

**Brandon Chamber of Commerce Policy**  
**CRA – LINE 8523 – MEALS & ENTERTAINMENT POLICY**

03/07/2021

**Issue:**

The COVID-19 pandemic has had a devastating effect on the restaurant and hospitality sectors across the nation. The impact of shutdowns has not only had a detrimental effect on these businesses financially in the short term, but has also altered the behaviours, practices and psychology related to in-house dining, which will have an impact in the longer term.

Various levels of government have provided support funding this past year, helping a majority of businesses in this sector to remain viable. However, to ensure the strength of this industry in the long term, a strategic approach is required to encourage consumers to patronize these businesses post-pandemic.

**Background:**

The Restaurant Industry in Canada

In 2019, the Canada's Restaurant Industry generated \$93 Billion in sales or 4% of Canada's GDP. The following is a breakdown of key statistics related to the industry and its impact on the Canadian economy:

- 97,000 restaurants, bars and caters across the country.
- 1.2 Million people directly employed in the restaurant industry or 7% of the country's workforce.
  - 1 in 5 young people between the ages of 15 and 24
  - 22% of Canadian's first jobs are in the restaurant sector.
- There are another 283,700 indirect jobs in related industries.
- Canadians made 22 Million visits to restaurant every day.
- \$30 Billion in food and beverage products are purchased every year.
- \$277 Million were contributed to charities by restaurant owners in 2011.

It has been calculated that over 10,000 restaurants have permanently closed across Canada since March 2020 and sales fell by 28.2% to \$55.3 Billion representing the lowest annual sales since 2012.

It is expected it could take ten years for this sector to recover to pre-pandemic levels. This can be attributed to a number of factors:

- restaurant closures as a result of the pandemic;
- changes in behaviors related to dining out, ie. new habits, family meals, etc.;
- adjustments in discretionary spending as a result of job loss due to the pandemic;
- changes in working arrangements with more people working at home either full or part time;
- the return and size of corporate events, conferences, tradeshow, etc.

## Taxation – Meals and Entertainment

In 1996 the Canadian Government passed changes to amend Bill C-59 to reduce the deductible portion of food, beverages and entertainment expenses from 80% to 50% for amounts incurred after February 21, 1994 for food or beverages consumed or entertainment enjoyed after February 1994.

As a result, today a business is only able to claim 50% of expenses associated with meals and entertainment, except for in the following instances:

- Where the company is in the business of providing meals and entertainment. For example, a restaurant can fully deduct amounts paid for food, including free meals and samples provided to customers. This exemption does not, however, apply to meals purchased by restaurant staff while traveling for business.
- Where meals and entertainment expenses are paid relating to a fund-raising event for a registered charity.
- Where the business is compensated by another party for a meal or entertainment expense, the amount would be fully deducted against the amount of compensation. For example, a business is paid an amount for a meal while providing business services to their customer. This customer reimbursed the business fully for the meal. The business would deduct the expense fully against the reimbursement, which was included in income. The customer would be restricted to 50% paid for the reimbursement.
- Where a business holds an event at a particular place of business (such as the business's premises, hotel, restaurant, etc.). The food, beverages, and entertainment must be generally available to all employees of the business. This would include events such as a company Christmas party. Maximum of 6 events per fiscal year.
- Where there is employer-provided services, such as an employer cafeteria, as long as the prices charged are reasonable (priced above cost).
- Where an expense is paid on behalf of an employee it is fully deductible where this amount is required to be included as a taxable benefit to the employee.
- Where meals or entertainment are paid on behalf of the employee where the amounts are not a taxable benefit because they are provided at a remote work location in Canada. A remote work location is a location at least 30 kilometres from any urban area that has a population of at least 40,000 people. For the amount to be excluded as a taxable benefit (and 100% deductible), the employee must be away from the employee's principal place of residence, or at the work site or location, for at least 36 hours.
- Where expense paid on behalf of the employee where the amounts are not a taxable benefit because they are provided at the site of a construction activity or at a construction work camp, at which the employee was lodged, that was constructed or installed at or near the site to provide board and lodgings to employees while they are engaged in construction services at the site.

## **Proposed Change**

In order to incentivize business to invest funds in meals and entertainment, it is proposed to allow for 100% of meals and entertainment costs to be deducted for a three-year period.

**Examples:**

A small size business spending \$2,500/year on meals and entertainment, with a 9% tax rate, would have an additional \$112.50 ( $\$2,500/2 \times 9\%$  small business corporate tax).

A medium to large size business spending \$100,000/year on meals and entertainment, with a 27% tax rate, would have an additional \$13,500 ( $\$100,000/2 \times 27\%$ )

While this change would provide an incentive to businesses to expend in this area, the spin off for both the Federal and Provincial governments will be the HST that will be collected on these expenditures.

**Resolution:**

That the Federal Government modify the business tax deduction legislation to allow all corporations, partnerships, and sole proprietors the ability to expense 100% all of meals and entertainment expenses under Line 8523 of their tax return for a three-year period.

**Sources:**

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<https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/sole-proprietorships-partnerships/report-business-income-expenses/completing-form-t2125/line-8523-meals-entertainment-allowable-part-only.html>