

INDUSTRY CIRCULAR

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



WASHINGTON 25, D. C.

Industry Circular No. 61-4

January 26, 1961

Records Covering Receipt and Use of Tax-Free Alcohol

Users of tax-free alcohol
and others concerned:

Purpose. The purpose of this industry circular is to supply you with instructions and aids to assist you in maintaining your records on tax-free alcohol in such a way that they will fulfill requirements of 26 CFR Part 213 and simplify your task in the preparation of future annual reports on Form 1451.

Background. The regulations, 26 CFR Part 213, require that records be kept in sufficient detail to enable any internal revenue officer to verify all transactions and to ascertain that you have complied with the law and regulations. These regulations also require that the records be such as to enable you to prepare your annual report, Form 1451. Since figures reported on Form 1451 are to be in proof gallons, you are required to identify, on your records, the proof of all alcohol together with the actual quantities for each transaction. Regulations also require that you take an inventory at the close of each month and keep such inventory as a part of your records.

Basic Records. (a) **Alcohol Received.** The copy of the Form 1473 which you receive covering each shipment of tax-free alcohol will serve as your basic record of alcohol received. Be sure that you have made proper notation on this copy (and on the original which you forward to your assistant regional commissioner) of any losses in transit. The quantity reported on the Form 1473, minus any loss or deficiency in transit, is the quantity which you must report on your Form 1451 as "received."

(b) **Use of Alcohol.** Each time alcohol is withdrawn from your supply for any use, an entry should be made on your records, showing the quantity (liquid measure), the proof, and the purpose of removal. You need not convert each separate quantity so removed to proof gallons unless you so desire. Instead, you may total the quantity of alcohol of the same proof removed during the period of one calendar month, and then convert the figure representing the month's removals to total proof gallons removed. The resulting total, or combined total if you have alcohol of more than one proof, will be shown in column (g) of Form 1451 for that month.

(c) Monthly Inventory. At the close of each month, an inventory must be taken of all alcohol remaining in stock. First, determine the quantity remaining in each package or tank. If all of the alcohol is of the same proof, add these figures and convert the resulting figure to proof gallons. If you have in stock alcohol of different proofs, add the quantity for each proof separately, convert the total quantity for each proof to proof gallons and then total the proof gallons thus obtained. This is the total quantity, in proof gallons, on hand at the end of the month.

(d) Losses or Gains. You now have records showing all alcohol received and used during the month and on hand at the end of the month. (This latter, of course, also becomes the quantity on hand at the beginning of the following month to be reported in column (b) for that month.) From these figures you can determine any gains or losses during the month, as follows:

Add the quantity received during the month to the quantity on hand at the beginning of the month, and subtract therefrom the quantity used during the month. If the resulting figure is less than the quantity determined from your inventory as on hand at the end of the month, the difference between the two figures represents a gain (Example A). If it is more than the quantity revealed by your inventory, it represents a loss (Example B).

<u>Example A:</u>	On hand March 1, 1961	195 p. g.
	Received during month	<u>110</u> p. g.
	Total	305 p. g.
	Used during month	<u>200</u> p. g.
	Resulting figure	105 p. g.
	Quantity on hand, March 31 as shown by inventory	<u>106</u> p. g.
	<u>Gain</u> during month	1 p. g.

<u>Example B:</u>	On hand April 1, 1961	106 p. g.
	Received during month	<u>110</u> p. g.
	Total	216 p. g.
	Used during month	100 p. g.
	Losses by casualty or theft	<u>2</u> p. g.*
	Resulting figure	114 p. g.
	Inventory, April 30, 1961	<u>112</u> p. g.
	Additional losses during month	2 p. g.

* The regulations require that you show in your records all losses by theft or casualty or other unusual losses and that entries covering these losses be made in your records at the time of such losses or when they are discovered. Therefore, these known losses must be taken

into account in order to determine any additional loss at the end of the month. However, all losses must be totaled and the combined figure (in the example - 4 p.g.) entered in column (h) of Form 1451.

(e) Recovered Alcohol or Alcohol Received from General Services Administration. If you receive alcohol from General Services Administration or if you recover tax-free alcohol, you must account for such alcohol separately in your records and inventory and make separate entries on Form 1451, appropriately identified. If recovered alcohol is shipped to a distilled spirits plant for restoration, the approximate quantity thereof, in proof gallons, should be entered in column (g), followed by an asterisk, and an explanation of the entry should be shown elsewhere on the form, identifying the distilled spirits plant to which shipment was made.

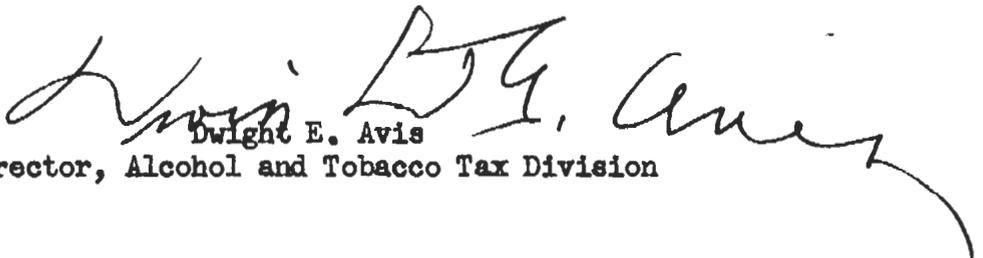
While the above procedures do not cover every transaction, they demonstrate the type of records which can be kept to meet regulatory requirements. The records must be in sufficient detail to show each transaction and to enable you to prepare Form 1451. Also, a record of the inventory taken at the close of each month, along with all other records, must be maintained, for a period of three years from the date of the report on Form 1451 covering the transactions. Observe the instructions on the back of Form 1451 when making entries from your records to the form.

Conversion Table. Use of the table below may prove helpful to you in converting volume measures to proof gallons for alcohol of 190 or 200 degrees of proof.

<u>Fluid</u> <u>Ounces</u>	<u>Volume</u> <u>Measures</u>	<u>Wine</u> <u>Gallons</u>	<u>Proof Gallons</u> <u>190 Proof</u>	<u>Proof Gallons</u> <u>200 Proof</u>
4	1/4 pint	.031	.059	.062
8	1/2 pint	.063	.119	.125
16	1 pint	.125	.238	.250
32	1 quart	.250	.475	.500
64	1/2 gallon	.500	.950	1.000
96	3 quarts	.750	1.425	1.500
128	1 gallon	1.000	1.900	2.000
	2 gallons	2.000	3.800	4.000
	3 gallons	3.000	5.700	6.000
	4 gallons	4.000	7.600	8.000
	5 gallons	5.000	9.500	10.000
	10 gallons	10.000	19.000	20.000
	25 gallons	25.000	47.500	50.000
	55 gallons	55.000	104.500	110.000

In computing proof gallons to the nearest tenth for entry to Form 1451, all fractional parts of five-hundredths or more shall be increased to the next tenth; for example, 4.275 proof gallons will be reported as 4.3 proof gallons. Fractional parts of less than five-hundredths shall be dropped; for example, 4.126 proof gallons will be reported as 4.1 proof gallons.

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


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