
AMENDING CERTAIN PROVISIONS OF THE INTERNAL
REVENUE CODE RELATING TO THE PRODUCTION OF
ALCOHOL

JANUARY 15, 1942.—Ordered to be printed

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

R E P O R T

[To accompany H. R. 6325]

The Committee on Finance, to whom was referred the bill (H. R. 6325), as amended, to amend certain provisions of the Internal Revenue Code relating to the production of alcohol, having had the same under consideration, report favorably thereon and recommend that the bill do pass.

As set out in the report of the Ways and Means Committee to the House of Representatives, the proposed bill would directly authorize the withdrawal of distilled spirits 160° proof or more from registered distilleries for beverage purposes pursuant to the provisions of section 2883 of the Internal Revenue Code, and make them available for all tax-free purposes for which alcohol withdrawn from industrial alcohol plants is now used, including tax-free withdrawals for the use of the United States; for use in research, hospitals or charitable clinics; and for denaturation.

Under existing law there is a sharp cleavage between the production of alcohol in industrial alcohol plants and the production of distilled spirits other than alcohol in registered distilleries. The actual point of difference is the proof of the distilled spirits when removed from the cistern rooms.

Industrial alcohol is essential in connection with the production of munitions, and requirements for this and other purposes already substantially exceed the output. For the further information of the Senate there are appended hereto, and made a part of this report, a letter from the Secretary of War to the chairman of the Committee on Ways and Means, House of Representatives, under the date of January 6, 1942; a letter from the Acting Secretary of the Treasury, to the chairman of the Committee on Ways and Means of the House of Representatives, dated October 27, 1941; and a letter from the Director General and Associate Director General of the Office of

Production Management to the chairman of the Ways and Means Committee of the House of Representatives, dated December 31, 1941, reading as follows:

WAR DEPARTMENT,
Washington, January 6, 1942.

Hon. ROBERT L. DOUGHTON,
Chairman, Committee on Ways and Means,
House of Representatives.

DEAR MR. DOUGHTON: The War Department favors enactment of legislation of the nature of H. R. 5811, to amend certain sections of the Internal Revenue Code pertaining to the production of alcohol, on which you have requested a report.

The purpose of this bill is to provide for the withdrawal from registered distilleries and the storage and withdrawal from bonded warehouses of alcohol of 160° proof or greater, pursuant to the applicable provisions of section 2883 of the Internal Revenue Code, and the withdrawal, tax free, of such spirits for industrial purposes, subject to sections 3100 to 3124 of the Internal Revenue Code, which would require that, if so withdrawn, such alcohol shall be denatured. Enactment of this measure, it is believed, would permit the simultaneous manufacture of alcohol for industrial and beverage purposes.

It is understood that the normal capacity of distilleries of the United States for the manufacture of alcohol is approximately 200,000,000 gallons per year, and that commercial and industrial requirements consume this quantity.

The Chief of Ordnance states that the production of smokeless powder in Government-owned plants under the present program requires 40,000,000 gallons of alcohol per year, and under the war effort, that requirement may increase to 70,000,000 gallons per year. The idle distilling capacity of existing facilities is believed to be capable of producing approximately 25,000,000 gallons of alcohol per year. It is believed that enactment of legislation of the character of H. R. 5811 would make available a potential additional productive capacity of 20,000,000 gallons annually, which would be sufficient to supply the needs for 1942 of the present smokeless powder production schedule in Government-owned plants.

Denatured alcohol is used in the production of smokeless powder, but most of such spirits used by the Chemical Warfare Service in its manufacturing activities is not denatured.

H. R. 5852, another bill now pending before your committee, would not require compliance with the denaturing provisions of the Internal Revenue Code, while H. R. 5811 would do so. The latter measure, however, is not limited to the period of the war, while H. R. 5852 is limited to purposes in furtherance of national defense. A combination of features of both these bills might be preferable to enactment of either in its present form.

The enactment of legislation along the lines of H. R. 5811 is regarded by the War Department as being almost imperative.

The fiscal effect of enactment of H. R. 5811 would not be to increase the expenditure of public funds, except for additional purchases of alcohol in connection with the war effort.

The Bureau of the Budget advises that there is no objection to the submission of this report to the committee.

Sincerely yours,

HENRY L. STIMSON, *Secretary of War.*

TREASURY DEPARTMENT,
Washington, October 27, 1941.

Hon. ROBERT L. DOUGHTON,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: Further reference is made to your letter of October 13, 1941, requesting the recommendations and comments of this Department with respect to a bill (H. R. 5811, 77th Cong., 1st sess.), introduced in the House of Representatives on October 10, 1941, by Mr. Dirksen, and referred to your committee.

The preamble of the bill reads as follows:

"To amend certain sections of the Internal Revenue Code pertaining to the production of alcohol."

The amendment of the internal revenue laws will be accomplished by adding to the Internal Revenue Code the following section:

"That, notwithstanding any provision of law to the contrary, distilled spirits of one hundred and sixty degrees of proof or greater may be withdrawn from registered distilleries, and stored in and withdrawn from internal revenue bonded warehouses, pursuant to the applicable provisions of section 2883, Internal Revenue Code: *Provided*, That such distilled spirits may also be withdrawn without payment of tax from registered distilleries, and internal revenue bonded warehouses for all the tax-free purposes authorized by sections 3100 to 3124, Internal Revenue Code, and when so withdrawn shall be subject to all the applicable provisions of those sections."

Under the present laws and regulations there is a sharp cleavage between the production of alcohol in industrial alcohol plants and the production of distilled spirits other than alcohol in registered distilleries. The actual point of difference is the proof of the distilled spirits when removed from the cistern rooms.

Because of the provisions of title III of the National Prohibition Act (now secs. 3100 to 3124, Internal Revenue Code), particularly section 11 (now sec. 3124 (a) (1), Internal Revenue Code), it has been administratively held since 1920 that spirits of 160° of proof or greater could be withdrawn only from an industrial alcohol plant. This construction was definitely confirmed by the Congress when it enacted sec. 308 of the Liquor Tax Administration Act of June 26, 1936 (now sec. 2883, Internal Revenue Code). This section permitted the withdrawal from registered distilleries of spirits produced at 160° proof and greater only if they were first reduced to 159° proof or less, and then only for beverage purposes.

The proposed bill would directly authorize the withdrawal of distilled spirits of 160° proof or more from registered distilleries for beverage purposes pursuant to the provisions of section 2883 of the Internal Revenue Code, and make them available for all tax-free purposes for which alcohol withdrawn from industrial alcohol plants is now used, including tax-free withdrawals for the use of the United States and the several States; for use in research, hospitals, or charitable clinics; and for denaturation.

This bill, if enacted, should not result in a loss of revenue nor add to the expense of supervision of the registered distilleries. It has been represented that this proposed legislation will aid national defense. Only a few of the distilleries throughout the country are equipped for the manufacture of high proof spirits. This Department recently has aided in the production of alcohol for national defense by an amendment of regulations permitting proprietors of distilleries to convert their plants to industrial alcohol plants for the production of alcohol without interruption in operations. Inasmuch as the production of spirits for beverage purposes and for industrial purposes has been widely separated for many years, this Department desires to make no recommendation either for or against the passage of this bill.

Due to your request for expedition, the Department has not been able to clear this report with the Bureau of the Budget.

Very truly yours,

JOHN L. SULLIVAN,
Acting Secretary of the Treasury.

OFFICE OF PRODUCTION MANAGEMENT,
OFFICE OF THE ASSOCIATE DIRECTOR GENERAL,
Washington, D. C., December 31, 1941.

Hon. R. L. DOUGHTON,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, D. C.*

MY DEAR MR. DOUGHTON: This is in response to your requests of December 13 for a report from the Office of Production Management in connection with H. R. 5811, a bill to amend certain sections of the Internal Revenue Code pertaining to the production of alcohol, and H. R. 5852, a bill to amend section 2888 of the Internal Revenue Code, pertaining to the production of alcohol for national defense.

These measures are technical in nature and we are therefore not undertaking to comment upon the legislation as such. Our report is confined to the matters which your letter indicated the committee was particularly interested in having us discuss, that is, the need for and the means of increasing the production of industrial alcohol for the war program.

Industrial alcohol is essential in connection with the production of munitions and requirements for this and other purposes already substantially exceed the output. In order to avert a shortage of sugar it now appears probable that the supply of molasses, the most important source of industrial alcohol, will have to be curtailed. This makes desirable the full use of whisky distilleries which can produce alcohol from corn. We are advised that statutory restrictions now prevent the simultaneous manufacture of whisky and of industrial alcohol in the same plant, and that the removal of those restrictions would greatly facilitate the production of industrial alcohol. We therefore urge the removal of those restrictions for the period of the emergency.

Due to your request for expedition, we have not been able to clear this report with the Bureau of the Budget.

Sincerely yours,

W. S. KNUDSEN.
SIDNEY HILLMAN.

CHANGES IN EXISTING LAW

In compliance with paragraph 2 (a) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill 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):

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 tax paid 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 2838 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.*