

DEPARTMENT OF THE TREASURY

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

Supporting Statement - Information Collection Requirement

OMB Control Number 1513-0049

TTB REC 5110/04 Distilled Spirits Plant Denaturation Records and  
TTB F 5110.43 Monthly Report of Processing (Denaturing) Operations

1. What are the circumstances that make this collection of information necessary and what legal or administrative requirements necessitate the collection?

Distilled spirits, other than those used for certain authorized nonbeverage purposes, are taxed at the rate of \$13.50 a proof gallon, a rate that far exceeds production costs. To safeguard the revenue from this tax, (amounting to billions of dollars each year), Congress prescribed in 26 U.S.C. 5207 that the proprietor of a distilled spirits plant (DSP) must maintain records of production, storage, denaturation, and processing activities and to render reports covering those operations. Although denatured spirits are normally not taxed, a full accounting for those spirits is necessary to ensure that they have not been unlawfully diverted for taxable purposes. Accordingly, regulations in 27 CFR 19.752 and 19.753 (see reference also in § 19.451), as amplified by other sections of regulations, prescribe those records which are unique to denaturation operations. Section 19.792(b)(3)(ii) requires the submission of a monthly operational report.

2. How, by whom, and for what purpose is this information used?

Collections of information on DSP denaturation operations are used by TTB for the protection of the revenue and for the compilation of statistics for use by TTB and other government agencies. Records required of denaturation operations by Part 19 are used by TTB field personnel to verify the use of spirits in denaturing, the denaturation of those spirits in accordance with regulations, and the production and disposition of denatured spirits and articles. Since these operations are conducted under bond, before the release of tax liabilities, the verification of denaturation activities is essential in establishing a proprietor's tax liability and adequacy of bond coverage.

Accordingly, § 19.752(a) requires the DSP proprietor to maintain records of data elements needed to account for spirits, denatured spirits, recovered denatured spirits, spirits residues and articles. This requirement is amplified by the requirements related to the testing of denaturants (§ 19.453), the neutralizing of denatured spirits (§ 19.457), and the re-denaturation of recovered denatured spirits (§ 19.458). Source records for this accounting include various transaction records discussed in TTB REC 5110/05 (OMB control number 1513-0056), the records of denaturation prescribed in § 19.752(b) and, if the proprietor further processes the denatured spirits into finished articles, the record of

articles manufactured, as prescribed by § 19.753. General requirements for dally records are prescribed by §§ 19.721, 19.722, 19.723, 19.731 and 19.732.

DSP proprietors are also required by 27 CFR 19.792(b)(3)(ii) to submit a Monthly Report of Processing (Denaturing) Operations on TTB F 5110.43, essentially a summary of various data elements from the proprietor's daily denaturation records. This report of denaturation operations is used by TTB management and specialists to monitor industry operations for compliance with law and regulations, to analyze trends within the industry, to allocate field resources most effectively, to compile statistics, and by our field personnel as an audit tool in revenue protection inspections.

TTB Form 5110.43 is examined by TTB specialists in our NRC for mathematical accuracy and indications of unusual activities.

Bureau management uses the monthly report of denaturation operations to analyze trends in the industry and to plan the most efficient allocation of field resources. The number of TTB field personnel is quite small in relation to the number of establishments over which TTB has jurisdiction. It is therefore, absolutely essential that management personnel have some means of determining who most needs to be inspected. In the absence of specific problems at specific establishments, TTB generally attempts to inspect the high volume establishments first. Operational reports give that information and can thus serve as a management tool for determining inspection priorities.

If TTB were not to conduct this collection of information, it would have to rely solely on its field inspectors to monitor compliance with the laws and regulations governing production operations. Given the few inspectors we have, this could only mean less overall scrutiny of these activities and, therefore, an increased jeopardy to the revenue.

In addition, TTB F 5110.43 is used by TTB field personnel in conducting tax compliance examinations at DSP's. In conducting a revenue protection inspection at such a plant, an inspector is typically faced with a volume of data far in excess of the inspector's ability to verify completely. The monthly summaries of operations, as reflected on the operational reports, therefore provide an essential tool in conducting the examination by providing an overview of those operations from which the inspector may determine which areas deserve closest scrutiny due to the relative jeopardy to the revenue and by providing a basis upon which the inspector may plan a statistical sampling approach to verify the data.

TTB regional specialists also summarize the monthly report of denaturation operations for compilation of the Bureau's monthly statistical releases. Subscribers of the monthly statistical releases include other Federal agencies, state and local governments, academic institutions, members of the press and trade associations.

3. To what extent does this collection of information involve the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology? What consideration is given to use information technology to reduce burden?

TTB has approved and will continue to approve, on a case-by- case basis, the use of improved Information technology for the collection and maintenance of required records; however, the Bureau does not believe that operational reports are adaptable to improved technological systems since each report provides Information which is unique to the individual plant.

4. What efforts are used to identify duplication? Why can't any similar information already available be used or modified for use for the purposes described in Item 2 above?

The Federal Information Locator System (FILS) program has been terminated for agency use. However, an agency subject classification system is used to identify duplication. Similar information is not available elsewhere.

5. If this collection of information impacts small businesses or other small entities, what methods are used to minimize burden?

Collections of information in the denaturation account constitute a complete accounting of the materials used and the denatured spirits produced. The information required is the minimum amount of information necessary for that accounting. Any less information would make the accounting incomplete and render it useless. Therefore, TTB cannot reduce the requirements on the basis of the size of the entity, however, a small DSP may be expected to have fewer and smaller transactions, and the recordkeeping burden would be commensurately less.

6. What consequences to Federal program or policy activities and what, if any, technical or legal obstacles to reducing burden will occur if this collection is not conducted or is conducted less frequently?

Without the records and reports of denaturation operations, TTB would be severely handicapped in performing its principal function of protecting the revenue derived from the distilled spirits tax. Nor would it be able to provide the government with statistics needed for effective economic planning and analysis.

7. Are there any special circumstances associated with this information collection?

Denaturation records required by Part 19 are maintained on a continuing basis; they constitute a complete accounting for the production of denatured spirits. Any less frequent collections would render the accounting meaningless. Likewise, any less frequent submissions of the Monthly Report of Processing (Denaturing) Operations would severely restrict the utility of that form for the uses explained in paragraph 2, above.

8. What effort was made to notify the general public about this collection of information?

A 60-day Federal Register notice was published for this information collection on Thursday, June 8, 2006, 71 FR 33335. The notice solicited comments from the general public. TTB received no comments.

9. What decision was made to provide any payment or gift to respondents, other than reenumeration of contractors or grantees?

No payment or gift is associated with this collection.

10. What assurance of confidentiality was provided to respondents and what was the basis for the assurance in statute, regulations, or agency policy?

These collections of information are maintained at TTB regional offices in secure file rooms with controlled public access. Moreover, 26 U.S.C. 6103 and 5 U.S.C. 552 protects the confidentiality of the information collected.

11. What justification is there for questions of a sensitive nature?

We ask no questions of a sensitive nature.

12. What is the estimated hour burden of this collection of information?

The records required by Part 19 of denaturation operations and the manufacture of articles are usual and customary commercial records which a DSP proprietor would maintain for purposes of cost accounting and internal controls. These records therefore impose no burden as defined by 5 CFR 1320.7(b).

Information obtained from our field personnel indicated that it takes 98 proprietors an average of one hour to complete TTB F 5110.43. Those 98 proprietors respond monthly for a total of 1,176 responses. The total burden hours are 1,176. The record retention requirement for this information collection is 4 years. There is no change in burden hours from the previous submission.

13. What is the estimated total annual cost burden to respondents or recordkeepers resulting from this collection of information?

We do not associate any new cost with this collection.

14. What is the annualized cost to the Federal Government?

Records required of denaturation operations are of no cost to the government. The cost to the government for TTB F 5110.43 is as follows:

Printing	\$ 6,498
Distribution	9,664
Clerical	13,928
Other (Salary, review, Supervision, etc.)	28,028

Publication & Tabulation	<u>8,331</u>
Total	\$66,449

15. What is the reason for any program changes or adjustments reported in Items 13 or 14 of the OMB Form 83-I?

There are no program changes or adjustments associated with this collection.

16. Outline plans for tabulation and publication for collections of information whose results will be published.

The results of this collection will not be published.

17. If seeking approval to not display the expiration date for OMB approval of this information collection, what are the reasons that the display would be inappropriate?

We will display the expiration date of OMB approval for this collection.

18. What are the exceptions to the certification statement?

There are no exceptions to the certification statement.

**B. Collection of Information Employing Statistical Methods**

This collection does not employ statistical methods.