

SENATE AMENDMENT TO H.R. 4612:

EXCISE TAX TREATMENT FOR
WINE USED IN DISTILLED SPIRITS PRODUCTS

Prior law

Under prior law, wine was generally subject to the applicable wine tax when it was withdrawn from the bonded wine cellar where it was produced. The excise tax on wine varies according to its alcohol content (see below for tax rates).

Wine has been used in the production of distilled spirits products, such as cordials and liqueurs. When wine was used for this purpose, the applicable wine tax was paid or determined when the wine was withdrawn from the bonded wine cellar for transfer to a distilled spirits plant to be blended with distilled spirits and flavorings to make the distilled spirits product. The distilled spirits tax on the distilled spirits which became part of a product was similarly imposed (at a rate of \$10.50 per proof gallon) before these components were blended and a 30-cent per proof gallon rectification tax was imposed on the blended product (including the wine component).

Present law

Excise tax rates on wine

The excise tax on wine depends on the alcohol content (by volume) and whether the wine is carbonated or non-carbonated (still wine). Still wines are taxed as follows: (a) 17 cents per wine gallon for wines containing not more than 14 percent alcohol; (b) 67 cents per wine gallon for wines containing between 14 percent and 21 percent alcohol; and (c) \$2.25 per wine gallon for wines containing between 21 percent and 24 percent alcohol. Champagne and other sparkling wines are taxed at \$3.40 per wine gallon and artificially carbonated wines are taxed at \$2.40 per wine gallon. (All wines containing more than 24 percent alcohol by volume are classed and taxed as distilled spirits-- at \$10.50 per proof gallon.)

Trade Agreements Act of 1979

This Act (P.L. 96-39, approved July 26, 1979) generally implements the trade agreements reached under the multilateral trade negotiations. A part of this legislation equalizes the U.S. excise tax treatment of U.S. and foreign-produced distilled spirits and modernizes the system for imposing and administering the distilled spirits tax. This new system is referred to as the "all-in-bond" method and was generally effective on January 1, 1980. Under the all-in-bond method, as it applies to wine used in distilled spirits products, the wine will not be subject to the wine tax. Instead, the wine will be transferred without payment of tax to the distilled spirits plant where it becomes part of a distilled spirits product. The distilled spirits tax will then be imposed on the completed product, including the wine component. (The 30-cent rectification tax was also repealed under the all-in-bond changes.)

A result of the change to the all-in-bond method is that wine which is included in a distilled spirits product is subject to the \$10.50 per proof gallon distilled spirits tax, rather than the lower total of the applicable wine tax and the prior rectification tax.

Senate amendment to H.R. 4612

The Senate amendment would provide a credit against excise tax liability under the all-in-bond method for the difference between the distilled spirits tax and the applicable wine tax on this wine if the wine had been subject to the wine tax. The credit would be available only on wine which becomes part of a distilled spirits product and would be allowed, in the case of domestically produced distilled spirits products, for the semi-monthly return period when the distilled spirits tax on the distilled spirits products which contains this wine is payable. This credit would also be available for wine included in distilled spirits products which are produced abroad and imported into the United States and would be allowed at the time the distilled spirits tax is payable.

Effective date

The amendment would be effective on January 1, 1980, the same date when the all-in-bond method became effective under the Trade Agreements Act of 1979.

Revenue effect

It is estimated that the amendment will reduce budget receipts by at least \$5 million annually from the amount that would be collected under the all-in-bond method.

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