

U. S. TREASURY DEPARTMENT
Internal Revenue Service
Washington 25, D. C.

Alcohol and Tobacco Tax Division
Industry Circular No. 55-31

September 20, 1955

Proposed Amendments of Parts 220, 221,
and 225 Relating to Distilled Spirits

Proprietors of internal revenue bonded
warehouses, registered distilleries, and
fruit distilleries, and others concerned:

1. The Internal Revenue Service, in keeping with its program of modernizing and streamlining governmental supervision at the various types of operating plants associated with the distilled spirits industry, has proposed a number of additional changes in such supervision, relating primarily to operations at internal revenue bonded warehouses, which would be implemented by the issuance of a Treasury decision to be effective on or about January 1, 1956. A number of other proposals for simplification of procedures at internal revenue bonded warehouses have been carefully considered and developed. This industry circular is issued to provide a preview of the contemplated changes to enable you to begin planning the transition to the new procedures.

2. The major changes to be proposed would (1) eliminate the requirement for the weighing, prior to shipment, of packages transferred in conveyances sealed with Government cap seals between internal revenue bonded warehouses and transfer to proprietors the responsibility for weighing and recording the weights thereof of all packages transferred in unsealed conveyances, (2) eliminate the requirement that packages be weighed prior to the dumping of spirits into gauging tanks for bulk gauging for either taxpayment or bottling in bond, (3) provide for the recovering and repairing of packages under the general supervision of an internal revenue officer, (4) permit the taking of samples of spirits at internal revenue bonded warehouses under general supervision of an internal revenue officer, and (5) modify the requirements for the preparation of monthly report, Form 52C.

3. The proposed amendments would eliminate the requirements for weighing packages, relative to transfers in bond, prior to (1) shipment in conveyances to be sealed with Government cap seals, and (2) transfers to an internal revenue bonded warehouse operated by the consignor or an affiliate or subsidiary of the consignor in the immediate vicinity and so located that the transfer can be under observation by internal revenue officers. The

present provisions waiving the requirement for weighing packages upon receipt, (1) where shipments are received in conveyances sealed with Government cap seals, or (2) where the spirits are received from an authorized premises operated by the consignee or an affiliate or subsidiary of the consignee in the immediate vicinity and so located that the transfer can be under observation by internal revenue officers, are to be retained. However, if under these circumstances the warehouseman elects to weigh such packages, he may do so and shall record the weights on Form 1619. Further, the amendments would transfer to the warehouseman responsibility for weighing and recording the weights of all packages transferred in unsealed conveyances both prior to shipment and upon receipt. Packages shipped in either sealed or unsealed conveyances would be required to be examined by warehousemen both prior to shipment and upon receipt to determine whether any package bears evidence of unusual loss. The storekeeper-gauger would continue to examine and gauge all packages sustaining unusual losses in transit. Form 236 would be amended to provide that the consignor-warehouseman certify, under the penalties of perjury, to the accuracy of the description of the packages removed for transfer in bond and the consignee-warehouseman certify, under the penalties of perjury, to the receipt and deposit of the packages.

4. By eliminating the requirement for weighing packages prior to the dumping of spirits for gauging for either taxpayment or for bottling in bond it would no longer be necessary for the warehouseman to prepare Form 1520 (which presently accompanies the application on Form 179 or 1515) listing each package to be dumped for regauge. The internal revenue officer would prepare Form 1520 covering the bulk gauge.

5. The proposed amendments would remove present requirements that immediate storekeeper-gauger supervision be given to recoopering operations. Recoopering activities, involving the exposure of spirits, would be confined to a suitable enclosed area which could be locked when spirits are exposed therein unless the employee responsible for recoopering activities is present or the spirits have been deposited in locked containers. This is the only area in the current proposed changes in regulations which may require a change in present equipment or construction for some warehousemen. However, under the existing requirements of 26 CFR 225.406 many warehousemen have established rooms for recoopering

activities. No specific requirements have been prescribed for such enclosed area, but the area must provide adequate security for the contents of packages of spirits being recovered. Relative to recovered packages, the preparation of Form 1698 would be required only when the warehouseman believes that a package has sustained an unusual loss. In those instances the gauge and report thereof would be made by the warehouseman and the completed Form 1698 submitted to the internal revenue officer.

6. Rather than requiring immediate supervision, in all instances, of the taking of samples from packages, it is proposed to require the warehouseman to provide in his application (for permission to take samples), specific information as to the location of the package or packages to be sampled and the approximate time the samples would be taken. This information would enable internal revenue officers to examine sample packages and observe the taking of samples to the extent deemed necessary. Further, it is proposed to require the warehouseman to date and sign the labels to be affixed to samples and to certify to the accuracy of the statements thereon.

7. It is proposed to revise the monthly report, Form 52C, to only require the reporting of the total quantity (in summary form) of bulk and bottled-in-bond distilled spirits removed from the warehouse during the month and to require the warehouseman to maintain commercial records covering the physical removal of each lot of taxpaid spirits. The commercial records relating to taxpaid spirits would provide the information presently reported on Form 52C which is not available on other Government forms.

8. Other liberalizations and amendments which are proposed for inclusion in the proposed Treasury decision include:

- (1) The transfer to warehousemen of the responsibility for making and recording certain original gauges of containers filled from storage tanks. This procedure is consistent with that previously proposed for registered and fruit distilleries.
- (2) Authorization to storekeeper-gaugers to approve applications to transfer spirits from one kind of cooperage to another (e.g. from a reused package to a new package).

- (3) Provision for warehousemen to furnish storekeeper-gaugers in charge advance schedules of operations. These schedules may be a copy of any commercial schedule which the warehouseman prepares for his own management purposes or they may be prepared in mimeographed form and checked to indicate planned operations. Where essentially the same procedures are followed day after day the schedule could be prepared to cover planned operations for an extended period of time, advance notice to be given for deviations from such schedule.
- (4) Authorization for the transfer of spirits, which have been dumped in the storage portion of the warehouse, by pipeline to the bottling-in-bond department for regauge therein.
- (5) Provision for the affixing of brand labels or State stamps to bottled spirits in an internal revenue bonded warehouse other than the one where bottled; it being required that the bottles would have all of the mandatory labeling information affixed at time of filling.
- (6) The removal of restrictions on bottle sizes for spirits to be bottled in bond for export.
- (7) The transfer to the warehouseman of the responsibility for the preparation of Form 1620 when spirits are returned to the storage portion of the warehouse from the bottling-in-bond department.
- (8) Modification of the degree of supervision to be exercised by internal revenue officers over various warehouse activities such as transfer of spirits, from one warehouse storage tank to another, and filling of tank cars and tank trucks.

9. The issuance of this circular at this early date is intended to afford you the opportunity of planning for the transition to the new procedures, and to facilitate discussions of your individual problems with Government personnel concerned. Probably most inquiries can be processed by your assistant regional commissioner and should, accordingly, be addressed to him and refer to the number of the circular. Correspondence with this office should be marked: Attention: O:AT:PP.



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