



State Board of Equalization

# News Release

**Judy Chu, Vice Chair**

**4<sup>th</sup> District – Los Angeles**

Ramon J. Hirsig  
Executive Director  
[www.boe.ca.gov](http://www.boe.ca.gov)

**For Immediate Release**  
**June 27, 2007**

**Contact: NR 37-C**  
**Anita Gore**  
**916-327-8988**

## **JUDY CHU ISSUES NEW CIGARETTE, TOBACCO TAX LOSS ESTIMATES**

*Shows Enforcement Has Cut Down Sales of Counterfeit and Black-Market Cigarettes*

Board of Equalization (BOE) Vice-Chair Judy Chu today announced new estimates showing that \$276 million in cigarette and tobacco taxes is lost to evasion each year. Approximately \$182 million in cigarette taxes (or 209 million packs) go unreported each year, along with \$94 million in tax on other tobacco products such as snuff, cigars, and chew.

The Board's last estimate, which was limited to cigarette tax, published in 2003 and showed that \$292 million was lost each year. The lower figure of \$182 million released today is attributable to several years of strong BOE enforcement against cigarette tax evasion. These efforts include licensing cigarette related businesses, personally visiting storefronts, and implementing a high-tech tax stamp to place on legitimate, tax-paid products. *(Editor's note, see figures and complete estimate on second page)*

While the Board has never formally issued a tobacco evasion estimate, its prior studies pointed to only \$50 million in evasion, little more than half of the \$94 million figure released today. This is in part due to better data on tobacco consumption and tax reporting habits.

Cigarette and tobacco taxes are "excise" taxes, or charges paid at distribution and "built-in" to the retail cost. Fuel and alcohol taxes are collected in a similar manner. Because the consumer rarely sees the excise amount, they are often unaware of the individual liabilities they incur by purchasing untaxed products. This is often considered "casual" evasion, and includes internet, mail-order, and out-of-state purchases. The sales tax also applies to all cigarette and tobacco products sold or consumed in the state. The taxable price includes the built-in cost of the excise tax.

The Board estimates that \$125 million in cigarette tax and \$87 million in tobacco tax is evaded by businesses. However casual evasion also contributes to the problem, with an estimated \$57 million in cigarette tax and \$7 million in tobacco tax going unreported by consumers each year.

The State Bureau of Audits reported on the Board's administration of the cigarette tax last year, and requested that new estimates be developed. The new figures were made using a tested econometric model, which accounts for continually decreasing cigarette and tobacco use in California.

The five-member Board of Equalization is a publicly elected tax board. The Board collects nearly \$53 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 plays a significant role in the assessment and administration of property taxes.

Estimated Loss from Cigarette Tax Evasion by businesses:	\$125 million
by consumers:	\$ 57 million
<hr/>	
<b>Total Estimated Cigarette Tax loss:</b>	<b>\$182 million</b>
<i>2003 Estimate of Cigarette Tax lost:</i>	<i>\$292 million</i>

Estimated Loss from Tobacco Tax Evasion by consumers:	\$ 7 million
by businesses:	\$ 87 million
<hr/>	
<b>Total Estimated Tobacco Tax loss:</b>	<b>\$ 94 million</b>
<i>No formal estimates previously issued</i>	

See complete estimate [here](#).

###