

**AUDIT REPORT  
OF THE  
NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS**

**JULY 1, 2001 THROUGH JUNE 30, 2002**

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NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

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NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**BACKGROUND**

Every person distributing or selling cigarettes at wholesale in the State of Nebraska is required to pay a special privilege tax to the Nebraska Department of Revenue. This is accomplished by requiring all packages of cigarettes sold within the State to be stamped.

The tax on each package of cigarettes containing not more than twenty cigarettes is thirty-four cents. For each package containing more than twenty cigarettes an additional tax is required. The additional tax is one-twentieth of the tax on the first twenty cigarettes for each cigarette over twenty in the package.

The Department deposits the tax with the State Treasurer, who distributes the proceeds as required by State Statute. The tax was distributed to the following funds during the fiscal year ended June 30, 2002:

- State of Nebraska General Fund
- Nebraska Outdoor Recreation Development Cash Fund
- Department of Health and Human Services Finance and Support Cash Fund
- Building Renewal Allocation Fund
- Nebraska Capital Construction Fund
- Municipal Infrastructure Redevelopment Fund
- Information Technology Infrastructure Fund
- City of the Primary Class Development Fund
- City of the Metropolitan Class Development Fund

# STATE OF NEBRASKA

## AUDITOR OF PUBLIC ACCOUNTS

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P.O. Box 98917  
State Capitol, Suite 2303  
Lincoln, NE 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.state.ne.us](http://www.auditors.state.ne.us)

**Kate Witek**  
State Auditor  
[kwitek@mail.state.ne.us](mailto:kwitek@mail.state.ne.us)

### NEBRASKA DEPARTMENT OF REVENUE CIGARETTE TAX RECEIPTS

#### INDEPENDENT AUDITORS' REPORT

**Deann Haeffner, CPA**  
Deputy State Auditor  
[haeffner@mail.state.ne.us](mailto:haeffner@mail.state.ne.us)

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
[ddunlap@mail.state.ne.us](mailto:ddunlap@mail.state.ne.us)

**Pat Reding, CPA**  
Asst. Deputy Auditor  
[reding@mail.state.ne.us](mailto:reding@mail.state.ne.us)

**Tim Channer, CPA**  
Asst. Deputy Auditor  
[channer@mail.state.ne.us](mailto:channer@mail.state.ne.us)

**Mary Avery**  
SAE/Finance Manager  
[MaryJAvery@aol.com](mailto:MaryJAvery@aol.com)

**Dennis Meyer**  
Budget Coordinator  
[dmeyer@mail.state.ne.us](mailto:dmeyer@mail.state.ne.us)

**Mark Avery, CPA**  
Subdivision Audit  
Review Coordinator  
[mavery@mail.state.ne.us](mailto:mavery@mail.state.ne.us)

**Robert Hotz, JD**  
Legal Counsel  
[robhotz@mail.state.ne.us](mailto:robhotz@mail.state.ne.us)

We have audited the accompanying Schedule of Cigarette Tax Receipts of the Nebraska Department of Revenue as of and for the fiscal year ended June 30, 2002, as listed in the Table of Contents. This schedule is the responsibility of the Department's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, this schedule was prepared on the basis of cash receipts, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the schedule presents only the Nebraska Department of Revenue - Cigarette Tax Receipts, and is not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the schedule referred to above presents fairly, in all material respects, the cigarette tax receipts for the fiscal year ended June 30, 2002, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the Schedule of Cigarette Tax Receipts taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the Schedule of Cigarette Tax Receipts. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the Schedule of Cigarette Tax Receipts and, in our opinion, is fairly stated in all material respects in relation to the Schedule of Cigarette Tax Receipts taken as a whole.

A handwritten signature in dark ink, reading "Timothy J. Channer CPA". The signature is fluid and cursive, with the initials "TJ" being prominent at the start.

Assistant Deputy Auditor

August 5, 2002

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**SCHEDULE OF CIGARETTE TAX RECEIPTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Net Sales Per Month (Note 2)

July 2001	\$	3,724,007
August 2001		3,739,822
September 2001		3,079,850
October 2001		3,629,860
November 2001		3,515,266
December 2001		3,041,451
January 2002		3,388,001
February 2002		2,898,889
March 2002		3,383,138
April 2002		3,807,526
May 2002		3,020,338
June 2002		<u>3,691,191</u>
Net Cigarette Tax Receipts	\$	<u><u>40,919,339</u></u>

See Notes to the Schedule of Cigarette Tax Receipts.

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO SCHEDULE OF CIGARETTE TAX RECEIPTS**

For the Fiscal Year Ended June 30, 2002

**1. Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Revenue - Cigarette Tax Receipts are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** Cigarette tax receipts are a part of the Nebraska Department of Revenue, a State agency established under and governed by the laws of the State of Nebraska. The Nebraska Department of Revenue is part of the primary government for the State of Nebraska's reporting entity. The Schedule includes only the cigarette tax receipts and is not intended to present fairly the receipts of the Nebraska Department of Revenue as a whole.
- B. Measurement Focus, Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Nebraska Department of Revenue's Cigarette Tax Receipts are maintained and were reported on the basis of cash receipts. As such, the measurement focus includes only those cigarette tax receipts arising from cash transactions. Under the cash receipts basis of accounting, revenues are recognized when received. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual.

**2. Sales Discounts Allowed**

Wholesale dealers of cigarettes are allowed a discount of three and four-tenths percent of the face value of the cigarette tax as commission for affixing and canceling such cigarette tax stamps in accordance with Neb. Rev. Stat. Section 77-2608, R.S. Supp., 2000. The total amount of sales discounts for the fiscal year was \$1,440,225.

**3. Refund/Credits**

Refunds and Credits are allowed on the sale of cigarette stamps for the following reasons:

- 1) Refunds are allowed when cigarette tax stamps are returned to the Department of Revenue unused. These stamps will either be reissued to another wholesaler or destroyed.
- 2) Credits are allowed for cigarettes sold to Native American Indians living on American Indian Reservations. These sales are exempt from the cigarette tax.
- 3) Credits are allowed for cigarettes sold to the U.S. Government or its agencies, as these sales are exempt from tax.

The total amount of refunds/credits allowed on the sale of cigarette tax stamps for the fiscal year was \$500,624.

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO SCHEDULE OF CIGARETTE TAX RECEIPTS**

(Continued)

**4. Contingencies**

The potential amount of liability involved in litigation pending against the Nebraska Department of Revenue, if any, could not be determined at this time. However, it is the Nebraska Department of Revenue's opinion that final settlement of those matters should not have an adverse effect on the Nebraska Department of Revenue's ability to administer current programs. Any judgment against the Nebraska Department of Revenue would have to be processed through the State Claims Board and be approved by the Legislature.

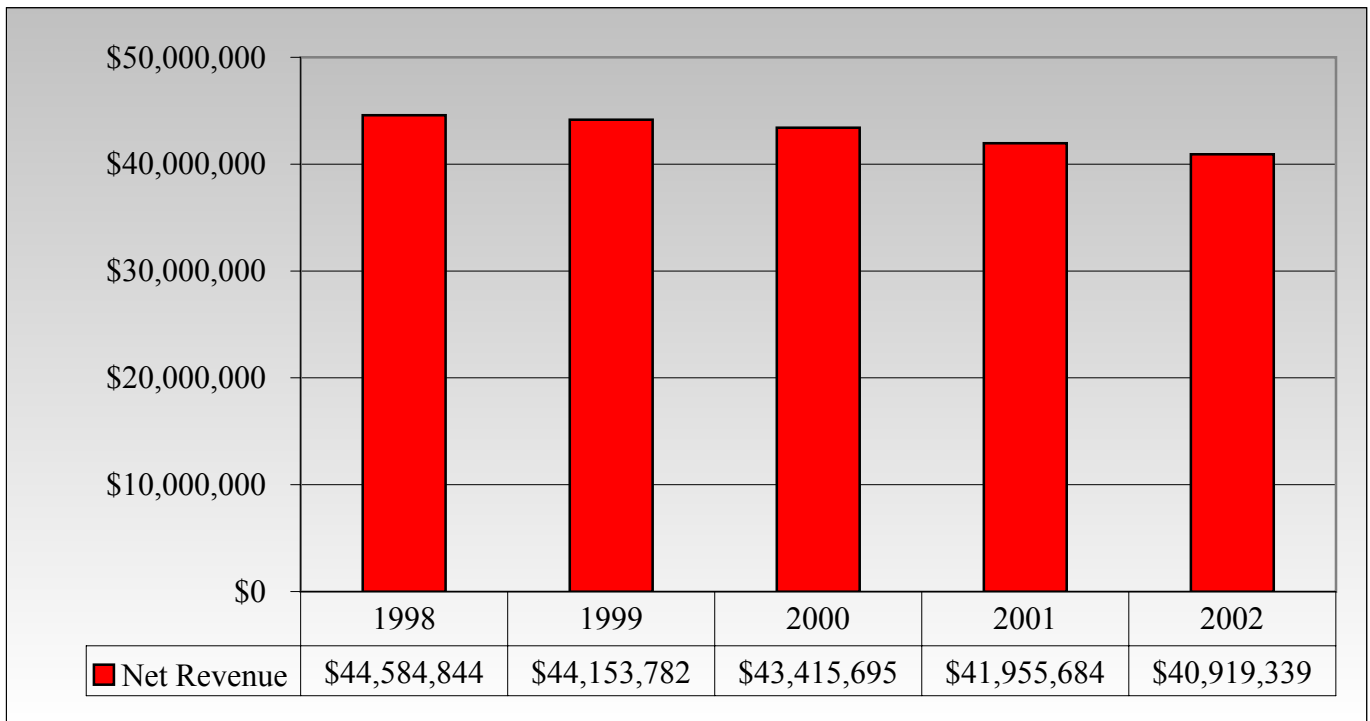
**5. Cigarette Tax Increase**

2002 Neb. Laws LB 1085, Section 1 increased the tax per package from thirty-four cents to sixty-four cents. This increase will become effective on October 1, 2002 and continue until October 1, 2004. The tax rate will return to thirty-four cents per package at that time.



NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**NET REVENUE**  
FISCAL YEARS 1998 THROUGH 2002

	Fiscal Year				
	1998	1999	2000	2001	2002
Tax Rate Per Pack	0.34	0.34	0.34	0.34	0.34
Gross Revenue	\$ 46,154,083	\$ 45,707,849	\$ 44,943,783	\$ 43,432,385	\$ 42,359,564
Less: Wholesaler's Discount (Allowance)	1,569,239	1,554,067	1,528,088	1,476,701	1,440,225
Net Revenue	<u>\$ 44,584,844</u>	<u>\$ 44,153,782</u>	<u>\$ 43,415,695</u>	<u>\$ 41,955,684</u>	<u>\$ 40,919,339</u>



NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**CIGARETTE TAX RATES FOR ALL STATES AS OF JULY 1, 2002**  
**UNAUDITED**

State	Tax Rate		State	Tax Rate	
	(¢ per pack)	Rank		(¢ per pack)	Rank
New Jersey	150	1	Iowa	36	27
New York (1)	150	1	Nevada	35	28
Washington	142.5	3	Nebraska (3)	34	29
Rhode Island	132	4	Florida	33.9	30
Connecticut	111	5	South Dakota	33	31
Alaska	100	6	Arkansas (2)	31.5	32
Hawaii (3)	100	6	Pennsylvania (3)	31	33
Maine	100	6	Idaho	28	34
Maryland	100	6	Delaware	24	35
Illinois (1)	98	10	Louisiana (3)	24	35
Vermont	93	11	Oklahoma	23	37
California	87	12	New Mexico	21	38
Wisconsin	77	13	Colorado	20	39
Massachusetts	76	14	Mississippi	18	40
Michigan	75	15	Montana	18	40
Kansas	70	16	Missouri (1)	17	42
Utah	69.5	17	West Virginia	17	42
Oregon	68	18	Alabama (1)	16.5	44
Dist. Of Columbia	65	19	Tennessee (1) (2)	13	45
Arizona	58	20	Georgia	12	46
Indiana	55.5	21	Wyoming	12	46
Ohio	55	22	South Carolina	7	48
New Hampshire	52	23	North Carolina	5	49
Minnesota	48	24	Kentucky (2)	3	50
North Dakota	44	25	Virginia (1)	2.5	51
Texas	41	26			

Source: Compiled by the Federation of Tax Administrators from various sources.

- (1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL 10¢ to 15¢; MO, 4¢ to 7¢; NYC 8¢; TN, 1¢; and VA, 2¢ to 15¢
- (2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and .05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.
- (3) Several states are scheduled to increase their tax rates further in 2002. HI, another 20¢ on 10/1/02; LA, 12¢ on 8/1/02; NE, 30¢ on 10/1/02; and PA, 69¢ on 7/15/02.