



STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
Cory Fong, Commissioner

APPENDIX P

Memorandum

To: Interim Taxation Committee
From: Myles Vosberg, Director Tax Administration
Date: October 19, 2011
Subject: Cigarette Stamping

I have been asked to speak briefly on the cost of stamping cigarettes in North Dakota and regarding the Tax Commissioner's current compliance efforts.

We estimate the cost of stamps including delivery would be approximately \$1 to \$1.45 million for a biennium. This estimate is based on Sicpa Fusion stamps, which cost from \$6.00 to \$6.50 per thousand stamps at the volume North Dakota would be purchasing. We estimate we would need to purchase 160 to 190 million stamps in the first biennium. This volume includes stamps for taxable cigarettes, stamps for nontaxable sales delivered onto the reservations and an adequate inventory of stamps held by the wholesalers and at the Tax Commissioner's Office.

The Tax Commissioner's Office would incur other costs associated with stamping that are not included in this estimate. Examples of other costs are a new return processing and stamp tracking computer system, stamp storage, and possible additional staffing to inventory, package and mail stamps.

Concerning compliance activities, the Tax Commissioner's Office conducts unannounced inspections across the state to verify compliance of the cigarette and tobacco tax laws. During the inspections, our auditors visit approximately 10 percent of all licensed retail cigarette locations. We include numerous retailers near the boundaries of the Indian reservations.

During the compliance visit, our auditors interview the retailer and complete a survey that focuses on where the retailers are buying products, the method of payment for wholesale purchases, and current inventory levels. The auditors inspect inventory on hand and review sample invoices to document retailers are purchasing from licensed suppliers. We also look for cigarettes stamped in another state and for brands that are not compliant with the Master Settlement Agreement.

We have found very few compliance issues with cigarettes. During our 2010 review, we seized thirty two packages of cigarettes that were out of compliance with the master settlement agreement. These cigarettes were acquired by barter from a traveler that returned from abroad. In addition, we identified some tobacco products (not cigarettes) that were acquired from nonregistered sellers located outside of North Dakota. We assessed the retailers for the unpaid tobacco tax, which totaled less than \$450.