KENTUCKY
RESTAURANT
ASSOCIATION

133 Evergreen Road
Suite 201
Louisville, Kentucky 40243
phone 502.896.0464 fax 502.896.0465
www.kyra.org

Written Testimony
Before Governor's Blue Ribbon Tax Commission
August 21, 2012

Like business owners throughout the state and nation, Kentucky restaurateurs have had to make difficult decisions in order the weather the economic downturn in recent years. In many cases, they have had to defer expansion plans, cut operating expenses and make significant other adjustments in their operations. Members of the Kentucky Restaurant Association (KRA) expect no less of the public officials who manage taxpayer dollars. We share the concern of other groups that have appeared before the Commission that the increase in state government spending has outpaced growth in the state's economy over the past two decades. We also share the hope that as the Commission continues its work, a close examination of state spending will also occur.

KRA members agree with tax policy experts that suggest a state tax system should have a broad base and a low rate. That's why we are troubled when we hear some public officials urging additional taxes on a specific industry and its customers such as a restaurant tax, whether it be on a state or local level.

During the state fiscal year that ended on June 30, approximately one-third of Kentucky's $9 million General Fund revenues were generated by way of the sales and use tax that is levied on tangible goods, including food and beverages sold in restaurants. Although many people say that "food" is exempt from the sales tax in our state, that is certainly not the case for the meals we prepare and serve to Kentuckians. In 1955, about 25 percent of America's food expenditures were spent in restaurants. In 2011, that figure had climbed to nearly 50 percent. Going out to eat or picking up a carry-out order from a local restaurant is no longer considered a luxury; it's an everyday occurrence for many Kentucky families. A survey conducted for the National Restaurant Association showed that nearly half of our nation's citizens consider restaurants an essential part of their lifestyle.

Adding to the tax burden of our customers, many of whom consider the food and beverages we offer a necessity, is simply unfair and a proposal our industry will vigorously oppose.

Instead, we suggest that you remember that consumer spending is a key factor in our economic recovery. Further, we suggest that Kentucky's tax code should be designed to encourage business growth and investment and to create jobs for Kentuckians. We believe the best way to increase state revenues is to generate additional economic activity and that clearly will not occur if taxes increase and suppress consumer spending.

You may not be aware that the food service industry is Kentucky's largest private sector employer, trailing only public employers in the number of jobs we provide. Nearly one out of every 10 working Americans is employed by our industry and approximately half of all adults have worked in the restaurant industry at some point in their lives. In Kentucky, we have more than 6,500 eating-and-drinking establishments; employ more than 191,000 and are approaching $6 billion in annual sales.

Our industry is clearly important to the state's economy. The vast majority of Kentucky restaurants are small businesses, employing fewer than 50 people, and are independently-owned operations. The restaurant industry is very labor-intensive. Our sales per employee are significantly lower than most other industries. In addition, most restaurants operate on a narrow profit margin. Therefore, we encourage you to closely examine any changes in tax policy that could produce unintended consequences. Many of our members simply could not survive until needed corrections could be made.

KRA encourages you to focus on identifying modification to Kentucky's tax system that simplify the tax code, thereby both reducing administrative costs for businesses and improving compliance. We suggest that fairness should be promoted by avoiding a tax system that picks winners and losers by singling out some industries for tax "breaks" and others with "specialty" taxes such as restaurant taxes. Finally, we ask that you remain focused on reforms that support growth-oriented tax policies that encourage business investment and expansion and that keep Kentucky competitive with other states.

Stacy Roof
President & CEO
Louisville, Kentucky

Karl Crase
Hall's on the River
Winchester, Kentucky