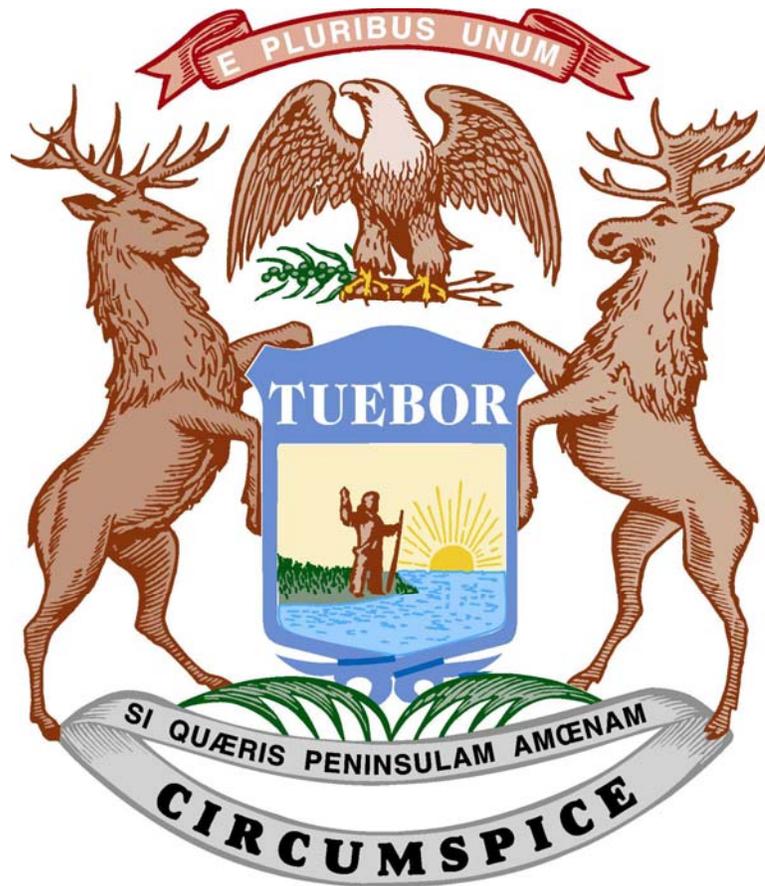
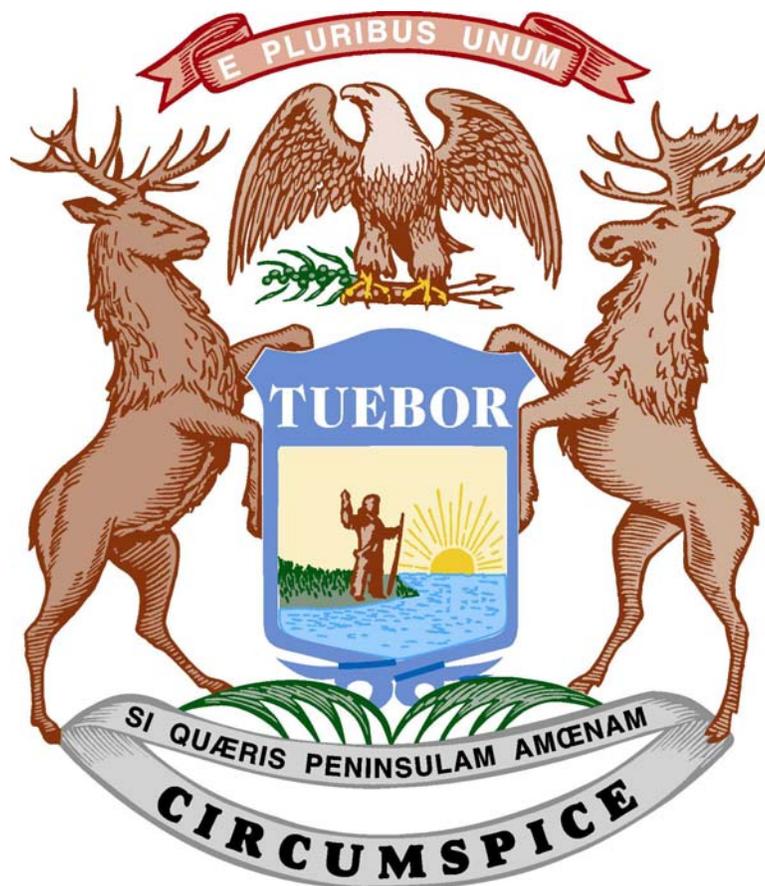


EARLY IMPACT OF MICHIGAN'S SMOKING BAN 2010



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Summary

Governor Granholm signed Public Act 188 of 2009 into law on December 18, 2009. This Act amended the Public Health Code, generally, to prohibit smoking in public places, in places of employment, and in food service establishments (such as restaurants, cafeterias, food courts in shopping malls, and bars). The prohibition took effect on May 1, 2010. Concern was raised before, during, and after the debate on the legislation that a smoking ban would adversely affect business activity at eating and drinking establishments. This report will provide a first glance at the impact of the ban on tax collections from retail eating and drinking establishments and the sales of cigarettes, liquor, and certain lottery tickets. While this report is intended to provide information on the impact of the public smoking ban, it is important to note that the overall impact is still evolving and may not be known for several years and any initial impact discussed here is based on a short time period. In addition, turbulent economic times make it difficult to confidently interpret the preliminary data presented here. The extent to which any change in the tables below can be attributed to the smoking ban remains unclear and more data over a longer time period will be necessary before any conclusions can be confidently asserted.

Table 1 compares sales tax collections from eating and drinking establishments before and after the ban. The middle column reports the percentage change in sales tax collections for the period November through May (sales prior to the ban) by establishment group, and overall statewide sales tax collections. Collections from most of the eating and drinking establishments for the period November 2009 through May 2010 were below collections for November 2008 through May 2009. The one notable exception was family restaurants and cafeterias, the category that accounts for approximately ½ of all sales collections from eating and drinking establishments. Collections for June 2010 through September 2010 are presented in the right-hand column and were generally higher, or at least down by a smaller percentage than earlier in the year, for eating and drinking establishments compared to June 2009 through September 2009. The growth in sales tax collections overall was virtually unchanged. The two groups that varied from the general trend were taverns that serve liquor and hotel dining rooms. The decline in collections from taverns is consistent with the decline in sales of liquor for on-premise consumption that will be discussed below, and is potentially related to the smoking ban. The more rapid decline in collections from hotel dining rooms cannot be easily attributed to the smoking ban, since collections at family restaurants (which are a substitute for hotel dining rooms) saw the growth in collections accelerate after the ban.

Table 2 compares withholding tax collections from eating and drinking establishments before and after the ban. Withholding tax is based on the earnings from employees at these establishments, so it provides an additional indication on how the establishments were faring before and after the smoking ban was enacted. The middle column presents the growth in withholding tax collections before the ban was enacted, comparing collections from November 2009 through May 2010 with collections from November 2008 through May 2009 for eating and drinking establishments. The right-hand column presents the year-over-year growth in withholding tax collections for the period after the ban took effect, June through September. There was a strong acceleration in the growth of withholding tax collections over the summer of 2010 generally. However, that acceleration in growth did not occur among eating and drinking establishments. Among the three groups of establishments that account for the highest tax

payments (taverns with liquor, family restaurants, and fast food) only taverns with liquor showed an acceleration in growth over the summer. However, the growth in withholding tax payments from taverns that serve liquor seems to portray a different picture from the decline in sales tax payments reported in Table 1. This is a statistical anecdote that will likely change over time. Either sales will pick up to allow taverns to maintain the higher compensation that was paid to employees over the summer, or compensation will be reduced to reflect the lower sales. In general, the information on withholding tax collections from eating and drinking establishments does not clearly point to a significant impact from the smoking ban. Of the three largest categories of establishments, fast food had the most significant slowdown in growth over the summer, but many fast food establishments were smoke free prior to the ban and a significant portion of their sales occur at drive-through windows where the ban is not binding.

Table 3 compares sales of cigarettes, liquor, and Club Games operated by the Michigan Lottery before and after the enactment of the smoking ban. Taxable sales of cigarettes usually decline over time as cigarette consumption declines. That decline is evident when taxable sales reported for November 2009 through May 2010 (prior to the ban) are compared to taxable sales for November 2008 through May 2009. Taxable cigarette sales declined by 3.9 percent compared to the same period in the prior year. Once the ban took effect, the decline in taxable sales accelerated with taxable sales of cigarettes declining 6.3 percent for June through October of 2010 compared to June through October 2009. It seems likely that the smoking ban reduced the opportunity for cigarette smoking and, as a result, reduced taxable cigarette sales.

Because of the complementary nature of liquor and cigarette consumption, i.e., customers at taverns often like to smoke, it would make sense that the smoking ban would reduce the amount of alcohol consumed at taverns as smoking customers cut short their time in the tavern. There is some evidence that this did, in fact, occur. From October 2009 through April 2010, sales of liquor declined both for off-premise (-1.2 percent) and on-premise consumption (-1.6 percent), compared to sales from October 2008 through April 2009. After the smoking ban took effect on May 1, sales of liquor for on-premise consumption declined by 3.1 percent from May to August compared to sales in 2009, while sales for off-premise consumption increased by 0.5 percent. The divergence in the growth of sales of liquor for on- and off-premise consumption is consistent with the smoking ban reducing liquor sales at establishments that serve liquor.

Customers at various bars and restaurants in Michigan may also play Club Games offered by the Michigan Lottery. These Club Games include Club Keno and Pull Tabs, which are often played by customers at taverns where liquor is served. The data in Table 3 seem consistent with the smoking ban having a negative impact on sales of the Club Games. When comparing year-over-year sales, sales for October 2009 through April 2010 (prior to the ban) were up 0.3 percent. After the smoking ban took effect, year-over-year sales were down 13.7 percent for May 2010 through September 2010. The sharp decline focused in the time period after the smoking ban took effect is consistent with the ban adversely affecting sales of Club Games.

Conclusion

It would appear that the smoking ban that took effect on May 1, 2010, may have reduced the activity at taverns that serve liquor compared to activity in the prior year. Specifically, sales tax collections from these establishments, sales of liquor for on-premise consumption, and sales of Club Games all declined relative to their trends for the 6 months prior to the ban taking effect. It is not possible to be sure that the decline will be long lasting, but the declines across a number of activities at these establishments appear to imply an impact for at least the first few months. There is no clear trend from the sales or withholding tax collections from other retail eating and drinking establishments that would indicate the smoking ban has adversely affected these businesses.

It is important to mention several reasons why drawing long-term conclusions from these early data would be premature. First, the short-term response to the smoking ban may be very different from the long-term response. Some customers may respond favorably to smoke-free establishments and replace former customers who reduced purchases at these establishments initially following the implementation of the ban. Alternatively, customers who reduced purchases once the ban was implemented may return and increase those purchases in the future.

Second, the short time period analyzed here does not include cold weather. Some customers may have continued to spend similar amounts at these establishments while stepping outside briefly to smoke. Once the cold weather takes hold some of these customers may decide to reduce the time and money spent at eating and drinking establishments, and the reduction in tax collections, liquor sales, and lottery sales may increase.

Third, the data presented here are aggregated across all establishments statewide. The impact of the smoking ban has likely affected some establishments within each group far more than others. As a result, individual taverns may find that their sales tax payments to the state have declined by far more than 1.6 percent. Liquor and lottery sales may have declined at individual establishments by more than the statewide totals discussed here. As a result, the impact of the smoking ban on individual proprietors of eating and drinking establishments may be very different than the average impact statewide.

Finally, it is important to keep in mind that the smoking ban took effect during a turbulent economic period in the state. With economic activity depressed overall, the complete impact of the smoking ban will be difficult to assess. Were sales in 2009 and early 2010 exceedingly low due to the economic downturn, thus reducing the observed decline in sales at eating and drinking establishments after the ban? Did the modest upswing in economic activity during mid-2010 raise sales at these establishments overall, again hiding some of the impact due to the smoking ban? A better assessment of the long-term impact of the smoking ban will require evaluating the impact during more normal economic times.

Table 1
Sales Tax Collections from Retail Eating and Drinking Establishments
Year-Over-Year Comparisons

<u>Group</u>	<u>Percent Change For November Thru May Year-over-Year</u>	<u>Percent Change From June to Sept. Year-over-Year</u>
Taverns with liquor, food incidental	0.10%	-1.57%
Taverns with beer/wine only, food incidental	-0.30%	1.54%
Night clubs	-16.67%	0.19%
Hotel dining rooms	-1.18%	-1.50%
Family restaurants and cafeterias	3.84%	4.24%
Fast food, pizza, lunch counters	-0.16%	1.77%
Caterers, concessions, and vending	-11.35%	-3.59%
Total sales tax collections	2.73%	2.84%

Source: Michigan Department of Treasury

Table 2
Withholding Tax Collections from Retail Eating and Drinking Establishments
Year-Over-Year Comparisons

<u>Group</u>	<u>Percent Change For November Thru May Year-over-Year</u>	<u>Percent Change From June to Sept. Year-over-Year</u>
Taverns with liquor, food incidental	-0.52%	1.45%
Taverns with beer/wine only, food incidental	-8.48%	-9.17%
Night clubs	-11.71%	4.45%
Hotel dining rooms	4.45%	1.08%
Family restaurants and cafeterias	3.64%	3.12%
Fast food, pizza, lunch counters	5.22%	1.28%
Caterers, concessions, and vending	0.84%	4.20%
Total withholding tax	-2.71%	3.32%

Source: Michigan Department of Treasury

Table 3
Cigarette, Liquor, and Lottery Sales
Year-Over-Year Comparisons

<u>Commodity</u>	<u>2009</u>	<u>2010</u>	Percent Change From <u>2009</u>
Cigarette Sales (millions of cigarettes)			
Prior to ban (Nov - May)	5,617.5	5,400.7	-3.9%
Cigarettes (June - Sept)	3,514.2	3,324.4	-5.4%
Cigarettes (June - Oct)	4,397.4	4,118.4	-6.3%
Liquor Sales (millions of dollars)			
Off premise (October - April)	\$437.8	\$432.7	-1.2%
On premise (October - April)	\$105.7	\$104.0	-1.6%
Off premise (May - August)	\$259.1	\$260.4	0.5%
On premise (May - August)	\$60.5	\$58.6	-3.1%
Lottery - Club Games (millions of dollars)			
Sales (Oct - April)	\$324	\$325	0.3%
Sales (May - Sept)	\$221	\$191	-13.7%

Sources:

1. Cigarette sales from Michigan Department of Treasury.
2. Liquor sales from Monthly Financial Report, Michigan Liquor Control Commission.
3. Lottery sales from Michigan Lottery.