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Restaurant Association Metropolitan Washington Fairfax County Meals Tax White Paper

The Meals Tax is a tax on the purchase of prepared and ready to eat food and beverages. The meals tax singles out the restaurant industry to raise revenue for the general fund revenue for counties, towns and cities. In Virginia, most counties must hold a voter referendum to impose a meals tax. Voters in Northern Virginia counties have never approved a meals tax referendum as the meals tax is recognized as an especially unpopular measure. Counties are able to impose a meals tax of up to 4 percent by referendum, if imposed at the 4 percent rate, the total sales tax on prepared food would be 10 percent.

Fairfax County estimates a meals tax of 4 percent would constitute a \$90 million tax increase. Fairfax County estimates 72 percent of the \$90 million tax increase would be paid by Fairfax county residents and 28 percent of the \$90 million tax increase would be paid by visitors and out of county employees working in Fairfax County. (Fairfax County Meals Tax White Paper, 2014) The addition of 4 percent meals tax to the current 6 percent sales tax the state charges would constitute a 66 percent tax increase on Fairfax County residents and visitors.

Effects and Problems with Meals Tax

Groups most affected by a meals tax

Low to Middle Income Families - A greater majority of low and middle income families have two income households and are forced to buy meals in casual and fast food restaurants to feed their families on a daily basis. While these families can least afford the increased food prices they will support a large portion of the tax increase. (Source: Bureau of Labor Statistics, National Restaurant Association; 2011 data)

Senior Citizens- Senior Citizens dine out to a much higher degree than the average Fairfax resident. For the most part these citizens live on fixed incomes. While many of these residents have tight budgets they will be forced to support a larger portion of this

tax increase than the average Fairfax resident. (AARP Public Policy institute, <http://assets.aarp.org/rgcenter/ppi/econ-sec>)
(USCensus,http://www.census.gov/newsroom/releases/archives/aging_population)

Restaurant Employees - Wait staff in full-service restaurants will likely be the most severely affected by the proposed meals tax increase. These employees' primary source of income are tips. The gratuity on meals is immediately reduced by customers when a locale imposes or increases a meals tax. As noted in RAMW's case study, these employees will often lose 20 percent of their wages because of the tax. Much of the \$90 million tax increase will ultimately be paid by waitresses and waiters in reduced wages.

In addition to the three groups most affected by the meals tax, restaurant revenue will also suffer. Restaurants often absorb the increased cost of a meals tax in price reductions. This is designed to prevent losing business as a result of the tax increase. A decrease in restaurant revenue most often yields a reduced rate of growth in restaurant sales.

Restaurant Association of Metropolitan Washington members have reported a reduction of staffing of approximately 17% in existing restaurants that have a meals tax imposed.

Operational Facts and Data on the Restaurant Industry

Food and labor are the two largest general cost categories for a typical restaurant. The cost of food and beverage is about one-third of the sales dollar, while salaries and wages account for another third.

Median income before taxes for full service restaurants was 4.1 percent of total sales in operations where the average check is under \$15, 5 percent for restaurants with an average check of \$15 to \$24.99, and 4.5 percent for full service operations with average checks of \$25 and over. (Source: National Restaurant Association Operation Report 2013-2014 www.Restaurant.org)

The average profit margin for a restaurant is about 4 percent. In other words for one dollar of sales the average restaurant takes home four pennies. (Source: National Restaurant Association Operation Report 2013-2014 www.Restaurant.org)

In contrast, if Fairfax County is successful in instituting a 4 percent meals tax, the total tax on meals in Fairfax County will be 10 percent, or, for every one dollar in sales, 10 cents would go back to Fairfax County. Under this proposed meals tax the county and the state will take over two times the amount of profit a restaurant owner takes home.

Food prices, especially national beef prices, are at an all-time high. The price of fuel continues to climb as well, further taxing restaurant industry supply chains. With the

economy just beginning to recover, restaurants are forced to absorb these record high commodity prices. This, combined with a 4 percent meals tax hike, and the recent sales and gas tax increases, will place unprecedented burdens on the restaurant industry in Fairfax County. (USDA Economic Research Data 04/2014, www.ers.usda.gov/data-products/food-price-outlook)

Case Study of Meals Tax increases in Northern Virginia

The Restaurant Association of Metropolitan Washington recently surveyed members in Fairfax County that own similar units in area jurisdictions with meals taxes. One member restaurant group with very similar restaurant units in Fairfax County and Arlington County was able to provide a real world set of data and results of a meals tax increase.

This restaurant group owns and operates two restaurants of similar size and theme for over twenty years. Menu prices at each location are similar as well. These two restaurants had very similar revenue and net profits before Arlington County imposed a meals tax. These two restaurants are provided with the same quality control mechanisms, employee and server training, same food quality and food pricing, and same management group. Key findings from a basic study of the two restaurants show that:

- The Arlington County restaurant has experienced a sales growth rate 49.74 percent lower than the similar restaurant in Fairfax without a meals tax.
- The wait staff in the Arlington County restaurant earns 20 percent less than the wait staff in the Fairfax County restaurant.
- Staff turnover at the Arlington County restaurant is 30 percent higher than the staff turnover rate at the Fairfax County restaurant.
- The two restaurants had similar staffing levels before the county of Arlington imposed a meals tax. Now, the restaurant in Arlington employs 17 percent fewer employees than the restaurant in Fairfax.
- In the 20 years since Arlington County imposed a meals tax, the difference in sales between the two restaurants has been over \$3 million less for the Arlington County restaurant.

While there are certainly other economic factors involved it is undeniable that the meals tax has had a large adverse effect on the Arlington County restaurant.

Meals and Sales Tax Referendums in Northern Virginia

The Northern Virginia area has seen a number of meals tax referendums and a sales tax referendum that would have been reserved for transportation. Fairfax County had a meals tax referendum in April of 1992. The revenue produced, if the referendum had

been successful, was to be spent on educational purposes. This referendum failed by a margin of 58 to 42 percent.

The last meals tax referendum in Loudoun County, introduced in November 2008, failed by a margin of 70 to 30 percent. The revenue produced, if the referendum had been successful, was to be reserved for school construction. Loudoun County was at the time the fastest growing county in the nation and building schools faster than any county in the nation.

In 2002, the Northern Virginia region, including Fairfax County, rejected a referendum that would have raised sales tax for transit and road construction projects. The campaign for the sales tax increase was very well funded: almost all Northern Virginia officials endorsed the tax and the Governor strongly campaigned for the tax. This sales tax referendum also failed in a landslide, with Fairfax County voting 54 to 45 percent against the tax.

The voters in Northern Virginia and Fairfax have continuously rejected referendums to raise the sales and meals taxes. There is no reason to expect different results. It would seem that placing a meals tax on referendum would be a waste of tax payer dollars and a waste of Fairfax County resources.

Restaurants currently strongly support the Fairfax county school system, the Fairfax County PTOs, the Fairfax County Fire and Rescue community and many Fairfax county charitable organizations. In the last year, one RAMW member restaurant group has contributed \$15,000 in dining gift cards to Fairfax County Public Schools and PTO. This same restaurant group has also donated an additional \$1.25 million in to Fairfax County Non-Profits such as Meals on Wheels, a Fairfax County Government related non-profit.

RAMW members consider Fairfax County Government a partner in their community and are proud to support these causes whenever possible. We hope the county does not decide to mount a campaign to impose a meals tax. Every restaurant in Fairfax County would consider that an attack on their livelihood and it could cause irreparable damage in the partnership and community relationship that currently exists.

The members of the Restaurant Association of Metropolitan Washington are proud to serve the restaurants of Fairfax County and are proud to support the community. As part of the Fairfax community RAMW and its members look forward to helping to build great economic development for Fairfax County and its Citizens.