



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

21723

GENERAL GOVERNMENT
DIVISION

MAY 7, 1982

B-207193

The Honorable Donald T. Regan
Secretary of the Treasury

Dear Mr. Secretary:

Subject: The Federal Government Can Save \$1.7
Million Annually by Eliminating Strip Stamps
(GAO/GGD-82-60)

As you know, we are reviewing the administration of non-income based taxes by the Internal Revenue Service; the Bureau of Alcohol, Tobacco and Firearms (BATF); and other Federal agencies. One area we are reviewing is the administration of excise taxes on distilled spirits. During our work, we found that Government-issued strip stamps being placed on containers of distilled spirits no longer serve their intended purpose. The Federal Government could avoid the possibility of public misinterpretation of what the strip stamps signify and save at least \$1.7 million annually by eliminating the stamps.

Our work included analysis of legislation, discussions with BATF and Treasury officials, discussions with two distillers, and solicitation of the views of a major distillers' trade association. We did our work in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

Section 5205 of the Internal Revenue Code provides for the use of strip stamps, which are the paper strips placed over the neck and cap of distilled spirits containers. The stamps are printed by the Bureau of Engraving and Printing at a current cost of \$1.7 million annually. The stamps are distributed to distillers and bottlers at no charge. Although section 5205 authorizes the use of alternate closure devices, Government-supplied stamps are the closure devices most frequently used.

For many years strip stamps were numbered and generally controlled by Federal employees physically located at the distillers' premises. The stamps were applied to containers after the Federal employees were satisfied that the spirits had been bottled in conformance with Federal laws and had determined the appropriate tax.

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However, the Distilled Spirits Tax Revision Act of 1979 (26 U.S.C. 5001 et. seq.), enacted in part to simplify and modernize the distilled spirits tax system, significantly changed the Federal regulation and taxation of distilled spirits. The act eliminated the need for the physical presence of Federal employees at distilled spirits plants to control certain operations, including the determination of taxes on distilled spirits before bottling. Consequently, strip stamps are now provided to distillers and placed on distilled spirits containers generally before the tax has been determined or paid. In short, the strip stamp no longer signifies that the tax on the spirits has been paid or that the spirits have been lawfully bottled.

The only practical purpose strip stamps now serve is to provide consumers some assurance that the bottled contents have not been tampered with. In this regard, however, the public may be misled through the continued use of Government-provided strip stamps. Some people may view strip stamps as the Government's stamp of approval or official endorsement of the product.

Assurance that the contents have not been tampered with can be provided equally well by approved alternative sealing devices provided by the distiller. These devices include pilfer-proof caps, perforated neck labels, imitation strip stamps, and similar devices. However, while Treasury regulations have permitted distillers to apply for permission to use specific alternative devices since January 1980, most distillers have continued to use Government-provided strip stamps.

The distiller representatives with whom we spoke said that they had not adopted approved alternative devices primarily because the Government provides the strip stamps free of charge. Treasury officials speculated that another reason is the distillers' perception that the public expects a Government stamp to be on the bottle it purchases.

The Distilled Spirits Council (a trade association) and Treasury officials have differing views concerning the need for Government-provided strip stamps. The Chief of BATF's Regulations and Procedures Division and the Treasury's Deputy Assistant Secretary (Operations) both agreed that the strip stamp program could be eliminated without adverse impact on Federal tax administration. The distiller's trade association, however, is opposed to elimination of the Government-supplied strip stamps. In an April 15, 1981, letter to BATF, the association cited several reasons for its opposition to elimination of the stamps, such as potential increased costs to the industry for materials and equipment; potential danger to tax revenue resulting primarily from the illegal use of fuel alcohol to make beverages; and possible incentives for the States to impose, or reimpose, a requirement for State bottle stamps.

Given the cost to the Government of producing and distributing strip stamps, and the risk of public misinterpretation of what they mean, we believe that Government-supplied stamps should be eliminated. It seems to us that the objections raised by the distiller's trade association could be dealt with equally well by an approved alternative closure device supplied by the distiller as by a stamp printed and supplied by the Government.

Accordingly, we recommend that you revise your regulations to eliminate Government-supplied strip stamps while retaining a requirement that bottlers and distributors provide and use approved closure devices. Should you decide that approved closure devices are unnecessary, we recommend that you request legislation to repeal section 5205 and related provisions of the Internal Revenue Code.

In commenting on a draft of this report, the Assistant Secretary (Enforcement and Operations) in an April 7, 1982, letter agreed that Government-supplied strip stamps should be eliminated. The Assistant Secretary also stated that the Department of Treasury is proposing legislation to that end. A copy of the Assistant Secretary's comments is enclosed.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are also being sent to the Chairman, Committee on Ways and Means, House of Representatives; the Chairman, Senate Finance Committee; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,



William J. Anderson
Director

Enclosure

ENCLOSURE

ENCLOSURE



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

APR -7 1982

Dear Mr. Anderson:

We have reviewed your draft report entitled "The Federal Government Can Save \$1.7 Million Annually by Eliminating Strip Stamps" (GGD-82-60), and we agree that Government-supplied strip stamps should be eliminated.

Historically, stamps have served as evidence that the packager, bottler, or importer of distilled spirits had fully complied with the provisions of Chapter 51 of the Internal Revenue Code of 1954 and, when applicable, had paid all taxes due on such spirits. The absence of strip stamps on containers of distilled spirits provided a prima facie case that the spirits were not taxpaid, and this has aided us in the prosecution of persons involved in manufacturing and selling illicit spirits. In 1979, ATF shifted to the all-in-bond system whereby modern accounting methods allow the Bureau to calculate the Federal alcohol excise taxes without exclusive reliance on tax stamps. Also in recent years the number of cases involving illicit liquor has declined. In addition, the cost of providing strip stamps to domestic manufacturers and importers has risen to \$1.7 million. Therefore, we have concluded that the cost of providing strip stamps to industry members has exceeded the benefits derived from their use for law enforcement purposes.

In view of the overall negative cost, we believe that the strip stamp/alternative device requirements of the Internal Revenue Code should be repealed rather than revising regulations to eliminate Government-supplied strip stamps while retaining a requirement that domestic manufacturers provide and use approved closure devices. Mandating the use of alternative devices, by regulation, while simultaneously eliminating provisions for strip stamps would be inconsistent with the intent of Congress when they authorized the use of closure devices with the passage of Public Law 94-569. In the legislative history to this Public Law, the Committee approved this law, "... which authorizes the use of 'other devices' as well as tax stamps..." (emphasis supplied).

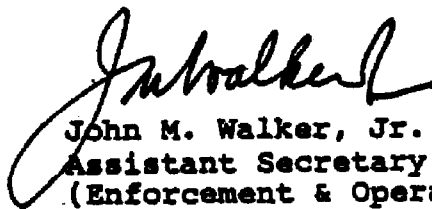
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Earlier this year, a proposed bill to repeal 26 U.S.C. 5205 and related provisions of the Internal Revenue Code was prepared by the Bureau of Alcohol, Tobacco and Firearms and was approved by the Office of the Secretary. This proposed bill is now at the Office of Management and Budget for their clearance. If introduced and passed by Congress, this bill will repeal the statutes relating to both Government-supplied stamps and industry provided alternative devices.

Sincerely,



John M. Walker, Jr.
Assistant Secretary
(Enforcement & Operations)

Mr. William J. Anderson, Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548