

## EXEMPTING CERTAIN VOLATILE FRUIT-FLAVOR CONCENTRATES FROM THE TAX ON LIQUORS

---

AUGUST 5 (legislative day, JUNE 2), 1949.—Ordered to be printed

---

GEORGE, from the Committee on Finance, submitted the following

### REPORT

[To accompany H. R. 5831]

The Committee on Finance, to whom was referred the bill (H. R. 5831) to exempt certain volatile fruit-flavor concentrates from the tax on liquors, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

By virtue of this act, the Committee on Finance adopts the report of the Committee on Ways and Means which is as follows:

#### PURPOSE

The purpose of this bill is to exempt the manufacture of volatile fruit-flavor concentrates from the \$9 per gallon tax on distilled spirits. The exemption would only apply if (1) the volatile fruit-flavor concentrates and the mash or juice from which it is produced contains no more alcohol than is reasonably unavoidable, (2) the concentrate is rendered unfit for use as a beverage before removal from the place of manufacture, and (3) the manufacturer keeps such records, renders such reports, files such bonds, and complies with such regulations respecting production, removal, sale, transportation, and use of the concentrate and of the mash or juice as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe as necessary for the protection of the revenue.

A manufacturer who violated the conditions of the exemption would subject himself to the taxes and penalties otherwise applicable under chapter 26 of the Internal Revenue Code in respect of such operations, and any person who sold, transported, or used any volatile fruit-flavor concentrate or the mash or juice from which it is produced in violation of chapter 26 of the Internal Revenue Code, or regulations promulgated thereunder, would subject himself to all the provisions of the chapter pertaining to distilled spirits and wines, including those requiring payment of the tax thereon.

As a result of a series of experiments covering several years, there has been developed by the Agricultural Research Administration of the Department of Agriculture a process for the manufacture of volatile fruit-flavor concentrates, especially apple concentrate, for use in flavoring foods and beverages. The process involves recovery of the volatile flavor from fruits or fruit juices, and the concentration thereof by distillation in the manufacture of these volatile flavor concentrates. It has, however, been found to be impossible, for all practical purposes to limit the alcohol content to a maximum of one-half of 1 percent

## 2 EXEMPT VOLATILE FRUIT-FLAVOR CONCENTRATES FROM TAX

although the presence of alcohol in the concentrated flavor is not deemed necessary nor desirable. Inasmuch therefore, as the distillation process results in the production of a concentrated natural fruit flavor containing one-half of 1 percent or more of alcohol, the producer is classified as a "distiller" and the entire volume of the product is classified as "distilled spirits" taxable at the rate of \$9 per gallon. The imposition of this tax makes the manufacture of the product commercially impracticable, and is preventing the development of a promising new industry.

This proposed legislation has the approval of the Treasury Department, the Department of Agriculture and the Bureau of the Budget.

### 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, as introduced, 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

##### "SUBCHAPTER E OF CHAPTER 26

###### "SEC. 3182. VOLATILE FRUIT-FLAVOR CONCENTRATES.

"(a) *EXEMPTION.*—The provisions of this chapter (other than sections 2810, 2819, and 2823 and other than sections 2827 to 2830, both inclusive) shall not be applicable with respect to the manufacture, by any process which includes evaporations from the mash or juice of any fruit, of any fruit-flavor concentrate if—

"(1) such concentrate, and the mash or juice from which it is produced, contains no more alcohol than is reasonably unavoidable in the manufacture of such concentrate; and

"(2) such concentrate is rendered unfit for beverage purposes before removal from the place of manufacture; and

"(3) the manufacturer thereof keeps such records, renders such reports, files such bonds, and complies with such other rules and regulations with respect to the production, removal, sale, transportation, and use of such concentrate and of the mash or juice from which such concentrate is produced, as the Commissioner, with the approval of the Secretary, may prescribe as necessary for the protection of the revenues imposed by this chapter.

"(b) *CONTROL AFTER TAX-FREE MANUFACTURE.*—If any fruit-flavor concentrate (or any fruit mash or juice from which such concentrate is produced) containing one-half of 1 per centum or more of alcohol by volume, which is manufactured free from tax under the provisions of subsection (a), is sold, transported, or used by any person in violation of the provisions of this chapter or regulations promulgated thereunder, such person and such concentrate, mash, or juice shall be subject to all provisions of this chapter pertaining to distilled spirits and wines, including those requiring the payment of tax thereon; and the person so selling, transporting, or using such concentrate, mash, or juice shall be required to pay such tax."

