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SENATE

{ REPORT
No. 325

AMENDING CHAPTER 26 OF THE INTERNAL REVENUE CODE

MAY 17, 1951.—Ordered to be printed

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

REPORT

(To accompany H. J. Res. 73)

The Committee on Finance, to whom was referred the joint resolution (H. J. Res. 73) amending chapter 26 of the Internal Revenue Code, having considered the same, report favorably thereon with an amendment, and recommend that the bill, as amended, do pass.

The committee amendment is as follows:

On page 4, strike the proviso beginning on line 7 with the word "and", through line 12 ending with the word "warehouse", and insert in lieu thereof the following:

And provided further, That sections 2836 and 2870 of the Internal Revenue Code shall not apply to the production or redistillation and removal of any such spirits; nor shall sections 2800 (a) (5) and 3250 (f) of the code 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.

GENERAL STATEMENT

The purpose of the joint resolution is to permit the use of beverage distilled spirits for industrial purposes in connection with the synthetic-rubber program and other phases of the national preparedness program, and to make provision for appropriate safeguards and controls with respect to the withdrawal and movement of such spirits under regulations to be issued by the Secretary of the Treasury. This legislation is urgently needed because the accelerated production of synthetic rubber, as part of the expanded defense program, requires the use of large quantities of alcohol.

DETAILED EXPLANATION

The emergency provisions of chapter 26 of the Internal Revenue Code (sec. 2883 (c), (d), and (e)), which were enacted early in 1942 and which permitted during World War II the utilization for in-

dustrial purposes of distilled spirits produced at beverage distilleries, were repealed by Public Law 448, approved February 21, 1950. It is again necessary to make available distilled spirits produced at beverage distilleries for industrial use in the defense effort, under internal revenue safeguards.

Under section 3331 of the Internal Revenue Code the Government may withdraw and is presently withdrawing beverage distilled spirits for emergency industrial use. However, this section of the law makes no provision for the transportation in bond, storage, denaturation, or redistillation of such spirits under internal revenue supervision, after withdrawal free of tax for Government purposes. The joint resolution is designed to restore, with certain modifications found desirable as the result of experience during World War II, the emergency provisions formerly contained in subsections (c), (d), and (e) of section 2883 of the Internal Revenue Code.

Subsection (a) of the joint resolution would accomplish the following:

(1) Permit the removal of distilled spirits of any proof from registered distilleries, internal revenue bonded warehouses, industrial alcohol plants, and industrial alcohol bonded warehouse to any other such facility for any purpose deemed necessary to meet the requirements of the national defense;

(2) Permit the storage of distilled spirits in approved tanks in any internal revenue or alcohol bonded warehouse;

(3) Permit the withdrawal of distilled spirits of 160° of proof or more from any distillery, internal revenue bonded warehouse, industrial alcohol plant or alcohol bonded warehouse for any tax-free purpose authorized by sections 3100 to 3126, inclusive, of chapter 26 of the Internal Revenue Code;

(4) Permit the transfer of tax liability and tax liens where distilled spirits are removed under the provisions of the section from one plant or warehouse to another plant or warehouse, except that where spirits are transferred to an internal revenue bonded warehouse no plant lien would, consistently with existing law, be transferred to such warehouse premises;

(5) Make applicable the provisions of sections 2901 and 3113 in respect of losses of any distilled spirits transferred or removed for transfer under the subsection; and

(6) Make inapplicable section 2836, which restricts hours for distilling, and sections 2800 (a) (5) and 3250 (f), relating to the rectification of spirits, in respect of the redistillation of such spirits at a distillery. It would also make inapplicable section 2870, which prohibits the removal of spirits from any distillery or internal revenue bonded warehouse at any time except during daylight hours.

The proposed exemption from the provisions of sections 2836, 2800 (a) (5), and 3250 (f) was not, in the opinion of the Treasury Department, broad enough to fully accomplish the purpose of the legislation. The exemption from section 2836 should apply to the production as well as the redistillation of any spirits within the scope of the bill, and the exemption from sections 2800 (a) (5) and 3250 (f) should also be extended expressly to permit the mingling of any such spirits at a distillery or internal revenue bonded warehouse or in the course of removal without incurrence of the taxes imposed in respect of rectification. In order to fully accomplish this purpose the last proviso of the

subsection (lines 7 to 12, inclusive, p. 4 of bill) was amended by the committee to read as follows:

And provided further, That sections 2836 and 2870 of the Internal Revenue Code shall not apply to the production or redistillation and removal of any such spirits; nor shall sections 2800 (a) (5) and 3250 (f) of the code 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.

Subsection (b) of the proposed new section would authorize the Secretary of the Treasury temporarily to exempt proprietors of distilleries, internal revenue bonded warehouses, industrial alcohol plants and industrial alcohol bonded warehouses from any provision of the internal revenue laws relating to distilled spirits, except as to the tax thereon, whenever in his judgment it is deemed necessary to do so to meet the requirements of the national defense.

Subsection (b) is the only significant difference between the joint resolution and the provisions of former section 2883 (c), (d), and (e). The only other difference which may be noted is that the joint resolution would permit the transfer of alcohol to, and the storage thereof on, distillery or internal revenue bonded warehouse premises.

Subsection (c) would provide that the authority conferred upon the Secretary of the Treasury by the proposed new section shall expire 5 years from the date of enactment of the section.

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 joint resolution are shown as follows (new matter is printed in italics, existing law in which no change is proposed is shown in roman):

CHAPTER 26 OF THE INTERNAL REVENUE CODE

CHAPTER 26—LIQUOR

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SUBCHAPTER E—MISCELLANEOUS GENERAL PROVISIONS

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SEC. 3183. NATIONAL EMERGENCY TRANSFERS OF DISTILLED SPIRITS.

(a) *TRANSFERS PERMITTED.*—Under regulations prescribed by the Secretary, 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 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 one hundred and sixty degrees or more for any tax-free purpose, or upon payment of tax for any purpose, authorized by part II of subchapter C; and any such distilled spirits removed to a distillery or internal revenue bonded warehouse may be withdrawn therefrom if of a proof of one hundred and sixty degrees or more for any tax-free purpose authorized by part II of subchapter C 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 part II of subchapter C, shall be subject to the provisions of part II of subchapter C: 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 the provisions of section 2901 of the Internal Revenue Code 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 the provisions of section 3113 of the code 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 sections 2836 and 2870 of the Internal Revenue Code shall not apply to the production or redistillation and removal of any such spirits; nor shall sections 2800 (a) (5) and 3250 (f) of the code 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 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 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 by this section shall expire five years from the date of enactment of this section.

