



THE CASE FOR HIGH-TECH CIGARETTE TAX STAMPS

The current cigarette tax stamp technology used by virtually every state is from the 1950's. It is both out of date and ineffective. The old-fashioned tax stamps are easy to counterfeit -- and they fail to take advantage of currently available technologies to make it much more difficult for contraband cigarette traffickers to stay in business. In recent years, there have been major seizures of counterfeit cigarette tax stamps – both on packs and not yet attached – not only for states with higher cigarette tax rates (e.g., New York, New Jersey) but even for states with some of the lowest cigarette tax rates (e.g., Virginia, Kentucky).¹

By adopting high-tech tax stamps, a state can reduce any contraband trafficking and other illegal tax evading sales occurring within their borders, thereby taking a bite out of crime and protecting and increasing the state's total cigarette excise tax revenues. High-tech tax stamps are not only easier to see and distinguish than existing state tax stamps, and harder to visually counterfeit, but also contain useful encrypted information that enforcement officials and others can read with a portable scanner. This encrypted information enables enforcement officials to scan packs of cigarettes wherever they find them to distinguish real tax stamps from even the most sophisticated fakes, identify the wholesaler that applied the stamp and initially sold the cigarettes, and obtain other information useful for tracking, tracing, and enforcement purposes.

In California, the only state with high-tech tax stamps, cigarette tax revenue increased by \$100 million in the first 20 months after the new tax stamps were introduced.² Since then, the California tax stamp has been redesigned to be even more secure, and the hand-held authentication/scanner units have been improved to provide for better verification, tracking and tracing.³ In June 2007, the California tax collection agency announced that annual cigarette tax evasion had dropped by 37 percent because of increased enforcement and the new high-tech tax stamps, gaining the state \$110 million in additional annual cigarette tax revenue.⁴

Other currently available technologies make it possible for states to adopt new high-tech tax stamp systems that are even more effective. Various options include scanners that are even more portable and easy to use (such as scanners like those used by UPS delivery persons) and stamps that are even more counterfeit-proof; that can be applied or activated only at the licensed tax stamper's location, making illegal diversion virtually impossible; and that contain even more encrypted information which is added to the stamp throughout the distribution chain.

At least two major groups of companies offer new high-tech state tax stamping systems:

1) SICPA Product Security, which developed the California solution in conjunction with Meyercord Revenue;⁵ and 2) Authentix, Inc., using technology developed by Assure DigiTax, along with RED Stamp, Inc.⁶ According to Authentix, a top of the line, new high-tech tax stamping system could be put in place for a state within just a few months.⁷

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¹ See, e.g., Newman, A., "Arrest of Cigarette Seller Is a Coup, Brooklyn Officials Say," *The New York Times*, April 11, 2008. See also, http://www.brooklynda.org/press_releases/pr_apr_08.htm#03.

² Halper, E., "States Tobacco Revenue Surges," *Los Angeles Times*, December 27, 2005.

³ For a description of the CA system, see http://www.sicpa.com/public/news/stamping_reprint.pdf.

⁴ McIntosh, A., "Tobacco Tax Cheating Falls," *Sacramento Bee*, June 27, 2007. Several foreign countries also have high-tech tax stamps in operation (e.g., Brazil) or in the works (e.g., Canada).

⁵ See <http://www.meyercord.com> and <http://www.sicpa.com>, respectively.

⁶ See www.authentix.com, <http://www.assuresystems.com/digitax.html>, and <http://www.redstampinc.com>.

⁷ See, also, http://www.authentix.com/pdf_files/Authentix%20Tax%20Recovery.pdf.