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# 2008 –09

## Pre-Budget Submission

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Prepared by

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## Executive Summary

The restaurant industry (an all encompassing term used herein to refer to restaurants, cafes and catering businesses) 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 to ease the load. These include :-

<b>Portfolio</b>	<b>Initiative</b>	<b>Indicative Cost to Budget</b>
Treasury	Remove business meals from FBT coverage and make all business meals non-deductible.	\$0 <sup>1</sup>
Tourism	Commonwealth to resource specific initiatives to promote Australian Food and Wine Experiences to potential international visitors.	\$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 <sup>2</sup>

<sup>1</sup> The longer term cost to budget is \$0 as taxation on additional revenue off-sets the loss of revenue from FBT – The short term direct cost is estimated at \$139 Million

<sup>2</sup> All up cost not cost for the restaurant and catering sector

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## Background

The Australian Bureau of Statistics reported 37,699 restaurant, café and catering businesses 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 albeit tailed off in 2007. On the basis of this data it is estimated that the number of café and restaurant businesses in Australia in 2007 was approximately 40,000.

Of these businesses, 89% employ 20 people or less. There are 124 restaurant, café and catering businesses Australia wide that employ in excess of 200 people<sup>3</sup>.

Restaurant, cafe and catering turnover for the month of September 2007 was \$1,296 Million. This was 19.5% higher than turnover in the same month in 2006. The increase in September 2007 represents the 24<sup>th</sup> consecutive month of growth on the previous year. In the last twelve months only one month has been less than 10% growth. For the twelve months to September 2007 the industry turned over \$14,269 Million which is 14.0% up on the same period twelve months earlier.

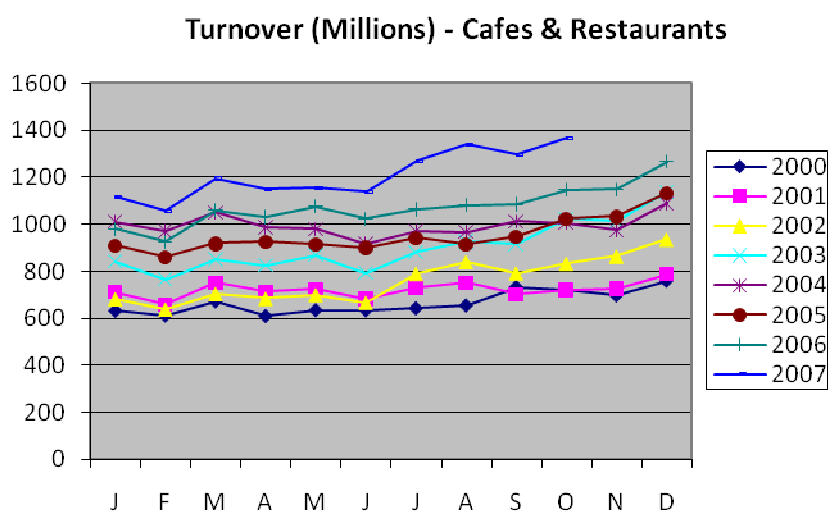


Figure (i) – Total turnover restaurant and catering business Australia, 2000-2007

Despite this growth, a report released by the Australian Bureau of Statistics<sup>4</sup> in July 2005 shows a slowing in restaurant profits (as forecast by the R&CA) with 63.4% of businesses (the businesses employing less than 10 people) generating less than 2% net profit.

The Australian Bureau of Statistics Cafes and Restaurants Australia report (released in July 2005), cited industry employment at 188,102 persons. According to ABS Labour Force data<sup>5</sup>, industry wide employment is similar in May 2006 to May 2004 (the closest collection period to the report quoted above). In May 2004 employment in Accommodation, Cafes and Restaurants was 467,500 whereas in May 2006 total employment in the industry was 463,300.

<sup>3</sup> ABS Business Counts, 2005, Restaurant & Catering Australia

<sup>4</sup> Cafes and Restaurants Industry Survey, ABS 8655.0

<sup>5</sup> ABS, 6202.0 - Labour Force, Australia, Jun 2006

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 Office of Small Business conducted research into the regulatory burden faced by restaurants. The regulatory burden faced by restaurant businesses 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.

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

Table (i)

The areas 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

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### ***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 on 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 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 inefficiency, and in unfairness'.<sup>6</sup>

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 the top marginal tax rate;
- It is very complex and leads to very high compliance costs.

### **Meals are 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, distorts the economy.

### **FBT over taxes most Australians**

FBT at 48.5% 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 or 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 to Associations' proposal.

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<sup>6</sup> Access Economics Report commissioned By Restaurant & Catering Australia, Jan 2001: The case for, and economic effects of, *part*-recognition of business entertainment as legitimate business inputs or expenses for taxation purposes

## **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 a total of 14.5% of all tourism expenditure (both internationally and domestic). Expenditure on restaurant and take away meals by tourists accounts for \$6.3 billion in earnings. 31% of restaurant business is 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 in a destination 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 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.

The two-year work program, entered into by the Commonwealth, detailed the 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 small businesses turn to for advice on employment matters. Restaurateurs, café owners and caterers are no exception<sup>7</sup>.

The Government's extensive plan for reforms to the industrial relations system is also well understood. The change to the IR system will be constant through 2008 and 2009 from the transition Bill through to the eventual implementation of the system detailed in 'Forward with Fairness' in 2009.

The eventual success of the IR reform process (and the compliance with its content) is a direct result of the level of understanding that small business employers (including restaurateurs and caterers) have of the detail of the system.

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

### ***Eliminating Wastage in the Superannuation Guarantee Scheme***

#### ***Raise the Superannuation Guarantee Threshold to \$600 per Month (\$1800 per quarter) and indexing it to CPI.***

#### ***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 never collect the amounts deposited. In general this is either because the amount of the 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. The 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.

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<sup>7</sup> How SMEs Access Information: Sensis Business Index Special Report for the Department of Industry, Tourism and Resources April 2004

## **Education & Training**

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

In the 2007 Election campaign the now 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 Australian Bureau of Statistics report into training expenditure by employers was in 2001-02 (6362.0 - Employer Training Expenditure and Practices, Australia). This report estimated net direct expenditure on structured training during the 2001-02 financial year totaled \$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 the 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<sup>8</sup>. In the event that the claim that investment has not increase in these four years is correct, the initiative would cost no more than \$942 Million plus what ever benefit is generated through additional investment, if every employer claimed the deduction on every amount spent on training.

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<sup>8</sup> ABS Labour Force, 6202.0

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