

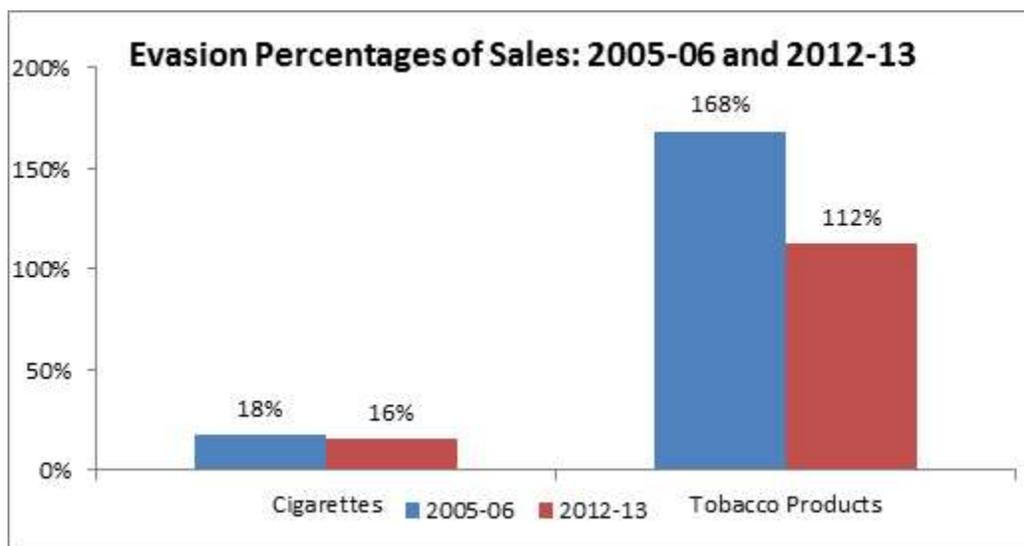
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Illegal Cigarette and Tobacco Smuggling Targets of BOE Enforcement Efforts New, Updated Estimate Shows Inspections and Tougher Laws Paying Off

Sacramento – The California State Board of Equalization (BOE) Chairman Jerome E. Horton announced its latest [cigarette and tobacco products tax evasion](#) that shows increased inspections, licensing, and enforcement efforts have contributed to a drop in the percentage of sales of contraband products since its last estimate. Cigarette and tobacco tax evasion for Fiscal Year (FY) 2012-13 totaled \$214 million, compared to \$276 million in FY 05-06.

The following graphic indicates the dip in both cigarette and tobacco products evasion as a percentage of total sales comparing FY 2005-06 to 2012-13. BOE's [2007 revenue estimate](#) was based on data from FY 2005-06.



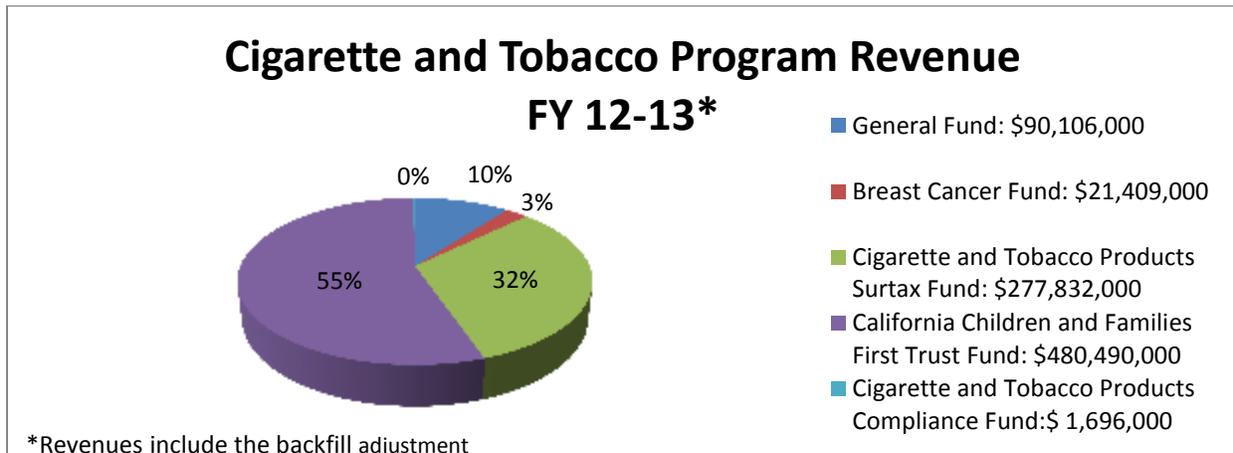
“It is encouraging to see that less underground economic activity is occurring with regard to sales of cigarettes and tobacco products. Clearly stronger licensing laws and partnerships between BOE and law enforcement at all levels of government, and educating consumers on the risks of purchasing unauthorized products are paying off,” said Chairman Horton.

BOE’s Investigations Division partners with the Bureau of Alcohol, Tobacco, Firearms, and Explosives, US Attorney’s Office, and Department of Justice in “Operation Big Pinch,” a task force aimed at cracking down on contraband tobacco products. During calendar years 2012 and 2013, the task force pinched nine illegal operators who cost the state \$36.6 million in tobacco tax revenue. Had those criminal enterprises continued, they would have cost the state an additional \$55.5 million through January 31, 2014, depriving the state and local communities of excise taxes which benefit programs for young children, breast cancer research, and a host of other health and community programs (see graphic below).

“Since legislation which I authored while in the Assembly took effect, along with an encrypted stamp required for cigarettes, the state has saved approximately \$135.7 million annually in cigarette and tobacco excise taxes, as well as sales and use tax. Tougher laws and greater enforcement efforts are helping us close our state’s tax gap.”

The Cigarette and Tobacco Products Licensing Act of 2003 ([Assembly Bill 71](#)) required each seller of cigarettes and tobacco products to be licensed. Each year since, BOE inspectors conduct about 10,000 inspections statewide to ensure compliance and seek out unstamped product or other cigarette and tobacco product tax violators. In FY 2004-05, the first full fiscal year after the law’s enactment, 869 inspections showed counterfeit stamps. By FY 2012-13, that number had been reduced to 13. In the last ten years, inspections resulting in seizures of unstamped cigarettes, or with counterfeit stamps affixed, have steadily declined from more than 15 percent of inspections to approximately one percent.

The following graphic illustrates the programs funded by cigarette and tobacco product taxes and license fees.



Every year, the state spends about \$32.1 million administering and enforcing cigarette and tobacco product tax and licensing laws. These programs generate more than \$871.5 million in revenue for the above-referenced funds.

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Elected in 2010, Chairman Jerome E. Horton is the Fourth District Member of the California State Board of Equalization, representing more than 8.5 million residents in Los Angeles County. He is also the Board of Equalization's Legislative Committee Chairman. He is the first to serve on the Board of Equalization with over 21 years of experience at the BOE. Horton previously served as an Assembly Member of the California State Assembly from 2000-2006.

The five-member California State Board of Equalization is a publicly elected tax board. The Board of Equalization collects \$56 billion annually in taxes and fees supporting state and local government services. It hears business tax appeals, acts as the appellate body for franchise and personal income tax appeals, and serves a significant role in the assessment and administration of property taxes. For more information on other taxes and fees in California, visit www.taxes.ca.gov.

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