

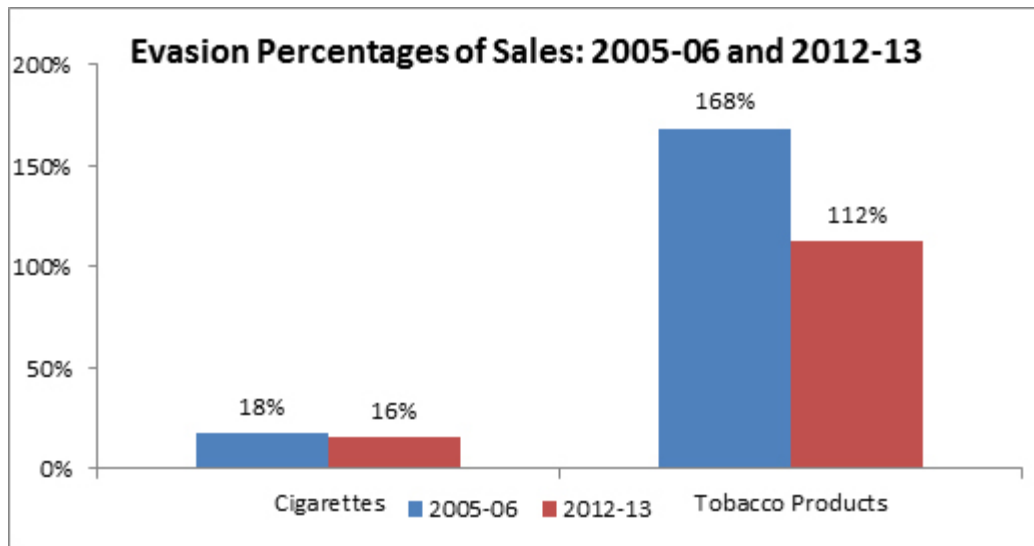
## TOBACCO TAX: CIGARETTE SMUGGLING STILL A MAJOR PROBLEM IN CALIFORNIA, BOE REPORT SHOWS

“Cigarette and tobacco products excise tax revenue evasion was about \$214 million in fiscal year 2012-13, ... comprised of \$198 million by retailers who purchase and sell untaxed cigarettes and tobacco products to consumers and \$16 million in casual evasion by consumers,” according to a [May 6 report](#) by the State Board of Equalization.

The BOE report is based on a number of estimates and assumptions. In a section on cigarette tax evasion by consumers, the report explains: “We assume that consumer cigarette evasion is 1.5 percent of tax paid distributions. This is 13.6 million packs of cigarettes. ... The assumption of 1.5 percent is much less than 5 percent, which we used in our 2007 estimates. There are several reasons for a lower percentage. After consulting with Special Taxes Policy and Compliance Division staff, we have been advised that several external developments since 2007 have reduced sales transactions of cigarettes by consumers via the Internet. In 2010, the federal Jenkins Act was amended, adding additional reporting and licensing requirements on remote sellers. The PACT Act of 2009 amended the Jenkins Act to revise provisions governing the collection of taxes and trafficking by requiring Internet and other remote sellers of cigarettes and smokeless tobacco to comply with the same laws that apply to local cigarette and tobacco licensees. In addition, all of the major credit card companies agreed to stop processing credit card payments for Internet cigarette retailers, and DHL, UPS and FedEx have agreed to stop shipping packages for vendors selling to consumers.”

The BOE’s press releases announcing the report highlighted the report’s hypothesis that “increased inspections, licensing, and enforcement efforts have contributed to a drop in the percentage of sales of contraband products since its last estimate,” and stated: “Cigarette and tobacco tax evasion for Fiscal Year (FY) 2012-13 totaled \$214 million, compared to \$276 million in FY 05-06.”

The report includes a chart showing the evasion percentage of cigarette and tobacco sales (see below). The chart indicates that the while smuggling of “other tobacco products” (all tobacco products except cigarettes – including chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco) has decreased significantly since the 2007 estimate, the number of illegal sales remains greater than the number of legal, taxed sales.



The BOE's Investigations Division partners with the Bureau of Alcohol, Tobacco, Firearms, and Explosives, the U.S. Attorney's Office, and the California Department of Justice in "Operation Big Pinch," a task force aimed at cracking down on contraband tobacco products.