A Restaurant Industry Guide to Fiscal Responsibility

In an increasingly complex operating environment, maintaining fiscal compliance in the restaurant industry is a challenging task. Oracle leaders have teamed up with foodservice expert, Peter Backman, to bring clarity to this important issue.

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Fiscal responsibility in context

"Nothing is certain except death and taxes," said Benjamin Franklin about the US Constitution when it was created.

While some may find them onerous, taxes are one way a government can fund infrastructure projects and services.

However, corporations and individuals are required to pay taxes responsibly. If not, they run the risk of legal and reputational harm. Because tax laws are complex and evolve over time, it can be challenging to understand what amount is required to be paid. For the restaurant industry, these complexities are even more challenging to navigate since the amount of taxes required to be paid often differs from the amount of taxes actually paid.

That's why it's critical that the restaurant industry maintains fiscal responsibility. Fiscal responsibility, as it pertains to taxes, is defined as the correct processing of fiscal (or tax) information and reporting that information to the relevant authorities.

But tax authorities also have important responsibilities.

They need to make sure they collect the appropriate amount of tax, on time, and with minimum cost. When restaurants pay taxes, it's important that they maintain their fiscally responsible role by aiming to pay the correct amount owed, and on time.

Fiscal responsibility is not only required for good corporate citizenship, but it is essential for running a profitable business.

Why now is the time to consider fiscal responsibility

Fiscal responsibility has a long history—because raising taxes has a long history. Fiscal dues have been levied for millennia and indeed the word "fiscal" is derived from the Latin word "fiscus," which was the name of the personal money chest of Roman emperors. Generally taken to mean "basket" or "purse," fiscus came to be the word used for the taxes raised for the personal use of the emperor.

The time is now to consider fiscal responsibility best practices in the restaurant industry. Restaurants, like other industries, are experiencing changes to fiscal requirements, employment practices, and business models which could impact how they need to pay taxes.

Nowadays robust regulations require fiscal responsibility in over 100 countries including Argentina, Belgium, Denmark, Germany, France, Japan, Norway, Philippines, Saudi Arabia, and Sweden.

Who is responsible?

Governments—or more precisely tax authorities—create rules and regulations, tax rates, and exemptions that define taxes in their jurisdictions.

A universal imperative for all governments is to collect all the tax that is rightfully and legally theirs. And they must do all they can to collect the accurate tax amount owed in the shortest possible time at the lowest cost. It is the role of businesses to understand how much tax they owe and pay what is owed on time.

Quick tip:
Stay informed as tax authorities introduce new or enhance existing fiscal requirements.

But how does fiscal responsibility play out in practice and where does the responsibility lie?

Within a company, the actual role of fiscal responsibility may reside in the finance department. In others it may lie within the IT department. But wherever it lies, it must be identified as good practice and for transparency.

Sometimes, though, it is not clear where the responsibility lies. In situations where there is a licensing or franchising agreement in place, for example, who has the required responsibility? The licensor or the licensee? While it is usually the business owner/taxpayer who is fiscally responsible, it is not always clear who or what that entity is. The development of the restaurant delivery economy, for example, is creating new complexities around who is fiscally responsible for paying required taxes.

Challenges

The implementation of fiscal responsibility creates many challenges which fall under three categories: complexity, international variability, and human activities and interventions.

There are numerous examples of complexity. Even when it seems fiscal rules are set firm, restaurant businesses and individuals still run the risk of accidentally preparing their taxes incorrectly.

For example, and very importantly for tax purposes, what is a restaurant? And how does it differ from a takeaway establishment? This becomes an issue when different tax rates are levied on restaurants and takeaway establishments.

In some countries there are different tax rates for dine-in restaurants and takeaway establishments. There are different tax rates for hot and cold food. But how is hot food defined? How is cold food defined? And then how is this temperature to be measured and accounted for when addressing tax rates?

Issues of definition require a correct understanding of how the regulations are to be applied, to what they are to be applied, how they are to be measured, and how they are to be reported. But then when all seems clear, change comes along. How are the existing regulations changed? How are any new rules to be applied and what additional requirements do they impose?

Issues such as these are relevant for businesses that operate in a single jurisdiction. How much more challenging does the application of fiscal rules become when operating across international borders? Additional challenges arise when there is variability from country to country in the way the business operates. For example, some restaurants have full operational management in one country, franchising in another, part franchising and part management in a third, and a joint-venture operation in a fourth.

The challenges can increase the risk of error, confusion, misunderstanding, and incorrect input or output of data. A method to overcome these challenges is to have adequate trigger mechanisms that check what the records show against what they should be showing.

Quick tip:
Stay informed on the ever-changing tax regulations whether those are sales tax rate changes, different tax rates for dine-in and takeaway, or business type as food sales tax rates may differ.

With sufficient resources, handling changes in tax regulations and cross-border tax-related variations can become more efficient. Large companies may have the resources and expertise to manage this degree of complexity since they often have in-house advisors. However, these additional resources come with an added expense. Restaurant businesses working across borders and smaller businesses operating in a single tax jurisdiction should find ways to minimize unnecessary expenses.

For example, in 2023 the value-added tax (VAT) in Vietnam was reduced from 10% to 8%, according to Vietnam Briefing. For a restaurant business or company with limited resources, it is crucial they stay agile as sales tax changes occur so they can respond quickly and apply changes as needed.

Issues such as these often turn into questions about operations and processes. For example, given that fiscal requirements are set out in many languages, does the responsible business have the language capabilities necessary to understand what to do?

There may be different views within a single country about how to implement and operate fiscal rules. Because each country follows a different set of fiscal compliance requirements, it can be challenging for businesses to set up operations in other countries where the rules differ.

Staff turnover can lead to a situation where corporate memory and knowledge about fiscal (and non-fiscal) matters becomes degraded, and over time, lessons previously learned are forgotten.

It becomes a challenge to keep pace with evolving regulations and operational changes. For instance, the expansion of order and payment kiosks in hotels and limited-service restaurants poses questions around fiscal compliance.

Relationships with tax authorities are also a significant issue. It's important these relationships maintain transparency and trust to avoid any potential regulation breach.

All of this requires an endless flow of information and knowledge with trained, experienced people to implement trusted fiscal responsibility. This is a challenging task, and businesses need support at all stages to maintain fiscal responsibility.

Accounting for tax does not exist within an organizational silo but is associated with the other types of information that flow within a corporate environment. For example, a hotel will generally operate point-of-sale and front-desk solutions. Questions arise over what happens with the information generated from restaurants, conferences, corporate events, functions, wedding parties, and hotel room service offerings. Businesses are likely to create a data lake that includes the information it generates from following fiscally responsible processes as well as the vast amount of data that they amass from other sources. This data needs to be reconciled to provide a clear picture of business operations and specifically the correct amount of tax to be paid. Businesses need to be clear that there are processes in place to provide this clear picture.

In summary, coping with fiscal responsibility challenges arising from complexity, international variability, and human activities and interventions is a complex task that sometimes requires input from external advisors.

Industry example: Restaurants and movie theatres are different business types and adhere to different food sales tax rates.

Constant change

Fiscal responsibility is in a constant state of flux. It covers growing areas of business operations. Nationally and internationally, the rate of change is speeding up and introducing more unknowns with unexpected consequences. The entire process is becoming increasingly complex, and as a result, difficulties of correct compliance are multiplying rapidly.

Initially, tax relevant data was tracked and stored on physical devices, like fiscal printers, or external devices containing recording chips that tax auditors could analyze. Alternatively, periodic exports required an upload to a tax authority portal. Nowadays, a growing number of countries are introducing more up-to-date electronic invoicing approaches to exchange tax relevant data in real time with the tax authorities. This also helps to reduce overhead involved in purchasing and maintaining dedicated fiscal printers, external tracking devices, or manual record submissions to a tax authority portal.

Regulations covering each aspect of fiscal compliance are now increasingly based on information that is collected, processed, and stored electronically. In some jurisdictions data must be stored for up to 10 years.

Tax authorities such as those in France also specify which information must be printed on a tax-evident receipt. This may include information about the restaurant, type of receipt, tax rates by item, tax breakdown, certificate number and version, and more.

Other countries like the Philippines have regulations like the Expanded Senior Citizens Act of 2010, which provide value-added tax benefits for senior citizens. These require special point-of-sale functionalities.

Germany implemented the Electronic Cash Register Standard. Under the standard, customers who dine at restaurants must be issued with a paper or electronic receipt that specifies the tax that has been paid. (If restaurants are unable to produce such a receipt they can, in theory, be held legally liable.)

The shift toward electronic invoicing is introducing different national requirements. In some countries, merely creating an electronic invoice is sufficient information to satisfy tax authorities. In other countries, it is a legal requirement to have a physical fiscal printer to complete relevant business operations. Although for some countries, authorities can waive this requirement under specific circumstances.

In the face of continuous change to fiscal rules, it is a major task to monitor the introduction of new and revised tax codes, reporting responsibilities, new definitions of what is included and what is not included under a particular regulation, and how these vary between countries.

Correctly implementing the required solutions becomes an ongoing issue for all sizes of businesses with whatever resources they have available.

Challenges to navigating local tax legislation

Local tax legislation:

- Can be difficult or complex to understand
- May not detail all operational use cases for restaurants
- May apply to multiple industries beyond restaurants
- May not address international operations
- May not have information available in multiple languages

Food and beverage delivery—an example of change and complexity

Food and beverage delivery has disrupted restaurant operations from the largest chains to the smallest independent operator. And it presents a case study of the complexity of fiscal regulations, particularly those that arise from a rapidly evolving marketplace.

The restaurant sector has traditionally been one of direct relationships between operator and customer: the restaurant supplies the food and the customer pays for it.

The arrival of third-party food and beverage delivery companies has upended that direct relationship. For example, it has transferred knowledge of who the customer is away from the restaurant and to the third party providing the deliveries. It has caused change and raised many previously unknown questions concerning the process of fiscal responsibility.

Globally, the restaurant delivery business was worth about $400 billion in 2023, according to Statista. Many aspects of restaurant operations have been disrupted by these newer, third-party delivery models with the introduction of new “partners”—delivery marketplaces, delivery riders, and the companies that direct the riders.

This has introduced a new level of complexity around who is responsible for providing accurate accounting to the proper authorities. Without a delivery company, accounting for the tax on a $20 order is straightforward: the restaurant is responsible. But if there is a “$5 off” deal from the third-party delivery company, who is responsible for the tax on the order? Or are the delivery company and the restaurant both—but separately—responsible?

Another example: perhaps a customer did not receive the food order after paying to have it delivered by the third-party delivery company. Did the delivery company lose it? If a refund was provided to the customer, does that transaction create a tax liability? If so, who is liable? In another example, a customer orders food to be delivered by a third-party delivery company but the food doesn’t arrive. If the customer then goes to the restaurant to pick up the items that weren’t delivered in the original order, who is responsible for the tax?

Issues such as these are multiplied by the rapid evolution of the market. The growth of ghost kitchens, the emergence of virtual brands, and the creation of franchised brands are just a few examples of how the restaurant industry is being disrupted now and how it will evolve in the future.

Tax authorities are trying to keep up with these industry disruptions. In some cases, they are implementing solutions on a case-by-case basis. But there is no single or simple answer to who has responsibility for questions like those raised above and how they should interpret the regulations.

The answers to these and a host of similar questions are still being addressed. But because tax regulations vary from country to country, there’s no one-size-fits-all solution.

All players—restaurants, delivery companies, delivery drivers and riders, and others who may be involved with restaurant transactions—are responsible for tax liabilities.

Fiscal compliance in all areas of business

Fiscal compliance touches many areas including:

- Reporting
- Transmitting relevant tax data
- Securing data from manipulations
- Archiving
- Audit change logging
- Handling certifications, documentation, and customer notifications

In the face of complexity and rapid change, they must develop the required knowledge or access relevant expertise from trusted advisors to comply with their fiscal responsibilities.

Understand fiscal responsibilities especially when other vendors—which may accept orders, take payments, or deliver food—are involved in overall restaurant operations.

How difficulties can be resolved

To resolve issues, it's important to:

- Understand who is responsible for complying with relevant tax legislation:
  - Corporation
  - Franchisee
  - Delivery partner(s)
- Identify current and future fiscal requirements as well as tax rates. Ask the following questions:
  - What are the requirements and tax rates by country, state, county, or city?
  - Is a third-party fiscal partner required?
  - Is a third-party hardware required?
  - Is a certification or declaration of compliance required?
  - Is a registration of point of sale or are third-party devices with the authorities required?
- Accurately configure all tax scenarios:
  - Identify the business type: dine-in or takeaway
  - Identify hot versus cold food, food versus beverage, etc.
- Keep point-of-sale transactions current to respond quickly to any tax legislation changes:
  - Plan and implement changes in a timely manner
- Brief senior management on responsibilities and procedures
- Brief operatives on correct processes
- Have access to appropriate tax, legal, and accounting resources
- Submit and archive tax-relevant data according to legislation

Role of Oracle solutions for restaurants

Oracle solutions for restaurants can help businesses achieve and maintain fiscal responsibility even as tax regulations change over time.

Oracle Simphony is the point-of-sale application to improve business operations to help comply with local tax laws.

Oracle teams perform proactive legal watch globally and analyze how new or changed requirements may apply to Oracle Simphony.

Oracle Simphony is certified in various countries, which provides peace of mind for all parties.

Oracle localization efforts also include non-fiscal capabilities like internationalization, translations, multi-currency support, scale certifications, data privacy, and more.
Ready to learn more?

Connect with us

- Oracle restaurant technology solutions
- Peter Backman