

EXEMPTING CERTAIN BLENDED WHISKIES AND BRANDIES FROM RECTIFICATION TAX

SEPTEMBER 13, 1951.—Ordered to be printed

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

REPORT

[To accompany H. R. 2745]

The Committee on Finance, to whom was referred the bill (H. R. 2745) amending section 2801 (c) (1) of the Internal Revenue Code, 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 accepts the report of the Committee on Ways and Means, which is as follows:

PURPOSE

This bill would amend section 2801 (c) (1) of the Internal Revenue Code so as to exempt from the rectification tax of 30 cents per proof gallon certain blends of whiskies and brandies even though such blends are reduced to as low as 80 proof.

GENERAL STATEMENT

At the present time, section 2801 (c) (1) of the Internal Revenue Code exempts from the rectification tax, blends of whiskies made exclusively of two or more pure straight whiskies aged in wood for a period of not less than 4 years, and blends of brandies made of two or more pure fruit brandies distilled from the same kind of fruit and aged in wood for not less than 2 years, provided no coloring, flavoring matter, or any substance other than pure water is added, and provided the blends are not reduced below 90 proof.

Blends which are now exempted from the rectification tax have essentially the same characteristics and composition after blending as do the whiskies and brandies used in making the blends. Reducing the proof of these blends from 90 to 80 proof would not affect their essential characteristics or composition.

Most blended whisky today is bottled at 86 proof, and is made by compounding whisky with alcohol or neutral spirits and adding coloring and flavoring matter. Such compounding, coloring, and flavoring changes the character of the distilled spirits. Most blended brandy contains coloring and other materials and is likewise bottled at less than 90 proof. Blends made in this way are now subject to the rectification tax and would not be granted an exemption by this bill.

After the repeal of the eighteenth amendment, hearings were held by the Federal Alcohol Control Administration and later by the Treasury Department to determine standards of identity for whisky and brandy. Evidence before the Government at that time indicated that whisky and brandy were commonly bottled at not less than 80 proof. Therefore, it was decided to adopt as one of

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the standards of identity for whisky the requirement that the product must be bottled at not less than 80 proof. This same minimum bottling proof was adopted for brandy. This standard is contained in current regulations issued under the Federal Alcohol Administration Act and also in regulations issued by the Treasury Department under the internal revenue laws.

Under existing law and regulations, if water alone is added to a whisky, or a brandy, prior to bottling, the character of the product is not considered to be changed, and even though the proof is reduced as low as 80 proof, the resulting product is not subject to the rectification tax. However, if a rectifier blends two or more pure straight whiskies, or brandies, as provided by section 2801 (c) (1) of the Internal Revenue Code, the addition of water to reduce the proof below 90 is not permitted without subjecting the product to the rectification tax.

Your committee believes that it is appropriate to amend the provision contained in section 2801 (c) (1) of the Internal Revenue Code, relating to the exemption of blends of brandies and whiskies from the rectification tax, so as to permit the reduction in proof of such blends from 90 to 80 proof and still permit an exemption from the tax.

Your committee has been advised that the quantity of blended whisky and brandy on which the rectification tax is now paid because the spirits are reduced below 90 proof is small and, therefore, the revenue involved is negligible, and that there will be practically no loss of revenue if the bill should be enacted. It is believed that those rectifiers who now produce blended whiskies or brandies, bottled at less than 90 proof, which are subject to rectification tax because of the addition of alcohol, neutral spirits, coloring, and flavoring matter will continue to do so.

It is understood that enactment of this legislation will permit the distilled spirits industry to sell those blended whiskies consisting only of two or more pure straight whiskies aged in wood not less than 4 years and those brandies consisting only of two or more pure fruit brandies aged in wood not less than 2 years at a lower price by permitting it to lower the proof to as low as 80 proof and still be exempt from the rectification tax.

The Treasury Department has advised your committee that the proposed amendment would not create any administrative problems and that the enactment of the bill would involve only a possible loss of a negligible amount of revenue

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):

SECTION 2801 (c) (1) OF THE INTERNAL REVENUE CODE

SEC. 2801. RECTIFIED SPIRITS.

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(c) EXEMPTION FROM TAX.—

(1) CORDIALS AND LIQUEURS.—The taxes imposed by section 2800 (a) (5) shall not attach to cordials or liqueurs on which a tax is imposed and paid under paragraph (1) or (2) of section 3030 (a), nor to the mixing and blending of wines, where such blending is for the sole purpose of perfecting such wines according to commercial standards, nor to blends made exclusively of two or more pure straight whiskies aged in wood for a period not less than four years and without the addition of coloring or flavoring matter or any other substance than pure water and if not reduced below ~~【ninety proof】~~ *eighty proof*; nor to blends made exclusively of two or more pure fruit brandies distilled from the same kind of fruit, aged in wood for a period not less than two years and without the addition of coloring or flavoring matter or any other substance than pure water and if not reduced below ~~【ninety proof】~~ *eighty proof*: *Provided*, That such blended whiskies and blended fruit brandies shall be exempt from tax under section 2800 (a) (5) only when compounded under the immediate supervision of a revenue officer, in such tanks and under such conditions and supervision as the Commissioner, with the approval of the Secretary, may prescribe.