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SENATE

{ REPORT
No. 149

LIQUOR TAXING ACT OF 1934

JANUARY 8, 1934.—Ordered to be printed

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

REPORT

[To accompany H.R. 6131]

The Committee on Finance, to whom was referred the bill (H.R. 6131) to raise revenue by taxing certain intoxicating liquors, and for other purposes, having considered the same, report favorably thereon to the Senate with amendments and recommend that the bill, as amended, do pass.

Your committee is of the opinion that the field of occupational and license taxes in respect to manufacturers and dealers in alcoholic liquors should be left to the States. In conformity with this policy, the tax of \$1,000 on brewers imposed by the so-called "Beer Act" of March 22, 1933, is modified, and the regulatory occupational tax imposed by prior laws is substituted therefor. The rate recommended is, therefore, \$100 on brewers, except that brewers producing less than 500 barrels per year will pay only \$50.

Title II of the bill as passed by the House was suggested by the Treasury Department. It contemplates that in conjunction with present provisions of existing law every container of distilled spirits on which an internal-revenue tax is required to be paid shall bear a stamp indicating the payment of such tax.

This amendment has three major purposes.

Its primary purpose is to protect the Federal revenue by supplying a simple and immediate means of ascertaining whether any particular distilled spirits have been legally produced and the tax paid thereon.

Its second purpose is to give the consumer a means of knowing that he is purchasing legally produced and tax-paid distilled spirits.

Its third purpose is to afford an assurance that distilled spirits after the payment of tax thereon will not be mixed in the rectifying process with illegally produced spirits. The issuance to the rectifier of the requisite tax stamps will afford a substantial additional check

on the rectifier's account showing the amount of distilled spirits purchased and sold by him.

This amendment does not in any manner affect the substantive question of how distilled spirits shall be handled or sold or in what type of containers they shall be sold. It merely provides that in whatever manner and in whatever container distilled spirits may from time to time be handled or sold, such distilled spirits shall bear a stamp, indicating the payment of all internal-revenue taxes levied thereon.

Under title II the stamp provisions do not apply to the possession or buying of distilled spirits unless they are possessed for sale or bought for sale. The provisions, however, do apply to transportation, whether or not for sale. It will be noted that under this provision the consumer can buy unstamped liquor without subjecting himself to penalty and can when he has taken it home possess it without penalty, but is subject to penalty for transporting it from the store to his home. It will also be noted that under the House bill no penalty attaches to the possession or purchase of unstamped liquor intended by the purchaser for use in the manufacture of articles intended for sale. This was obviously not intended. The amendments of the committee cure these defects so that the provisions of the title do not apply to distilled spirits not intended for sale or for use in the manufacture or production of any article intended for sale, whether such distilled spirits are bought, transported, or possessed.

Another committee amendment exempts from the provisions of title II regularly established common carriers in connection with their ordinary course of business.

The amendment added at the end of section 207 provides for the enforcement of the penalty provisions of that section and of the Bottling in Bond Act of March 3, 1897, by any officer authorized to enforce the laws relating to internal-revenue stamps. Difficulty has been encountered in enforcing the Bottling in Bond Act by reason of the fact that evidence obtained by certain officers has been held inadmissible on the ground that those officers are not authorized to investigate violations with respect to stamps which are not securities of the United States. Under this amendment officers of the secret service, equally with internal-revenue officers, will be empowered to investigate violations with respect to stamps provided for by the bill and the Bottling in Bond Act.

Under the bill as reported the floor-tax provisions of title I and the provisions of title II relating to stamping containers will apply to State, county, and city dispensaries or other agencies, under the decision of the Supreme Court of the United States in the case of *South Carolina v. U. S.* (199 U.S. 437).

Following is the explanatory matter contained in the report of the House Committee on Ways and Means on the bill:

[House Report No. 271, Seventy-third Congress, second session]

The Committee on Ways and Means, to which was referred the bill (H.R. 6131) to raise revenue by taxing certain intoxicating liquors, and for other purposes, having had the same under consideration, reports it back to the House without amendment and recommends that the bill do pass.

GENERAL SCOPE OF THE BILL

The bill deals with rates of tax on intoxicating liquors. In the opinion of your committee, the rates proposed in the bill will return the maximum amount of

revenue without incurring the danger of perpetuating illegal liquor traffic by excessive rates. Your committee recognizes that the existing laws imposing liquor taxes are voluminous and complicated and hopes in the near future to report a bill which will simplify and improve these old statutes. At the present time, however, it is of supreme importance to provide for additional revenue, and, therefore, the bill now reported deals with the rates by which such additional revenue, amounting to approximately one half of a million dollars per day, may be secured. The purposes of the bill are accomplished by amendments to existing law, which may be described as follows:

DESCRIPTION OF BILL

Section 1: This section gives to the bill the title of "Liquor Taxing Act of 1934", for purposes of citation.

Section 2: This section amends existing law so that the rate of tax on distilled spirits will be \$2 per proof gallon, or per wine gallon when below proof. The existing rate is \$1.10 per gallon. The amendment is so worded that the \$6.40 rate imposed by the Revenue Act of 1918 on distilled spirits diverted to beverage purposes is repealed. The Treasury Department has ruled that this rate is not now effective, but it is repealed as a precautionary measure.

Section 3: This section provides for a tax of \$2 per wine gallon on imported perfumes containing distilled spirits. The present tax is \$1.10 per wine gallon. It is believed that this increase is proper, as perfume manufacturers in this country using distilled spirits will be obliged to pay a \$2 tax instead of a \$1.10 tax.

Section 4: This section provides for a drawback on exported distilled spirits at a rate equal to the rate of internal-revenue tax paid, but not in excess of \$2 per gallon. The present drawback rate is 90 cents, but the fact that this rate is less than the existing internal-revenue rate of \$1.10 was apparently an oversight. A drawback is necessary to permit exporters in this country to compete in foreign markets.

Section 5: This section provides for a \$2 rate on deficiencies in distilled spirits instead of the existing \$1.10 rate. This change is consistent with the other rate changes provided for in this bill.

Section 6: This section provides for the following changes in the existing rates of tax on still wines:

Classification	Present rate	Proposed rate
Still wine up to 14 percent alcohol.....	\$0.04 per wine gallon.....	\$0.10 per wine gallon.
Still wine from 14 percent to 21 percent alcohol.....	\$0.10 per wine gallon.....	\$0.20 per wine gallon.
Still wine from 21 percent to 24 percent alcohol.....	\$0.25 per wine gallon.....	\$0.40 per wine gallon.
Still wine over 24 percent alcohol.....	Taxed as distilled spirits.....	Taxed as distilled spirits.

Section 7: This section provides for the following changes in the existing rates of tax on champagnes, artificially carbonated wines, and liqueurs:

Classification	Present rate	Proposed rate
Champagne.....	\$0.12 per ¼ pint.....	\$0.05 per ¼ pint.
Artificially carbonated wine.....	\$0.06 per ¼ pint.....	\$0.02½ per ¼ pint.
Liqueurs and cordials.....	\$0.06 per ¼ pint.....	\$0.02½ per ¼ pint.
Any of the above over 24 percent alcohol.....	Taxed under above brackets.	Taxed as distilled spirits.

Your committee is of the opinion that the relatively low rates of tax provided for in this section and section 6 will be advantageous to the fruit growers of the country.

Section 8: This section provides for a tax on grape brandy and wine spirits used in the fortification of wines of 20 cents per proof gallon in lieu of the existing rate of 10 cents per proof gallon. It is believed this change is consistent with the other rate changes proposed by this bill.

Section 9: This section provides for a tax of \$5 per barrel on malt liquors, such as beer, ale, porter, etc., regardless of alcoholic content. Under the present law such liquors containing 3.2 percent or less of alcohol by weight are taxed at the rate of \$5 per barrel, while those containing a higher percentage of alcohol

are taxed at the rate of \$6 per barrel. The section further provides for the repeal of the \$5 per barrel tax on cider and other fruit juices imposed by the act of March 22, 1933, which authorized the manufacture and sale of beverages containing not more than 3.2 percent of alcohol by weight.

Section 10: This section provides for three floor taxes so that manufacturers and dealers holding for sale liquor or wines on which tax has been paid at the old rate must pay a tax equal to the difference between the new and the old rate. Subsection (a) provides for the floor tax on distilled spirits, subsection (b) for the floor tax on wines, and subsection (c) for the floor tax on grape brandy and wine spirits used in the fortification of wines. Subsection (d) provides for the assessment and collection of these floor taxes.

Section 11: This section provides that the processing and floor taxes imposed by the Agricultural Adjustment Act shall not be considered as internal-revenue taxes for the purposes of this bill. There appeared to be a possibility that the taxpayer might seek to defeat the operation of the floor taxes imposed by this bill by claiming that the taxes imposed by the Agricultural Adjustment Act should be included in the amount of internal-revenue taxes paid on the items held for sale.

Section 12: This section provides that the proposed act shall take effect on the day following its enactment.

SUPPLEMENTARY INFORMATION

This bill makes no changes in the existing license and occupational taxes on manufacturers of and dealers in intoxicating liquors. The existing rates are low and are principally for regulatory purposes. Your committee is of the opinion that this field of taxation should be left to the States.

No change is proposed in the present rate of tax of 30 cents per proof gallon on rectified spirits.

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