

Technology Committee Update

Federation of Tax Administrators
Tobacco Section
Technology Committee

Beginnings

- This work began in the Federation of Tax Administrators (FTA) Tobacco Section's Western Region
- The Western Region (WR) formed a committee in February 2007
- The WR committee began looking for a solution to get a tax stamp or tax indicator on Other Tobacco Products (OTP)

Beginnings

- This effort began in order to address the difficulty of determining if tax has been paid on OTP
- The WR committee identified several “requirements” it expected to see in a solution
- The WR committee also explored several ideas that a solution could be built upon

Beginnings

- The WR committee submitted a report and recommendation to the FTA Tobacco Section’s Executive Board – June 2008
- The FTA Tobacco Section’s Executive Board formed the Technology Committee – September 2008
- The Technology Committee (committee) began meeting in January 2009

Technology Committee

- Committee members met and discussed our mission, our goals, and ideas for a solution
- The WR work laid a foundation this committee is building upon
- The committee members do not know what solution will come from this work
- They are in the process of identifying all the requirements the ideal solution should have

Technology Committee

The committee's mission is:

To determine a workable solution of business requirements for industry and for federal, state and local governments providing assurance and authentication of legitimate and taxed product being distributed through legitimate distribution channels

Technology Committee

The committee's goals are:

- Individually identify retail containers of OTP with a unique identifier
- Follow the movement of each retail container from manufacturer to retail dealer
- Match physical product transactions with monetary transactions

Technology Committee

Our envisioned process:

- Work with all interested parties to develop a comprehensive list of "requirements"
- Identify potential barriers
- Check in with FTA Tobacco Executive Board
- Issue a Request for Information
- Evaluate solutions presented and make a recommendation

Technology Committee

Committee members:

- Lynn Bartolo – California
- Scott Bucy – Ohio
- Will Ditto – Ohio
- Maurice Gilmore – Arkansas
- Don Jones – Oregon
- Wayne Lang – Minnesota
- Diane Lott Pickle – Tennessee
- Christopher Roy - Wisconsin
- Dale Thede – Iowa
- Stuart Thronson - Washington

Technology Committee

Industry participants:

- Juliett Gilliam – McLane
- Dennis Loper – California Distributor Association
- Greg Martin – Southern Assoc. of Wholesale Distributors
- Brian May – Altria
- Nancy Miller – Swedish Match
- Gerry Roerty – Swedish Match
- Michael Thorne-Begland – Altria
- Tripp Wilson – Conwood
- Catarina Wong – Coremark

Requirements – So Far

Tax Verification:

- Indicator verifies tax payment and amount
- Indicator provides visual cue for jurisdiction to whom tax paid
- Indicator shows who paid tax/amount of tax
- Indicator may be different across product categories
- Solution flexible enough to work for all/most states
- Solution must be scalable/reasonably affordable

Requirements So Far

Product tracking / data capture:

- Indicator uses covert and overt security features
- Indicator unique to each separate retail unit
- Solution provides ability to track by unit
- Solution tracks product removed from market
- Solution has many uniform features that will be deployed across jurisdictions

Requirements So Far

Product tracking / data capture (cont.):

- Solution provides uniform platform that can be provided by multiple vendors
- Solution provides uniform platform of crucial elements so a change in vendors does not significantly change machinery, data storage or other infrastructure

Requirements So Far

Security / compliance:

- Indicator is tamper-proof
- Indicator is difficult to counterfeit
- Solution facilitates States sharing information
- Solution reduces / eliminates underground market
- Solution reduces / eliminates counterfeit product from market

Requirements So Far

Reporting:

- Track and report on product through distribution channel
- Provide reporting for participating industry and governmental entities
- Manufacturer reports:
 - To assist with product recall efforts
 - To assist with identifying product sold for law enforcement efforts

Requirements So Far

Reporting (cont.):

- Distributor reports:
 - Tax return preparation
- Government reports:
 - Retailer purchase volumes/trends
 - Tax indicator and payment reconciliation

Requirements So Far

Costs:

- Solution should impose only a minimal compliance burden on all persons in distribution channel
- Solution should impose minimal cost burden on all persons in the distribution channel.
- Solution should impose only a minimal cost burden on states and regulatory agencies
- Solution should not impose burden on consumers

Assumptions

- Discussion and agreements need to be reached regarding who has access to what information.
- To be effective in achieving our goals the solution must be complemented by a balance of regulatory and enforcement efforts
- This process will be affected by other external factors

Outside Influences

- Children's Health Insurance Program (CHIP)
 - Alcohol and Tobacco Tax and Trade Bureau is required to report back to Congress shortly
 - Report is required to include recommendations for reducing illicit tobacco trade.

Outside Influences

- Food and Drug Administration's Authority Over Tobacco Products
 - Given authority to regulate marketing
 - Given authority to regulate labeling
 - Given authority to regulate product ingredients
 - Given authority to implement track and trace
 - The Comptroller General is required to issue a report on cross border trade of tobacco products

Outside Influences

- Canada's implementation of a stamping requirement on tobacco products
 - Expected to come into effect in 2010
 - Changes current process which uses a mix of stamps and tear-strips
 - Will use a stamp with overt and covert security features

Outside Influences

- Framework Convention on Tobacco Control
 - A World Health Organization treaty adopted on May 1, 2005
 - Agreed to by 166 different parties
 - The Intergovernmental Negotiating Body wrote the protocol on the Illicit Trade in Tobacco Products
 - June 2009 discussions focused on track and trace

Discussion

“Differing perspectives on what we hope to gain from this effort...”

- Manufacturers
- Distributors
- States