

# Policy Brief on: *Internet Cigarette Sales*

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## **Introduction:**

Internet cigarette sales threaten to undermine the nation's efforts to stem tobacco use and decrease its negative impact on public health. Cigarette tax and price increases have effectively reduced cigarette smoking and prevented minors from starting to smoke (U.S. DHHS, 2000; Zaza, 2005). However, a growing number of Internet vendors are selling cigarettes at much lower prices because they do not charge excise taxes. Few Internet cigarette vendors check the age of their customers, making Internet sales an appealing option for underage smokers. Several studies have explored:

- What is the current and potential impact of Internet cigarette sales?
- What regulations exist regarding Internet cigarette sales?
- Are existing regulations complied with and enforced?

Results of these studies can provide guidance to policymakers and others working to maintain and expand the positive impact that increasing cigarette prices has had on decreasing tobacco use and supporting federal and state budgets.

## **Policy Implications:**

Between January 1, 2002 and mid-July 2007, the average state cigarette tax has more than doubled (For up-to-date information on state and local taxes, see [www.tobaccofreekids.org/reports/prices/](http://www.tobaccofreekids.org/reports/prices/)). As cigarette prices have increased at retail stores, more smokers are now purchasing their cigarettes from the growing number of websites selling cigarettes online, circumventing the effective tobacco control policies that policy makers have worked hard to get passed. Policy makers must address the major threats posed by the sales of cigarettes on the Internet and determine what current policies and new strategies can help counteract these threats.

Several conclusions emerge from a review of research on Internet cigarette sales:

(1) Smokers in jurisdictions with higher cigarette excise taxes 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.

(2) Cheaper cigarette prices offered by Internet vendors generally occur because of tax avoidance. Hundreds of websites sell cheap and tax-free cigarettes, many from sovereign tribal lands in the U.S. or from overseas duty-free zones. When taxes are not collected, federal and state governments are deprived of needed revenue, some of which is earmarked for cancer screening and tobacco control programs.

(3) Minors can readily purchase cigarettes online because Internet cigarette vendors rarely verify the age and identity of their customers. 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.

These findings suggest that the Internet is being used as a vehicle to circumvent current tobacco control policies, allowing for tax evasion, youth access, and unrestricted marketing. The findings suggest a clear need for federal policies to prevent tax evasion, limit youth access, restrict marketing, and to effectively regulate a growing business that

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occurs across state and country lines. Although two thirds of U.S. states have passed laws regulating Internet and mail order cigarette sales, federal legislation is needed for all Internet, mail-order, and delivery tobacco sales 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 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.

## Key Results

- In recent years, the number of English-language websites selling cigarettes has grown dramatically. The bulk of the increase comes from a rise in the number of overseas vendors. Most of the domestic sales come from tribal lands or tobacco-producing states.
- Internet vendors sell cigarettes that are cheaper than retail outlets because they do not collect state and/or federal cigarette excise taxes or they are based in very low-tax jurisdictions. Vendors outside the United States and Native American vendors claim special exemption from charging taxes.
- There are no specific federal laws requiring the collection of taxes from Internet vendors. However, an existing federal law requires cigarette vendors selling across state lines to report the transactions to state tax authorities. This law is widely ignored, however, by Internet vendors.
- Some states are beginning to take action. Several have passed laws regulating the collection and remittance of excise taxes, requiring customers to pay taxes from cigarettes purchased online. Others have altogether banned shipping/delivery of cigarettes to consumers, and state Attorneys General have worked to develop promising new strategies to address the threat of Internet cigarette sales.
- Tax evasion from Internet cigarette sales can deprive 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 and tobacco prevention and control programs).
- The availability of lower-cost, tax-free cigarettes online undermines the public health benefit of raising cigarette taxes to curb smoking rates. Smokers living in states and cities with high cigarette excise taxes are more likely to purchase cigarettes online than smokers in low tax jurisdictions.
- Internet cigarette vendors do a poor job of preventing cigarette sales to minors. Most Internet vendors will sell to underage youth without properly verifying their age.
- Although few youth are currently buying cigarettes online, their numbers are rising. As access to cigarettes becomes more restricted at retail stores, more teens may attempt to buy cigarettes online.

Ribisl, K.M, Kim, A.E., and Williams, R.S.; Internet Cigarette Sales Knowledge Asset, Web site created by the Robert Wood Johnson Foundation's Substance Abuse Policy Research Program; October 2007.

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