# Pandemic Hangover Coming for Restaurants and Municipalities

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As though an existential crisis of biblical proportions were not enough, if past is prologue, the aftermath of COVID-19 may be as challenging for the restaurant industry as the pandemic itself. If they survive, restaurants and their suppliers stand to face local governments starved for new sources of tax revenue. Regardless of any federal short-term infusions of cash into city halls, city leaders will face structural issues that will have them searching for new avenues to replace money lost during this extended shutdown and upheaval.

Real estate, income and sales taxes are often the first local taxes that come to mind. However, most local governments have broad authority to tax a variety of goods and services which directly impact restaurateurs and their providers. Once the economy is up and running, many of those items may be tempting to lawmakers.

## Impact to Philadelphia Restaurant Scene

Philadelphia is a case in point. Pre-COVID-19, Philadelphia has had an extraordinarily vibrant restaurant scene. And while Philadelphia became the first big U.S. city to pass a Beverage Tax in 2016, local operators have overcome the challenges of other taxes that have in many cases had greater impact. For example, the Liquor-by-the-Drink Tax is applied to the sale price of alcoholic beverages purchased at restaurants, bars, clubs and hotels was first imposed back in 1994 to help fund Philadelphia schools. The current tax rate is 10 percent and it currently generates more than $60 million per year. The Beverage Tax has been in effect for three and a half years, withstanding legal challenges, continued opposition by the beverage industry. In its first two and a half years the tax raised nearly $200 million to fund universal Pre-K, community schools and to rebuild recreation facilities.

The beverage industry and others affected by the soda tax aggressively lobbied City Council, litigated once the tax was passed and spent millions of dollars in advertising opposing the tax. Once the Pennsylvania Supreme Court ruled in favor of the City, the industry moved to a strategy of trying to overturn the tax. While those efforts have proved futile in Philadelphia, the opponents of the tax have had more success in other parts of the country such as California and in Chicago.

## Post-COVID-19 Lessons for the Restaurant Industry

What are the post-COVID-19 lessons for restaurants, their suppliers and vendors? First, there is a vast pool of potential new taxes. Some can be more directed at restaurants and others would be more glancing blows. One immediate one comes to mind. Due to the social distancing requirements, many cities have allowed outdoor dining on sidewalks and other public spaces. Once the restaurant industry is healthy again, many will want to maintain the outdoor option. There is little doubt that revenue officials in some cities will seek to tax or charge license fees for that outdoor space. Similarly, political leaders will look around the country and borrow tax ideas such as Philly's Liquor-by-the-Drink Tax or Beverage Tax.

## Strategies to Minimize the Impact

If that occurs, what strategies can be used to minimize the impact?

The beverage industry's mixed success suggests that an all-out attack on the tax and its proponents is not the best strategy. Particularly in local communities, it is important to acknowledge the purpose for which the tax is being promoted and find ways to address the stated need and use of the revenue. Early discussions with city leaders, whether mayors, city council or others can impact the directions before engaging in costly public food fight. Those discussion can inform the policy makers and can be important sources of information to impact any final decisions or ordinances. While it may feel good to vent about perceived or actual unfairness of any tax, such an approach may result in an uncomfortable day after.


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