

## AMENDMENT OF SECTION 2800 (A) (5) OF THE INTERNAL REVENUE CODE

MAY 1, 1952.—Ordered to be printed

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

### R E P O R T

[To accompany H. R. 5282]

The Committee on Finance, to whom was referred the bill (H. R. 5282) to amend section 2800 (a) (5) of the Internal Revenue Code, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

#### PURPOSE

The purpose of the bill is to relieve from the rectification tax of 30 cents a proof gallon imposed by section 2800 (a) (5) of the Internal Revenue Code vodka produced by rectifiers by treating pure spirits in the same manner as such spirits are authorized to be treated in producing vodka at registered distilleries.

#### GENERAL STATEMENT

The enactment of the bill is required to remove a discrimination that now exists against domestic rectifiers of vodka, who are now required to pay a rectification tax of 30 cents a proof gallon, although distillers of vodka and gin rectifiers of gin are not subject to tax on similar operations.

As explained in the favorable report submitted by the Treasury Department:

Vodka is neutral spirits distilled at or above 190 degrees of proof, reduced to not more than 110 and not less than 80 degrees of proof and, after such reduction in proof, so purified or refined by approved methods as to be without distinctive character, aroma, or taste. The product may be made at registered distilleries exempt from the rectification tax by virtue of the proviso of section 3254 (g) of the code, which provides that nothing in that section or section 3250 (f) (1) shall be held to prohibit the purifying or refining of spirits in the course of original and continuous distillation through any material which will not remain incorporated with such spirits when the manufacture thereof is complete.

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Original and continuous distillation may be carried on only at distilleries. Rectifiers must therefore produce vodka by purifying or refining pure spirits otherwise than in the course of original and continuous distillation. This constitutes rectification under section 3254 (g) and subjects the product to the rectification tax imposed by section 2800 (a) (5). A rectifier producing vodka by subjecting pure spirits to the same purifying or refining treatment as that authorized at registered distilleries in producing the same product is therefore required to pay a tax from which the distiller is exempt. The bill would have the effect of exempting the rectifier from the rectification tax on vodka so produced.

Vodka is a beverage distilled spirit comparable in certain respects to gin, which is also produced at both registered distilleries and rectifying plants. When the rectification tax was first imposed, by the Revenue Act of 1917, there was included in the taxing section a proviso exempting from the tax gin produced by the redistillation of a pure spirit over juniper berries and other aromatics. The purpose of the proviso was to exempt rectifiers from a tax not applicable to the same product produced by registered distillers. The exemption in respect of gin so produced now appears in section 2800 (a) (5). The proposed exemption in respect of vodka would appear consistent with the action taken in the case of gin.

Vodka has been manufactured in comparatively small quantities at both registered distilleries and rectifying plants since the end of World War II. During the fiscal year ended June 30, 1951, the production amounted to 148,101 proof gallons and 751,878 proof gallons, respectively. Enactment of the bill would therefore result in a small loss of revenue from vodka produced at rectifying plants.

CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, 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):

INTERNAL REVENUE CODE

SUBCHAPTER A—DISTILLED SPIRITS

PART I—PROVISIONS RELATING TO TAX

SEC. 2800. TAX.

(a) Rate.—

(1) \* \* \* \*

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(5) RECTIFIED SPIRITS AND WINES.—In addition to the tax imposed by this chapter on distilled spirits and wines, there shall be levied, assessed, collected, and paid, a tax of 30 cents on each proof gallon and a proportionate tax at a like rate on all fractional parts of such proof gallon on all distilled spirits or wines rectified, purified, or refined in such manner, and on all mixtures produced in such manner, that the person so rectifying, purifying, refining, or mixing the same is a rectifier within the meaning of section 3254 (g): *Provided*, That this tax shall not apply to gin produced by the redistillation of a pure spirit over juniper berries and other aromatics [.] or to vodka produced from pure spirits in the manner authorized at registered distilleries.

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