

Beverage Spirits – Required Daily Distillery Records

Presented by
Michael Puckett, CPA, Tax Audit Division



Overview

- DSP Allowable Operations
- General Rules for DSP Recordkeeping
- Required Daily Records for Operational Accounts – Production, Storage, Processing
- Additional Required Records

Federal Laws

- Internal Revenue Code:
 - Tax payment
 - Premises which protect the revenue
 - Production methods
- Alcoholic Beverage Labeling Act:
 - Government warning statement
- Federal Alcohol Administration Act (FAA Act):
 - Basic permits
 - Labeling
 - Trade practices

Federal Regulations

- Code of Federal Regulations:
 - 27 CFR part 19 describes:
 - Allowable operations for a DSP
 - Records required to be maintained by a DSP
 - Can view in its entirety on www.ttb.gov

TTB Examinations

- TTB conducts several types of examinations:
 - Tax Audit Division (TAD):
 - Tax and compliance audits
 - Trade Investigations Division (TID):
 - Application investigations
 - Product integrity investigations (labeling and formula compliance)

Beverage Distilled Spirits Plant Qualifications

- Distiller
- Warehouseman
- Processor

Distiller — Allowable Operations

- Receipt and use of fermenting and distilling materials and spirits
- Distilling
- Treatment of spirits
- Addition of materials
- Redistillation
- Removal of spirits

Warehouseman — Allowable Operations

- Receipt and storage of bulk spirits and wines
- Addition of materials (oak chips in whiskey; caramel in rum and brandy)
- Filling packages (casks, barrels, drums)
- Transferring spirits or wines to other packages
- Mingling and blending (limited)
- In-bond transfer of bulk spirits

Processor — Allowable Operations

- Manufacture, treatment, mixing, bottling of distilled spirits
- Manufacture of non-beverage flavors and flavoring extracts as intermediate products in manufacture of distilled spirits products
- In-bond transfer of bulk spirits and wines
- Taxpaid removal of spirits

DSP Qualifications and Recordkeeping Accounts

Qualifications

Accounts

Distiller



Production

Warehouseman



Storage

Processor



Processing

General Rules — Daily Records

- Entries are made on the day of activity
- Supplemental entries may be made not later than the 3rd day after activity
- Date of activity and details for:
 - Proper identification and labeling of product
 - Preparation of summaries, reports, returns
 - TTB verification and tracing
- Commercial records may be used, unless a TTB form is prescribed

General Rules — Daily Records (Continued)

- Spirits are recorded by kind and quantity in proof gallons
- Distilling materials produced are recorded by kind and quantity in wine gallons
- Wines are recorded by kind and quantity in wine gallons, and alcohol by volume
- Alcoholic flavoring materials are recorded by kind, formula number (if any), and quantity in proof gallons

General Rules — Daily Records (Continued)

- Containers or cases are recorded by type, serial number, and number of containers or cases
- Materials used in production are recorded by kind and quantity (in gallons for liquids, in pounds for others) and sugar content for molasses
- Name, address, registry number of consignor and consignee are recorded when materials are removed and received

General Rules — Daily Records (Continued)

- Tank serial numbers are recorded for each operation
- Rate of duty paid on imported spirits (if any) is recorded
- Imported spirits and spirits from Puerto Rico or U.S. Virgin Islands (if any) are recorded

Existence

- Distilled spirits are tracked the moment they come into **existence**
 - As distilled spirits come off the still and are collected in condenser (or doubler if used), the production gauge is the starting point for tracking spirits produced
 - Every drop must be accounted for from that gauge
 - Thorough daily records and the monthly reports help to accurately track spirits

Required Daily Records for Operational Accounts

Production Account

Daily Production Records

- Receipt of fermenting materials or other non-alcoholic material
- Receipt and use of spirits, articles, and spirits residues received for redistillation
- Receipt and use of distilling material, including residue of beer returned to producing brewery
- Fermenting material set in each fermenter

Daily Production Records (Continued)

- Gauge of spirits in each receiving tank
- Fermenting materials or other non-alcoholic materials used or removed from premises
- Quantity and testing for alcohol content of fusel oil
- Kind and quantity of distillates removed from production system
- Kind and quantity of spirits lost or destroyed prior to production gauge

Byproduct Spirits Production Record

- If substances other than spirits are manufactured in a process which produces spirits as a byproduct, daily production records will show:
 - Kind and quantity of materials received
 - Spirits produced and disposed of
 - Kind and quantity of other substances produced

Maintaining Production Records

- Production records will be maintained so that:
 - Produced spirits may be traced through distilling system from source material from which it was produced, and
 - Identity of the spirits traced can be clearly established

Think of it as Quality Control; each batch should be traceable back through the process.

Required Daily Records for Operational Accounts

Storage Account

Daily Storage Records

- Receipt of spirits and wine
- Spirits mingled
- Spirits in tanks
- Spirits and wine filled into packages from tanks and retained for storage
- Spirits of less than 190° proof or wines transferred from one tank to another

Daily Storage Records (Continued)

- Spirits returned to bond
- Spirits and wine voluntarily destroyed
- Spirits and wine lost during storage
- Transfer of spirits and wine from one package to another
- Addition of oak chips to spirits; caramel to brandy or rum
- Disposition of spirits and wine

Package Summary Records

- Summary record for each kind of spirits or wine in packages, showing amount deposited in, withdrawn from and remaining in storage account
- Separate records are kept for domestic spirits, imported spirits, and spirits from Puerto Rico or U.S. Virgin Islands and wine

Tank Record

- For Wine or Spirits of Less than 190⁰ Proof:
 - Record for each tank containing spirits or wine of less than 190⁰ proof, which shows deposits into, withdrawals from, and balance remaining in each tank
 - New record is prepared each time spirits or wine are deposited into empty tank
 - Transactions are recorded on the day transaction occurs

Tank Summary Record

- For Spirits of 190⁰ or More of Proof:
 - Summary record for spirits of 190⁰ or more held in tanks to show the proof gallons deposited into, withdrawn from, and remaining in tanks
 - Separate record is prepared for each kind of spirits
 - Entries are made for each day on which a transaction occurs

Required Daily Records for Operational Accounts

Processing Account

Processing Records

- Daily records of:
 - Manufacture of distilled spirits products
 - Storage of finished products

Records of Manufacturing

- Volume of spirits, wine, alcoholic flavoring materials received from storage/production at same plant, and from other plants
- Volume of spirits, wine, alcoholic flavoring, and other ingredients used in manufacture of distilled spirits product
- Bottling or packaging of each batch of spirits (lines 9 c and 28 b and c of TTB F 5110.28)
- Results of proof and fill tests (lab samples)

Records of Manufacturing (Continued)

- Rebottling, relabeling, and reclosing of bottled products
- Spirits, wines, alcoholic flavoring materials removed from premises
- Spirits moved to production account for redistillation
- Use/disposition of liquor bottles

Records of Manufacturing (Continued)

- Redistillation by means other than original continuous distillation
- Volume of alcoholic flavoring materials deposited into tanks prior to dumping
- Volume of spirits returned to bond
- Volume of spirits and wines voluntarily destroyed; losses

Dump/Batch Records

1. Serial number
2. Name, Registry number
3. Kind, age of spirits used
4. S/N of tank used
5. S/N of tank spirits came from
6. Quantity of other alcoholic ingredients
7. S/N of source record
8. Date
9. Quantity of nonalcoholic ingredients
10. Formula number
11. Quantity of ingredients previously dumped
12. Total proof gallons of all alcoholic ingredients
13. Record to which spirits are transferred
14. Quantity of each lot transferred
15. Date of each transfer
16. Quantity transferred
17. Gains, losses
18. Effective tax rate

Bottling and Packaging Record

1. Tank number
2. Serial number
3. Formula number (if any)
4. Kind of product (including age, if claimed)
5. Details of tank gauge
6. Date of fill
7. Size and number of packages filled, and number of cases filled
8. Serial numbers of cases filled, by brand name
9. Proof
10. Total quantity bottled, packaged, disposed of in bulk
11. Losses or gains
12. Whether spirits were labeled as bottled in bond
13. Serial number of dump/batch record

Records of Alcohol Content and Fill Tests

1. Date and time of test
2. Bottling tank number
3. Serial number of bottling record
4. Bottling line designation
5. Size of bottle
6. Number of bottles tested
7. Labeled alcohol content
8. Alcohol content found by the test
9. Percentage of variation from 100% fill
10. Corrective action taken, if any

Records of Finished Products

- Beginning and ending quantity of bottled/packaged spirits on hand
- Amount of spirits bottled/packaged
- Amount of bottled/packaged spirits disposed of
- Withdrawals may be shown in wine gallons or liters and the proof of spirits in cases

27 CFR 19.751

Additional Required Records

Additional Required Records

- Tax Records
- Records of Untaxpaid Removals
- Record of Inventories
- Other Records

Tax Records

Record	Required By
Record of Tax Determination	27 CFR 19.761
Daily Summary of Tax Determinations	27 CFR 19.762
Record of Average Effective Tax Rates	27 CFR 19.763
Inventory Reserve Records	27 CFR 19.764
Standard Effective Tax Rates	27 CFR 19.765

Records of Untaxpaid Removals

Record	Required By
Record of Samples	27 CFR 19.766
Record of Destruction	27 CFR 19.767
Transfer In-Bond Record	27 CFR 19.770

Record of Inventories

- Separate production, storage, and bulk processing account inventories are taken quarterly (finished goods inventories are taken twice a year)
- Content for each inventory:
 - Date taken
 - Identification of containers
 - Kind and quantity of spirits and wine
 - Losses, gains, shortages
 - Signature under penalties of perjury
- Retained on premises

Other Records

Record	Required By
Gauge Record	27 CFR 19.768
Package Gauge Record	27 CFR 19.769
Daily Record of Wholesale Liquor Dealer and Taxpaid Storeroom Operations, as applicable	27 CFR 19.773
Losses in Bond	27 CFR 19.562

Other Records (Continued)

Record	Required By
Record of Securing Devices	27 CFR 19.775
Record of Scale Tests	27 CFR 19.776
Removal of Puerto Rican, Virgin Island Spirits and Rum	27 CFR 19.778
Record of Distilled Spirits Shipped to Manufacturers of Non-Beverage Products (taxable removal)	27 CFR 19.780

General Recordkeeping Matters

- Time of making entries
- Record retention
- Computerized records
- Photocopies of records
- TTB permit application file – Keep Updated!!

Compliance Concerns – Recordkeeping

- Transactions not recorded timely
- Label statements insufficiently supported
- Non-taxable removals insufficiently documented
- Inventories not taken, recorded, reported

How Can I Learn More?

- www.ttb.gov

Summary

- Discussed allowable operations for Distilled Spirits Plants
- Discussed the three Distilled Spirits recordkeeping accounts
- Gave information on completing daily records

TAD Field Offices — Contact Information

District Office	Phone
Manchester District	(603) 666-7495
Philadelphia District	(215) 580-2007
Greensboro District	(336) 852-9081
Tampa District	(813) 348-1610
Cincinnati Districts (East and West)	(513) 684-2262
Dallas District	(214) 767-3960
San Francisco District	(360) 624-6853
Los Angeles District	(213) 534-7182