Taxpayers in Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington:

Bureau of Alcohol, Tobacco and Firearms
221 Main Street
11th Floor
San Francisco, CA 94105
(415) 744-7011
FAX (415) 744-9443

Stephen E. Higgins
Director

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Exhibit 1

NEW EXCISE TAX RATES EFFECTIVE JAN. 1, 1991

Note: In the following tables, a proof gallon (**p.g.**) is a gallon of liquid at 60 degrees Fahrenheit which contains 50 percent by volume ethyl alcohol having a specific gravity of .7939 (referred to water at 60 degrees Fahrenheit as unity), or the alcoholic equivalent thereof. For example, 1 gallon of 200 proof spirits would equal 2 proof gallons; 10 gallons of 80 proof spirits would equal 8 proof gallons. A wine gallon (**w.g.**) is a standard U.S. volumetric gallon. For beer, the barrel (**bbl**) equivalent is 31 U.S. volumetric gallons.

DISTILLED SPIRITS

Product	**Old Rate**	**New Rate**
Distilled Spts.	$12.50 per p.g.	$13.50 per p.g.
Imported Perfume	$12.50 per w.g.	$13.50 per w.g.

<u>Wine and flavor credits on distilled spirits products</u>. The 26 U.S.C. section 5010 credit relating to the flavors content of distilled spirits will also be based on the $13.50 rate. **Only the un-reduced wine rate may be used in computing wine credits.**

WINE

Type of Wine	Old Rate	New Rate
Not more than 14%	.17 per w.g.	1.07 per w.g.
More than 14%, but not more than 21%	.67 per w.g.	1.57 per w.g.
More than 21%, but not more than 24%	2.25 per w.g.	3.15 per w.g.
Champagne and other sparkling wines	3.40 per w.g.	3.40 per w.g.
Artificially carbonated	2.40 per w.g.	3.30 per w.g.

Small wine producer credits are described in the text of the circular.

BEER

Type of Brewer	Old Rate	New Rate
Brewer of over 2 million barrels	$9.00 per bbl.	$18.00 per bbl.
Brewer of not more than 2 million barrels of beer during a calendar year	$7.00 per bbl. on first 60,000 bbls. each year $9.00 per bbl. on additional removals	$7.00 per bbl. on first 60,000 bbls. each year $18.00 per bbl. on additional removals

Brewers who are eligible to pay the reduced rate of tax on beer may, upon filing the notice required by 27 CFR 25.167, pay the reduced rate of tax on beer by semimonthly return, ATF F 5000.24, as provided for in 27 CFR 25.164 or by prepayment return as provided in section 25.175. See also 27 CFR 25.166.

TOBACCO PRODUCTS

Tobacco Product	Old Rate	91-92 Rate	1/1/93 Rate
Small Cigars	$.75 per thousand	$.9375 per thousand	$1.125 per thousand

Large Cigars*	8 1/2% of wholesale not to exceed $20 per thousand	10.625% of price not to exceed $25 per thousand	12.75 of price not to exceed $30 per thousand
Small Cigarettes	$8.00 per thousand	$10.00 per thousand	$12.00 per thousand
Large Cigarettes	$16.80 per thousand	$21.00 per thousand	$25.20 per thousand
Cigarette Papers	1/2 cent /50 papers	0.625 cent /50 papers	0.75 cent /50 papers
Cigarette Tubes	1 cent /50 tubes	1.25 cent /50 tubes	1.5 cent /50 tubes
Smokeless Snuff	24 cents per pound	30 cents per pound	36 cents per pound
Chewing Tobacco	8 cents per pound	10 cents per pound	12 cents per pound
Pipe Tobacco	45 cents per pound	56.25 cents per pound	67.5 cents per pound

* Determination of Price
The rate of tax for large cigars has been based on a percentage of the "wholesale price" as defined in 26 U.S.C. section 5702(m). Effective January 1, 1991, the basis will be a percentage of the "price" for which sold by a manufacturer or importer.

Exhibit 2

Examples Of Small Winery Tax Credit And Reduced Rates

Note: The following examples assume that the wine has an alcoholic content of not more than 14 percent by volume.

Production figures See discussion above under "Reduced tax rate for small domestic wine producers."

Tax Credit Examples

1. Winery A produces 200,000 gallons of table wine in a year and tax determines 75,000 gallons of such wine in the same year. Their excise tax owed is calculated as follows:

200,000 gals. - 150,000 gals. = 50,000 gals. or (50% credit reduction)

50% of \$0.90 = \$0.45 tax credit rate

\$1.07 excise tax rate
- .45 tax credit rate
\$0.62 reduced excise tax rate

75,000 gals. X \$0.62 per gal. = \$46,500 excise tax

2. Winery B produces 99,000 gallons of table wine in a year and tax determines 150,000 gallons of such wine in the same year. Their excise tax owed would be calculated as follows:

100,000 gals.	@ \$0.17(\$1.07-.90 = 0.17)=	\$17,000
50,000 gals.	@ \$1.07 =	+ \$53,500
150,000 gals.		= \$70,500 excise tax

3. Winery C produces 175,000 gallons of table wine and tax determines 145,000 gallons of such wine in the same year. Their excise tax owed would be calculated as follows:

175,000 gals. - 150,000 gals. = 25,000 gals., or 25% credit reduction; therefore entitled to 75% of the credit

75% of \$0.90 = \$0.675 reduced credit rate

\$1.07 excise tax rate
- .675 tax credit rate
\$0.395 reduced excise tax rate

100,000 gals.	X \$0.395 per gal. =	\$39,500
45,000 gals.	X \$1.07 per gal. =	\$48,150
145,000 gals.		\$87,650 excise tax

4. XYZ wineries, a controlled group, produces

45,000 gallons of wine at one facility and 245,000 gallons of wine at the other facility.

The combined production of 290,000 gallons exceeds the 250,000 gallon ceiling for any tax credit. Therefore, all tax determination of such wine in the same calendar year would be made at the full tax rates.

5. Small wine producer exceeding the 150,000 gallon production limitation. A situation may occur in which a proprietor who anticipates qualifying for the full credit for a calendar year finds at some point that **production** will exceed 150,000 gallons. In this instance, the proprietor paid taxes at the reduced rate (new tax rate minus 90 cents) on the first 100,000 gallons **removed.** All tax determinations in excess of 100,000 gallons are paid at the full tax rate without benefit of credit. Once **production** reaches 151,000 gallons, a tax adjustment is required. The credit originally allowed on the first 100,000 gallons decreases by 1 percent for every 1,000 gallons **produced** in excess of 150,000 gallons per year.

In this situation, the proprietor must pay the additional amount owed on all wine on which full credit was taken that year, plus interest computed from the date the excess credit was taken. The underpayment is corrected by an adjustment increasing the tax on the proprietor's tax return, ATF F 5000.24 (Entry 18), not later than the period in which the proprietor's production exceeds the 151,000 gallon limitation.

For example, during tax payment period 11, the **production** at ABC winery reaches 151,000 gallons (1,000 gallons above the 150,000 gallon limitation) and 100,000 gallons have been taxpaid, and the 90 cent credit was deducted. At this point, the 1 percent tax credit reduction for every 1,000 gallons **produced** in excess of 150,000 gallons per year takes effect. In this case, production has exceeded the limit by 1,000 gallons and a 1 percent credit reduction (adjustment increasing tax) must be taken into account when filing ATF F 5000.24 for tax payment period 11. The excise tax rate is calculated as follows:

151,000 gals. - 150,000 gals. = 1,000 gal., (1% credit reduction)

1% of \$0.90 = \$0.891 tax credit rate

  \$0.90 (credit taken)
- \$0.891 (eligible credit)
= \$0.009 (under payment

100,000 gal. x \$0.009 = \$900 (additional tax owed)

On tax return ATF F 5000.24 for tax period 11, the additional \$900 owed should appear in entry 18 (Adjustments Increasing Amount Due) with an explanation appearing in Schedule A of the form. In addition, interest on the portion of the \$900 due on each previous return should be computed from each tax return due date to the date of payment using the applicable interest rates. The accumulated interest should be entered on Schedule A of the tax return.

As production continues to increase, each succeeding tax return will have to be adjusted to take into account the decreasing tax credit allowed. For example, during tax period 12 production figures total 153,000 gallons (2,000 gallons above the 151,000 gallons previously used in computation). A tax adjustment of \$1,800 (2 percent reduction of tax credit; \$0.891 - \$0.873 x 100,000 gal.) will be required, plus interest at the applicable rate for each tax period where an underpayment was made. Each succeeding tax period, the appropriate percentage reduction in tax credit will be computed, along with the interest due, and the figures entered on the tax return for that period. When production reaches 250,000 gallons, the tax credit has decreased to zero.