



Restaurant
& Catering

Black Economy Taskforce Interim Report R&CA Submission

July 2017

RESTAURANT & CATERING AUSTRALIA

Restaurant & Catering Australia (R&CA) is the national industry association representing the interests of more than 40,000 restaurants, cafés and catering businesses across Australia. R&CA delivers tangible outcomes to small businesses within the hospitality industry by influencing the policy decisions and regulations that impact the sector's operating environment.

R&CA is committed to ensuring the industry is recognised as one of excellence, professionalism, profitability and sustainability. This includes advocating the broader social and economic contribution of the sector to industry and government stakeholders, as well as highlighting the value of the restaurant experience to the public.



TABLE OF CONTENTS

INTRODUCTION	1
NATURE OF THE BLACK ECONOMY IN THE HOSPITALITY SECTOR	3
Unfair Playing Field	3
Staff Requesting Cash Payments	4
Decline in Consumer Cash Transactions	5
REDUCING THE BLACK ECONOMY IN THE HOSPITALITY SECTOR	7
Simplifying the Current Regulatory Environment	7
Facilitating Easier Acceptance of Non-Cash Payment Methods	8
Reducing Costs Involved in the Current Business Operating Environment	10
Increasing Synergies and Data-Sharing Across Government Agencies	11
CONCLUSION	12
REFERENCES LIST	13
APPENDIX 1: Qualitative Evidence From R&CA Survey	14

INTRODUCTION

As the national industry association representing the interests of over 40,000 cafés, restaurants and catering businesses across Australia, R&CA appreciates the opportunity to provide feedback on the Black Economy Taskforce's Interim Report. Since the announcement of the Review in December 2016, R&CA has been actively involved in the consultation process, participating in bilateral meetings and industry roundtables with the Taskforce's Chair. R&CA strongly supports the work that the Taskforce has carried out to date and seeks to ensure the best possible policy outcomes for its members arising from this Review.

R&CA is committed to ensuring that small businesses in the hospitality sector, including cafés, restaurants and catering companies, can operate on a level playing field and do not suffer from the consequences of an unrestricted black economy. The actions of businesses partaking in the black economy unfairly penalise businesses who do adhere to the appropriate rules and regulations governing the sector. Furthermore, the existence of the black economy serves to undermine the integrity of the hospitality sector as a whole and destabilises business-owners who operate their businesses legitimately.

As acknowledged within the Taskforce's Interim Report, 'the impacts and drivers of the black economy participation are multifaceted'.¹ As such, R&CA believes that a variety of policy measures must be adopted from this Review to address the operation of the black economy in the hospitality sector. A whole-of-government, rather than a piecemeal approach, is needed to ensure that various black economy practices are stamped out. R&CA's recommendations on how to best minimise the prevalence of the black economy can be summarised as follows:

- Simplifying the existing regulatory system facing small businesses and reducing barriers to compliance;
- Pursuing policies which facilitate easier acceptance of non-cash payments;
- Reducing the costs involved in the current business operating environment; and
- Increasing synergies and data-sharing across government agencies at both a state and federal level.

¹ *Black Economy Taskforce Interim Report – March 2017*, p.2.

R&CA agrees with the assessment already provided in the Taskforce's Interim Report, that in the absence of significant government intervention, the scale of the black economy will continue to grow unimpeded. R&CA strongly urges the Federal Government to take decisive action on this issue so that a level playing field for hospitality business operators can be achieved. R&CA recognises the continued role of industry associations in addressing the black economy through their educative functions towards their respective membership bodies.

NATURE OF THE BLACK ECONOMY IN THE HOSPITALITY SECTOR

During previous consultations with the Black Economy Taskforce, R&CA has sought to shed light on the multidimensional nature of the black economy as it relates to hospitality which the ATO has identified as a high-risk sector.² As part of compiling evidence for this submission, R&CA conducted a survey of its members regarding their perceptions of the black economy. This survey also asked members about the prevalence of cash and credit card transactions within their businesses to identify consumer trends and the uptake of payment processing technologies. Specific comments from R&CA members provided as part of this survey can be located in the Appendix section.

UNFAIR PLAYING FIELD

The biggest concern R&CA members expressed in relation to the black economy was that it creates an unfair playing field which penalises businesses operating within the correct legal and regulatory

“My business is fully legitimate. We are totally disadvantaged by the plethora of businesses using cash.”

boundaries. The prevalence of the black economy in the hospitality sector serves to undermine the integrity of the entire industry and destabilises the legitimately operating businesses within it.

Furthermore, the emergence of an unfair playing field, as it relates to the hospitality sector, can manifest itself in a myriad of different ways. For instance, one R&CA member commented that he was having difficulty attracting staff due

to a reputation amongst his local community for refusing to pay cash wages. The member also noted that a multitude of other businesses in his local

“I have trouble getting staff at times because I have reputation for not being at all willing to pay any cash.”

area were openly and willingly providing staff members with cash-in-hand payments. This is one example of how hospitality sector businesses that operate through legitimate channels can be put at a distinct competitive disadvantage due to their competitors operating within the black economy.

² Australian Taxation Office (ATO) (2017) *Protecting Honest Businesses*, 16 June. <https://www.ato.gov.au/general/building-confidence/in-detail/protecting-honest-business/?=redirected>

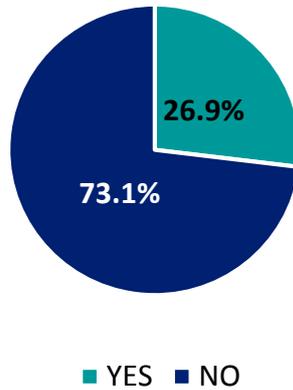
STAFF REQUESTING CASH PAYMENTS

One of the most significant features of the black economy in the hospitality sector is the prevalence of cash-in-hand payments. Although this practice can create an unfair playing field between business owners, in many instances, it is in fact driven by employees asking their employers to be paid in cash. In this respect, the prevalence of cash wages in the hospitality sector is not solely employer-driven but also a product of employee behaviour.

In R&CA's member survey, roughly one-quarter (26.9 per cent) of hospitality sector businesses indicated that their staff members had requested cash-in-hand payments at some point in time. When asked to provide the reasons why staff requested cash-in-hand payments, the most commonly reported answers were to avoid tax or losing Centrelink payments and other Government benefits. Businesses also reported that some staff made requests to receive cash-in-hand payments due to specific restrictions on their visas. Other reasons included convenience and a desire to access wages sooner. Specific comments in response to this question included:

- *"Pressing cash requirement";*
- *"Wanted to be off the books"*
- *"Avoiding welfare payments";*
- *"Visa issues";*
- *"Got other part-time jobs and don't want to pay tax. Some are on a government benefit and don't want to declare the cash";*
- *"Tax avoidance";*
- *"Mainly casual worker";* and
- *"To hide from Tax Office, Centrelink and immigration".*

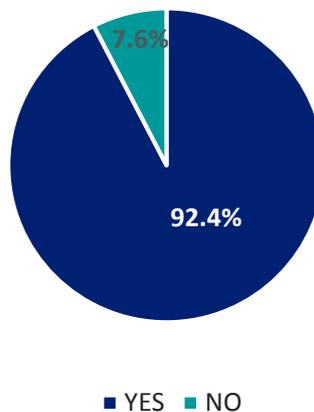
Have any members of your staff ever requested to receive their wages in cash?



DECLINE IN CONSUMER CASH TRANSACTIONS

Another significant trend evident from R&CA's survey is that businesses are experiencing a rapid decline in cash transactions which the introduction of contactless credit card payments has further facilitated. Over 90 per cent of businesses (92.4 per cent) indicated that they already have contactless payment systems already in place. Almost 70 per cent of businesses (68.6 per cent) reported a noticeable increase in the use of customers using credit or debit cards to pay their bills over the previous 12-month period.

Do you have contactless technology available with the acceptance of credit cards? E.g. Visa payWave or MasterCard PayPass?

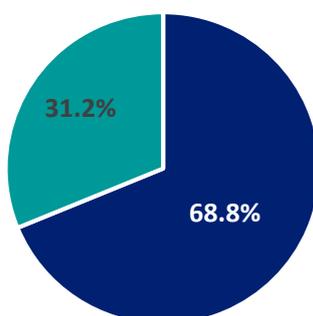


When asked ‘As an estimate, what percentage (%) of customers use credit or debit cards to pay their bill during a typical week of trading?’, the reported average was 79 per cent. Several R&CA members also noted that customers were using

credit and debit cards to pay for smaller transactions. An increasing number of cafés and restaurants now also offer Apple Pay and Android Pay as a form of payment, in addition to Visa payWave and MasterCard PayPass. R&CA members reported, on average, that cash payments only accounted for 23.3 per cent of transactions in their businesses.

“Since the introduction of payWave and PayPass less and less people carry cash, now a \$2 can of Coke is on card”.

Over the last 12 months, have you noticed an increase in the number of customers using credit or debit cards to pay their bill?



■ YES ■ NO

R&CA also notes that the increasing popularity of contactless credit and debit card payments has resulted in some cafés and restaurants choosing to eliminate cash as a form of payment entirely. For instance, in Chippendale’s Spice Alley, six Asian food vendors only accept credit, debit or pre-paid cash cards as a form of payment.³ Consumers are informed of the card-only nature of Spice Alley upon entering the precinct.⁴ R&CA believes that this trend will become more common-place as the rate of cash payments amongst hospitality sector businesses continues to decline.

³ Han, M. (2017) *Rise of card-only shops and lower interchange fees drive cashless economy*, Australian Financial Review, 5 February.

⁴ Ibid.

REDUCING THE BLACK ECONOMY IN THE HOSPITALITY SECTOR

Given the complex dynamics at play within the black economy, a comprehensive solution involving a whole-of-government approach incorporating a range of different policy measures is required. R&CA argues that any proposed framework to address the black economy must prioritise the following four recommendations, which have been addressed to varying degrees already within the Taskforce's Interim Report:

- Simplifying the existing regulatory system facing small businesses and reducing barriers to compliance;
- Pursuing policies which facilitate easier acceptance of non-cash payments;
- Reducing the costs involved in the current business operating environment; and
- Increasing synergies and data-sharing across government agencies at both a state and federal level.

SIMPLIFYING THE CURRENT REGULATORY ENVIRONMENT

In R&CA's view, one of the biggest drivers impacting the prevalence of the black economy in the hospitality industry is the burden of overregulation and red tape. The magnitude of overregulation and red tape placed on businesses incentivises the kind of black economy practices which the Taskforce is seeking to eliminate. R&CA is pleased that this has been explicitly acknowledged in the Interim Report - *"the higher the cost of any tax or regulatory burden, the stronger the incentive will be for individuals and businesses to move into the black economy"*.⁵ R&CA strongly argues that creating a less burdensome regulatory environment will help significantly reduce black economy practices in the hospitality sector.

R&CA notes that some progress is already being made in regards to reducing the burden of overregulation and red tape which has resulted in beneficial outcomes for small hospitality businesses. One example of this is the recently-piloted *Easy To Do Business Program* in New South Wales (NSW) which 'reduces the time taken to start a business from an average 18 months to just three months'.⁶ In addition, the program has also replaced 30 government forms with a single online

⁵ Australian Treasury (2017) *Black Economy Taskforce Interim Report – March 2017*, p.16.

⁶ Service NSW (2017) *Green light to cut red tape for small business*, Media Release, 20 April.

application.⁷ Through a meaningful reduction in the regulatory and red tape burden such as the NSW Government's *Easy to Do Business Program*, R&CA argues that the likelihood of businesses engaging in the black economy is significantly reduced. R&CA would strongly urge against any additional regulatory burdens being placed on small businesses in attempting to address the black economy, believing that doing so would in fact hamper efforts to drive out behaviours associated with the black economy.

FACILITATING EASIER ACCEPTANCE OF NON-CASH PAYMENT METHODS

R&CA also argues that any attempt to address the prevalence of the black economy within the hospitality sector must be centred around policies which facilitate easier acceptance of non-cash payment methods. Currently, the costs associated with offering credit card payments can act as a significant disincentive for small businesses. It should be noted that businesses operating with a cash-only structure have often done so for a very long period of time and consequently are reluctant to change these practices. The financial disincentives associated with adopting non-cash forms of payment will result in these businesses continuing to operate within the black economy.

“Merchants are increasing their charges and we have to wear it as we don't pass it on.”

A strong theme that emerged from R&CA's member survey was that the costs involved in accepting non-cash forms of payments were often prohibitive, particularly since the introduction of contactless credit card payment technologies. One member noted that since they adopted PayWave, they have experienced an approximate 130 per cent increase in their bank charges.⁸ Another R&CA member noted that their business spends between \$4,000 and \$5,000 a year on merchant fees and bank charges for EFTPOS. The costs involved in adopting non-cash payments is compounded by a general reluctance amongst hospitality operators to pass on additional costs to consumers in the form of surcharges. This

“It's really unfair that consumer spending patterns have changed but the banks are not adapting with those changes. It's just another hit that a small business takes.”

⁷ Ibid.

⁸ Refer to Appendix Section.

reluctance was due to a fear of customer backlash and a potential loss of patronage. R&CA's 2017 Benchmarking Survey found that only 22.1 per cent of businesses opted to apply a surcharge to credit card payments.⁹

Another unintended consequence for hospitality operators adopting non-cash payment methods is a reduction in the prevalence of tipping which again impacts the overall takings of a business. In R&CA's member survey, 71.2 per cent of businesses reported a noticeable reduction in

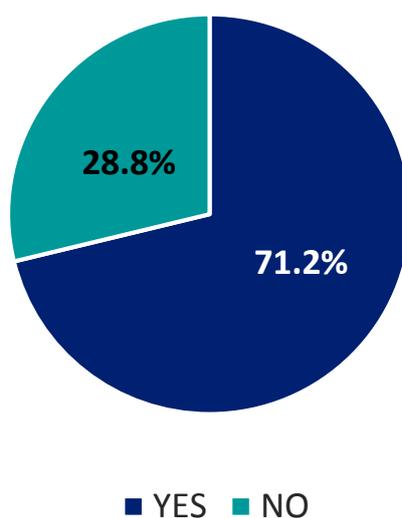
“Everyone uses cards in all business it is the way society has gone, hospitality is part of that change and tipping is not a big thing in Australia.”

tips when customers chose to pay their bills using credit cards. The reduction in tipping associated with credit card payments has been magnified by the ease and convenience of contactless credit card payment technology. Another reason provided as to why tipping has reduced with the introduction of contactless credit card payments is due to the general public's difficulty navigating payment terminals. Consequently, a reduction in tipping also acts as a disincentive for hospitality businesses to offer non-cash forms of payment. To address these disincentives, R&CA argues it is essential to pursue policies that will create a business operating environment that is more conducive to offering non-cash forms of payments.

The costs involved in adopting non-cash forms of payments is particularly burdensome for smaller cafés and restaurants who are unable to afford the technological systems required to process non-cash forms of payment easily and seamlessly. A significant challenge that many smaller hospitality businesses face is the difficulty of integrating their point-of-sales (POS) systems with newer forms of payment methods. Despite significant technological advancements in the development of POS systems, they can still be too expensive for smaller hospitality operators to afford. The difficulty in affording the kind of technological systems required to easily and seamlessly process newer, non-cash forms of payment methods is another disincentive for small hospitality businesses who may be tempted to participate in the black economy.

⁹ Restaurant & Catering Australia (2017) 2017 Industry Benchmarking Report.

Do you notice a reduction in tips when customers choose to pay their bill via credit or debit card?



REDUCING COSTS INVOLVED IN THE CURRENT BUSINESS OPERATING ENVIRONMENT

R&CA agrees with the assessment provided in the Taskforce's Interim Report which identifies pressure on business profit margins as another key driver of the black economy. Profit margins in the hospitality sector are very low. The ABS estimated the collective profit margin for the café, restaurant and sector as 4.2 per cent.¹⁰ The industry's low profit margins can be attributed to factors such as higher wage costs and penalty rates. R&CA's *2017 Industry Benchmarking Report* found that the costs associated with employing staff including wages, training and staff on-costs (payroll tax, workers' compensation etc.) on average represented up to 44 per cent of overall expenditure.¹¹ The subsequent pressure being placed on profit margins can act as a strong driver of the black economy practices such as cash-in-hand payments.

R&CA believes that to address issues associated with the black economy, it is necessary to implement policies which will reduce the overall operating costs for hospitality sector businesses,

"Penalty rates and payroll taxes are killing us." (R&CA 2017 Benchmarking Report)

¹⁰ Australian Bureau of Statistics (ABS) 2008, *8655.0 - Cafes, Restaurants and Catering Services, Australia, 2006-07*.

¹¹ Restaurant & Catering Australia (2017) *2017 Industry Benchmarking Report*.

particularly the costs of employing staff. As part of this solution, R&CA argues that a harmonisation of payroll tax thresholds across all states and territories is essential. At present, South Australia's payroll tax is \$600,000 whereas the threshold in the ACT is \$2 million.¹² The lack of harmonisation between different states and territories is especially problematic for hospitality operators running separate businesses across multiple jurisdictions. In R&CA's view, any attempts to address the overall cost of the business operating environment must include payroll tax threshold harmonisation as a matter of high priority.

INCREASING SYNERGIES AND DATA-SHARING ACROSS GOVERNMENT AGENCIES

Finally, R&CA urges the importance of synchronising communications and data-sharing between Government agencies such as the Australian Taxation Office (ATO), the Department of Human Services and the Department of Immigration and Border Protection to reduce the prevalence of the Black Economy in the hospitality sector. R&CA also stresses the importance of reducing the existing levels of duplication between government agencies at a state and federal level. Through improvements to the 'hard-wiring' of government as it is referred to in the Interim Report¹³, R&CA believes that this would help reduce the practice of employees requesting cash payments from their employers to avoid losing government benefits.

Through investing in the improvement of hard-wiring across different levels and branches of governments, this will also assist in achieving additional outcomes, including reducing the costs involved in the current business operating environment. Although this does not result in a direct monetary saving for hospitality businesses, greater efficiencies in communication amongst government regulators will help to free up significant time resources. A 2013 Productivity Commission Report estimated that, on average, small businesses spend 5 hours per week¹⁴ dealing with red tape. This represents up to 260 hours a year which business-owners are not dedicating towards running their businesses more effectively.

¹² Payroll Tax Australia (2017) *Payroll Tax Rates and Thresholds* <https://www.payrolltax.gov.au/harmonisation/payroll-tax-rates-and-thresholds>

¹³ Australian Treasury (2017) *Black Economy Taskforce Interim Report – March 2017*, p.36.

¹⁴ Productivity Commission (2013) *Regulator Engagement with Small Business*, Research Report, Canberra, p.37.

CONCLUSION

R&CA strongly supports the functioning of the Black Economy Taskforce and the work it has undertaken to date. R&CA is fully committed to assisting the Taskforce with its efforts to identify the most effective means of addressing the black economy that currently exists within the hospitality sector and other industries. In doing so, R&CA seeks to ensure that a level playing field is established within the industry so that legitimate business operators who act in accordance with the law do not suffer from the type of competitive disadvantage inherently associated with the black economy.

R&CA acknowledges that the problem of the black economy is inherently complex and as such no individual solution can be devised. Rather, a whole-of-government approach is required to curb illegal activities associated with the black economy involving an array of different policy measures. Without meaningful government intervention in this issue, R&CA believes that the black economy in the hospitality industry will continue to grow significantly. Therefore, R&CA urges the Taskforce to include recommendations in its final report that prioritise the following four key areas:

- Simplifying the existing regulatory system facing small businesses and reducing barriers to compliance;
- Pursuing policies which facilitate easier acceptance of non-cash payments;
- Reducing the costs involved in the current business operating environment; and
- Increasing synergies and data-sharing across government agencies at both a state and federal level.

R&CA recognises the continued role of industry associations in addressing the black economy and welcomes the opportunity to work in collaboration with the Taskforce and other government stakeholders to help minimise the prevalence of the black economy in the hospitality sector.

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Australian Bureau of Statistics (ABS) 2008, *8655.0 - Cafes, Restaurants and Catering Services, Australia, 2006-07*.

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<https://www.ato.gov.au/general/building-confidence/in-detail/protecting-honest-business/?=redirected>

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APPENDIX I: QUALITATIVE EVIDENCE FROM R&CA SURVEY

Qualitative responses of survey participants regarding perceptions of the cash economy in the hospitality industry

I would love to charge a surcharge or at least put on a minimum spend to use credit/debit cards, but I fear doing that will result in a loss of trade. We live in what is becoming an increasingly cash-less society. We would pay between \$4-\$5K a year on merchant fee/bank charges for eftpos. It's really unfair that consumer spending patterns have changed but the banks are not adapting with those changes. It's just another hit that a small business takes.

Being forced into Paywave increased our bank charges by approximately 130%.

Avoided charging surcharge in the past. Cost of running a merchant terminal became too much and had to be passed on.

We have had a cash only business for 20 years. We have an ATM conveniently located nearby. Our customers are happy to pay cash. Our prices are cheap and do not warrant acceptance of credit cards.

Since the introduction of pay wave and pay pass less and less people carry cash, now a \$2 can of Coke is on card.

Credit card fees are a drain on the business; would like to see cost passed on to user as an industry standard.

Everyone uses cards in all business it is the way society has gone, hospitality is part of that change and tipping is not a big thing in Australia. We never ask anyone when they use a card would they like to tip so it is purely up to the individual.

Merchants are increasing their charges and we have to wear it as we don't pass it on.

Credit and debit card use is growing each day.

Very little cash is received by my business and that which is received, is carefully accounted for and banked.

I don't employ any staff that request cash. Run a restaurant in a motel and get a payment once a month, makes my cash flow very difficult.

I pass on the fees at an average of 1.8% using Tyro. Not one customer has complained and this also allows me to have no minimum payment which customers appreciate.

I have found that customers are more likely to leave a tip when using a card. Cash is reducing and electronic payments are very expensive.

Cash has dropped since payWave on credit cards was introduced.
Since the introduction of pay wave and pay pass less and less people carry cash, now a \$2 can of Coke is on card.
I don't think charging a surcharge for the use of eftpos is appropriate.
Cash is reducing and electronic payments are very expensive.
Tips in the industry are now nearly non-existent - previously when there was no pin the guest was presented with a slip and option to tip before signing prompting without being rude - the new system requires the tip to be processed while using the eftpos terminal - the general public do not know how to use this equipment so the staff process the transaction and just skip straight past the tip process as it would be rude to ask if you would like to tip.
We process many premium cards with card costs often outweighing surcharge.
A lot of our clients are paying by direct bank transfers.
My business is fully legitimate. We are totally disadvantaged by the plethora of businesses using cash.
I believe, after 25 years in the industry, that some black economy is vital for everyone. The reduction in the use of cash has led to tips being slashed and staff suffering. The increase in the use of cards has also seen huge increases in bank charges to merchants. Westpac increased their debit charges by over 100% in January. Paypass is always charged as a credit transaction to the merchant regardless of what customer account it comes out of. A lot of customers don't know this and also believe that they are paying for the transaction. Of course, this is not so.
It reduces insurance if there is less cash on the premises.
We are looking forward to discontinuing our surcharge when we next increase prices.
Definitely safer to use a card, less headaches for balancing! I prefer card use in my business as it's a paper trail.

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