



SICPATRACE® FOR TOBACCO

MAXIMIZING STATE EXCISE TAX REVENUES & MSA SETTLEMENTS

States typically collect 3–5% of total annual state direct revenue through tobacco excise taxes and MSA settlements. But tobacco smuggling and MSA arbitration are threatening those funds. As state budgets tighten, it's vital for states to protect these sources of revenue. SICPA can help.

The SICPATRACE® solution is a platform for the authentication, monitoring, tracking and tracing of cigarette products. SICPATRACE® protects product integrity, secures the supply chain, and provides auditing and enforcement tools that states use to protect vital revenue. SICPATRACE® provides supply-chain tracking using SICPA's unique and proprietary security technologies. The solution fully integrates with existing distribution channels without disrupting the supply chain.

SICPATRACE® provides market-leading security using an alliance of material- and information-based technologies. Material-based security uses proprietary ink-based marks on tax stamps with secure identification features: Visible features for the public, and covert features for government inspectors. Information-based security uses encrypted data communications between system modules and unique traceable codes, applied either on the tax stamp or directly on the product.

SICPATRACE® benefits include:

- **Reduction in Illicit Tobacco**
By providing an unparalleled level of product security and real-time visibility to product

tracking, SICPATRACE® severely hinders tax evasion efforts.

- **Enhanced Tax Revenues**
SICPATRACE® facilitates the recovery of rightful taxes due to governments.
- **MSA Reconciliation Support**
A SICPATRACE® database provides full traceability and online audit reports, ensuring states maximize MSA reconciliation.
- **Protected Public Health**
By detecting counterfeit 'tax-unpaid' products and enabling more revenues to be used for tobacco cessation programs, SICPATRACE® allows state governments to better preserve the health of constituents.

With SICPATRACE®, each stage of the cigarette tax chain is electronically facilitated and linked, including:

1. Online stamp ordering and centralized stamp fulfillment
2. Intelligent data capture tools on stamp application equipment for real-time stamping data
3. Online capture and automated reconciliation of forms submitted by wholesalers
4. Field enforcement and inspection upgrades

These tightly integrated capabilities create a set of reconciliation points between disparate activities to enable immediate identification of non-compliant activities. SICPATRACE® also captures and communicates the product-specific sales information State Attorneys General need to ensure diligent enforcement of MSA terms.

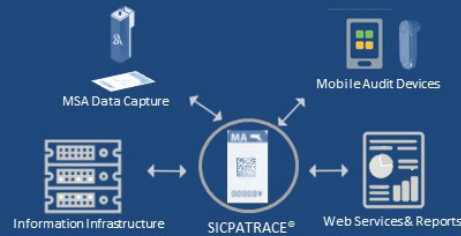


Example of SICPATRACE® tax stamp

CASE STUDY: CALIFORNIA

Since 2005, the California Department of Tax and Fee Administration (CDTFA) has been using SICPATRACE® to effectively track and trace approximately 900 million packs of cigarettes annually, representing more than \$835 million in annual excise tax collections. The CDTFA has recognized SICPATRACE® for its role in helping the agency to retain more than \$91 million in annual tax revenues that were previously lost to illicit activity, and a 94% reduction in the number of counterfeits seized by the State during inspections. The system has demonstrated its ability to scale to the needs of the CDTFA and currently supports more than 800 unique users and the conduct of more than 10,000 annual inspections by CDTFA enforcement personnel.

SICPATRACE® Encrypted Tax Stamp Program



Regulation Framework



State Department
Of Revenue/Tax

Tobacco Licensing
Encrypted Tax Stamp program
Electronic stamp ordering
Field auditing and investigation
MSA reporting



Licensed Tobacco
Stamper



Cigarette Stamping
Operations



Tobacco Retailer

Tobacco Compliance
Field Inspections
Tobacco License
MSA Data capture



AG and MSA

Technological Solution



Stamp Ordering Portal



Stamp Fulfillment



Stamp Activation



Mobile Auditing Tools



Reporting

- 1. Ordering and Approval:** Distributors place orders for stamps through the online portal, which are then approved by the state.
- 2. Coding and Manufacturing:** Stamps are manufactured and coded with a unique invisible encrypted code (SICPADATA®) at the secure, NASPO certified, SICPA-Meyercord Revenue facility.
- 3. Shipping:** Stamp orders are securely shipped directly to distributors.
- 4. Stamping/Activating:** Distributors apply stamps to cigarette packs via pressure-sensitive stamp application machines. During application, SICPA links the unique SICPADATA® codes on the stamps to the distributor, stamping date, cigarette brand, and other information.
- 5. Shipping:** Distributors ship stamped products to retailers.
- 6. Auditing:** State auditors use the SICPA AIR® handheld audit device to identify, authenticate, trace and record stamped products.
- 7. Reporting:** Fully authorized state personnel can view customizable reports on supply chain activity, such as stamp orders, stamping activity, investigations, and system alerts.

ABOUT SICPA

Founded in 1927, SICPA is a global leader in authentication, identification and secure traceability solutions and services that partners with governments, financial institutions, businesses and industries worldwide on matters related to security. With billions of products secured every year, SICPA is the world leader in secure traceability solutions and is recognized supplier and consultant to industries, security printers, governments and central banks.

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