

PERMITTING THE BLENDING AND AGING OF BRANDIES IN BOND

JUNE 30 (legislative day, APRIL 21), 1947.—Ordered to be printed

Mr. MILLIKIN, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 1946]

The Committee on Finance, to whom was referred the bill (H. R. 1946) to amend section 2801 (e) of the Internal Revenue Code, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

By virtue of this action, the committee adopts the Committee on Ways and Means report which follows:

GENERAL STATEMENT

This bill is designed to liberalize existing provisions of the Internal Revenue Code governing the blending of beverage brandies, by permitting them, within certain limits, to be blended and subsequently aged in bonded warehouses prior to payment of production and rectification taxes.

The bill does not affect existing tax rates, except that an additional tax of 30 cents per proof gallon on brandy so mixed or blended is to be paid in lieu of existing rectification taxes. Certain technical amendments required by the extension of existing law to beverage brandies are also incorporated in the bill. These relate to loss allowances and the definition of the term "distiller."

Losses of the blended brandy by leakage, evaporation, theft or otherwise, would be remitted by the Commissioner in the same manner as authorized by existing law for similar losses of "high proof" or fruit spirits used in the production of wine.

The blending privilege authorized by the bill is extended only to the fruit distiller producing the brandy, except that the term "distiller" is defined so as to permit the blending of brandies distilled by members of the same farm cooperative or by members of any other affiliated group, as well as the blending of brandies distilled on contract for the account of the fruit distiller. The bill applies only to mixtures of beverage brandies from the same kind of fruit and does not apply to mixtures of fruit alcohol or "high proof" mixtures which have little or no fruit character.

Fruit for wine or brandy is brought by the growers to the winery or fruit distillery immediately when ripe to prevent its spoilage, and advance selection by the brandy distiller of the exact variety or condition of fruit he wishes for his brandy is not practicable during the short and busy vintage season. As a consequence, the successive distillations vary widely in flavoring characteristics. In foreign

countries that have established a reputation for quality brandies this lack of uniformity in original distillation is compensated for by blending the younger distillates, so as to obtain uniform desired characteristics, and returning the blend to storage for aging. Uniform reserve stocks are thus assured with which to supply any particular kind or quality of brandy to the market.

In this country at the present time, beverage brandies may be blended only after payment of the production taxes imposed under code section 2801 (a) (1) and in a rectifying plant established in accordance with section 2801 (e) (2). In addition, rectification taxes must also be paid after mixing or blending and prior to packaging and removal of the final product from the premises.

It is not economically feasible to age beverage brandies after blending under these conditions, with the result that blended beverage brandies produced under existing law cannot compete favorably with brandies made abroad where aging after blending is the usual practice.

Your committee believes the bill is definitely in the public interest and that the effect upon public revenues will be negligible. The Treasury Department has reported it has no objection to the bill.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, H. R. 1946, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

“INTERNAL REVENUE CODE

“SEC. 2801. RECTIFIED SPIRITS

“(c) RECTIFYING.—

“(1) REGULATIONS.—The business of a rectifier of spirits shall be carried on, and the tax on rectified spirits shall be paid, under such rules, regulations, and bonds as may be prescribed by the Commissioner, with the approval of the Secretary. The Commissioner, with the approval of the Secretary, shall prescribe such regulations under this section and paragraph (5) of section 2800 (a) as he deems necessary.

“(2) PREMISES OF RECTIFIER.—The premises of a rectifier shall be as described in his notice and, whether they consist of an entire building or of rooms in a building, shall have means of ingress from and egress into a public street or yard, or into a public hall or elevator shaft leading into a public street or yard, and shall be used exclusively for the business of rectification and the bottling of liquors rectified by him thereon, and the bottling of wines and spirits without rectification. Any rectifier who uses his rectifying premises contrary to the provisions of this paragraph shall be fined not more than \$50 with respect to each day upon which any such use occurs, but shall not, on account of such use, be subject to the penalties otherwise prescribed in this section.

“(3) FILTERING AND PURIFYING WINES.—The filtering, clarifying, or purifying of wines on bonded winery premises or bonded storeroom premises shall not be deemed to be rectification within the meaning of section 3254 (g).

“(4) VERMOUTH MANUFACTURED WITH FORTIFIED WINES.—The manufacture of vermouth with fortified sweet wine on bonded winery premises shall not be deemed to be rectification within the meaning of section 3254 (g), if distilled spirits other than necessary in the production of approved essences, used in the manufacture of vermouth, whether or not such essences are produced on the bonded winery premises, are not added to the fortified sweet wine used in the manufacture thereof or to such vermouth during or after its manufacture. Such vermouth may be manufactured on bonded winery premises, but only in a separate department thereof having no interior communication with any other department or part of such premises, under such supervision and in accordance with such regulations as the Commissioner, with the approval of the Secretary, shall prescribe.

“(5) BLENDING OF BEVERAGE BRANDIES.—*Fruit brandies distilled from the same kind of fruit at not more than one hundred and seventy degrees proof may, for the sole purpose of perfecting such brandies according to commercial standards, be mixed or blended with each other, or with any such mixture or blend by the distiller thereof in any internal revenue bonded warehouse operated by him exclusively for the storage of brandy or wine spirits, and the provisions of this section and of sections 2800 (a) (5) and 3254 (g) relating to rectification or other internal revenue laws of*

the United States shall not be held to apply to or prohibit such mixing or blending, and brandies so mixed or blended may be packaged, stored, transported, transferred in bond, withdrawn from bond tax-paid or tax-free, or be otherwise disposed of, in the same manner as such brandies not so mixed or blended: Provided, That, in addition to the tax imposed by this chapter on the production of distilled spirits, there shall be paid a tax of 30 cents as to each proof gallon (and a proportionate tax at a like rate on all fractional parts of such proof gallon) of brandy so mixed or blended (except when withdrawn tax-free and accounted for or when lost and allowance is made therefor), such tax to be paid by rectified spirits stamps affixed to the packages at the time of withdrawal. The Commissioner, under rules and regulations to be by him prescribed with the approval of the Secretary, upon the presentation of proof to his satisfaction of the loss by leakage, evaporation, theft, or otherwise of fruit brandies so blended or mixed, not occurring as the result of any negligence, connivance, collusion, or fraud on the part of the warehouseman or his agents, is hereby authorized to remit or refund the taxes assessed or paid upon such lost brandies: Provided, however, That such remission or refund shall be allowed only to the extent that the warehouseman is not indemnified or recompensed for such tax, and that losses of fruit brandies occurring prior to any such mixing or blending shall be allowable in accordance with section 2901. The term 'distiller' as used herein shall include any one or more distillers associated as members of any farm cooperative, or any one or more distillers affiliated within the meaning of section 17 (a) (5) of the Federal Alcohol Administration Act, as amended, or any fruit distiller for whose account, recorded with the district supervisor at the time of production, the brandy to be blended was produced. The Commissioner may, with the approval of the Secretary, make such rules or regulations as he may deem necessary to carry these provisions into effect."

