

Internet Cigarette Sales

Briefing to the Congressional Task Force on Tobacco and Health

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Introduction:

The Internet has become an extremely convenient and competitive source for commercial activity, enabling many companies to advertise, collect payment for and distribute their products in a seamless way. The vast majority of Internet commerce is in compliance with the letter and spirit of local, state and federal regulations. However, sales of tobacco products on the Internet pose a variety of special challenges.

Policy Implications:

As cigarette prices have increased at retail stores, more smokers are now purchasing their cigarettes from the growing number of Websites selling cigarettes online. Policy makers need to address the major challenges posed by the sales of cigarettes on the Internet and determine what current policies and promising new strategies can help counteract these challenges.

There are three major challenges posed by Internet cigarette sales:

- 1. Cheaper cigarette prices offered by Internet vendors generally occur because of tax avoidance, which deprives governments of needed revenue, some of which is earmarked for cancer screening and tobacco control programs. Hundreds of websites advertise are selling cheap and tax-free cigarettes, many from sovereign tribal lands in the U.S. or from overseas duty-free zones.*
- 2. Internet cigarette vendors do a poor job of verifying the age and identity of their customers, which means that minors can readily purchase cigarettes online. Although all U.S. states have laws that ban cigarette sales to minors and cigarette retailers are required to verify the age of their customers, Internet vendors fail to comply with these laws.*
- 3. Smokers in jurisdictions with higher cigarette taxes now have easy access to cheap cigarettes online, which may undermine their resolve to quit or reduce their smoking. Left unchecked, rising Internet cigarette sales have the potential to undermine decades of progress in reducing youth and adult smoking rates achieved by raising cigarette prices.*

Although 33 U.S. states have passed laws regulating Internet and mail order cigarette sales, federal policies are needed to prevent tax evasion and youth access, and to effectively regulate a growing business that occurs across state and country lines. For all Internet, mail-order, and delivery tobacco sales, federal legislation is needed to ensure that appropriate local, state, and federal taxes are collected and customers' ages and identities are verified at both the point of ordering and point of delivery. This legislation

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should include strong federal penalties for noncompliance while permitting state governments to have enforcement authority and the ability to pass stricter laws. The legislation should effectively regulate the sales practices of all Internet cigarette vendors shipping to U.S. customers regardless of their physical location (i.e., vendors located on tribal lands or outside the United States).

Moreover, all Internet and mail-order vendors should be licensed at the federal level by an organization such as the Bureau of Alcohol, Tobacco, Firearms, and Explosives. Vendors that violate youth access and tax laws should be placed on a do-not ship list and delivery services should not be allowed to transport their products.

Research Results:

The evidence for policy changes needed to curb the sale of cigarettes over the Internet comes from various studies conducted by reputable researchers and published in peer-reviewed, scientific journals and other publications. The evidence clearly shows that:

- **In recent years, the number of English-language websites selling cigarettes has grown dramatically, with most selling from domestic tribal lands and countries outside the United States. Many overseas vendors claim to be selling from duty-free zones.**¹
- **Internet vendors sell cigarettes that are cheaper than retail outlets because their cigarettes are sold without the collection of state and/or federal cigarette excise taxes or they are sold from very low-tax jurisdictions.**¹⁻³
- **There are no specific federal laws requiring the collection of taxes from Internet vendors. However, there is a Federal law requiring cigarette vendors selling across state lines to report the transactions to state tax authorities; but this law is widely ignored by Internet vendors.**^{4,5}
- **Some states have passed laws regulating the collection and remittance of excise taxes, requiring customers to pay taxes from cigarettes purchased online, but few customers do so.**^{6,7}
- **Tax evasion from online sales deprives government and public health programs of much needed revenue. Cigarette excise taxes are used to fund government programs, including vital public health programs (e.g., cancer screening, tobacco prevention and control programs).**^{8,9}
- **Smokers living in states and cities with high cigarette excise taxes are more likely to purchase cigarettes online than smokers in low tax jurisdictions.**¹⁰⁻¹⁴
- **Internet cigarette vendors do a poor job of preventing cigarette sales to minors. Most Internet vendors will sell to underage youth buyers without properly verifying their age.**^{6, 15-19}
- **Few youth are currently buying cigarettes online, but as access to cigarettes becomes more restricted at retail stores, more teens may attempt to buy cigarettes online.**²⁰⁻²³

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