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## SENATE BILL NO. 347

Offered January 11, 2012

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A *BILL to amend and reenact §§ 18.2-246.13, 18.2-246.14, 18.2-246.15, 19.2-386.21, 58.1-1000, 58.1-1007, 58.1-1017, and 58.1-1037 of the Code of Virginia, relating to counterfeit and contraband cigarettes; penalties.*

\_\_\_\_\_  
Patron—McDougle

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Referred to Committee for Courts of Justice

**Be it enacted by the General Assembly of Virginia:**

**1. That §§ 18.2-246.13, 18.2-246.14, 18.2-246.15, 19.2-386.21, 58.1-1000, 58.1-1007, 58.1-1017, and 58.1-1037 of the Code of Virginia are amended and reenacted as follows:**

§ 18.2-246.13. Penalties.

A. Except as specifically provided in § 18.2-246.14, a first violation of any provision of this article shall be punishable by a civil penalty of no more than \$1,000. A second or subsequent violation of any provision of this article shall be punishable by a civil penalty of no more than \$10,000.

B. Any prospective consumer who knowingly submits a false certification under subdivision A 1 of § 18.2-246.8 shall be subject to a civil penalty of no more than \$5,000 for each such offense.

C. Any person failing to collect or remit to the Board or the Department of Taxation any tax required in connection with a delivery sale shall be assessed, in addition to any other applicable penalty, a civil penalty of no more than five times the retail value of the cigarettes involved.

D. Any civil penalty collected under this article shall be paid to the general fund, *except that penalties collected pursuant to § 18.2-246.14 shall be deposited in the Cigarette Enforcement Fund, pursuant to § 58.1-1017.*

E. Any person who fails to file the statement required by subsection A of § 18.2-246.11 and thereafter makes a delivery sale is guilty of a Class 1 misdemeanor and for any second or subsequent offense is guilty of a violation of § 18.2-498.3.

F. Any person who knowingly and with the intent to defraud, mislead, or deceive makes a statement filed as required by subsection A of § 18.2-246.11 which is false is guilty of a violation of § 18.2-498.3. Each such filed statement containing one or more false statements shall constitute a separate offense.

G. Any person who fails to make the report required by subsection B of § 18.2-246.11 is guilty of a Class 1 misdemeanor and for any second or subsequent offense is guilty of a violation of § 18.2-498.3.

H. Any person who knowingly and with the intent to defraud, mislead, or deceive makes a materially false statement in any report required by subsection B of § 18.2-246.11 is guilty of a violation of § 18.2-498.3. Each such report containing one or more false statements constitutes a separate offense.

§ 18.2-246.14. Counterfeit cigarettes; penalties.

A. It shall be unlawful to sell or possess counterfeit cigarettes. *A person who knowingly violates this subsection is guilty of a Class 2 misdemeanor and for a second or subsequent violation is guilty of a Class 6 felony. A person who knowingly violates this subsection by selling or possessing more than 50 cartons of counterfeit cigarettes is guilty of a Class 6 felony.*

B. ~~Any~~ *In addition to any criminal penalties, any person who knowingly violates subsection A with a total quantity of less than two cartons of cigarettes shall be punished by a civil penalty of no more than \$1,000. Any person who knowingly violates subsection A shall, for a second or subsequent offense involving a total quantity of less than two cartons of cigarettes, be punished by a civil penalty of no more than \$5,000 and, if applicable, the revocation by the Department of Taxation of his wholesale dealer license.*

C. ~~Any~~ *In addition to any criminal penalties, any person who knowingly violates subsection A with a total quantity of two or more cartons of cigarettes shall be punished by a civil penalty of no more than \$2,000. Any person who knowingly violates subsection A shall, for a second or subsequent offense involving a total quantity of two or more cartons of cigarettes, be punished by a civil penalty of no more than \$50,000 and, if applicable, the revocation by the Department of Taxation of his wholesale dealer license.*

D. *For the purposes of this section, knowledge shall be presumed if a person has in his possession within the Commonwealth more than 1,000 counterfeit cigarettes. In the event that multiple persons are found in possession of counterfeit cigarettes in a single location, such as a vehicle, home, office, or other distinguishable location, each person present at the location where the counterfeit cigarettes are found shall be deemed to possess the aggregate amount of counterfeit cigarettes found at such location.*

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SB347

59 *E. In addition to the penalties imposed by this section, any person, except as otherwise provided by*  
60 *law, who sells, purchases, transports, receives, or otherwise possesses counterfeit cigarettes in knowing*  
61 *violation of subsection A shall be required to pay any tax owed for such counterfeit cigarettes pursuant*  
62 *to this article.*

63 *F. All cigarettes in violation of this article shall be subject to seizure, forfeiture, and destruction in*  
64 *accordance with § 19.2-386.21.*

65 *G. For purposes of this section, "counterfeit cigarettes" shall include means cigarettes that are*  
66 *manufactured, fabricated, assembled, processed, packaged, or labeled by any person other than (i) the*  
67 *owner of the trademark rights in the cigarette brand or (ii) a person that is directly or indirectly*  
68 *authorized by the owner of the trademark rights to manufacture, fabricate, assemble, process, package,*  
69 *or label such cigarettes, in each case including, but not be limited to, cigarettes that (i) (a) have false*  
70 *manufacturing labels, (ii) (b) are not manufactured by the manufacturer indicated on the container, or*  
71 *(iii) (c) have affixed to the container a false tax stamp.*

72 *H. All civil penalties collected pursuant to this section shall be deposited in the Cigarette*  
73 *Enforcement Fund, pursuant to § 58.1-1017.*

74 *§ 18.2-246.15. Enforcement.*

75 *The Attorney General is authorized to enforce the provisions of this article. The Attorney General*  
76 *may assess the civil penalties authorized by this article, with the concurrence of the attorney for the*  
77 *Commonwealth pursuant to § 2.2-511.; may prosecute criminal violations under § 18.2-246.13, this*  
78 *article; and may bring an action in the appropriate court to collect assessed penalties or prevent or*  
79 *restrain violations of this article by any person, or any person controlling such person. The Board and*  
80 *the State Department of Taxation shall cooperate with the Attorney General in his enforcement efforts*  
81 *and provide to the Attorney General all information and documentation in their possession necessary for*  
82 *the Attorney General to accomplish such enforcement.*

83 *§ 19.2-386.21. Forfeiture of counterfeit cigarettes.*

84 *Counterfeit cigarettes possessed in violation of § 18.2-246.14 shall be subject to seizure, forfeiture*  
85 *and destruction by the Virginia Alcoholic Beverage Control Board, the Department of Taxation, or any*  
86 *law-enforcement officer of the Commonwealth. Any cigarettes seized or forfeited in connection with a*  
87 *violation of § 18.2-264.14 shall be destroyed. Prior to the destruction of such cigarettes, the true holder*  
88 *of the applicable trademark rights in the cigarette brand may be permitted to inspect the cigarettes for*  
89 *purposes of assisting law enforcement in any investigation regarding such cigarettes. All fixtures,*  
90 *equipment, materials and personal property used in substantial connection with sale or possession of*  
91 *counterfeit cigarettes in a knowing and intentional violation of Article 10 (§ 18.2-246.6 et seq.) of*  
92 *Chapter 6 of Title 18.2 shall be subject to seizure and forfeiture according to the procedures contained*  
93 *in Chapter 22.1 (§ 19.2-386.1 et seq.) of this title, applied mutatis mutandis.*

94 *§ 58.1-1000. Definitions.*

95 *As used in this chapter, unless the context clearly shows otherwise, the term or phrase:*

96 *"Authorized carrier" means a common or contract carrier transporting cigarettes, whether such*  
97 *cigarettes are tax-paid cigarettes or not, under a proper bill of lading or other documentation indicating*  
98 *the true name and address of the consignor or seller and the consignee or purchaser of the brands and*  
99 *the quantities being transported.*

100 *"Authorized holder" means (i) a manufacturer; (ii) a wholesale dealer; (iii) a stamping agent; (iv) an*  
101 *authorized carrier; (v) an exclusive distributor; however, with respect to cigarettes that are not tax-paid*  
102 *cigarettes, an exclusive distributor must comply with § 58.1-1012 in order to qualify as an authorized*  
103 *holder; (vi) an officer, employee, or other agent of the United States or a state, or any department,*  
104 *agency, or instrumentality of the United States or a state, or a political subdivision of a state, having*  
105 *possession of such cigarettes in connection with the performance of official duties; or (vii) a person*  
106 *properly holding cigarettes that do not require stamps or tax payment pursuant to § 58.1-1010.*

107 *"Carton" means 10 packs of cigarettes, each containing 20 cigarettes or eight packs, each containing*  
108 *25 cigarettes.*

109 *"Cigarette" means any product that contains nicotine, is intended to be burned or heated under*  
110 *ordinary conditions of use, and consists of or contains (i) any roll of tobacco wrapped in paper or in any*  
111 *substance not containing tobacco; (ii) tobacco, in any form, that is functional in the product, which,*  
112 *because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely*  
113 *to be offered to, or purchased by, consumers as a cigarette; or (iii) any roll of tobacco wrapped in any*  
114 *substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or*  
115 *its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described*  
116 *in clause (i) of this definition. The term "cigarette" includes "roll-your-own" tobacco, which means any*  
117 *tobacco which, because of its appearance, type, packaging, or labeling is suitable for use and likely to*  
118 *be offered to, or purchased by, consumers as tobacco for making cigarettes. For purposes of this*  
119 *definition of "cigarette," 0.09 ounces of "roll-your-own" tobacco shall constitute one individual*  
120 *"cigarette."*

*"Contraband cigarettes" means cigarettes for which tax is due under this chapter that are (i) not "tax-paid cigarettes" as defined in this section, and that are in the possession of any person other than an authorized holder or (ii) "tax-paid cigarettes" in amounts that exceed the presumed reseller threshold, as defined in this section, and that are in the possession of any person other than an authorized holder or retail dealer.*

*"Counterfeit cigarettes" has the same meaning as defined in § 18.2-246.14.*

*"Exclusive distributor" means any individual, corporation, limited liability company, or limited liability partnership with its principal place of business in the Commonwealth that has the sole and exclusive rights to sell to wholesale dealers in the Commonwealth a brand family of cigarettes manufactured by a tobacco product manufacturer as defined in § 3.2-4200.*

*"Manufacturer" means any tobacco product manufacturer as defined in § 3.2-4200.*

*"Pack" means a package containing either 20 or 25 cigarettes.*

*"Person" means any individual, corporation, partnership, association, company, business, trust, joint venture, or other legal entity.*

*"Presumed reseller threshold" means more than 5,000 cigarettes (25 cartons) of tax-paid cigarettes, as defined in this section, held by a person other than an authorized holder or a retail dealer.*

*"Retail dealer" includes every person other than a wholesale dealer, as defined in this section, who sells or offers for sale any cigarettes and who is properly registered as a retail trade with the Commonwealth in accordance with the Virginia Department of Taxation Business Registration Application (Form R-1).*

*"Retail sale" or "sale at retail" includes all sales except sales by wholesale dealers to retail dealers or other wholesale dealers for resale.*

*"Stamping agent" shall have the same meaning as provided in § 3.2-4204. For the purposes of provisions relating to "roll-your-own" tobacco, "stamping agent" shall include "distributor" as that term is defined in § 58.1-1021.01.*

*"Stamps" means the stamp or stamps by the use of which the tax levied under this chapter is paid and shall be officially designated as Virginia revenue stamps. The Department is hereby authorized to provide for the use of any type of stamp which will effectuate the purposes of this chapter including but not limited to decalcomania and metering devices.*

*"Storage" means any keeping or retention in the Commonwealth of cigarettes for any purpose except sale in the regular course of business or subsequent use solely outside the Commonwealth.*

*"Tax-paid cigarettes" means cigarettes that (i) bear valid Virginia stamps to evidence payment of excise taxes or (ii) were purchased outside of the Commonwealth and either (a) bear a valid tax stamp for the state in which the cigarettes were purchased or (b) when no tax stamp is required by the state, proper evidence can be provided to establish that applicable excise taxes have been paid.*

*"Use" means the exercise of any right or power over cigarettes incident to the ownership thereof or by any transaction where possession is given, except that it shall not include the sale of cigarettes in the regular course of business.*

*"Wholesale dealer" includes persons who are properly registered as tobacco product merchant wholesalers with the Commonwealth in accordance with the Virginia Department of Taxation Business Registration Application (Form R-1) and who (i) sell cigarettes at wholesale only to retail dealers for the purpose of resale only; or ~~who~~ (ii) sell at wholesale to institutional, commercial or industrial users. ~~The phrase~~ "Wholesale dealer" shall also include chain store distribution centers or houses which distribute cigarettes to their stores for sale at retail.*

*§ 58.1-1007. Documents touching purchase, sale, etc., of cigarettes to be kept for three years, subject to inspection; penalty.*

*A. It shall be the duty of every person receiving, storing, selling, handling or transporting cigarettes in any manner whatsoever, to preserve all invoices, books, papers, cancelled checks, or other documents relating to the purchase, sale, exchange, receipt or transportation of all cigarettes for a period of three years. All such invoices, books, papers, cancelled checks or other memoranda and records shall be subject to audit and inspection by any duly authorized representative of the Department at all times. Any person who fails or refuses to keep and preserve the records as herein required shall be guilty of a Class 2 misdemeanor. Any person who upon request by a duly authorized agent of the Department fails or refuses to allow an audit or inspection of records as hereinabove provided, shall have his stamping permit suspended until such time as the Department is allowed to audit or inspect the records. The Department may impose a penalty of \$1,000 for each day that the person fails or refuses to allow an audit or inspection of the records. The penalty shall be assessed and collected by the Department as other taxes are collected.*

*B. Any retail dealer who sells or distributes any quantity of cigarettes in excess of 1,000 cigarettes (five cartons) in a single transaction shall maintain records consisting of the name, address, vehicle license number (if applicable), and driver's license number of the purchaser or the person receiving*

182 *such cigarettes. A photo identification card issued by the Department of Motor Vehicles is acceptable in*  
183 *place of a driver's license if the individual does not hold a driver's license. The requirements of this*  
184 *subsection shall not apply to transactions between retail dealers, as defined in this chapter.*

185 *C. All records required by subsection B shall be maintained for a period of three years and are*  
186 *subject to the associated audit, inspection, and penalty provisions described in subsection A.*

187 *D. The Attorney General may prescribe by rule or regulation the form and manner in which the*  
188 *required records are to be kept and may prescribe additional requirements for the collection of*  
189 *information the Attorney General considers appropriate for enforcement of this chapter.*

190 *§ 58.1-1017. Sale, purchase, possession, etc., of tax-paid, contraband cigarettes; mandatory*  
191 *destruction; Cigarette Enforcement Fund; penalties.*

192 *A. Except as otherwise provided by law, it shall be unlawful for any person to knowingly sell,*  
193 *purchase, transport, receive, or otherwise possess contraband cigarettes. Knowledge shall be presumed*  
194 *if a person has in his possession within the Commonwealth more than 1000 contraband cigarettes.*

195 *In the event that multiple persons are found in possession of contraband cigarettes in a single*  
196 *location, such as a vehicle, home, office, or other distinguishable location, each person present at the*  
197 *location where the contraband cigarettes are found shall be deemed to possess the aggregate amount of*  
198 *contraband cigarettes found at such location; however, each person at the location where the*  
199 *contraband cigarettes are found may lawfully possess as many as 1,000 tax-paid cigarettes (five*  
200 *cartons).*

201 *B. Any person, except as otherwise provided by law, who sells, purchases, transports, receives, or*  
202 *otherwise possesses ~~unstamped~~ contraband cigarettes in violation of subsection A shall be required to*  
203 *pay any tax owed for such contraband cigarettes pursuant to this chapter, unless such tax has already*  
204 *been paid to the Commonwealth.*

205 *C. In addition, ~~such to the payment of taxes required by subsection B and any criminal penalties~~*  
206 *under this section, any person who violates the provisions of subsection A shall be required to pay a*  
207 *civil penalty of (i) \$2.50 per pack, up to \$500, for the first violation by a legal entity within a 36-month*  
208 *period; (ii) \$5 per pack, up to \$1,000, for the second violation by the legal entity within a 36-month*  
209 *period; and (iii) \$10 per pack, up to \$50,000, for the third and any subsequent violation by the legal*  
210 *entity within a 36-month period, to be assessed and collected by the Department as other taxes are*  
211 *collected. In addition, where willful intent exists to defraud the Commonwealth of the tax levied under*  
212 *this chapter exists, such person shall be required to pay a civil penalty of \$25 per pack, up to \$250,000.*

213 *B. It shall be unlawful for any person, except as otherwise provided by law, to sell, purchase,*  
214 *transport, receive or possess less than 3,000 packages of cigarettes unless the same have been stamped*  
215 *in the manner required by law, for the purpose of evading the payment of the taxes on such products.*

216 *D. Any person violating the provisions of this subsection shall be subsection A is guilty of a Class 2*  
217 *misdemeanor; for a first offense and is*

218 *C. It shall be unlawful for any person, except as otherwise provided by law, to sell, purchase,*  
219 *transport, receive or possess 3,000 or more packages of cigarettes unless the same have been stamped in*  
220 *the manner required by law, for the purpose of evading the payment of the taxes on such products. Any*  
221 *person violating the provisions of this subsection shall be guilty of a Class 6 felony for any second or*  
222 *subsequent offense.*

223 *D. If a person who (i) has not been issued a permit to affix revenue stamps by the Department, as*  
224 *provided in § 58.1-1011, or (ii) is not a retail dealer who has lawfully purchased cigarettes from such*  
225 *permit holder has in his possession within the Commonwealth more than 30 packages of unstamped*  
226 *cigarettes, such possession shall be presumed to be for the purpose of evading the payment of the taxes*  
227 *due thereon.*

228 *E. Any person violating the provisions of subsection A by selling, purchasing, transporting, receiving,*  
229 *or otherwise possessing more than 50 cartons of contraband cigarettes is guilty of a Class 6 felony.*

230 *F. No civil penalty shall be imposed under this section for any ~~unstamped~~ cigarettes that are not*  
231 *tax-paid cigarettes if a civil penalty under § 58.1-1013 has been paid for such ~~unstamped~~ cigarettes.*

232 *G. All cigarettes in violation of this chapter shall be subject to seizure, forfeiture, and destruction in*  
233 *accordance with § 58.1-1037.*

234 *H. 1. There is hereby created in the state treasury a special nonreverting fund to be known as the*  
235 *Cigarette Enforcement Fund, hereinafter referred to in this article as the "Fund." The Fund shall be*  
236 *established on the books of the Comptroller and any moneys remaining in the Fund at the end of each*  
237 *fiscal year shall not revert to the general fund but shall remain in the Fund. For purposes of the*  
238 *Comptroller's preliminary and final annual reports required by § 2.2-813, however, all deposits and*  
239 *disbursements from the Fund shall be accounted for as part of the general fund of the State Treasury.*

240 *2. All civil penalties collected by the Department of Taxation or another department or agency of the*  
241 *Commonwealth pursuant to the provisions of this section and §§ 58.1-1010, 58.1-1013, and 58.1-1035*  
242 *shall be deposited to the Fund, notwithstanding any language in those provisions that such civil*  
243 *penalties shall be assessed and collected by the Department as other taxes are collected. All civil*

penalties collected by the Attorney General pursuant to the provisions of § 18.2-246.14 shall also be deposited to the Fund.

3. Moneys deposited to the Fund shall be solely for use by the law-enforcement agency in the Commonwealth that is responsible for discovering the violation that resulted in the civil penalty and to offset the reasonable costs and expenses incurred in any related investigation and seizure. The balance, if any, left after offsetting for such reasonable costs and expenses shall be retained by the applicable law-enforcement agency and used to further the efforts of enforcing the provisions of this article, including, without limitation, funding the creation of a tip line to receive information regarding violations of this article and creating a fund from which to pay rewards to persons who furnish information that leads to (i) the collection of excise taxes or (ii) the identification of persons violating this article.

§ 58.1-1037. Seizure.

Cigarettes that are acquired, held, owned, possessed, transported in, imported into, or sold or distributed in the Commonwealth in violation of either this chapter or Chapter 10 (§ 58.1-1000 *et seq.*) shall be deemed contraband and shall be subject to seizure, forfeiture and destruction. Such cigarettes shall be deemed contraband whether or not the violation of this chapter is with knowledge. Any cigarettes seized or forfeited in connection with a violation of this chapter or Chapter 10 (§ 58.1-1000 *et seq.*) shall be destroyed. Prior to the destruction of cigarettes, the true holder of the applicable trademark rights in the cigarette brand may be permitted to inspect such cigarettes for purposes of assisting law-enforcement in any investigation regarding such cigarettes. All fixtures, equipment, materials, and personal property used to create, sell, purchase, transport, receive, or otherwise possess cigarettes that violate this article shall also be subject to seizure and forfeiture according to the procedures contained in Chapter 22.1 (§ 19.2-386.1 *et seq.*) of Title 19.2, applied *mutatis mutandis*. Enforcement authority for this section shall include the Department of Taxation, any law-enforcement officer of the Commonwealth, and, for seizures relating to violations of Chapter 10.1 (§ 58.1-1031 *et seq.*), those authorities authorized in §§ 2.2-509.1 and 4.1-105.

2. That the provisions of this act may result in a net increase in periods of imprisonment or commitment. Pursuant to § 30-19.1:4, the estimated amount of the necessary appropriation cannot be determined for periods of imprisonment in state adult correctional facilities; therefore, Chapter 890 of the Acts of Assembly of 2011 requires the Virginia Criminal Sentencing Commission to assign a minimum fiscal impact of \$50,000. Pursuant to § 30-19.1:4, the estimated amount of the necessary appropriation cannot be determined for periods of commitment to the custody of the Department of Juvenile Justice.