



REPRESENTING THE RESTAURANT INDUSTRY

The Cornerstone of the Economy, Career Opportunities and Community Involvement

**Testimony of Perry Moy
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On Behalf of the National Restaurant Association**

For The Hearing On

**“Is Uncertainty Contributing to the Jobs Crisis: The Views of Local
Illinois Small Businesses”**

Before

**U.S. House Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access**

Monday, December 12, 2011

Congressman Walsh, Congressman Schrader and other members of the subcommittee, thank you for inviting me to appear before you today. I testify today on behalf of the National Restaurant Association, the leading business association for the nation's restaurant industry.

Thank you for asking for the restaurant industry's perspective on how uncertainty has affected jobs. We know a lot about that. When times are uncertain, restaurateurs are among the first to feel the effects.

Restaurateurs are job creators. There are nearly 1 million restaurants in the United States, with total sales expected to exceed \$600 billion this year. We employ close to 13 million people. We're an industry of predominantly small businesses. More than seven in 10 restaurant establishments are single-unit operations. But taken together, our nearly 1 million restaurants are also the nation's second-largest private-sector employer, employing over 9 percent of the U.S. workforce.

Restaurateurs are entrepreneurs. We're dynamic, creative and competitive. We have to be ... we know we're only as good as the last meal we served. That keeps us on our toes. We operate on narrow margins; the median profit for a typical restaurant is about 4 percent, according to NRA research. So we must be attuned to everything: the weather, the economy, the latest food trends, the newest marketing tactics. We also are closely attuned to the impact of government actions at the federal, state and local levels.

I speak from close to 50 years of experience. My dad was a naturalized U.S. citizen, a descendant of the Chinese immigrants who helped build the U.S. railroad system. He died at the age of 30, leaving my mother with four young kids. In 1965, my family was living in Park Ridge, working at my uncle's restaurant. My mother and I got on a train and got out at the last stop: McHenry, Illinois. She and I walked down Main Street, where we saw a man washing a storefront's windows. I was 14. We asked about the rent. We settled on \$70 a month and opened up the Plum Garden.

Forty-six years and more than a few grey hairs later, I'm proud to say we are the oldest independent restaurant in the history of our county. The Plum Garden is an 80-seat restaurant that employs 18 people. The restaurant has helped me raise my family. It's put men and women through college. It's taught hundreds of young people about the world of work. And it's been a home: Many of my employees have been with me for more than 20 years. I consider them to be part of my family. We've been privileged to be a part of our community, and I have felt proud to be able to give back. I've served as a McHenry County Commissioner, as chairman of the Illinois Restaurant Association, and as a Board member of the National Restaurant Association.

Our county has seen its share of tough times. We were a fast-growing area a few years back. Then the construction bubble burst. The economy took over every aspect of my business in 2008. 2009 was the worst year I've ever experienced. My customers included the carpenters, plumbers, electricians, realtors, and others who depended on the construction industry. They saw the bottom drop out -- and we saw a 30 percent drop in business at the Plum Garden. And while that was happening, food and energy costs skyrocketed. These are big-ticket items for restaurants. Price spikes of unexpected costs pushed us to the edge.

We needed to act. So we sat down as a team and said we'd work together to build up the restaurant. We reengineered the menu. We lowered some prices. We added some items. We agreed we would maintain quality and portion size. We got smarter about trying to sell. We asked staff to do more for less. In 2010, we started to turn around. But the storm lingers – our margin of profit has dropped to 1 or 2 percent.

Still, we were able to add four jobs last year: two in the kitchen, two in the front of the house. Adding a job isn't an easy decision. I need to know I'm bringing in enough business to meet payroll every week. That's particularly important in restaurants, where labor typically accounts for about a third of sales.

I've learned a lot in the past few years.

First, I think America has ignored its Main Street businesses. Small businesses can't get access to the capital they need – in good times and in bad. Banks are sitting on money but not loaning it out. Small businesses often can't meet the criteria to get funding. The SBA has good programs. I encourage the federal government to make the SBA loan process as easy as possible. If Congress can help keep the SBA's loan guarantees high, the bank's exposure is minimal. It's a way to ease the pain as we get out from under this.

Two, let's put a moratorium on new taxes, regulations and mandates. As entrepreneurs, we don't know what's around the corner. Health care is a huge concern. My business may be too small to be covered by the employer mandate in the new health care law -- but I know that every fellow restaurateur I talk to fears what's coming. Each new rule and regulation that comes to light seems more complicated than the one enacted before.

And that's just at the federal level. Businesses like mine are hit hard by all levels of government. In Illinois, the corporate tax went up more than 70 percent. Every government agency is scrambling for revenue. My restaurant just went through an internal audit. The state Department of Revenue looked at three years of our financials -- and concluded that the state owed us \$112. So then they looked at our purveyor bills -- and told me that I owe a "use tax" of about 6 percent on the cooking oil I use. Apparently in Illinois cooking oil is considered 10 percent a "food" and 90 percent a "use." I was charged \$5,000 for the \$1,500 a month I spend on cooking oils.

We are good actors; we want to comply with the law. But these government mandates can divert our resources and savings. I'd rather spend those dollars on payroll and staff. Please take the steps you can to help me create jobs.

Three, give us a tax code that's predictable and fair. In my restaurant, we just spent about \$8,000 to put in a small bar and a new section of our floor. When your profit margin has shrunk to under 3 percent, saving \$8,000 for a small renovation is not easy. It took us about two years. Under today's law, I can depreciate that expense over 15 years. But Congress is about to let the 15-year depreciation schedule for restaurant construction and improvements expire and revert to 39 years -- even though we have strong support from members of Congress from both parties. This makes it hard for businesses to plan capital investments.

The same applies to hiring. The Work Opportunity Tax Credit is a great incentive for businesses to provide jobs for people who might otherwise fall through the cracks. It also expires at the end of 2011.

As a basic principle, the tax code also says that business expenses should be fully deductible. But to raise revenues, Congress now restricts the tax deduction for business meals to 50 percent. Full deductibility would bring the business meal deduction in line with other ordinary and necessary business expenses and boost jobs in restaurants and small businesses. The NRA submitted an extensive statement to this subcommittee last month about these and other tax reforms.

We firmly believe that the right public policies can encourage economic growth. For example, we thank Senator Durbin for helping to bring down the fees we pay when our guests pay by debit card. Congress's reforms are helping to bring an out-of-control market under control and help us pass these savings along to our guests.

Unfortunately, government often stands in the way of letting small businesses do what they do best -- grow their businesses and create jobs. Thanks for taking his time to hear from those of us on the "front lines" of job creation.