave qualifying Canadian-controlled private corporations with more after-tax income to reinvest in their operations. For restaurant operators, that retained income is not abstract. It is the source of working capital, equipment purchases, renovations, staff development, technology adoption, expansion, and reserves against the next disruption.

The federal business limit remains $500,000 and has not kept pace with the economics of operating a restaurant. Since the limit was set, the industry's cost base has risen substantially. Food and ingredients, labour, rent, equipment, transportation, utilities, insurance, and other inputs now absorb far more cash. A limit designed for an earlier operating environment therefore provides materially less practical support for reinvestment and resilience.

The problem cannot be assessed through gross sales alone. Restaurant businesses can record higher nominal revenue while their ability to retain earnings deteriorates. In the first quarter of 2026, commercial foodservice sales rose 6.0 percent in nominal terms but only 2.7 percent after menu inflation. At the same time, 64 percent of surveyed operators reported lower profitability than a year earlier. These results show why nominal sales growth does not necessarily mean stronger cash flow or financial capacity.

Inflation also changes what a given level of retained earnings can finance. A replacement refrigerator, ventilation upgrade, renovation, training program, or digital system now requires a larger commitment of after-tax dollars. When the business limit remains static as those costs rise, operators have less room to build the retained earnings needed for modernization and business continuity.

Increasing the federal business limit to $1 million would restore more of the small business deduction's practical value. It would allow a larger share of qualifying active business income to receive small business tax treatment, leaving more after-tax income available for business purposes. This would support investment without requiring operators to assume additional debt at a time of weak profitability and uncertain traffic.

The measure would not convert gross sales into a tax benefit, nor would it assist businesses without qualifying income. It would strengthen the capacity of viable small and medium-sized businesses to retain and deploy earnings.

Those earnings can fund equipment that raises kitchen throughput, renovations that extend the useful life of a location, staff development that improves workforce readiness, and technology that reduces waste or improves scheduling. They can also support a new location, protect jobs during a downturn, or

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provide reserves against supply disruptions and other shocks. In each case, the deduction operates as an investment, cash-flow, business-continuity, and job-creation measure rather than a windfall.

Stronger retained earnings also help operators manage costs without relying exclusively on menu-price increases. They give businesses more capacity to invest in efficiency, maintain locations, preserve service, and remain present in communities where the loss of a restaurant can mean the loss of an employer, gathering place, and customer for local suppliers.

The recommendation is also consistent with the government's "one economy" objectives. Restaurants operate in every province and territory, purchase from national and local supply chains, and provide employment that cannot be relocated offshore. Stronger retained earnings translate into reinvestment in communities across Canada. Modernizing the business limit would help ensure that tax policy reflects the scale and cost structure of contemporary small businesses, supporting productivity growth and competitiveness from main streets to rural and remote communities.

Restaurants Canada calls on the government to modernize the small business deduction by increasing the eligible taxable income threshold from $500,000 to $1 million to reflect rising business costs and support reinvestment, growth, and job creation among small and medium- sized businesses, including restaurant operators.

RECOMMENDATION 4: ESTABLISH A TAX CREDIT FOR RESTAURANT TECHNOLOGY INVESTMENT AND MODERNIZATION

Technology offers restaurants a practical path to higher productivity and greater operational resilience. Technologies such as AI-enabled inventory management, automated ordering, integrated operating systems, labour-scheduling tools, and advanced automated or energy-efficient kitchen equipment can help operators manage persistent cost and workforce pressures.

AI-enabled inventory systems can improve purchasing and reduce food waste. Automated ordering and integrated digital systems can improve accuracy, consistency, and service capacity. Labour-scheduling tools can align staffing more closely with demand. Advanced kitchen equipment can improve throughput, control energy use, and help operators manage volatile input costs.

These capabilities are particularly valuable when trade disruption changes product availability and prices. Better inventory and purchasing systems can help operators identify emerging shortages, compare suppliers, adjust orders, reduce waste, and make menu decisions before cost pressures become unmanageable. Integrated systems can also give multi-unit operators a clearer view of where products are available and where substitutions may be required.

These technologies address problems visible in the current operating data. Thin margins leave little room for trial, error, or delayed payback. With 41 percent of restaurant companies operating at a loss or breaking even in June 2026, high upfront costs place modernization beyond the reach of many small and medium-sized operators even where the longer-term business case is sound.

Tax policy compounds this financing barrier. Seventy-three percent of surveyed operators said tax policies at all levels of government were limiting their willingness or ability to invest, and no respondents said current policies were encouraging investment or growth. When internal cash flow is weak and external financing is costly or unavailable, technology projects are among the investments most likely to be postponed. The result is a productivity gap that reinforces the pressures operators are trying to escape.

A targeted federal technology credit would lower the effective upfront cost of adoption and help viable projects proceed sooner. For an independent restaurant, that could mean installing an inventory system that better matches purchasing to demand. For a growing operator, it could mean integrating ordering, point-of-sale, scheduling, and production data. For a rural or remote business facing persistent staffing challenges, it could mean equipment that allows a smaller kitchen team to maintain capacity and consistency.

Technology should be understood as a complement to workers, not simply as a substitute for them. Restaurants remain labour-intensive and guest-facing businesses. The immediate opportunity is to make scarce labour more productive, reduce repetitive administrative work, improve scheduling, support training, and give employees better tools.

This is especially important in back-of-house roles, which 55 percent of surveyed operators said had become more difficult to staff than 12 months earlier, and in suburban and rural or remote communities where recruitment pressures are most acute. A technology credit would help operators address these constraints while preserving the central role workers play in food preparation, service, hospitality, and the guest experience.

Modernization can also improve the quality of work and the durability of the business. Better systems can reduce stockouts and last-minute purchasing, make production more predictable, support consistent food-safety processes, and provide managers with timely information. Energy-efficient equipment can lower ongoing resource use, while automated kitchen equipment can increase throughput without compromising service standards. These operational gains create room for staff development, more stable scheduling, and growth.

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The proposed technology credit is distinct from Recommendation 2. Permanent first-year expensing would improve the timing of deductions across a broad range of capital investment. A technology credit would provide an additional, targeted incentive for technology adoption and modernization that can generate productivity gains but is often deferred because of high upfront costs. The two measures address related but different investment barriers.

Restaurants Canada calls on the government to establish a tax credit for technology investments and modernization in the restaurant industry to support productivity growth and operational resilience among small and medium-sized restaurant operators.

RECOMMENDATION 5: HARMONIZE FOOD SAFETY STANDARDS AND ACHIEVE MUTUAL RECOGNITION OF CERTIFICATIONS

Restaurant operators navigate food-safety standards, certification requirements, and inspection protocols that vary across provincial and territorial jurisdictions. For businesses operating in more than one province, this fragmentation creates duplicative compliance obligations, inconsistent recognition of certifications, and administrative costs that do not necessarily improve food-safety outcomes. It can also restrict worker mobility when a food-handler certification recognized in one jurisdiction is not accepted in another.

Reducing these barriers is a practical application of the federal government's "one economy" agenda. The federal government should work with the Canadian Food Inspection Agency and provincial and territorial governments through the Canadian Free Trade Agreement regulatory reconciliation process to advance mutual recognition of food-safety certifications and more consistent inspection standards.

Removing internal barriers is even more important when external trade relationships are under strain. Canada's response to international trade disruption should include making it easier for workers, businesses, and goods to move within the Canadian economy. Mutual recognition of substantially equivalent food-safety certifications would be a practical step toward a more integrated and resilient domestic market.

Mutual recognition would not require governments to lower food-safety standards. It would allow jurisdictions to recognize substantially equivalent training and compliance outcomes while preserving their authority to address genuine local risks. This is a practical internal-trade reform: reduce duplication where standards achieve comparable outcomes and concentrate public and private resources where they improve food safety.

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A coordinated approach would preserve strong food-safety outcomes while reducing unnecessary credentialing, retraining, and administrative costs. It would make it easier for workers to use their qualifications across jurisdictions and for restaurant businesses to operate and grow across provincial and territorial boundaries.

Restaurants Canada calls on the government to work with the Canadian Food Inspection Agency, and provincial and territorial counterparts, to establish mutual recognition of food safety certifications and harmonized inspection standards through the Canadian Free Trade Agreement regulatory reconciliation process, reducing unnecessary administrative burdens and barriers to interprovincial commerce.

RECOMMENDATION 6: ENHANCE THE YOUTH EMPLOYMENT AND SKILLS STRATEGY WITH SECTOR-SPECIFIC FUNDING

Restaurants are Canada's largest source of first-time jobs and a critical entry point into the labour market. The restaurant and accommodation industry employed an average of approximately 50,000 more youth in the first five months of 2026 than during the same period in 2025. This contribution is especially important when young Canadians face difficulty securing work in other parts of the economy.

The opportunity is accompanied by real training and workforce-readiness costs. Among Q2 2026 survey respondents reporting lower youth employment, 27 percent cited training costs as a challenge, 26 percent cited limited workplace readiness or soft skills, and 20 percent cited limited time or resources to train new staff. Across respondents, 30 percent said better job-readiness and employment-training programs would help their business hire more youth.

A dedicated Youth Employment and Skills Strategy funding stream for local employment service providers would help translate youth interest into job readiness. Sector-specific programs can prepare participants for food safety, customer service, kitchen operations, scheduling expectations, and foundational workplace skills before they arrive at an employer.

Local employment service providers are well positioned to connect young people, training institutions, and employers. They can adapt programs to local labour-market conditions, including transportation barriers, seasonal demand, limited training capacity, and the particular recruitment challenges facing rural and remote communities. A dedicated stream would allow these organizations to build lasting restaurant-sector expertise rather than relying on short-term, general employment programming.

This would reduce the training burden on small operators, improve retention and readiness, and support persistent workforce needs, including back-of-house positions and communities outside major urban centres. It would also help young Canadians gain transferable skills and stronger connections to the labour market.

Restaurants Canada calls on the government to enhance the Youth Employment and Skills Strategy by creating a dedicated funding stream for local employment service providers to develop sector-specific training programs for the restaurant industry, supporting youth employment and workforce development in communities across Canada.

CONCLUSION

Canada's restaurant industry has the scale and national reach to make a meaningful contribution to affordability, employment, investment, productivity, and economic growth. Yet positive nominal sales cannot alone overcome the operating reality facing restaurants: weak profitability, constrained guest traffic, rising costs, limited capacity to invest, and persistent workforce pressures are affecting businesses and communities across the country.

The six recommendations in this submission offer targeted and practical responses. Permanently exempting restaurant meals from GST/HST would deliver direct affordability relief and stimulate demand throughout the domestic food supply chain. Full first-year expensing and a modernized small business deduction would improve cash flow and strengthen the capacity of operators to reinvest. A targeted technology tax credit would accelerate productivity-enhancing modernization, while greater mutual recognition of food-safety certifications and sector-specific youth training would reduce barriers to growth and improve workforce readiness.

Together, these measures would help restaurants adapt to trade disruption, modernize, create and sustain jobs, serve consumers, and continue purchasing billions of dollars in products from Canadian suppliers. Restaurants Canada calls on the government to recognize the sector as a partner in building a more productive, competitive, affordable, and resilient Canadian economy.

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