

INDUSTRY CIRCULAR

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



WASHINGTON 25, D. C.

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RECORDING AND REPORTING TOBACCO PRODUCTS REMOVED SUBJECT TO TAX

Manufacturers of tobacco products:

Purpose. This industry circular is to remind you of the requirements of regulations concerning recording and reporting tobacco products removed subject to tax.

Background. Recent inspections have disclosed instances of inaccurate reporting of the quantities of tobacco products removed subject to tax. In each instance, such action was related to the return of tax-determined products to the factory. Manufacturers reduced the quantity of tobacco products removed subject to tax to the extent of tax-determined (including taxpaid) products returned to the factory. The manufacturers based such action on two considerations: (1) no claim for allowance or refund would be made concerning the tax on returned products, and (2) when the returned tobacco products would again be removed subject to tax they would be retax-determined and retaxpaid.

However, there is no basis for this practice in the applicable laws and regulations.

Reporting of Removals Subject to Tax. The total quantity of tobacco products removed subject to tax must be entered in the records and reports and covered in the tax return for the period in which so removed and the full amount of tax (except for authorized adjustments) must be paid. In no case may the quantities of tobacco products removed subject to tax be reduced by the quantity of tax-determined (including taxpaid) products returned to the factory. However, two methods exist for the proper handling of tax-determined (including taxpaid) tobacco products received into the factory. These methods are explained in the following paragraph.

Receipt into Factory and Disposition of Tax-Determined Products. Where tax-determined (including taxpaid) tobacco products are received into the factory, the products should be segregated and identified as "Tax-Determined Products." The receipt and disposition of such products should be recorded in the Account of Taxpaid or Tax-Determined Products Received. Where such tax-determined (including taxpaid) products are reshipped, the supporting records (such as copies of invoices, bills of lading, shipping tickets, etc.) should clearly identify the tax status of the products. Lack of such identification may result in the assessment of tax on such reshipped products. The monthly reports should not include any tax-determined (including taxpaid) tobacco products which are received and disposed of in this manner. On the other hand, tax-determined (including taxpaid) tobacco products received into the

factory may be returned to an "in bond" status. To accomplish this, the Account of Taxpaid or Tax-Determined Products Received shall show such disposition and the products should be accordingly recorded under "Received by Return to Bond." Thus, such products will be included in the monthly reports. When such products are then removed subject to tax, they should be so reported and fully covered in the tax return for the period in which they were removed. If the manufacturer wishes to obtain allowance or refund of tax which has been previously determined or paid on the products returned to bond, he should file claim on Form 2635 or Form 843, as applicable, and follow the procedures prescribed in 26 CFR 270.283, 270.311, and 270.313.

Inquiries. Inquiries in regard to this industry circular should refer to its number and be addressed to your assistant regional commissioner (alcohol and tobacco tax).

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