



THE CASE FOR HIGH-TECH CIGARETTE TAX STAMPS

Most states continue to use old-fashioned cigarette tax stamps that are easy to counterfeit and fail to take advantage of readily available technologies that would increase state revenues by preventing contraband cigarette trafficking and other tobacco tax evasion. Not surprisingly, there continue to be major seizures of counterfeit cigarette tax stamps, both on packs and not yet applied – 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

High-tech tax stamps work better because they are easier to see and distinguish than existing state tax stamps and harder to visually counterfeit. More importantly, they also contain useful encrypted codes and information that enforcement officials and others can read with portable scanners, thereby making the stamps almost impossible to counterfeit. With high-tech tax stamps, enforcement officials can scan cigarette packs 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 encrypted information useful for tracking, tracing and enforcement purposes.

By preventing contraband trafficking and other cigarette tax evasion, high-tech tax stamps not only fight crime and increase government revenues but also help to protect public health and reduce smoking by stopping illegal cigarette sales at below-market prices.²

In California, the first state with high-tech tax stamps, cigarette tax revenue increased substantially (without any tax rate increase) immediately after the new tax stamps were introduced in 2005.³ In June 2007, the California tax collection agency announced that 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 Now, the available high-tech tax stamping systems work even more effectively than the original California system, which has been upgraded – and new high-tech tax stamps are also possible for tobacco products other than cigarettes.

At least two major groups of companies offer new high-tech state tax stamping systems, one headed by SICPA Product Security, which developed the California system with Meyercord Revenue, and one headed by Authentix, Inc.⁵ 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.

Besides California, high-tech tax stamps are in effect or underway in Massachusetts, as well as in Canada, Turkey and Brazil. The World Bank and the International Monetary Fund have each endorsed high-tech tax stamps as an essential measure to reduce tobacco product smuggling.⁶

Campaign for Tobacco-Free Kids, April 15, 2010 / Ann Boonn

¹ See, e.g., Newman, A, "Arrest of Cigarette Seller Is a Coup, Brooklyn Officials Say," *The New York Times*, April 11, 2008.

² Written Testimony of Eric N. Lindblom, Hearing on Senate Bill 346 Pertaining to Tax Stamps, Senate Finance Committee, State of Maryland, February 18, 2010.

³ For more on the CA system, see White, L, "Stamping In: A Look at California's Alternative Cigarette Tax Stamp Program," *Distribution Channels*, March 2007, http://www.sicpa.com/public/pdf/news/stamping_reprint.pdf.

⁴ McIntosh, A, "Tobacco Tax Cheating Falls," *Sacramento Bee*, June 27, 2007.

⁵ See www.sicpa.com; and www.authentix.com/pdf_files/Authentix_Tax_Recovery.pdf.

⁶ "Hologram Advances Seen to Combat Terrorism," *United Press International*, February 19, 2010.