



NEWS RELEASE

**STATE BOARD
OF EQUALIZATION**

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FOR IMMEDIATE RELEASE

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**TAX RETURNS MAILED TO ONLINE
CIGARETTE AND TOBACCO SHOPPERS**

Online receipts point to \$50 million in uncollected excise, use taxes

The Board of Equalization (BOE) announced today that it began mailing initial tax returns to Californians that may have purchased untaxed cigarettes and tobacco products from online or mail-order merchants outside the state.

When tobacco and cigarettes are sold by licensed retailers, the appropriate state excise and sales taxes are paid. When consumers go online for untaxed products, they inherit a tax liability by purchasing and shipping the merchandise into California.

The first mailing will include approximately 12,000 taxpayers statewide, with tax liabilities ranging from \$45 to \$8,000. The larger tax liabilities are suspected to be unlicensed businesses rather than individual consumers. The BOE estimates the mailings will result in collections of \$50 million over the next two years.

Taxpayers will receive two returns, one for the excise tax on cigarettes and tobacco, the other for “use” tax; a variant of the sales tax that applies to many out-of-state purchases. For taxpayers who receive returns in September, the excise tax portion is due October 25, the use tax portion on October 30. Taxpayers may inquire about arrangements to make installment payments.

The state’s cigarette excise tax is \$.87 per pack, the tobacco excise tax is 46.76 percent of the product’s wholesale price, and the state use tax rate is 7.25 percent. A California consumer who bought eight cigarette cartons online at \$15 a piece (for a total of \$120) will owe \$69.60 in excise tax, and \$8.70 in use tax.

Through a Federal law known as the Jenkins Act, the Board of Equalization obtains invoices from online cigarette and tobacco vendors detailing purchases by California customers. While the reporting has fluctuated over the past few years, the BOE now receives 10,000 invoices each month, and has identified several hundred thousand purchases thus far. New funding in the 2006-2007 State Budget allows the BOE adequate staffing to analyze invoices and contact taxpayers to collect appropriate tax revenues.

The collection of previously unpaid taxes from purchasers of cigarettes over the internet is one of four programs funded in this year’s budget. Retail businesses who have failed to acquire seller’s permits are subject to onsite inspection. The BOE will also be able to better analyze data obtained from U.S. Customs and will be monitoring agricultural stations to detect property brought into California subject to unpaid use tax.

The Board collects almost \$50 billion annually in taxes and fees supporting state and local government services. It also hears business tax appeals, acts as the appellate body for franchise and personal income tax appeals, and plays a significant role in the assessment and administration of property taxes.

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