



THE CASE FOR HIGH-TECH CIGARETTE TAX STAMPS

The tobacco industry and its allies claim that tobacco tax increases will lead to surges in cigarette smuggling and tax evasion. However, tools already exist – and are being used in several states – to effectively prevent counterfeiting and contraband cigarette trafficking or other tobacco tax evasion. High-tech tax stamps use the latest “track and trace” technology to enable enforcement officials to confirm payment of applicable taxes, but they also allow them to follow the supply chain to confirm that the products are where they should be. In contrast, traditional cigarette tax stamps used by most states merely indicate payment of cigarette taxes. By preventing contraband trafficking and other cigarette tax evasion, high-tech tax stamps not only fight crime and increase government revenues even without tax increases, but also help to protect public health and reduce smoking by stopping illegal cigarette sales at below-market prices.

High-tech tax stamps work better than traditional stamps because they contain special designs and encrypted codes that make the stamps almost impossible to counterfeit.² Enforcement officials can scan the high-tech tax stamps on cigarette packs to distinguish real tax stamps from even the most sophisticated counterfeit stamps, identify the wholesaler that applied the stamp and initially sold the cigarettes, and obtain other encrypted information useful for tracking, tracing, and enforcement purposes. The technology could also be useful for consumers; for instance the stamp in Michigan also provides anyone who scans it with cessation information or the ability to report violations to the state’s youth access laws.³

Various economic and health institutions, including the U.S. Department of Treasury,⁴ the U.S. Centers for Disease Control and Prevention,⁵ the National Cancer Institute,⁶ and the World Health Organization,⁷ recommend track and tracing systems such as high-tech tax stamps to reduce illicit cigarette trade and support public health goals. Increasing the number of states using high-tech tax stamps is one of the Healthy People 2020 objectives for tobacco use.⁸ For instance, in its recommendation to work with the Food and Drug Administration to develop a federal track and trace system, the Department of the Treasury stated, “A federal ‘track and trace’ system, which would support the tax administration mission of the Treasury Department as well as the public health mission of the FDA, would benefit both agencies and promote consistency and efficiency in government.”⁹

To be most effective at addressing illicit trade and maximizing revenue collection, the use of high-tech tax stamps needs to be implemented with increased enforcement that utilizes all of the features of this technology and comprehensive licensing of retailers and wholesalers.¹⁰ In addition, state systems should coordinate with a national system to allow sharing between states and with the federal taxation agency.¹¹

Of the 47 states and DC that currently require tax stamps on cigarettes, most continue to use old-fashioned stamps. Currently, three states – California, Massachusetts, and Michigan – currently use high-tech tax stamps. New Jersey has the authority but has yet to implement them.¹²

- 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 2005.¹³ The original high-tech stamps were upgraded with improved features such as color-changing ink in 2011. In its 2016 report on cigarette and tobacco tax evasion, the California Board of Equalization stated, “Cigarette and tobacco products evasion would be much higher without 2003 legislation that improved compliance significantly. These improvements, which include licensing (AB 71), a counterfeit-resistant encrypted cigarette tax stamp (SB 1701), and retail inspections, were fully implemented during fiscal years 2004-05 and 2005-06.” Further, the agency estimated that these measures recouped \$88.7 million in excise taxes annually.¹⁴
- In the first three years after **Massachusetts** implemented its high-tech tax stamp in July 2010, cigarette tax revenue remained at higher than expected levels despite an average two to three year annual decline in smoking.¹⁵ Massachusetts increased its cigarette tax rate on July 31, 2013, and revenues have continued at higher levels since.



Sample high-tech tax stamp from California (2013¹)



Sample simple tax stamp from Virginia

- **Michigan** began issuing the high-tech tax stamps in late 2014 to early 2015.¹⁶ Data since the implementation of the new stamps are not yet available.

Outside of the United States, at least ten countries (Albania, Brazil, Canada, Georgia, Hungary, Kenya, Malaysia, Mongolia, Morocco, and Turkey) are using advanced track and trace technology, and several other countries are in the process of implementation. As of early 2017, 26 countries are parties to the World Health Organization Framework Convention on Tobacco Control Protocol to Eliminate Illicit Trade in Tobacco Products, including tracking and tracing systems similar to high-tech tax stamps.¹⁷

Despite what the tobacco industry claims, significantly increasing tobacco taxes generates new revenues for states, even accounting for any tax evasion or avoidance across state borders. High-tech tax stamps are just one of the tools that states can use to minimize illegal cigarette sales. Other strategies include increased enforcement and penalties, and comprehensive licensing policies.¹⁸

Campaign for Tobacco-Free Kids, May 4, 2017 / Ann Boonn

¹ Photo by Leah Mills, *San Francisco Chronicle*, in Gutierrez, M, "Next tobacco war battlefield: Cigarette smuggling," *San Francisco Chronicle*, November 9, 2013, <http://www.sfgate.com/politics/article/Next-tobacco-war-battlefield-Cigarette-smuggling-4969317.php#photo-5430696>.

² U.S. Centers for Disease Control and Prevention (CDC) STATE System, *Tax Stamps by Location*, May 1, 2017, <https://chronicdata.cdc.gov/Legislation/STATE-System-Tax-Stamp-Fact-Sheet/gxi9-gfcw>.

³ CDC, *Preventing and Reducing Illicit Tobacco Trade in the United States*, December 2015,

<https://www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf>.

⁴ U.S. Department of the Treasury (DOT), *Department of the Treasury Report to Congress on Federal Tobacco Receipts Lost Due To Illicit Trade and Recommendations for Increased Enforcement*, February 4, 2010, <https://www.ttb.gov/pdf/tobacco-receipts.pdf>.

⁵ CDC, *Preventing and Reducing Illicit Tobacco Trade in the United States*, December 2015,

<https://www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf>. Chriqui, J, et al., "Use of Tobacco Tax Stamps to Prevent and Reduce Illicit Tobacco Trade — United States, 2014," *Morbidity and Mortality Weekly Report (MMWR)* 64(20):541-546, May 29, 2015, <https://www.cdc.gov/mmwr/pdf/wk/mm6420.pdf>.

⁶ U.S. National Cancer Institute (NCI) & World Health Organization (WHO), *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: U.S. Department of Health and Human Services (HHS), National Institutes of Health, National Cancer Institute; and Geneva, CH: WHO, 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.

⁷ NCI & WHO, *The Economics of Tobacco and Tobacco Control*, NCI Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute; and Geneva, CH: WHO, 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf. WHO, Framework Convention on Tobacco Control, *Protocol to eliminate illicit trade in tobacco products*, Geneva, Switzerland: WHO, 2013, http://apps.who.int/iris/bitstream/10665/80873/1/9789241505246_eng.pdf.

⁸ Office of Disease Prevention and Health Promotion, HHS, "Tobacco Use TU 21: Increase the number of States requiring high-tech tax stamps on all tobacco products," *Healthy People 2020*, May 2017, <https://www.healthypeople.gov/2020/topics-objectives/topic/tobacco-use/objectives>.

⁹ DOT, *Department of the Treasury Report to Congress on Federal Tobacco Receipts Lost Due To Illicit Trade and Recommendations for Increased Enforcement*, February 4, 2010, <https://www.ttb.gov/pdf/tobacco-receipts.pdf>.

¹⁰ National Research Council (NRC) & Institute of Medicine (IOM), *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, Committee on the Illicit Tobacco Market: Collection and Analysis of the International Experience, P. Reuter and M. Majmundar, Eds. Committee on Law and Justice, Division of Behavioral and Social Sciences and Education. Board on Population Health and Public Health Practice, Institute of Medicine. Washington, DC: The National Academies Press, 2015, <https://www.nap.edu/catalog/19016/understanding-the-us-illicit-tobacco-market-characteristics-policy-context-and>.

¹¹ CDC, *Preventing and Reducing Illicit Tobacco Trade in the United States*, December 2015,

<https://www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf>.

¹² Chriqui, J, et al., "Use of Tobacco Tax Stamps to Prevent and Reduce Illicit Tobacco Trade — United States, 2014," *MMWR* 64(20):541-546, May 29, 2015, <https://www.cdc.gov/mmwr/pdf/wk/mm6420.pdf>.

¹³ 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.

¹⁴ California Board of Equalization (BOE), *Revenue Estimate: Cigarette and Tobacco Products Tax Evasion*, October 3, 2016, <https://www.boe.ca.gov/legdiv/pdf/Evasion-10-2016F.pdf>.

¹⁵ CDC, *Preventing and Reducing Illicit Tobacco Trade in the United States*, December 2015,

<https://www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf>.

¹⁶ "The Contribution of Inspection Systems to Successful Track and Trace Programmes," *Tax Stamp News* 8(1), January 2016, http://www.lakeimage.com/fileadmin/user_upload/pdf_s/TSN_-_Lake_Image_System.pdf.

¹⁷ United Nations Treaty Collection, *A Protocol to Eliminate Illicit Trade in Tobacco Products*, November 12, 2012, accessed May 1, 2017 at https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IX-4-a&chapter=9&clang=en.

¹⁸ See, e.g., TFK Factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and Block Other Illegal Efforts to Evade State Tobacco Taxes*, <http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf>. See, also, the TFK factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <http://tobaccofreekids.org/research/factsheets/pdf/0357.pdf>. NCI & WHO, *The Economics of Tobacco and Tobacco Control*, 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.