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Subject: Smoking Ban Impact II

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As of a year ago, five states (California, Connecticut, Delaware, Maine, NY) and 72 municipalities in the US plus municipalities in other countries (Ottawa Canada, Dublin, Ireland) have banned smoking in almost all workplaces, restaurants, and bars. A large number of studies have examined the effect of smoke-free policies in the hospitality industry. An extensive review of these studies was done in April 2004 (Scollo & Lal, "Summary of Studies Assessing the Economic Impact of Smoke-Free Policies in the Hospitality Industry", VicHealth Centre for Tobacco Control, Melbourne, Australia). This review concluded:

"No negative economic impact from the introduction of smoke-free policies in restaurants and bars is indicated by the 21 studies where findings are based on an objective measure such as taxable sales receipts, where data points several years before and after the introduction of smoke-free policies were examined, where changes in economic conditions are appropriately controlled for, and where appropriate statistical tests are used to control for underlying trends and fluctuations in the data."

"Studies concluding a negative economic impact have predominantly based findings on outcomes predicted before the introduction of the policies or on subjective impressions or estimates of changes rather than actual, objective, verified, or audited data. These studies were funded predominantly by the tobacco industry or organizations allied with the tobacco industry. Almost none of these studies finding a negative impact are published in peer-reviewed journals."

I conclude after searching the internet and reading a number of these studies that there is little objective evidence of any, much less a sizable, negative economic impact. This is like the smoking ban on airplanes several decades ago. One can hardly argue that that has led to a decline in air travel.

At best it seems one could argue for a 1-5% short-run decline, concentrated in bars and nightclubs not restaurants. It would also seem that unique activities like gaming may be somewhat more affected given the higher than average incidence of smoking participants. But one could argue that this more similar to the airline case than to the typical restaurant or bar visit. If there is no ready substitute for the activity, patrons who are smokers will adapt rather than disappear.

The table below lists the potential impacts on several revenue sources under the assumption that there is a 1% negative impact from a smoking-ban. Sales & Use Tax (ST) collections for calendar 2003 are listed for the 3 types of businesses most likely to be impacted. Bars, taverns, and pubs generated \$20.2 million in ST based on \$340 million in reported gross receipts. For every 1% reduction in receipts, we would lose \$202,000 in ST. A 5% reduction is thus worth about \$1 million.

A 1% reduction in business at restaurants serving liquor and those not serving liquor would generate a \$1.8 and \$1.7 million loss, respectively. But it seems unlikely in any stretch of the imagination that restaurants not serving alcohol would experience any impact.

	CY2003 gross receipts	number	Tax Collections	1% reduction
Sales Tax (CY2003)				
bars, taverns, pubs	340,377,151	1,165	20,194,043	201,940
restaurants with Liquor	3,063,985,247	3,160	179,883,955	1,798,840
restaurants without Liquor	3,325,431,185	7,292	169,921,447	1,699,214
S&U sub total			369,999,445	3,699,994
Casino Revenue Fund (fy04)			468,072,000	4,680,720
Alcoholic Beverage Tax (fy04)			98,357,000	983,570
Cigarette Excise Tax (fy04)			767,000,000	7,670,000
CBT:				
bars, restaurants with liquor			36,750,000	367,500
Casinos (CY2003)			25,500,000	255,000
All Tax total				17,656,784

The other revenue sources are risk appear to be the Casino Revenue Fund, the Alcoholic Beverage Tax, and the Cigarette Excise Tax. These could suffer from reduced traffic in the bars, restaurants, and casinos.

It seems unlikely that Corporate Business Tax (CBT) would be impacted in any material way. Only a small fraction of the CBT is paid by bars and restaurants. Based on the data above, they reported \$3.4 billion in 2003 gross receipts. Assuming a net profit of 15% and an average tax rate of 7%, they generate about \$36.8 million in CBT. A one percent reduction in their net income generates a \$367,500 CBT loss. Casinos owed \$25.5 million in CBT in CY2003. A one percent reduction in net income generates a \$255,000 loss in CBT revenue.

The impact on the Gross Income Tax (GIT) is also small. There may be employment losses in some effected bars and restaurants but it seems unlikely that these would be

reflected in any long-term losses in GIT. Employment turnover is a constant phenomenon and it is unfair to count the losses in one area without accounting for the rehires in another. I conclude that within NJ's strong economic scene these are not net losses generating GIT losses.

All told, the best case that can be made is that about \$16.5 million in various tax revenue may be lost for every 1% decline in the gross receipts of the hospitality and gaming industry as it flows through the S&U Tax, Alcoholic Beverage Tax, Cigarette Excise Tax, an CBT. Accounting for the even smaller revenue sources (e.g., Casino Parking Tax) and some growth to 2006 levels, the 1% loss is still only in the \$20 million range, assuming that the negative effects last one full year.