



DEAL OR NO DEAL! What it Takes to Become a User or Dealer of Specially Denatured Spirits

Presented by
Vickie Jobe-Peters, Shawn Burcham, and
Janet Scalse



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Overview

- TTB Laboratory Perspective
- Qualifying Documents
- Changes to your Industrial Alcohol User Permit
- General Information
- Terminating your Permit

Alcohol and Tobacco Tax and Trade Bureau

Specially Denatured Spirits: TTB Laboratory Perspective



Current Requirements

- If you want to use specially denatured spirits (SDS), you must:
 - Obtain a permit
 - Decide which of the formulae in 27 CFR part 20 you wish to use
 - Determine whether you need to file TTB Form 5150.19 or whether your use qualifies under a general-use formula
 - Wait for formula approval

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What Does the TTB Lab Do?

- One chemist processes all of the incoming SDS formulas for TTB
- Our Lab completed approximately 2,300 formulas and samples last year
- Reviews new processes and denaturants

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General-Use Formulas

- Special Industrial Solvents
- Proprietary Solvents
- Tobacco Flavors
- Ink
- Low Alcohol
- Reagent Alcohol
- Rubbing Alcohol
- Toilet Preparations Containing $\geq 10\%$ Essential Oils

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- Business Process Reengineering Study
- Eliminate unused SDS formulas in 27 CFR part 21
- Determined that many of SDS formulas can be reclassified as part of general-use formulas

- The following formulas have not been used since electronic data collection began:
 - 2-C, 3-B, 6-B, 17, 20, 22, 23-F, 27, 27-A, 27-B, 33, 38-C, 39, 39-A, 42, 44, and 46.
- The following formulas will be reclassified as general-use formulas:
 - SDS 1, 3-A, 12-A, 13-A, 19, 23-A, 23-H, 30, 32, 35, 35-A, 36, 37, 38-D, 40, 40-A, 40-B.

How Will This Help?

- Unnecessary formulas will be removed from the regulations to make them less cumbersome
- Companies using the reclassified SDS formulas will be able to make their products without obtaining formula approval
- TTB will review only those formulas that may pose jeopardy to the revenue

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Next Steps

- Revise 27 CFR parts 20 & 21
- Obtain concurrence at U.S. Treasury Department
- Publish in Federal Register
- Comment period
- Finalize regulation change

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Contact Information

- Nonbeverage Products Laboratory
 - Janet Scalese
Phone: 240-264-1589
E-mail: Janet.Scalese@ttb.gov
 - Tomika Moore
Phone: 240-264-1588
E-mail: Tomika.Moore@ttb.gov

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Qualifying Documents

- Who is required to apply for a permit?
 - Anyone who wants to procure (buy), use, recover, or deal in (sell) specially denatured spirits must apply for and obtain an industrial use permit.
- Can anyone get Specially Denatured Spirits (SDS) without a permit?
 - Samples of SDS may be obtained without a permit during a single calendar year if the quantity is no more than five gallons. (There are restrictions on how the samples of SDS may be used.)

- If someone needs more than a five-gallon sample of SDS so they can determine if they want a permit to use SDS, they must send us a letterhead application describing why they need the additional amount.
- Dealers or distilled spirits plants (DSPs) that provide the samples must keep accurate records to be sure the samples they provide to a customer without a permit do not exceed the five-gallon limit.



Distilled Spirits Used to Make Denatured Spirits

- Denatured spirits may only be made with alcohol (ethyl alcohol) or rum. Any source material may be used to produce the alcohol (e.g., grains, etc.), by any means (the method of distillation).
- Whiskey, brandy, rum, gin, vodka, or products that have been rectified (treated in a way that causes a substantial change) may **NOT** be used in the denaturation process.

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Producing Denatured Spirits

- Completely denatured alcohol must be produced with alcohol with a proof of 160° or higher.
- SDS must be produced with alcohol with a proof of 185° or higher.
- If rum is used in the denaturation process, its proof must be 150° or higher.
 - The only formula that may be used to denature rum is SDS Formula No. 4.
 - Denatured rum falls in the same category as SDS as far as regulatory controls are concerned.

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How are Specially Denatured Spirits Used?

- In laboratories as a solvent
 - for cleansing purposes, or in the preparation of indicator solutions, and reagents
- In the manufacture of such articles as
 - perfumes, proprietary solvents (made with SDS formula 1 or 3A), tobacco flavors, lotions, and sprays

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How are Specially Denatured Spirits Used? (Cont'd)

- In conversion processes to produce other substances such as vinegar, or ethyl acetate (a flammable liquid with a fragrant, fruitlike odor this is used mainly as a scent in perfume manufacturing and as a solvent for paints and lacquers).

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Qualifying Documents for SDS Users

- For annual withdrawals of 5,000 gallons or less:
 - TTB F 5150.22, Application for an Industrial Alcohol User Permit
 - TTB F 5000.29, Environmental Information
 - TTB F 5000.30, Supplemental Information on Water Quality Considerations
 - TTB F 5100.1, Signing Authority for Corporate Officials or TTB F 5000.8, Power of Attorney

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Qualifying Documents for SDS Users (Cont'd)

- For annual withdrawals of 5,000 gallons or less:
 - TTB F 5630.5, Special Tax Registration and Return
 - TTB F 5150.19 – Formula and/or Process for Article Made with Specially Denatured Spirits. This is not required if manufacturing a general use formula.

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Qualifying Documents For SDS Users (Cont'd)

- For annual withdrawals over 5,000 gallons:
 - TTB F 5150.22, Application for an Industrial Alcohol User Permit
 - TTB F 5000.29, Environmental Information
 - TTB F 5000.30, Supplemental Information on Water Quality Considerations
 - TTB F 5100.1, Signing Authority for Corporate Officials or TTB F 5000.8, Power of Attorney
 - Special Tax Registration

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Qualifying Documents for SDS Users (Cont'd)

- For annual withdrawals over 5,000 gallons:
 - TTB F 5000.9, Personnel Questionnaire
 - TTB F 5150.19, Formula and/or Process for Article Made with Specially Denatured Spirits. (This is not required if manufacturing a general use formula.)
 - Organizational Documents to include:
 - Certificate and Articles of Incorporation, Bylaws (for corporations);
 - Certificate and Articles of Organization, Operating Agreement (for LLCs)

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Qualifying Documents for SDS Users (Cont'd)

- For annual withdrawals over 5,000 gallons:
 - List of Stockholders (10 percent or more stock), Officers, Directors and Members, including address, titles, and amount of shares/interest held
 - Trade Name Registration
 - Certificate to Operate in a Foreign State (if organized in a different State)
 - Statement designating person directly responsible for the specially denatured spirits.

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Qualifying Documents for SDS Dealers

- For annual withdrawals of 5,000 gallons or less:
 - TTB F 5150.22, Application for an Industrial Alcohol User Permit
 - TTB F 5100.1, Signing Authority for Corporate Officials or TTB F 5000.8, Power of Attorney
 - Special Tax Registration

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Qualifying Documents for SDS Dealers (Cont'd)

- For annual withdrawals over 5,000 gallons:
 - TTB F 5150.22, Application for an Industrial Alcohol User Permit
 - TTB F 5100.1, Signing Authority for Corporate Officials or TTB F 5000.8, Power of Attorney
 - TTB F 5000.9, Personnel Questionnaire
 - Organizational Documents to include:
 - Certificate and Articles of Incorporation, Bylaws (for corporations);
 - Certificate and Articles of Organization, Operating Agreement (for LLCs)

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Qualifying Documents for SDS Dealers (Cont'd)

- For annual withdrawals over 5,000 gallons:
 - List of Stockholders (10 percent or more stock), Officers, Directors and Members, including address, titles, and amount of shares/interest held
 - Trade Name Registration
 - Special Tax Registration
 - Certificate to Operate in a Foreign State (if organized in a different State)
 - Statement designating person directly responsible for the SDS

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Changes to Your Industrial Alcohol User Permit: Steps to Amend Your Permit



Name Change

- If the change consists of a change in name only, you will need:
 - Either a letterhead notice that explains the change or an application on TTB F 5150.22 with item #10 completed to show “change in name.”
 - Copies of organizational documents (amended articles of incorporation, amended operating agreement, or other State registration that evidences the name change).
 - Return your original permit for amendment.
 - File Special Tax Stamp Registration on TTB F 5630.5 to show the new name. Be sure to also return your current Tax Stamp for amendment.

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Change in Proprietorship

- If you have undergone a change in proprietorship/ownership, you will need:
 - A new application on TTB F 5150.22, that must be received by the National Revenue Center on behalf of the new entity within 30 days of the change.
 - The outstanding permit may remain in effect until final action is taken on the application. If the application is not timely submitted, the predecessor's permit automatically terminates at the expiration of the 30-day period.
 - The incoming proprietor should file supporting documents (articles of incorporation, signing authority, and environmental forms, if applicable.)

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Change in Proprietorship (Cont'd)

- If you have undergone a change in proprietorship/ownership, you will need:
 - Specially denatured spirits users may adopt the formulas of their predecessor as provided in 27 CFR 20.63 or file new formulas on TTB F 5150.19
 - The outgoing proprietor should return their original permit for cancellation
 - An SDS user must also file a "final" report on TTB F 5150.18

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Location or Address Change

- **If you have moved or have a new postal address, you will need:**
 - Either a letterhead notice that explains the change or an application on TTB F 5150.22 with item #10 completed to show “change in location”
 - File a Special Tax Registration and Return on TTB F 5630.5 to show the new address. Be certain to include your current special tax stamp for amendment.
 - Your permit must show the address where the alcohol is used and your supplier may only deliver to that address as it appears on your permit

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Delivery to “Ship to” Location(s)

- **If you need alcohol delivered to a “ship to” location(s), you will need:**
 - An application on TTB F 5150.22 with item #10 completed to show “addition of ship to location(s).”
 - Attach a letter that explains in detail why a “ship to” address is needed (normally alcohol must be delivered to the premises address where used). Information such as how long the alcohol will be held at the delivery point, how it will be transferred to the permitted premises, and the distance involved will be useful in our decision to approve or disapprove such a request.
 - For a campus situation where multiple buildings/departments may be using the alcohol, please attach a detailed listing of all “ship to” locations.

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Changes in Persons Authorized to Act

- Permittees are responsible for deciding who will be granted the authority to act on their behalf in matters relating to their permit. These are the only individuals who may sign correspondence, applications or other documents submitted to our Bureau. They are also the only persons to whom TTB may speak.
- If you are not sure who those individuals are, it probably needs to be UPDATED.

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Changes in Persons Authorized to Act (Cont'd)

- To grant such authority, you will need to file either a:
 - Power of Attorney on TTB F 5000.8
 - Signing Authority for Corporate and LLC Officials on TTB F 5100.1
 - Resolution by the Board of Directors, partners, or managing members

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Increasing or Decreasing your Annual Withdrawal Amounts

- You will need:
 - Either a letterhead notice that explains the change or an application on TTB F 5150.22 with item #10 completed to show “increase or decrease in annual allowance” and a numerical figure in item 7a or 7b, as applicable.
 - Return your original permit for amendment
 - If the new allowance exceeds 5,000 gallons in the case of denatured spirits or 1,500 proof gallons in the case of tax-free alcohol, you must submit the organizational documents that are outlined in 27 CFR 20.45 and 22.45, respectively.

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General Information



General Information

- The regulations for SDS can be found at CFR 27 part 20
- Users of specially denatured spirits are required to submit an annual TTB Form 5150.18 for the period from July 1st through June 30th
- Formulas must be submitted to our laboratory on TTB Form 5150.19, with the exception of general use formulas

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Special Occupational Tax

- Special Occupational Tax (SOT) is due when you begin business. The tax is prorated for the first year of business only and is due by July 1st of each succeeding year.
- Your SOT stamp expires each year on June 30th
- Please note that the SOT stamp is **NOT** your permit to conduct operations. You must file TTB Form 5150.22, Application for Industrial Alcohol, to receive a permit to conduct operations, which does not expire.

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- On August 10, 2005, President Bush signed into law the "Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users," Public Law 109-59.
- Section 11125 of the Act permanently repeals, **effective July 1, 2008**, the special (occupational) taxes on users and dealers of specially denatured spirits.
- Although the tax has been repealed, recordkeeping and registration requirements remain. You will be required to complete and file TTB F 5630.5 each year.

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**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
SPECIAL TAX REGISTRATION AND RETURN
ALCOHOL AND TOBACCO**

(Please Read Instructions Carefully Before Completing This Form)

SECTION I - TAXPAYER IDENTIFYING INFORMATION

1. EMPLOYER IDENTIFICATION NUMBER (Required see Instructions) _____

2. BUSINESS TELEPHONE NUMBER _____

3. NAME (Last, First, Middle) _____ or CORPORATE NAME (if Corporation) _____

4. TRADE NAME _____

5. MAILING ADDRESS (Street address or P.O. box number) _____

6. CITY _____ STATE _____ ZIP CODE _____

7. PHYSICAL ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Show street address) _____

8. CITY _____ STATE _____ ZIP CODE _____

FOR TTB USE ONLY

T _____

FF _____

FP _____

I _____

T _____

9. TAX PERIOD COVERING (only one tax period per form)
FROM: _____ (mm/dd/yyyy)
TO: June 30, _____ (yyyy)

SECTION II - TAX COMPUTATION

TAX CLASS DESCRIPTION (FOR ITEMS MARKED*, SEE INSTRUCTIONS)	MONTHLY (b)	ANNUAL (c)	LOCATIONS (d)	TAX DUE (e)	CODE (f)
RETAIL DEALER					
Liquors (Distilled spirits, wine or beer)	\$20.83 1/4	\$250			11
Beer only	\$20.83 1/4	250			12
Liquors (Distilled Spirits, Wine or Beer) - at large	\$20.83 1/4	250			15
Beer only - at large	\$20.83 1/4	250			16
WHOLESALE DEALER					
Distilled spirits, wine or beer	\$41.66 1/2	500			31
Beer only	\$41.66 1/2	500			32
BREWER					
Regular rate	\$83.33 1/2	1000			41
REDUCED rate*	\$41.66 1/2	500			43*
NONBEVERAGE DRAWBACK CLAIMANT					
User of specially denatured alcohol	\$20.83 1/4	250			55
Dealer in specially denatured alcohol	\$20.83 1/4	250			56
User of tax-free alcohol	\$20.83 1/4	250			57
ALCOHOL PRODUCERS					
Proprietor of alcohol fuel plant	\$83.33 1/2	1000			58
Proprietor of alcohol fuel plant - REDUCED*	\$41.66 1/2	500			59*
Proprietor of distilled spirits plant	\$83.33 1/2	1000			81
Proprietor of distilled spirits plant - REDUCED*	\$41.66 1/2	500			89*
Proprietor of bonded wine cellar	\$83.33 1/2	1000			82
Proprietor of bonded wine cellar - REDUCED*	\$41.66 1/2	500			87*
Proprietor of bonded wine warehouse	\$83.33 1/2	1000			83
Proprietor of bonded wine warehouse - REDUCED*	\$41.66 1/2	500			89*
Proprietor of taxpaid wine bottling house	\$83.33 1/2	1000			84
Proprietor of taxpaid wine bottling house - REDUCED*	\$41.66 1/2	500			89*
TOBACCO PRODUCTS					
Manufacturer of tobacco products	\$83.33 1/2	1000			91
Manufacturer of tobacco products - REDUCED*	\$41.66 1/2	500			95*
Manufacturer of cigarette papers and tubes	\$83.33 1/2	1000			92
Manufacturer of cigarette papers and tubes - REDUCED*	\$41.66 1/2	500			96*
Proprietor of export warehouse	\$83.33 1/2	1000			93
Proprietor of export warehouse - REDUCED*	\$41.66 1/2	500			97*

MAKE CHECK OR MONEY ORDER PAYABLE TO "ALCOHOL AND TOBACCO TAX AND TRADE BUREAU". TOTAL TAX DUE \$ _____

WRITE YOUR EMPLOYER IDENTIFICATION NUMBERS ON THE CHECK AND SEND IT WITH THE RETURN TO TTB, P.O. BOX 371962, PITTSBURGH, PA 15258-7962.

Under penalties of perjury, I declare that the statements in this return/registration are true and correct to the best of my knowledge and belief; that this return/registration applies only to the specified business and location or, where the return/registration is for more than one location, it applies only to the businesses at the locations specified on the attached list. Note: Violation of Title 26, United States Code 7206, with the respect to a declaration under the penalties of perjury, is punishable upon conviction by a fine of not more than \$100,000 (\$500,000 in the case of a corporation) or imprisonment for not more than 3 years, or both, with the costs of prosecution added thereto.

SIGNATURE _____ TITLE _____ DATE _____

TTB F 5630.5 (5/2005)



Reagent Alcohol

- 27 CFR 20.117
 - You do not need to file for a permit when you can get containers not to exceed 4 liters without approval from us (can order 100, 4-liter bottles as long as no container is greater than 4 liters)
 - If you wish to acquire the reagent alcohol in larger than 4-liter containers, you will have to submit a letterhead notice to TTB with the required information from Sections 20.117 and 20.133

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Termination of Permits



Terminating Your Permit

- When a permittee wishes to discontinue business as a specially denatured spirits user, they must submit written notice to the National Revenue Center with the following information:
 - A request to cancel the permit
 - A statement of the disposition made of all specially denatured spirits, as required in 27 CFR 20.234. Specially Denatured Spirits on hand at the time the business discontinues using SDS may be disposed of by:
 - Returning the specially denatured spirits to a distilled spirits plant or dealer, as provided in 27 CFR 20.231,
 - Destruction, as provided in 27 CFR 20.222,
 - Shipped to another user, as provided in 27 CFR 20.235.

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Terminating Your Permit (Cont'd)

- You must also provide:
 - The date of discontinuance
 - The written notice should be accompanied by a report on TTB F 5150.18 covering the discontinuance and marked "Final Report"
 - The permittee must return their current Industrial Alcohol User Permit for cancellation

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Specially Denatured Spirits – Definitions

Article

Any substance or preparation manufactured using denatured spirits. If an article contains denatured spirits and is subjected to additional manufacturing or is combined with other materials, the resulting product is also considered to be an 'article.' [27 CFR 20.11]

Bottler

A bottler may purchase products that contain specially denatured alcohol and bottle, package or reprocess them for resale, but a bottler is restricted to only receiving and bottling specially denatured spirits products for resale. [27 CFR 20.133]

Completely Denatured Alcohol (CDA)

Alcohol that has been so thoroughly denatured with certain chemicals or other ingredients that it is utterly unfit for beverage use. The denaturants used are very nearly inseparable from the alcohol. This means it is nearly impossible to remove the denaturants from the alcohol or rum after they have been used to denature the alcohol or rum. [27 CFR 20.141]

Dealer In Specially Denatured Spirits

A bonded dealer who purchases and stores specially denatured spirits for resale to users of specially denatured spirits or to other dealers. [27 CFR 20.41]

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SDS – Definitions (Cont'd)

Denaturant

A chemical or substance that is added to distilled spirits or rum to make the alcohol unfit for beverage use (human consumption).

Letterhead Application

A letter that contains a request for a permit, amended permit, or authorization to do something. This type of request or application is usually written on the company's "letterhead." This is where the name comes from.

Proprietary Solvents

Solvents that are manufactured with specially denatured alcohol under the proprietary solvent general-use formula in the Title 27 of the Code of Federal Regulations, Part 20. [27 CFR 20.11 and 27 CFR 20.113]

Reagent Alcohol

Reagent alcohol is ethyl alcohol (or distilled spirits) denatured with approximately 5 percent methyl alcohol, then further denatured with 5 parts/hundred of isopropyl alcohol. [27 CFR 20.117]

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SDS – Definitions (Cont'd)

Recover/Recovery

To salvage specially denatured spirits, completely denatured alcohol that does not have all of its original denaturants, or any article that contains denatured spirits after they are used. An article may be recovered if:

The original article was produced with specially denatured spirits and the salvaged article does not contain all the original ingredients of the article, or

The original article was produced with completely denatured alcohol and the salvaged article does not contain all the original denaturants of the completely denatured alcohol. [27 CFR 20.211]

Reprocessor

A reprocessor takes SDS products and by additional treatment produces a product that is different from the original product.

[27 CFR 20.133]

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Contact Information

- National Revenue Center,
Spirits and Multi-Permits Section
– Shawn Burcham
Phone: 513-684-3175
E-mail: Shawn.Burcham@ttb.gov

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