

- (2) The date of disposition; and
- (3) The quantity of each product so disposed of.

(c) *Exception.* The manufacturer need not keep the records required by paragraphs (a) and (b) of this section for any nonbeverage product which either contains less than 3 percent of distilled spirits by volume, or is sold by the producer directly to the consumer in retail quantities. However, when needed for protection of the revenue, the appropriate TTB officer may at any time require the keeping of these records upon giving at least five days' notice to the manufacturer.

#### § 17.167 Inventories.

(a) *Distilled spirits.* The "on hand" figures reported in Part II of TTB Form 5154.2 shall be verified by physical inventories taken as of the end of each quarter in which nonbeverage products were manufactured for purposes of drawback. Spirits taxpaid at different effective tax rates shall be inventoried separately. The inventory record shall show the date inventory was taken, the person(s) by whom it was taken, subtotals for each product inventoried, and any gains or losses disclosed; and shall be retained with the manufacturer's records. The manufacturer shall explain in Part IV of the supporting data (Form 5154.2) any discrepancy between the amounts on hand as disclosed by physical inventory and the amounts indicated by the manufacturer's records. Any gain in eligible spirits disclosed by inventory requires an equivalent deduction from the claim with which the inventory is reported. Gains shall not be offset by known losses. If no claim is filed for a quarter (nor for any monthly period therein), then no physical inventory is required for that quarter.

(b) *Raw ingredients and nonbeverage products.* When necessary for ensuring compliance with regulations and protection of the revenue, the appropriate TTB officer may require a manufacturer to take physical inventories of finished nonbeverage products, and/or raw ingredients intended for use in the manufacture of nonbeverage or intermediate products. The results of such inventories shall be recorded in the manufacturer's records. Any discrep-

ancy between the amounts on hand as disclosed by physical inventory and such amounts as indicated by the manufacturer's records shall also be recorded with an explanation of its cause.

#### § 17.168 Recovered spirits.

(a) Each manufacturer intending to recover distilled spirits under the provisions of this part shall first notify the appropriate TTB officer. Any apparatus used to separate alcohol is subject to the registration requirements of 26 U.S.C. 5179 and subpart C of part 29 of this chapter. Recovery operations shall only be conducted on the premises covered by the manufacturer's special tax stamp.

(b) The manufacturer shall keep a record of the distilled spirits recovered and the subsequent use to which such spirits are put. The record shall show—

- (1) The date of recovery;
- (2) The commodity or process from which the spirits were recovered;
- (3) The amount in proof gallons, or by weight and proof (or alcohol percentage by volume) of distilled spirits recovered;
- (4) The amount in proof gallons, or by weight and proof (or alcohol percentage by volume) of recovered distilled spirits reused;
- (5) The commodity in which the recovered distilled spirits were reused; and
- (6) The date of reuse.

(c) Whenever recovered spirits are destroyed (see § 17.183), the record shall further show—

- (1) The reason for the destruction;
- (2) The date, time, location, and manner of destruction;
- (3) The number of proof gallons destroyed; and
- (4) The name of the individual who accomplished or supervised the destruction.

[T.D. ATF-379, 61 FR 31412, June 20, 1996, as amended by T.D. ATF-462, 66 FR 42736, Aug. 15, 2001]

#### § 17.169 Transfer of intermediate products.

When intermediate products are transferred as permitted by § 17.185(b), supporting records of such transfers