

INDUSTRY CIRCULAR



OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE
ALCOHOL AND TOBACCO TAX DIVISION

WASHINGTON 25, D. C.

Industry Circular No. 61-41

September 14, 1961

RECORDS AND REPORTS COVERING SPIRITS IN BONDED STORAGE

Proprietors of distilled spirits plants,
and others concerned:

Purpose. The purpose of this circular is to apprise you of the issuance of (1) an important revenue ruling which expresses the Service's modified position regarding the applicability of the 20-year bonding period to certain high proof spirits, and (2) a revenue procedure which explains the adjustments which the new ruling makes necessary in records and reports.

Background. Revenue Ruling No. 60-381 (C.B. 1960-2, 509) held that the bonding period limitation in section 5006(a)(2), I.R.C., did not apply to spirits entered into bonded storage at 190 degrees or more of proof even though such spirits were later reduced below 190 degrees of proof. The Internal Revenue Service has found this ruling untenable in light of the specific language of section 5006(a)(2), I.R.C. Accordingly, the Service revoked Revenue Ruling No. 60-381 by issuing Revenue Ruling No. 61-166 which now holds that the exemption in section 5006(a)(2)(B)(i), I.R.C., from the bonding period limitation applies only to spirits which are, in fact, "of 190 degrees or more of proof." Therefore, if spirits entered into storage at 190 degrees or more of proof are reduced, in bonded storage, below 190 degrees of proof, they immediately become subject to the bonding period limitation.

On the basis of the revoked ruling, spirits which were entered into bonded storage at a proof of 190 degrees or more and later reduced below 190 degrees were recorded in the summary accounts on Form 1621 as though they were 190 degrees or more of proof and exempt from the bonding period limitations. Now, on the basis of Revenue Ruling No. 61-166, all spirits which are, in fact, of less than 190 degrees of proof must be recorded as such in the summary accounts according to producer, and year and season of production (see 26 CFR 201.629).

Procedures. Revenue Procedure No. 61-23 prescribes the following procedures for making adjusting entries, necessitated by Revenue Ruling No. 61-166, in your warehouse records and reports:

1. When spirits having a proof of 190 degrees or more are reduced in bonded storage below 190 degrees, or spirits having a proof of less than 190 degrees are increased through mingling in bonded storage to 190 degrees or more, you should make appropriate entries in your summary accounts on Form 1621 to reflect such transactions. Where spirits not subject to the

bonding period limitation become subject thereto through reduction in proof, you should, as provided in Revenue Ruling No. 61-166, consider the date of reduction as the date of original entry.

2. If any spirits of less than 190 degrees of proof are currently carried in your summary records as though they are 190 degrees or more of proof and not subject to the bonding period limitation, you should transfer such spirits from the account in which they are now erroneously carried to the appropriate producer's and season's accounts required by 26 CFR 201.629. Also, you should notify the assigned officer, in writing, of the quantities of spirits transferred between accounts as provided in this item.

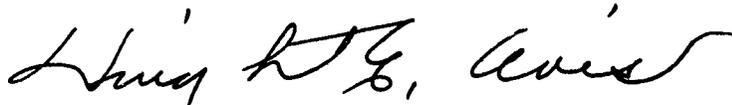
3. You should report in column (g) of Form 2731, Monthly Report of Bonded Storage Operations, transactions in alcohol and spirits which are, in fact, of 190 degrees or more of proof, and report in column (h) of the form all transactions in alcohol and spirits which are, in fact, of less than 190 degrees of proof.

4. Whenever any adjusting entries outlined in item 1 above are required in the summary accounts, you should also make appropriate credit and debit entries at lines 5 and 19 in columns (g) and (h) of Form 2731, with descriptive entries in column (a).

5. Similarly, appropriate credit and debit entries should be made on Form 2731 to reflect the transfer of spirits of less than 190 degrees of proof to the proper account, as outlined in item 2 above.

6. Those procedures in Revenue Procedure No. 61-2 (I.R.B. 1961-2, 53) which relate to Form 2731 are removed therefrom by Revenue Procedure No. 61-23.

Inquiries. Inquiries regarding this circular should refer to its number and be addressed to your assistant regional commissioner, alcohol and tobacco tax.



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