

## DISTILLED SPIRITS TRANSFERS UNDER NATIONAL DEFENSE REQUIREMENTS

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

### REPORT

[To accompany H. R. 13130]

The Committee on Finance, to whom was referred the bill (H. R. 13130) to extend for 2 years the existing authority of the Secretary of the Treasury in respect of transfers of distilled spirits for purposes deemed necessary to meet the requirements of the national defense, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

#### I. GENERAL STATEMENT

Section 5217 (a) of the Internal Revenue Code of 1954 authorizes the transfer of distilled spirits between alcohol plants and registered distilleries or internal revenue, or industrial alcohol, bonded warehouses if this is deemed desirable for the national defense. Subsection (b) of this section also permits the Secretary of the Treasury or his delegate temporarily to waive the application of any of the internal-revenue laws relating to distilled spirits, except those imposing tax, whenever he considers this expedient to meet the requirements of national defense. Under present law the authority of the Secretary or his delegate to permit these transfers, or to waive the application of these internal-revenue laws expires as of July 14, 1958. This bill extends for 2 years, until July 11, 1960, this authority to permit these transfers or to waive certain internal-revenue laws for national defense requirements.

A provision similar to section 5217 was first enacted in 1942 in order to make it possible to utilize the facilities of industrial alcohol plants and registered distilleries in connection with the war effort. With the exception of a short period after the end of World War II, authority comparable to that contained in section 5217 has been in effect continuously since 1942; the authority was last extended by

Public Law 700, 84th Congress, 2d session, which was approved July 11, 1956.

Your committee believes that this provision should be continued for a 2-year period under the present circumstances. While the authority under subsection (b) to waive the application of internal-revenue laws relating to distilled spirits is not being used at the present time, the need for such authority might arise on short notice in the case of a national-defense emergency. Moreover, subsection (a) which permits transfers between alcohol plants and registered distilleries or internal revenue, or industrial alcohol, bonded warehouses is being used at the present time to obtain flexibility in operations with the result that the termination of section 5217 at this time would have a seriously disrupting effect upon industry operations and would create administrative problems for the Government.

This provision has been particularly useful in permitting transfers in bond from distilleries and internal-revenue bonded warehouses to industrial alcohol bonded warehouses, or industrial alcohol plants, for storage or redistillation. The provision has also been used to a lesser extent to permit transfers in bond from industrial alcohol plants producing grain neutral spirits and producing spirits from synthetic materials to internal-revenue bonded warehouses for storage.

This bill has the approval of the Treasury Department.

#### 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 italic; existing law in which no change is proposed is shown in roman):

#### SECTION 5217 OF THE INTERNAL REVENUE CODE OF 1954

##### SEC. 5217. EXEMPTIONS RELATING TO NATIONAL EMERGENCY TRANSFERS.

(a) TRANSFERS OF DISTILLED SPIRITS.—Under regulations prescribed by the Secretary or his delegate, distilled spirits of any proof including alcohol (the term “distilled spirits” or “spirits” as hereinafter used in this section shall include alcohol) may be removed in bond in approved containers and pipelines from any registered distillery including a registered fruit distillery (such registered distillery and registered fruit distillery hereinafter referred to in this section as “distillery”), internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse to any distillery, internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse for redistillation, or storage, or any other purpose deemed necessary to meet the requirements of the national defense; *Provided*, That any such distilled spirits may be stored in approved tanks in, or constituting a part of, any internal revenue bonded warehouse or industrial alcohol bonded warehouse; *Provided further*, That any such distilled spirits removed to an industrial alcohol plant or industrial alcohol bonded warehouse may be withdrawn therefrom if of a proof of 160 degrees or more for any tax-free purpose, or on payment of tax for any purpose, authorized by subchapter E; and any such distilled spirits removed to a distillery or

internal revenue bonded warehouse may be withdrawn therefrom if of a proof of 160 degrees or more for any tax-free purpose authorized by subchapter E or for any purpose authorized in the case of like spirits produced at a distillery: *Provided further*, That any such distilled spirits, upon removal from a distillery or internal revenue bonded warehouse for transfer to an industrial alcohol plant or industrial alcohol bonded warehouse or for any tax-free purpose authorized by subchapter E shall be subject to the provisions of part I of subchapter E: *Provided further*, That when any distilled spirits are removed under the provisions of this section to a distillery, industrial alcohol plant, or industrial alcohol bonded warehouse, the tax liability of the proprietor of the distillery, internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse from which the spirits are removed, and the liens on such distillery, industrial alcohol plant, or industrial alcohol bonded warehouse, shall cease; and at and from the time the distilled spirits leave the distillery, internal revenue bonded warehouse, industrial alcohol plant, or industrial alcohol bonded warehouse, the tax shall be the liability of the proprietor of, and the liens shall be transferred to the premises of, the distillery, industrial alcohol plant, or industrial alcohol bonded warehouse to which the distilled spirits are transferred: *Provided further*, That when any distilled spirits are removed under the provisions of this section to an internal revenue bonded warehouse the proprietor of such warehouse shall be primarily liable for the tax on the spirits at and from the time the spirits leave the premises from which transferred: *Provided further*, That section 5011 (a) shall apply in respect of losses of any distilled spirits transferred, or removed for transfer, under this section to a distillery or internal revenue bonded warehouse; and section 5011 (c) shall apply in respect of losses of any distilled spirits transferred, or removed for transfer, under this section to an industrial alcohol plant or industrial alcohol bonded warehouse: *And provided further*, That section 5195 (a) and (b) shall not apply to the production or redistillation and removal of any such spirits; nor shall sections 5021 and 5081 apply to the redistillation or to the mingling at a distillery or an internal revenue bonded warehouse or in the course of removal, of any such spirits.

(b) EXEMPTION FROM STATUTORY REQUIREMENTS.—The Secretary or his delegate may temporarily exempt proprietors of distilleries, internal revenue bonded warehouses, industrial alcohol plants, or industrial alcohol bonded warehouses from any provision of the internal revenue laws relating to distilled spirits, except those requiring payment of the tax thereon, whenever in his judgment it may seem expedient to do so to meet the requirements of the national defense. Whenever the Secretary or his delegate shall exercise the authority conferred by this subsection he may prescribe such regulations as may be necessary to accomplish the purpose which caused him to grant the exemption.

(c) TERMINATION OF SECTION.—The authority conferred upon the Secretary or his delegate by this section shall expire at the close of July 11, [1959] 1960.