

TTB and Industrial Alcohol: Key Regulations Topics for Industry Members

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TTB Disclaimer

Notice:

- This information is being presented to help the public to understand and comply with the laws and regulations that the Alcohol and Tobacco Tax and Trade Bureau (TTB) administers
- It is not intended to establish any new, or change any existing, definitions, interpretations, standards, or procedures regarding those laws and regulations
- In addition, this presentation may be made obsolete by changes in laws and regulations
- Please consult the applicable laws and regulations for the most current requirements



Agenda

- TTB Overview
- Overview of Industrial Alcohol
- Denatured Alcohol
- Industrial Distilled Spirits Plants (DSPs)
- Industrial Alcohol User/Dealer Permits
- Selling Undenatured Alcohol for Industrial Use
- Q & A



TTB Overview

- We are a bureau within the Department of the Treasury
- We currently have about 500 employees
- Our headquarters are in Washington, DC
- The Office of Permitting and Taxation (the National Revenue Center) is in Cincinnati, Ohio
- We have field offices located across the country
- We have 3 laboratories, located in Maryland



TTB Mission

COLLECT the taxes on alcohol, tobacco, firearms, and ammunition

PROTECT the consumer by ensuring the integrity of alcohol products

ENSURE only qualified businesses enter the alcohol and tobacco industries

PREVENT unfair and unlawful market activity for alcohol and tobacco products



Industrial Alcohol - Overview

Non-Industrial Alcohol

- Distilled spirits (ethyl alcohol) used for non-industrial (beverage) purposes
- “Beverage,” “Non-Industrial”
- Regulated under Title 27 U.S.C. (Federal Alcohol Administration Act) and corresponding regulations (27 CFR parts 1-16)
- Also regulated under Title 26 U.S.C. (Internal Revenue Code) and corresponding regulations (27 CFR parts 19 & 26-31)
- Producers pay federal excise tax



Industrial Alcohol - Overview

Industrial Alcohol

- Distilled spirits (ethyl alcohol) used for industrial purposes
- “Unfit for Beverage Purposes,” “Industrial,” “Denatured,” “Nonbeverage”
- Regulated under Title 26 U.S.C. (IRC) and corresponding regulations (27 CFR parts 17, 19, 20, 21, & 22)
- In most cases producers do not pay federal excise tax



Industrial Alcohol - Overview

Denatured Alcohol

(27 CFR parts 1, 19, 20, and 21)

- Denatured alcohol is used for fuel and in a wide array of products
- Products made with denatured alcohol are called “articles” in the TTB regulations, and include solvents, inks, candy coatings, shampoos, and more



Industrial Alcohol - Overview

Undenatured Alcohol for Industrial Use (27 CFR parts 1, 17, and 22)

- Taxpaid alcohol used in the manufacture of medicines, medicinal preparations, food products, flavors, flavoring extracts, and perfume (Part 17)
- Tax-free alcohol used by universities, research laboratories and hospitals for certain authorized purposes (Part 22)



Denatured Alcohol

Completely Denatured Alcohol (CDA)

- Alcohol denatured pursuant to CDA formulas prescribed in Subpart C of 27 CFR part 21
- **A permit is not needed to purchase or use CDA**



Denatured Alcohol

Specially Denatured Spirits (SDS)

- Alcohol or rum which has been treated with denaturants to make it unfit for beverage use pursuant to SDS formulas prescribed in Subpart D of 27 CFR part 21
- **An industrial user permit is needed to procure, use, recover and/or deal in SDS**
- Often referred to as “SDA” instead of “SDS.” SDA stands for Specially Denatured Alcohol and doesn’t include Specially Denatured Rum



Denatured Alcohol

Two major categories of use:

- Denatured alcohol used for fuel purposes
- Denatured alcohol used to manufacture other products





Denatured Alcohol: Manufacture of Articles

- Alcohol may only be denatured according to the formulas for CDA and SDS found in TTB's regulations at 27 CFR part 21, Subparts C & D

Example:

§ 21.37 Formula No. 3-C.

- (a) *Formula.* To every 100 gallons of alcohol add:
 - Five gallons of isopropyl alcohol.

- Denatured alcohol is primarily used to manufacture “articles”
- An article is any product in the manufacture of which denatured spirits are used (27 CFR 20.11)



Denatured Alcohol: Manufacture of Articles

Formula Requirements (27 CFR part 20, Subpart F)

- Article formulas must be approved by TTB's Nonbeverage Products Lab (TTB Form 5150.19), **or**
- Articles must be made in accordance with a general use formula listed in TTB's regulations (27 CFR 20.111 - 20.124)
- Article formula requirements apply to articles manufactured by DSPs or Industrial Alcohol User permittees
- Formulas not required for articles made with CDA



Denatured Alcohol: Manufacture of Articles

Labeling Requirements (27 CFR part 20, Subpart G)

- TTB's article labeling requirements apply to any person labeling articles, including permittees and non-permittees



Denatured Alcohol: TTB Permit Requirements

Industrial Distilled Spirits Plants (DSPs)

- Industrial DSP permittees are authorized to produce, warehouse, process, and/or denature spirits
- Must register as a DSP and obtain an “operating permit” from TTB
- Regulatory requirements include rules for location and use of DSP premises, security measures, recordkeeping, monthly reports, and bonds
- Regulated under 27 CFR part 19



Denatured Alcohol: TTB Permit Requirements

Industrial Alcohol User/Dealer Permittees

- Industrial alcohol user or dealer permittees are authorized to withdraw, deal in and/or use or recover SDS
- Only entities, in addition to industrial DSPs, that can make products using SDS
- Regulatory requirements include recordkeeping and annual report
- No bond requirement
- Regulated under 27 CFR part 20



Industrial DSPs – Permit Application

- You may apply for an industrial DSP via TTB's Permits Online web portal (<https://www.ttb.gov/ponl/customer-support>)
- On your application you must provide detailed information, including:
 - Description of the proposed DSP premises
 - Lease agreement or proof of property ownership
 - Notice of the specific operations you intend to conduct
 - Description of equipment & security measures
 - Projection of the quantity of spirits to be produced, stored, and received on the premises



Industrial DSPs – Tax Liability

- Tax liability remains attached to industrial spirits until:

Withdrawn

- Tax-Free to a permitted Tax-Free Alcohol User
- Tax-Free after denaturation in the manner prescribed by law for export, for use in the manufacture of definite chemical substances, or for other uses in the arts and industries, and for fuel, light and power
- Tax-Free when contained in any “article” (finished products made with denatured alcohol)
- Tax determined for shipment to a Manufacturer of Nonbeverage Products (MNBP), or

Transferred

- In bond to another DSP



Industrial DSPs - Gauging Requirements

(27 CFR part 19, Subpart K)

- **Gauging** = the determination of **proof** *and* **quantity** of spirits
- DSPs need to measure and record proof and quantity because the unit for the tax liability that attaches to spirits is a *proof gallon*



Industrial DSPs - Gauging Requirements (27 CFR part 19, Subpart K)

Examples of when gauges are required (not exhaustive):

- Upon receipt of spirits from another DSP
- Upon production and deposit
- When transferred between operational accounts (production, processing, storage)
- When voluntarily destroyed
- When removed or withdrawn from bond
- Before and after denaturation



Industrial DSPs - Approved Gauging Methods

Proof

- Hydrometer + Thermometer
- Certain approved density meters
- Another method approved by the appropriate TTB officer
- See detailed gauging instructions at **27 CFR part 30 (TTB's Gauging Manual)** and public guidance on our website at: [TTB G 2014-1B, Approval of Alternative Devices for Determination of Proof of Distilled Spirits for Tax Determination Purposes; Guidance and Performance Standards](#)



Industrial DSPs - Approved Gauging Methods

Quantity

- By Weight:
 - Tank scales, package scales, truck/railcar scales
- By Volume:
 - Accurate mass flow meters, or measured in tanks or other bulk conveyances using suitable measuring devices and calibration charts
 - Another device or method approved by the appropriate TTB officer



Industrial DSPs – Losses and Shortages

- TTB will not collect tax on spirits or denatured spirits that are lost, destroyed, or otherwise unaccounted for while in bond, **EXCEPT** in cases of:
 - Theft
 - Voluntary destruction by means not authorized in the regulations
 - Unexplained shortages of bottled spirits
- See **27 CFR part 19, Subpart R** for more information



Industrial DSPs – Voluntary Destruction

- No tax liability on spirits, denatured spirits, or articles voluntarily destroyed on bonded premises in accordance with TTB regulations (**27 CFR 19.459**)
- Proprietor must gauge spirits, denatured spirits or articles to be destroyed
- Proprietor must make a record of the destruction



Industrial DSPs – Voluntary Destruction

- If proprietor intends to destroy spirits, denatured spirits, or articles off-site, they must file a consent of surety to cover the removal
- Destruction of spirits, denatured spirits, or articles (on or off-site) must comply with applicable federal, state, and local environmental laws and regulations



Industrial DSPs - Records

- Industrial DSPs must maintain extensive records covering:
 - Production
 - Storage
 - Processing
 - Denaturation and article manufacturing
 - Gauging
 - Transfers
 - Tax determination (if applicable)
 - Shipping
- **See 27 CFR part 19, Subpart V**



Industrial DSPs - Reports

Industrial DSPs must submit monthly operations reports to TTB for:

- Production
- Storage
- Processing
- Denaturing (If applicable)
- See **27 CFR 19.632**



Industrial Alcohol User/Dealer – Permit Application

- Entities seeking to withdraw, deal in, and/or use or recover specially denatured spirits (SDS) must apply for a permit via **Permits Online** (<https://www.ttb.gov/ponl/customer-support>) **before** commencing business



Industrial Alcohol User/Dealer – Permit Application

Applicants must provide information including:

- name and business address
- estimated quantity of SDS to be procured on an annual basis
- location(s) where SDS will be sold or used
- whether recovery will be conducted, and
- a statement of intended use(s) of SDS (users only)



SDS Dealers – Authorized Operations

- May withdraw from the bonded premises of an industrial DSP or another permitted SDS dealer
- May package SDS in containers of any size
- May ship SDS in bulk
- Can only distribute SDS to other permitted SDS Dealers or Users



SDS Users – Authorized Operations

- May withdraw from the bonded premises of an industrial DSP or from a permitted SDS Dealer
 - Withdrawals may only be initiated after the consignee has furnished a copy of their valid permit
 - Dealers and Users may not exceed the quantities authorized by permit to be withdrawn in a calendar year



SDS Users – Authorized Operations

- May manufacture articles under formula approved by TTB's Nonbeverage Products Laboratory or under a general use formula (§§ 20.111-20.124) for uses specified in parts 20 & 21
- **Note:** Permittees may be liable for taxes if they withdraw, sell, transport, or use SDS in violation of the laws or regulations administered by TTB



SDS Users/Dealers - Destruction

- Permittees may terminate liability for payment of tax when SDS or recovered alcohol are destroyed in accordance with TTB regulations (**27 CFR part 20, Subpart L**)
- Permittees who destroy SDS or recovered alcohol, or transfer such material to another entity for **destruction** must prepare a record of destruction (**27 CFR 20.222(a)**)



SDS Users/Dealers - Destruction

- The destruction of SDS or recovered alcohol shall **only** be performed by SDS user/dealer permittees or DSPs, with one **exception**:
 - a non-permittee may destroy recovered alcoholic material if the material has been determined by the appropriate TTB officer to be equivalent to an article



SDS Users/Dealers – Records and Reports

- **Dealers** must maintain records of each formulation of new and recovered SDS received, packaged, destroyed, lost, and transferred to another permittee or a DSP



SDS Users/Dealers – Records and Reports

- **Users** must maintain records of each formulation of new and recovered SDS received, recovered, used, destroyed, lost and transferred, as well as the number of gallons of each formulation of new and recovered SDS used for each product or process
- **Users** must submit an **annual report (TTB F 5150.18)** to TTB summarizing their records from July 1 through June 30



Sale of Undenatured Alcohol for Industrial Use

- The sale of taxpaid undenatured alcohol for industrial use is regulated by TTB
- Sellers of taxpaid undenatured alcohol for industrial use must register with TTB as a liquor dealer under **27 CFR part 31 (Form TTB F 5630.5d)**



Sale of Undenatured Alcohol for Industrial Use

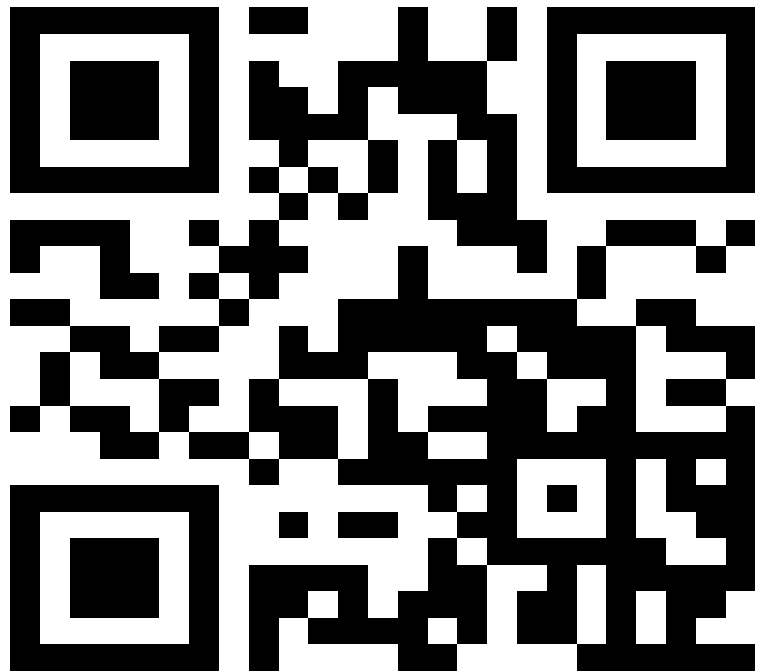
- Liquor dealers may only sell taxpaid undenatured industrial alcohol in bulk quantities (greater than 1 U.S. gallon) and must comply with TTB regulations in **part 31**
- Liquor dealers are not authorized to bottle or repackage taxpaid undenatured alcohol for industrial use, except under limited circumstances (**See 27 CFR 31.211**)



Questions?

Please take few minutes to provide
feedback on our educational
session:

<https://www.ttb.gov/survey>



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