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SENATE

} REPORT
No. 1206

ADDITIONAL METHODS OF TRANSFER AND PAYMENT OF TAX, AND LOSS ALLOWANCES, FOR DISTILLED SPIRITS

JANUARY 6 (legislative day, JANUARY 4), 1950.—Ordered to be printed

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

R E P O R T

[To accompany H. R. 5486]

The Committee on Finance to whom was referred the bill (H. R. 5486) to amend certain provisions of the Internal Revenue Code to permit the use of additional means, including stamp machines, for payment of tax on distilled spirits, modify loss allowances for distilled spirits, for the transfer and redistillation of spirits, and for other purposes, 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

This bill proposes to modernize present requirements and procedures for the warehousing and tax payment of domestically distilled spirits by providing for the use of tax-stamp machines and other devices as an alternative method of paying the tax, and it would apply substantially the same principles of taxation for distilled spirits which have been authorized recently by Congress in the case of fermented malt liquors in Public Law 261, Eighty-first Congress.

The bill proposes to collect the tax on the actual quantity only of distilled spirits which are removed from bond at the time of tax payment. Presently, distilled spirits lost while in bond (during storage prior to tax payment) by reason of normal leakage and evaporation are taxable if such losses are in excess of the quantity prescribed in the statutory schedule of allowances, even though the losses did not result from the fault or negligence of the taxpayer.

The bill would also terminate certain wartime legislation enacted for the purpose of enabling the beverage distilling industry to manufacture spirits for munitions and industrial purposes. On the other hand it would make permanent certain other provisions of war emergency legislation which have been found to be desirable and expedient to both industry and the Government. The bill would restore the prewar distinction between the beverage spirits and industrial alcohol industries, but would permit beverage spirits to be warehoused and transferred by methods very similar to those now authorized for industrial alcohol.

GENERAL STATEMENT

The first section of the bill would amend section 2800 (a) (1) of the Internal Revenue Code by the addition of two paragraphs designated "(A)" and "(B)." Paragraph (A) imposes the requirement that the tax upon domestically produced

distilled and rectified spirits shall be paid by stamp in such form as may be prescribed by the Commissioner with the approval of the Secretary. It would make possible the use of stamps imprinted and issued by tax-stamp machines in lieu of the present engraved tax-paid stamps required by law. It also broadens the power of the Commissioner, with the approval of the Secretary, to prescribe procedures relating to methods of gauging and asserting the tax upon such spirits and the use of tanks and other devices in connection therewith. The broadening of the Commissioner's powers in this respect is deemed desirable by your committee in order that the routine procedures relating to the collection of tax upon distilled spirits may be conformed to more modern methods of operations. Paragraph (B) would provide for the imposition of penalties, including forfeitures, designed to prevent fraud in connection with the manufacture or use of tax-stamp machines or the forging, altering, or counterfeiting of tax stamps.

Section 2 would amend section 2877 (a) of the Internal Revenue Code by broadening its provisions to require the storekeeper-gauger assigned to a distillery, in addition to his other duties, to keep such records and submit such reports as the Commissioner, with the approval of the Secretary, shall prescribe. The section now merely requires the storekeeper-gauger, in respect of record keeping, to keep records of the receipt and use of distilling materials and of the spirits withdrawn from receiving cisterns.

Section 3 would amend section 2901 of the Internal Revenue Code which deals with loss allowances. Subsection (a) would prohibit collection of the tax in respect of distilled spirits lost or destroyed while in bond, but would require the tax to be collected (1) on such spirits as are lost by theft unless the Commissioner shall find that the theft occurred without connivance, collusion, fraud, or negligence on the part of the distiller, warehouseman, owner, or his agents, or employees, and (2) on such spirits as are voluntarily destroyed unless the spirits are unfit for use for beverage purposes and the Commissioner has given his written permission for such destruction. Subsection (b) would provide that in any case in which spirits are lost or destroyed the Commissioner may require the person responsible for the tax to file a claim for relief from the tax and submit proof as to the cause of loss. In every case where it appears that the loss is by theft, the burden would be upon the person responsible for the tax to establish to the satisfaction of the Commissioner that such loss did not occur as the result of connivance, collusion, fraud, or negligence on the part of the person responsible for the tax or his agents or employees. Subsection (c) would provide for the refund of the tax when, in any case in which it is not collectible by virtue of subsection (a), it is paid subsequent to the loss of the spirits. Subsection (c) would further provide that no refund of tax will be made where the loss occurred after the tax has been paid. Subsection (d), which is substantially identical to subsection (d) of existing law, would authorize abatement or refund of taxes provided for by subsections (a) and (c) only to the extent that the claimant is not indemnified against or recompensed for the loss. Subsection (e) is identical to subsection (e) of existing law.

Subsection (a) of section 2901, as it stands at present, provides for the allowance of all losses of spirits normally occurring by leakage and evaporation from packages during storage in bond without the fault or negligence of the distiller or warehouseman. The maximum allowances which may be given thereunder are specifically defined therein. Subsection (b) of existing law provides for the abatement of tax on practically all losses of distilled spirits during storage or transfer in bond which occur from causes other than leakage or evaporation, including theft, where the losses do not occur as the result of connivance, collusion, fraud, or negligence on the part of the person responsible for the tax, or his agents or employees. Subsection (c) of existing law lacks the forcefulness and clarity of the proposed new subsection (c) in that the existing law provides that the Commissioner may refund such tax in the cases to which existing subsection (a) or (b) applies when the tax is paid subsequent to the loss or destruction of the spirits, and includes no specific provision that refunds of tax are not authorized where losses of spirits have occurred after the tax has been paid.

The purpose of the proposed amendment is to secure relief from tax on all distilled spirits lost or destroyed in bond without the necessity of filing a claim, except that the Commissioner may require the filing of claims and satisfactory proof to establish that losses of distilled spirits have not been due to theft, unauthorized destruction, or other questionable causes.

Section 4 would expressly make existing section 2901 applicable in respect to claims for taxes or tax penalties that accrued on or before the effective date of the proposed amendment.

Section 5 would amend section 2903 (a) of the Internal Revenue Code by eliminating the provisions for the bottling of distilled spirits in bond after tax payment. This section also eliminates certain specific procedural requirements of existing section 2903 (a) and broadens the powers of the Commissioner, with the approval of the Secretary, to prescribe routine procedures. The proposed amendment is designed to conform the section to the proposed amendment of section 2901, relating to loss allowances, by eliminating tax liability upon losses incurred during bottling, inasmuch as it provides for the payment of tax upon the actual quantity of such distilled spirits as they are withdrawn from bond.

Section 6 would make technical amendments to various sections of the Internal Revenue Code by striking out parts thereof which conflict with the amendments proposed by this bill, rearranging the remaining parts in proper alphabetical and numerical sequence, and by eliminating words such as "wine gallons" which would lose their significance with respect to the keeping of records and reports.

Section 7 would repeal section 2906 and 3302 of the Internal Revenue Code and all other laws or parts of laws which are contrary to the purpose contemplated in the proposed amendments. Section 2906 now requires that the tax shall be paid on losses incurred during bottling of distilled spirits bottled in bond for export, which requirement is in conflict with the purpose contemplated in the proposed amendment of section 2901. Section 3302 requires that the stamps, or device, or instrument, or means of removal or obliteration of such stamps, shall entail no additional expense upon the persons required to affix or use same, and is in conflict with the purpose contemplated in the proposed amendment of section 2800 (a) (1) of requiring taxpayers installing tax-stamp machines to bear the expense incidental to such method of tax payment.

Section 8 would amend section 3112 (b) of the Internal Revenue Code by extending the provisions of section 2800 (a) (1) (A) and (B) to alcohol produced in the United States or imported in accordance with the provisions of section 3125 of the Internal Revenue Code, insofar as they relate to the tax payment of distilled spirits by stamp and to the penalty and forfeiture provisions applicable to the violations set forth therein.

Section 9 would provide legislation of a permanent nature to supersede existing provisions of section 2883 of the Internal Revenue Code which include a number of temporary war emergency provisions. It would continue certain of the privileges granted beverage distillers under the temporary existing law, but would deny other such privileges. Subsection (a) of the existing law is of a permanent nature, while subsections (c), (d), and (e) thereof contain the temporary war emergency provisions.

The proposed subsection (a) to section 2883 would permit spirits of 160 degrees of proof or more (high-proof spirits) to be transferred by pipe line from the distillery receiving cisterns, without reduction in proof, direct to storage tanks in an internal revenue bonded warehouse located on or contiguous to the distillery premises. The amendment would also permit such high-proof spirits to be withdrawn from distillery receiving cisterns, without or after reduction in proof, into approved containers and transferred to any internal revenue bonded warehouse for storage therein or to be tax-paid in approved containers in the distillery cistern room. Spirits of 160 degrees of proof or more would be permitted to be transferred in bond in tank cars from the distillery receiving cisterns or from warehouse storage tanks and deposited in storage tanks in any internal revenue bonded warehouse. The amendment would permit the packaging of spirits from warehouse storage tanks, and in the case of such spirits which had been distilled at or above 190 degrees of proof, would permit of their reduction to not less than 111 degrees of proof prior to being drawn into packages. The amendment would provide that the spirits, upon tax payment, may be withdrawn in approved containers, including pipe lines, to contiguous premises for use for beverage purposes only. Except as provided in proposed subsection (c) as to rum, and section 2916, as to distillates containing aldehydes or fusel oil, such spirits may not be withdrawn for denaturation.

Existing section 2883 (a) established a division between the industrial alcohol industry and the beverage distilling industry. In order to permit distillers to produce spirits for blending purposes without at the same time authorizing them to produce spirits which might be used competitively in the industrial alcohol market, it was provided that high-proof spirits produced at registered distilleries could be removed from distillery receiving cisterns only after reduction to less than 160 degree proof. Such spirits may be drawn from cistern rooms into approved containers (including tank cars and pipe lines) and transferred to any internal revenue bonded warehouse for storage. Such spirits may be tax-paid for

beverage purposes only. Such spirits may not, however, be transferred from cistern rooms to containers such as tank cars and subsequently deposited in internal revenue bonded warehouse storage tanks. Furthermore, such spirits in a warehouse storage tank may not be transferred upon tax payment by pipe line to contiguous premises. Your committee believes that these present provisions are unnecessarily restrictive and do not permit the efficient utilization of either the proprietor's facilities or supervisory Government personnel.

Subsection (b) of the amendment continues the authority now contained in existing subsection (a) for the transfer of fortifying spirits by pipe line from registered fruit distilleries to storage tanks in the internal revenue bonded warehouse located on the distillery premises and from such storage tanks to the fortifying rooms of contiguous wineries. The amendment would eliminate the maximum limitation contained in the existing law of 192 degrees proof on spirits eligible for transfer by pipe line for the fortification of wine, and would expressly authorize the transfer of such fortifying spirits from the fruit distillery by pipe line direct to the fortifying rooms of contiguous wineries. The maximum limitation prescribed by the existing law on the proof of fortifying spirits transferred by pipe line from the distillery serves no useful purpose, and the transfer of fortifying spirits by pipe line direct from fruit distilleries to fortifying premises of contiguous wineries is now authorized by regulations prescribed pursuant to sections 2825 and 3033 of the Internal Revenue Code.

Subsection (c) of the amendment proposed by the bill merely provides express statutory authority for such transfer of rum for denaturation as is now authorized by regulations prescribed pursuant to section 3070 of the Internal Revenue Code.

Subsection (d) provides that gin of any proof may be transferred in bond by pipe line from receiving cisterns in distilleries direct to storage tanks in an internal revenue bonded warehouse located on the bonded premises where produced or contiguous thereto. It also provides that gin may, upon tax payment, be transferred by pipe line from such storage tanks to a contiguous tax-paid bottling house or rectifying plant.

Unlike other beverage distilled spirits gin does not require aging in wooden casks or packages to perfect its quality for marketing. It is suitable for marketing without any appreciable period of aging. Your committee believes that it is proper to draw a distinction between the warehousing of gin of less than 160 degrees of proof in storage tanks in a bonded warehouse located on or contiguous to the distillery premises and the warehousing of other distilled spirits of similar proof in such storage tanks. If gin produced at a proof of less than 160 degrees were permitted to be transferred by pipe line into storage tanks in an internal revenue bonded warehouse located on or contiguous to the distillery premises and later, upon tax payment, transferred by pipe line to proper contiguous premises, a saving of time and money to both the industry and the Government would result.

Subsection (e) of the amendment makes provision for the transfer of spirits for redistillation. The subsection would provide for the transfer of spirits of any proof from a distillery or internal revenue bonded warehouse to any distillery for redistillation upon a showing of need therefor. It would only authorize spirits of 160 degrees of proof or more to be transferred by pipe line from warehouse storage tanks to a distillery for redistillation, but would permit spirits of any proof to be transferred by pipe line from distillery receiving cisterns to a contiguous distillery for redistillation. The amendment would relieve the producing distiller or internal revenue bonded warehouseman from liability for the tax, and the producing distiller from the lien on his premises, upon the transfer of the spirits for redistillation, and would require that the tax and liens become the liability of the consignee distiller. The amendment would also require the transferred spirits to be treated upon redistillation as if originally produced by the distiller, and would expressly provide that sections 2800 (a) (5) and 3250 (f) (1), which relate to the rectification of spirits, shall not apply to the redistillation of spirits removed under the provisions of this subsection.

The temporary war emergency amendments of section 2883 conferred broad authority for the transfer for redistillation of spirits produced at registered distilleries. Under sections 2883 (c), (d), and (e) of the Internal Revenue Code authority was granted for the transfer of unfinished spirits for redistillation from registered distilleries or internal revenue bonded warehouses to other internal revenue bonded warehouses, registered distilleries, industrial alcohol bonded warehouses or industrial alcohol plants, and also provided for the removal of any spirits of 160 degrees or more of proof for all of the tax-free purposes authorized

by part II of subchapter C of chapter 26 of the Internal Revenue Code. These amendments were designed to make the production of the beverage-distilling industry available for the manufacture of munitions and for other war purposes. It is now proposed to terminate the temporary war-emergency amendments and to replace them with permanent legislation maintaining the distinction between beverage distilleries and industrial alcohol plants.

Prior to the war there was little need to redistill spirits and your committee believes that there will be little actual need for that privilege in the future under normal conditions. It is understood, however, that beverage distillers do have need occasionally to redistill spirits. The distiller may desire to remove from an internal revenue bonded warehouse to a distillery for redistillation a lot of spirits requiring reconditioning. The distiller may also, for instance, have need to remove from a distillery equipped to produce only low-proof spirits a lot of such spirits to another distillery for redistillation at a higher proof. The provision of the amendment requiring a showing of need before spirits may be transferred for redistillation would enable the Commissioner to maintain control of transfers for such purpose. The restriction on the proof of spirits to be transferred by pipe line from warehouse storage tanks to the distillery for redistillation is intended to authorize only such spirits as are permitted to be warehoused in storage tanks to be so transferred.

Subsection (f) would authorize the Commissioner, with the approval of the Secretary, to prescribe all necessary regulations relating to the operations authorized by the proposed amendment.

Subsection (g) would provide that the proposed provisions of section 2883 shall not be construed so as to restrict or limit other sections of the internal-revenue laws relating to internal revenue bonded warehouses, distilleries, and bonded wineries.

Subsection (h) is identical to subsection (b) of section 2883 as it stands at present.

Section 10 would provide that the amendments would become effective on the first day of the first month which begins 6 months or more after the date of enactment of the proposed amendments. It is understood that at least 6 months between the passage and the effective date of the amendments would be necessary to give the Treasury Department time to publish, circulate, and adopt regulations required to carry out the provisions of the proposed amendments.

The enactment of this legislation would result in loss of the tax now collected on losses of distilled spirits by leakage or evaporation (1) from packages in warehouse in excess of the graduated scale of allowances now provided by section 2901 (a), and (2) from warehouse storage tanks or packages filled therefrom (except losses of fortifying spirits or of spirits removed for redistillation). There are no statistics available on such taxable losses, as most of them are included as a part of the taxable contents when packages are withdrawn. It is not practicable, under the circumstances, to estimate the loss of revenue which would result from enactment of the legislation, but it is believed that the loss would be small. In any event your committee does not believe that it is equitable for the Government to collect the tax on spirits lost while in bond, if the loss occurs without the fault or negligence of the taxpayer and under circumstances over which he has no control.

It is estimated that the adoption of a metered stamp system for taxpaying distilled spirits, as provided for in the amendment of section 2800 (a) (1) (A), would result in a decrease in the cost of administering the stamp system of approximately \$92,000 for the first year and \$127,000 annually thereafter. The difference between the savings for the first year and for succeeding years represents the initial cost of mechanical apparatus which it would be necessary to install in offices of collectors of internal revenue. In addition to the decrease in the cost of administering the stamp system if a metered system were adopted, it is believed that enactment of the bill would ultimately result in a not inconsequential reduction in personnel performing gaging and other services related to the collection of the distilled-spirits tax.

Enactment of this legislation would also be of benefit to taxpayers since it would facilitate the handling of spirits, the determination of taxable quantities of distilled spirits and the payment of tax thereon.

The Treasury Department approves of this legislation.

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

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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. 2800. TAX.

(a) RATE.—

(1) **DISTILLED SPIRITS GENERALLY.**—There shall be levied and collected on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of \$6 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon, to be paid by the distiller or importer when withdrawn from bond.

(A) Payment of Tax as to Domestic Spirits.—*The tax on distilled spirits produced in the United States, to be paid upon withdrawal from bond, and the tax on rectified spirits produced in the United States, shall be paid by stamp, under such rules and regulations, permits, bonds, records, and returns, and with the use of such tax-stamp machines or other devices and apparatus, including but not limited to storage, gaging, and bottling tanks and pipe lines, as the Commissioner with the approval of the Secretary shall prescribe.*

(B) Penalties.—*Whoever manufactures, procures, possesses, uses, or tampers with a tax-stamp machine which may be required under this section with intent to evade the internal-revenue tax imposed upon distilled spirits and rectified spirits, and whoever, with intent to defraud, makes, alters, simulates, or counterfeits any stamp of the character imprinted by such stamp machines, or who procures, possesses, uses, or sells any forged, altered, counterfeited, or simulated tax stamp, or any plate, die, or device intended for use in forging, altering, counterfeiting, or simulating any such stamps, or who otherwise violates the provisions of this section, or the regulations issued pursuant thereto, shall pay a penalty of \$5,000 and shall be fined not more than \$10,000 or be imprisoned not more than five years, or both, and any machine, device, equipment, or materials used in violation of this section shall be forfeited to the United States and after condemnation shall be destroyed. But this provision shall not exclude any other penalty or forfeiture provided by law.*

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SEC. 2877. STOREKEEPER-GAUGER'S RECORDS.

(a) **REQUIREMENT.**—The storekeeper-gauger assigned to any distillery shall, in addition to all other duties required to be performed by him, keep such records [of the receipt and use of substances brought into said distillery, or on said premises, to be used for the purpose of producing spirits, and of all spirits drawn off from the receiving cistern, and the time when the same were drawn off, in such form] and submit such reports as the Commissioner, with the approval of the Secretary, shall, by regulations, prescribe.

* * * * *
SEC. 2901. LOSS ALLOWANCES.

[(a) **LEAKAGE OR EVAPORATION.**—Any distilled spirits on deposit in any internal revenue bonded warehouse on the date this amendatory subsection takes effect, or thereafter deposited in any internal revenue bonded warehouse, may, at the time of withdrawal of the spirits from such warehouse, upon the filing of an application for the regauge of such spirits, giving a description of the package containing the spirits, be regauged by a storekeeper-gauger who shall place upon each such package such marks and brands as the Commissioner, with the approval of the Secretary, shall by regulations prescribe. If upon such regauging it shall appear that there has been a loss by leakage or evaporation of distilled spirits from any cask or package, without the fault or negligence of the distiller or warehouseman, taxes shall be collected only on the quantity of distilled spirits contained in such cask or package at the time of such withdrawal. The allowance which shall be made for such loss of spirits shall not exceed—

- 1½ proof-gallon for 2 months or part thereof;
- 2½ gallons for more than 2 months and not more than 4 months;
- 3 gallons for more than 4 months and not more than 6 months;
- 3½ gallons for more than 6 months and not more than 8 months;
- 4 gallons for more than 8 months and not more than 10 months;
- 4½ gallons for more than 10 months and not more than 12 months;

- 5 gallons for more than 12 months and not more than 14 months;
- 5½ gallons for more than 14 months and not more than 16 months;
- 6 gallons for more than 16 months and not more than 18 months;
- 6½ gallons for more than 18 months and not more than 21 months.
- 7 gallons for more than 21 months and not more than 24 months;
- 7½ gallons for more than 24 months and not more than 27 months;
- 8 gallons for more than 27 months and not more than 30 months;
- 8½ gallons for more than 30 months and not more than 33 months;
- 9 gallons for more than 33 months and not more than 36 months;
- 9½ gallons for more than 36 months and not more than 39 months;
- 10 gallons for more than 39 months and not more than 42 months;
- 10½ gallons for more than 42 months and not more than 45 months;
- 11 gallons for more than 45 months and not more than 48 months;
- 11½ gallons for more than 48 months and not more than 51 months;
- 12 gallons for more than 51 months and not more than 54 months;
- 12½ gallons for more than 54 months and not more than 57 months;
- 13 gallons for more than 57 months and not more than 60 months;
- 13½ gallons for more than 60 months and not more than 63 months;
- 14 gallons for more than 63 months and not more than 66 months;
- 14½ gallons for more than 66 months and not more than 69 months;
- 15 gallons for more than 69 months and not more than 72 months;
- 15½ gallons for more than 72 months and not more than 75 months;
- 16 gallons for more than 75 months and not more than 78 months;
- 16½ gallons for more than 78 months and not more than 81 months;
- 17 gallons for more than 81 months and not more than 84 months;
- 17½ gallons for more than 84 months and not more than 90 months;
- 18 gallons for more than 90 months from the date of original gauge as to

fruit brandy, or original entry as to all other spirits; and no further allowances shall be made for loss by leakage or evaporation.

【The foregoing allowance shall not apply to distilled spirits which on July 26, 1936, were eight years of age, or older, and which on that date were in bonded warehouses.

【The foregoing allowance for loss shall apply only to casks or packages of a capacity of forty or more wine-gallons, and the allowance for loss on casks or packages of less capacity than forty gallons shall not exceed one-half the amount allowed on said forty-gallon cask or package; but no allowance shall be made on casks or packages of less capacity than twenty gallons. The proof of such distilled spirits shall not in any case be computed at the time of withdrawal at less than 100 per centum.

【(b) Loss.—The Commissioner of Internal Revenue may, under regulations to be prescribed by him and approved by the Secretary of the Treasury, abate any internal-revenue taxes accruing on distilled spirits if he shall find that—

¶(1) The distilled spirits were not stolen or intentionally destroyed but were lost, otherwise than by leakage or evaporation, while on the premises of a registered distillery, during or after production and prior to deposit in an internal revenue bonded warehouse.

¶(2) The distilled spirits were not stolen or intentionally destroyed but were lost, otherwise than by leakage or evaporation, while being transferred between buildings constituting the same internal revenue bonded warehouse or while being transferred by a common carrier from the premises of a registered distillery to an internal revenue bonded warehouse off such registered distillery premises, or while being transferred by a common carrier between internal revenue bonded warehouses.

¶(3) The distilled spirits were not stolen or intentionally destroyed but were lost, otherwise than by leakage or evaporation, while the same remained in an internal revenue bonded warehouse and such loss is not allowable under subsection (a) hereof.

¶(4) The distilled spirits were withdrawn for use in the fortification of sweet wines and were not stolen or intentionally destroyed but were lost, otherwise than by leakage or evaporation, prior to such use while being transferred to, or while stored in, the fortifying room on the bonded winery premises.

¶(5) The distilled spirits were lost by theft from the premises of a registered distillery, or while being transferred between buildings, constituting the same internal revenue bonded warehouse, or while being transferred by common carrier to an internal revenue bonded warehouse off such registered distil-

lery premises, or while being transferred by a common carrier between internal revenue bonded warehouses, and that such loss did not occur as the result of connivance, collusion, fraud, or negligence on the part of the distiller, owner, consignor, consignee, bailee, or carrier, or the employees of any of them.

[(6) The distilled spirits were lost by theft from an internal revenue bonded warehouse, and that such loss did not occur as the result of connivance, collusion, fraud, or negligence on the part of the distiller, owner, or warehouseman, or the employees of any of them.

[(7) The distilled spirits were withdrawn for use in the fortification of sweet wines and were lost by theft prior to such use while being transferred to, or while stored in, the fortifying room on the bonded winery premises, and that such loss did not occur as the result of connivance, collusion, fraud, or negligence on the part of the distiller, owner, consignor, consignee, bailee, or carrier, or the employees of any of them.

[(8) The distilled spirits were unfit for use for beverage purposes and were voluntarily destroyed by the distiller, the warehouseman, or the proprietor of the bonded winery premises, pursuant to the written permission of the Commissioner in each case and under regulations which the Commissioner, with the approval of the Secretary, is hereby authorized to promulgate.

[(c) REFUND OF TAX.—When, in any case to which subsection (a) or (b) applies, the tax is paid subsequent to the loss or destruction, as the case may be, of the spirits, the Commissioner may, under regulations prescribed by him with the approval of the Secretary, refund such tax

[(d) INSURANCE COVERAGE.—The abatement or refund of taxes provided for by subsections (b) and (c) shall only be allowed to the extent that the claimant is not indemnified against or recompensed for such loss.]

(a) *EXTENT.*—No tax shall be collected in respect of distilled spirits lost or destroyed while in bond, except that such tax shall be collected—

(1) *THEFT.*—In the case of loss by theft unless the Commissioner shall find that the theft occurred without connivance, collusion, fraud, or negligence on the part of the distiller, warehouseman, owner, consignor, consignee, bailee, or carrier, or the employees of any of them, and

(2) *VOLUNTARY DESTRUCTION.*—In the case of voluntary destruction unless the distilled spirits were unfit for use for beverage purposes and the distiller, warehouseman, or other person responsible for the tax, obtained the written permission of the Commissioner for such destruction in each case.

(b) *PROOF OF LOSS.*—In any case in which spirits are lost or destroyed, whether by theft or otherwise, the Commissioner may require the distiller or warehouseman or other person responsible for the tax to file a claim for relief from the tax and submit proof as to the cause of such loss. In every case where it appears that the loss was by theft, the burden shall be upon the distiller or warehouseman or other person responsible for the tax to establish to the satisfaction of the Commissioner that such loss did not occur as the result of connivance, collusion, fraud, or negligence on the part of the distiller, warehouseman, owner, consignor, consignee, bailee, or carrier or the employees of any of them.

(c) *REFUND OF TAX.*—When, in any case where the tax would not be collectible by virtue of subsection (a), but such tax has been paid, the Commissioner shall refund such tax. Nothing in section 2901 as hereby amended, or as heretofore amended shall be construed to authorize refund of the tax where the loss occurred after the tax was paid.

(d) *INSURANCE COVERAGE.*—The abatement or refund of taxes provided for by subsections (a) and (c) in the case of loss of distilled spirits by theft shall only be allowed to the extent that the claimant is not indemnified against or recompensed for such loss.

(e) *TRANSFER OF DUTIES.*—For transfer of powers and duties of Commissioner and his agents see section 3170.

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SEC. 2903. BOTTLING OF DISTILLED SPIRITS IN BOND.

(a) *REQUIREMENTS.*—Whenever any distilled spirits deposited in the internal revenue bonded warehouse have been duly entered for [withdrawal, before or after tax-payment, or for export in bond, and have been duly gauged and the required marks, brands, and tax-paid stamps (if required) or export stamps, as the case may be, have been affixed to the package or packages containing the same, the distiller or owner of said distilled spirits, if he has declared his purpose so to do in the entry for withdrawal, which entry for bottling purposes may be made by the owner as well as the distiller, may remove such spirits to a separate portion of said warehouse which shall be set apart and used exclusively for that

purpose, and there, under the supervision of a United States storekeeper-gauger in charge of such warehouse, may immediately draw off such spirits, bottle, pack, and case the same] *withdrawal for bottling in bond before tax-payment or for export in bond, such spirits shall be dumped, gaged, bottled, packed, and cased in the manner which the Commissioner, with the approval of the Secretary, shall by regulations prescribe. The bottling of distilled spirits in bond shall be conducted in a separate portion of such warehouse which shall be set apart and used exclusively for that purpose.* For convenience in such process any number of packages of spirits of the same kind, differing only in proof, but produced at the same distillery by the same distiller, may be mingled together in a cistern provided for that purpose, but nothing herein shall authorize or permit any mingling of different products, or of the same products of different distilling seasons, or the addition or subtraction of any substance or material or the application of any method or process to alter or change in any way the original condition or character of the product except as herein [authorized; nor shall there be at the same time in the bottling room of any internal revenue bonded warehouse any spirits entered for withdrawal upon payment of the tax and any spirits entered for export.] *authorized. The tax on the distilled spirits bottled in bond shall be paid upon the actual quantity of spirits withdrawn from bond except as otherwise provided in section 2901 of the Internal Revenue Code.*

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SEC. 2844. MONTHLY PRODUCTION RETURN OF DISTILLER.

(a) **REQUIREMENT.**—On the 1st day of each month, or within five days thereafter, every distiller shall render to the collector of the district an account in duplicate, taken from his books, stating the quantity and kind of materials used for the production of spirits each day, and the number [of wine gallons and] of proof gallons of spirits produced and placed in warehouse. And the distiller or the principal manager of the distillery shall make and subscribe the following oath, to be attached to said return.

"I, _____, distiller (or principal manager, as the case may be) of the distillery at _____, do solemnly swear that, since the date of the last return of the business of said distillery, dated _____ day of _____ to _____ day of _____, both inclusive, there was produced in said distillery, and withdrawn and placed in warehouse, the number [of wine gallons and proof gallons of spirits; and there were actually masked and used in said distillery, and consumed in the production of spirits therein, the several quantities of grain, sugar, molasses, and other materials respectively hereinbefore specified, and no more."

One of the said duplicate returns shall be transmitted by the collector to the Commissioner

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SEC. 2852. ENTRY FOR WITHDRAWAL FROM WAREHOUSE.

a) **AUTHORIZATION** —Any distilled spirits may, on payment of the tax thereon, be withdrawn from warehouse on application to the collector of the district in charge of such warehouse, on making a withdrawal entry in duplicate and in the following form:

ENTRY FOR WITHDRAWAL OF DISTILLED SPIRITS FROM WAREHOUSE TAX PAID

Entry of distilled spirits to be withdrawn, on payment of the tax, from internal revenue bonded warehouse number _____, situated in the _____ district of _____, by _____, deposited on the _____ day of _____, Anno Domini _____, by _____, in said warehouse.

And the entry shall specify the whole number of casks or packages, with the marks and serial numbers thereon, the number [of gauge or wine gallons, and] of proof gallons and taxable gallons, and the amount of the tax on the distilled spirits contained in them at the time they were deposited in the internal revenue bonded warehouse; and said entry shall also specify the number [of gauge or wine gallons and] of proof gallons, and taxable gallons contained in said casks or packages at the time application shall be made for the withdrawal thereof and on payment of the tax the collector shall issue his order to the storekeeper-gauger in charge of the warehouse for the delivery. One of said entries shall be filed in the office of the collector, and the other transmitted by him to the Commissioner

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SEC. 2857. DRAWBACK ON SPIRITS

Distilled spirits upon which all taxes have been paid may be exported, with the privilege of drawback, and in distillers' original casks or packages, containing not

less than twenty wine gallons each, on application of the owner thereof to the collector of customs at any port of entry, and under such rules and regulations, and after making such entry as may be prescribed by law and by the Secretary. The entry for such exportation shall be in triplicate, and shall contain the name of the person applying to export, the name of the distiller, the name of the district in which the spirits were distilled, the name of the vessel by which, and the name of the port to which, they are to be exported; and the form of the entry shall be as follows:

EXPORT ENTRY OF DISTILLED SPIRITS ENTITLED TO DRAWBACK

Entry of spirits distilled by _____, in _____ district, State of _____, to be exported by _____, in the _____, whereof _____ is master, bound to _____,

And the entry shall specify the whole number of casks or packages, the marks and serial numbers thereon, the quality or kind of spirits as known in commerce, the number [of gauge or wine gallons and] of proof gallons; and the amount of the tax on such spirits shall be verified by the oath of the owner of the spirits, and that the tax has been paid thereon, and that they are truly intended to be exported to the port of _____, and not to be relanded within the limits of the United States. One bill of lading, duly signed by the master of the vessel, shall be deposited with said collector, to be filed at his office with the entry retained by him. One of said entries shall be, when the shipment is completed, transmitted to the Secretary, to be recorded and filed in his office. The lading on board said vessel shall be only after the receipt of an order or permit signed by the collector of customs and directed to a customs gauger, and after each cask or package shall have been distinctly marked or branded by said gauger as follows: "For export from U. S. A.," and the tax-paid stamps thereon obliterated. The casks or packages shall be inspected and gauged alongside of or on the vessel by the gauger designated by said collector, under such rules and regulations as the Secretary may prescribe; and on application of the said collector it shall be the duty of the surveyor of the port to designate and direct one of the customhouse inspectors to superintend such shipment. And the gauger aforesaid shall make a full return of such inspection and gauging in such form as may be prescribed by the Secretary, showing by whom each cask of such spirits was distilled, the serial number of the cask, and of the tax-paid stamp attached thereto, the proof and quantity of such spirits as per the original gauge-mark on each cask, and the quantity in proof [and wine] gallons as per the gauge then made by him. And said gauger shall certify on such return that the shipment has been made, in his presence, on board the vessel named in the entry for export, which return shall be indorsed by said customhouse inspector certifying that the casks or packages have been shipped under his supervision on board said vessel, and the tax-paid stamps obliterated; and the said inspector shall make a similar certificate to the surveyor of the port, indorsed on or to be attached to the entry in possession of the customhouse.

A drawback shall be allowed upon distilled spirits on which the tax has been paid and exported to foreign countries, under the provisions of this section, when exported as herein provided for. The drawback allowed shall include the taxes levied and paid upon the distilled spirits exported, and the rate of drawback shall be equal to the rate of the internal tax paid in respect of the distilled spirits exported, as per last gauge of said spirits prior to exportation, and shall be due and payable only after the proper entries have been made and filed and all other conditions complied with as hereinbefore required, and on filing with the Secretary the proper claim, accompanied by the certificate of the collector of customs at the port of entry where the spirits are entered for export that such spirits have been received into his custody and the tax-paid stamps thereon obliterated; and the Secretary shall prescribe such rules and regulations in relation thereto as may be necessary to secure the Treasury of the United States against frauds.

SEC. 2915. STOREKEEPER-GAUGER'S WAREHOUSE BOOK.

(a) REQUIREMENTS.—Every storekeeper-gauger shall keep a warehouse book, which shall at all times be open to the examination of any revenue officer, and shall enter therein an account of all articles deposited in the warehouse to which he is assigned, indicating in each case the date of deposit, by whom manufactured or produced, the number and description of the packages and contents, the quantities therein, the marks and serial numbers thereon, and by whom gauged, inspected, or weighed, and if distilled spirits, the number [of gauge or wine gallons,] of proof gallons, and of taxable gallons; and before delivering any article from

the warehouse he shall enter in said book the date of the permit or order of the collector for the delivery of such articles, the number and description of the packages, the marks and serial numbers thereon, the date of delivery, to whom delivered, and for what purpose, which purpose shall be specified in the permit or order for delivery; and in case of delivery of any distilled spirits the number of [gauge or wine gallons, or, proof gallons, and of taxable gallons, shall also be stated; and such further particulars shall be entered in the warehouse books as may be prescribed or found necessary for the identification of the packages, to insure the correct delivery thereof and proper accountability therefor.

And every storekeeper-gauger shall furnish daily to the collector of the district a return of all articles received in and delivered from the warehouse during the day preceding that on which the return is made, and mail at the same time a copy thereof to the Commissioner and shall, on the first Monday of every month, make a report in duplicate of the number of packages of all articles, with the respective descriptions thereof, as above provided, which remained in the warehouse at the date of his last report, of all articles received therein and delivered therefrom during the preceding month, and of articles remaining therein at the end of said month. He shall deliver one of these reports to the collector having control of the warehouse, to be recorded and filed in his office, and transmit one to the Commissioner, to be recorded and filed in his office.

* * *

SEC. 2886. TRANSPORTATION BOND ON WITHDRAWAL OF SPIRITS FOR EXPORT.

(a) **REQUIREMENTS.**—Whenever the owner or owners of distilled spirits shall desire to withdraw the same from any internal revenue bonded warehouse for exportation, such owner or owners may at their option, in lieu of executing an export bond as provided by law, give a transportation bond with sureties satisfactory to the collector of internal revenue and under such rules and regulations as the Secretary may prescribe, conditioned for the due delivery thereof on board ship at a port of exportation to be named therein, and for the due performance on the part of the exporter or owner at the port of export of all the requirements in regard to notice of export, entry, and the giving of bond hereinafter specified; and in such case, on arrival of the spirits at the port of export, the exporter or owner at that port shall immediately notify the collector of the port of the fact, setting forth his intention to export the same, and the name of the vessel upon which the same are to be laden, and the port to which they are intended to be exported. He shall, after the quantity of spirits has been determined by the gauger and inspector, file with the collector of the port an export-entry verified by his oath or affirmation. He shall also give bond to the United States, with at least two sureties, satisfactory to the collector of customs, conditioned that the principal named in said bond will export the spirits as specified in said entry to the port designated in said entry, or to some other port without the jurisdiction of the United States.

And upon the lading of such spirits, the collector of the port, after proper bonds for the exportation of the same have been completed by the exporter or owner at the port of shipment thereof, shall transmit to the collector of internal revenue of the district from which the said spirits were withdrawn for exportation, a clearance certificate and a detailed report of the gauger, which report shall show the capacity of each cask in wine gallons, and the contents thereof in [wine gallons,] proof gallons, and taxable gallons. Upon receipt of the certificate and report, and upon payment of tax on deficiency, if any, the collector of internal revenue shall cancel the transportation bond. The bond required to be given for the landing at a foreign port of distilled spirits shall be canceled upon the presentation of satisfactory proof and certificates that said distilled spirits have been landed at the port of destination named in the bill of lading or any other port without the jurisdiction of the United States or upon satisfactory proof that after shipment the same were lost at sea without fault or neglect of the owner or shipper thereof. And whenever a distiller of spirits in bond shall desire to change the packages in which the same is contained, in order to export them, the Commissioner shall be authorized, under regulations to be prescribed by him, and upon the execution of proper bonds with sufficient sureties, to permit the withdrawal of so much spirits from bond and in new packages as the distiller shall desire to export as aforesaid.

* * * * *

SEC. 2861. GAUGING, BRANDING, AND STAMPING RECTIFIED SPIRITS.

(a) **REQUIREMENT.**—Whenever any cask or package of distilled spirits containing five wine gallons or more is dumped by a rectifier for rectification or filled and received from rectification for sale, shipment, or delivery the same shall be gauged, marked, branded and stamped by a storekeeper-gauger, whose duty it

shall be to mark and brand the same and place thereon [an engraved] a stamp, which shall state the date when affixed and the number of proof gallons, and shall be in such form as shall be prescribed by the Commissioner with the approval of the Secretary; but the Commissioner may by regulations, approved by the Secretary, provide that the gauging, marking, stamping and branding of such packages so dumped for rectification, or received therefrom, be done by the rectifier instead of by a storekeeper-gauger.

* * * * *

SEC. 2802. STAMPS FOR DISTILLED SPIRITS.

[(a) FORM, ISSUE AND USE.—

[(1) STAMPS GENERALLY.—All stamps required for distilled spirits shall be engraved in their several kinds in book form, and shall be issued by the Commissioner to any collector, upon his requisition, in such numbers as may be necessary in the several districts. Each stamp shall have an engraved stub attached thereto, with a number thereon corresponding with an engraved number on the stamp, and the stub shall not be removed from the book. And there shall be entered on each stub such memoranda of the contents of its corresponding stamp as shall be necessary to preserve a perfect record of the use of such stamp when detached.

[(2) TAX-PAID STAMPS.—The Commissioner, with the approval of the Secretary, shall prescribe and furnish suitable stamps denoting the payment of the internal-revenue tax imposed on distilled spirits. On every stamp for the payment of tax on distilled spirits there shall be engraved words and figures representing a decimal number of gallons, and on the stub corresponding to such stamp there shall be engraved a similar number of gallons, and between the stamp and the stub, and connecting them, shall be engraved nine coupons, which, beginning next to the stamp, shall indicate in succession the several numbers of gallons between the number named in the stamp and the decimal number next above. And whenever any collector receives the tax on the distilled spirits contained in any cask, he shall detach from the book a stamp representing the denominate quantity nearest to the quantity of proof spirits in such cask, as shown by the storekeeper-gauger's return, with such number of the coupons attached thereto as shall be necessary to make up the whole number of proof gallons in said cask. All unused coupons shall remain attached to the marginal stub, and no coupon shall have any value or significance when detached from the stamp and stub. And the tax-paid stamps with the coupons may denote such number of gallons, not less than ten, as the Commissioner may deem advisable.

[(3) TRANSFER OF DUTIES.—

For transfer of powers and duties of Commissioner and his agents, see section 3170.]

[(b) (a) ISSUE FOR RESTAMPING.—The Commissioner may, under regulations prescribed by him with the approval of the Secretary, issue stamps for restamping packages of distilled spirits, which have been duly stamped but from which the stamps have been lost or destroyed by unavoidable accident.

[(c) INSTRUMENTS FOR ATTACHING, PROTECTING, AND CANCELING.—The instruments or other means prescribed under section 3301 (a) for attaching, protecting, and canceling stamps for distilled spirits shall be furnished by the United States to the persons using the stamps to be affixed therewith, under such regulations as the Commissioner may prescribe.]

[(d) (b) ACCOUNTABILITY.—

[(1) TAX-PAID STAMPS.—The books of tax-paid stamps issued to any collector shall be charged to his account at the full value of the tax on the number of gallons represented on the stamps and coupons contained in said books; and every collector shall make a monthly return to the Commissioner of all tax-paid stamps issued by him to be affixed to any cask or package containing distilled spirits on which the tax has been paid, and account for the amount of the tax collected; and it shall be the duty of the said collector to return to the Commissioner any book of marginal stubs as soon as all the stamps contained in the book when issued to him have been used.]

[(2) (1) OTHER STAMPS.—All stamps relating to distilled spirits, other than the tax-paid stamps, shall be charged to collectors; and the books containing such stamps may be intrusted by any collector to the storekeeper-gauger of the district, who shall make a daily report to the collector of all such stamps used by him and for whom used; and when all the stamps contained in any such book have been issued, the storekeeper-gauger of the district shall return the book to the collector, with all the marginal stubs therein.

Except as provided in section 2878 (b), all export stamps issued to collectors shall be charged to them as representing the value of 10 cents for each stamp, and they shall collect the amount due for such stamps at the rate of 10 cents for each stamp issued in such manner and at such time as the Commissioner may prescribe, and the Commissioner may, in his discretion, make assessment therefor.

[(3)] (2) TRANSFER OF DUTIES.—

For transfer of powers and duties of Commissioner and his agents, see section 3170.

[(e)] (c) EXCHANGE OF WHOLESALE LIQUOR DEALERS' STAMPS FOR RECTIFIED SPIRITS STAMPS.—Collectors shall not furnish wholesale liquor dealers' stamps in lieu of and in exchange for stamps for rectified spirits unless the package covered by stamps for rectified spirits is to be broken into smaller packages.

SEC. 2884. GAUGING, STAMPING, AND BRANDING SPIRITS REMOVED FROM WAREHOUSE.

(a) REQUIREMENT.—[Whenever] Except as may otherwise be required under section 2800 (a) (1) (A), whenever an application is received for the removal from any internal revenue bonded warehouse of any cask or package of distilled spirits on which the tax has been paid, the storekeeper-gauger shall gauge and inspect the same, and shall, before such cask or package has left the warehouse, place upon such package such marks, brands, and stamps as the Commissioner, with the approval of the Secretary, shall by regulations prescribe, which marks, brands, and stamps shall be erased when such cask or package is emptied.

The Commissioner, with the approval of the Secretary, may, by regulations, from time to time, require any distiller, at his expense and under the immediate personal supervision of a storekeeper-gauger, to do such marking and branding and such mechanical labor pertaining to gauging required under this section as the Commissioner deems proper and determines may be done without danger to the revenue.

SEC. 2906. PAYMENT OF TAX ON DEFICIENCY IN QUANTITY FOR EXPORT.

[(a) REQUIREMENTS.—Where, upon inspection at the bonded warehouse in which the spirits are bottled as aforesaid, the quantity so bottled and cased for export is less than the quantity actually contained in the distiller's original casks or packages at the time of withdrawal for that purpose the tax on the loss or deficiency so ascertained shall be paid before the removal of the spirits from such warehouse, and the tax so paid shall be receipted and accounted for by the collector in such manner as the Commissioner may prescribe.

[(b) TRANSFER OF DUTIES.—

[For transfer of powers and duties of Commissioner and his agents, see section 3170.]

SEC. 3302. EXPENSE.

[The stamps or device or instrument or means of removal or obliteration referred to in sections 3300 and 3301 shall entail no additional expense upon the persons required to affix or use the same.]

SEC. 3112. TAX ON ALCOHOL.

(a) * * *

[(b) COLLECTION.—Any tax payable upon alcohol under existing law may be collected either by assessment or by stamp as regulations shall provide; and if by stamp, regulations shall issue prescribing the kind of stamp to be used and the manner of affixing and canceling the same.]

(b) PAYMENT OF TAX.—The provisions of section 2800 (a) (1) (A) and (B) relating to the tax payment of distilled spirits by stamp and to the penalty and forfeiture provisions applicable to the violations therein set forth shall, so far as applicable, extend to and include the tax payment of alcohol produced in the United States or imported in accordance with the provisions of section 3125.

SEC. 2883. TRANSFER OF SPIRITS AT REGISTERED DISTILLERIES.

[(a) REQUIREMENTS.—Subject to the provisions of existing law, spirits produced at registered distilleries and reduced in the receiving cisterns in such distilleries to not more than one hundred and fifty-nine degrees of proof and not

less than one hundred degrees of proof, may be transferred, by means of pipe lines, direct to storage tanks in the internal revenue bonded warehouse located on the bonded premises where produced and be warehoused in such storage tanks, or they may be drawn into approved containers and transferred to any internal revenue bonded warehouse for storage therein, or they may be taxpaid in such approved containers in such cistern rooms, without being entered into an internal revenue bonded warehouse. Such spirits may be drawn into approved containers from storage tanks in internal revenue bonded warehouse located on the bonded premises of the distillery either for storage in bond or tax payment. Such spirits, upon tax payment, may be transported in approved containers for use for beverage purposes only. The Commissioner, with the approval of the Secretary, is hereby empowered to prescribe all necessary regulations relating to the drawing off, transferring, gauging, storing, and transportation of such spirits; the records to be kept and returns to be made; the size and kind of containers to be used; the marking, branding, numbering, and stamping of such containers; the kind of stamps, if any, to be used; and the kind of bond and the penal sum thereof: *Provided*, That under the provisions of this section insofar as applicable, the Commissioner may, under rules and regulations to be by him prescribed, subject to the approval of the Secretary, permit the transfer of fortifying spirits containing more than one hundred and fifty-nine degrees proof up to and including one hundred and ninety-two degrees proof by pipe line from registered fruit distilleries and receiving cisterns in such distilleries to storage tanks in the internal revenue bonded warehouse located on the distillery premises to be warehoused in such storage tanks and transferred by pipe line to the fortification rooms of contiguous wineries when required.

[(b) TRANSFER OF DUTIES.—

For transfer of powers and duties of Commissioner and his agents, see section 3170.

[(c) TRANSFER OF SPIRITS FOR INDUSTRIAL USES.—Distilled spirits of one hundred and sixty degrees of proof or greater may be withdrawn from registered distilleries (including registered fruit distilleries), and stored in and withdrawn from internal-revenue bonded warehouses, pursuant to the applicable provisions of subsection (a): *Provided*, That such distilled spirits may also be withdrawn without payment of tax from registered distilleries (including registered fruit distilleries) and internal-revenue bonded warehouses for all the tax-free purposes authorized by part II of subchapter C of this chapter, and when so withdrawn shall be subject to all applicable provisions of such part. Under such regulations as the Commissioner may prescribe, the manufacture, warehousing, withdrawal, and shipment of distilled spirits of one hundred and sixty degrees of proof or greater may be exempted from the provisions of section 2836 and section 2870. This subsection shall cease to be in effect upon the termination of the unlimited national emergency proclaimed by the President on May 27, 1941.

[(d) Under regulations to be prescribed by the Commissioner and approved by the Secretary, distilled spirits of any proof may be removed in approved containers, including pipe lines, from any registered distillery (including registered fruit distilleries) or internal revenue bonded warehouse to any other registered distillery (including registered fruit distilleries) or internal revenue bonded warehouse for redistillation and removal as provided in (c): *Provided*, That in case of removals of distilled spirits to any registered distillery (including registered fruit distilleries) for redistillation, the receiving distiller shall undertake to assume liability for the payment of the tax on the spirits from the time they leave the warehouse or distillery, as the case may be: *Provided further*, That any such spirits of one hundred and sixty degrees of proof or greater may be removed without redistillation from any internal revenue bonded warehouse as provided in (c): *Provided further*, That such spirits may be stored in tanks in any internal revenue bonded warehouse: *Provided further*, That taxes on distilled spirits removed under the provisions of this paragraph, either before or after redistillation, if such distilled spirits or any portion thereof are lost, shall be remitted or refunded in the same manner and under the same conditions as the tax on alcohol would be remitted or refunded under the provisions of section 3113 of the Internal Revenue Code: *And provided further*, That sections 2836 and 2870 shall not apply to the production and removal, and such sections and sections 2800 (a) (5) and 3250 (f) (1) shall not apply to the redistillation and removal of such spirits.

[(e) TRANSFER OF SPIRITS FOR REDISTILLATION.—Under regulations to be prescribed by the Commissioner and approved by the Secretary, and subject to the provisions of part II of subchapter C of this chapter, spirits of any proof may, without payment of tax and in bond, be removed in approved containers, includ-

ing pipe lines, from registered distilleries (including registered fruit distilleries) and internal revenue bonded warehouses to industrial alcohol bonded warehouses and industrial alcohol plants for redistillation and removal for any tax-free purpose, or upon payment of tax for any purpose, authorized by said part II of subchapter C of this chapter: *Provided*, That when the spirits are so withdrawn, the tax liability of the producing distiller and the internal revenue bonded warehouseman, and the liens on the premises of the producing distiller shall cease, and the tax shall be the liability of, and the liens shall be transferred to the warehouse or plant of, the industrial alcohol bonded warehouseman or proprietor of the industrial alcohol plant to whom the spirits are transferred: *And provided further*. That any such spirits of one hundred and sixty degrees of proof or greater, so removed and stored in any alcohol bonded warehouse, may be removed from such warehouse without redistillation for any tax-free purpose, or upon payment of tax for any purpose, so authorized: *And provided further*, That sections 2836 and 2870 shall not apply to the production or removal of spirits of any proof for such redistillation. This subsection and subsection (d) shall cease to be in effect upon the termination of the unlimited national emergency proclaimed by the President on May 27, 1941.]

(a) *REQUIREMENTS*.—Subject to the provisions of existing law, spirits of one hundred and sixty degrees of proof or more produced at registered distilleries, including registered fruit distilleries (such registered distilleries and registered fruit distilleries being referred to hereafter as "distillery" or "distilleries"), may be transferred by means of pipe lines from receiving cisterns in the distillery direct to storage tanks in the internal revenue bonded warehouse located on the bonded premises where produced or located contiguous thereto, and be warehoused in such storage tanks, or they may be withdrawn from the receiving cisterns, without, or after reduction in proof, into approved containers and transferred to any internal revenue bonded warehouse for storage therein, or they may be tax-paid in such approved containers in the cistern rooms of distilleries without being entered into an internal revenue bonded warehouse. Such spirits may be drawn into approved containers from storage tanks in an internal revenue bonded warehouse. Spirits of one hundred and sixty degrees of proof, or more, may be transferred in bond in tank cars from cistern rooms of distilleries or from storage tanks in an internal revenue bonded warehouse and be deposited in storage tanks in any internal revenue bonded warehouse. Such spirits in tanks in internal revenue bonded warehouses distilled at or above one hundred and ninety degrees of proof may be reduced to not less than one hundred and eleven degrees prior to being drawn into packages. Such spirits, upon tax payment, may be withdrawn in approved containers, including pipe lines to contiguous premises, for use for beverage purposes only. Except as provided in subsection (c) hereof and section 2916, such spirits may not be withdrawn for denaturation.

(b) *TRANSFER OF FORTIFYING SPIRITS*.—Fortifying spirits of one hundred and sixty degrees of proof or more may be transferred by pipe line from registered fruit distilleries and receiving cisterns in such distilleries to the fortification rooms of contiguous wineries or to storage tanks in the internal revenue bonded warehouse located on the distillery premises where the spirits were produced, or from such storage tanks to the fortification rooms of contiguous wineries.

(c) *TRANSFER OF RUM FOR DENATURATION*.—Rum of not less than one hundred and fifty degrees of proof may be transferred by pipe line for denaturation from receiving cisterns in the cistern room of any distillery to a denaturing bonded warehouse on the distillery premises or to storage tanks situated in the internal revenue bonded warehouse located on the distillery premises, or from such storage tanks to a denaturing bonded warehouse on the distillery premises.

(d) *TRANSFER OF GIN*.—Gin of any proof may be transferred in bond by means of pipe lines from receiving cisterns in distilleries direct to storage tanks in the internal revenue bonded warehouse located on the bonded premises where produced, or located contiguous thereto, and be warehoused in such storage tanks. Such gin may, upon tax payment, be transferred by pipe line to a contiguous tax-paid bottling house or rectifying plant.

(e) *REDISTILLATION OF SPIRITS*.—Distilled spirits of any proof may be transferred from a distillery or an internal revenue bonded warehouse to any distillery for redistillation upon a showing of the need therefor: *Provided*, That only spirits of one hundred and sixty degrees of proof or more may be transferred by pipe line to a distillery for redistillation from storage tanks in an internal revenue bonded warehouse located on such distillery premises or located contiguous thereto: *Provided further*, That spirits of any proof may be transferred by pipe line for redistillation from receiving tanks in a distillery to a contiguous distillery. Upon removal of distilled spirits to any distillery for redistillation, the consignee distiller shall assume the liability for

the payment of the tax on the spirits from the time they leave the internal revenue bonded warehouse or distillery, and the tax liability on the producing distiller or the internal revenue bonded warehouseman, and the liens on the premises of the producing distiller shall cease, and the tax and liens shall become the liability of the consignee distiller: Provided further, That upon redistillation the redistilled spirits shall be treated the same as if the spirits had been originally produced by the redistiller and all prior obligations as to taxes and liens shall be superseded. Sections 2800 (a) (5) and 3250 (f) (1) shall not apply to the redistillation of spirits removed under the provisions of this section.

(f) REGULATIONS.—The Commissioner, with the approval of the Secretary, is hereby empowered to prescribe all necessary regulations relating to the drawing off, transferring, gaging, storing, redistillation, and transportation of the spirits; the records to be kept and returns to be made; the size and kind of containers to be used; the marking, branding, numbering, and stamping of such containers; and the kind of bond and the penal sum thereof.

(g) EFFECT ON OTHER LAWS.—Nothing contained in this section shall be construed as restricting or limiting the provisions of other sections of the internal-revenue laws relating to internal revenue bonded warehouses, distilleries, and bonded wineries.

(h) TRANSFER OF DUTIES.—For transfer of powers and duties of Commissioner and his agents, see section 3170.

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