

Vice President--Financial Management

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I. REFERENCES

On October 22, 1965, The Regents authorized the President to designate persons who may sign all necessary documents in connection with the use of tax-free alcohol by the University. This statement was filed with the Bureau of Alcohol, Tobacco and Firearms, Tax and Trade Bureau ("TTB"). On October 10, 1966, the President re-delegated his authority to sign all tax-free alcohol documents to the Chancellor of each campus.

II. INTRODUCTION

Federal and state laws govern the purchase, storage, control and use of alcohol by educational institutions (27CFR22.104) and hospitals (27CFR22.105). This Bulletin addresses requirements for obtaining alcohol for research and clinical purposes on a tax-free basis, and summarizes the associated safeguards.¹

III. PROCEDURES

A. Securing Industrial Use Permits and Amending Permits

Applications for industrial use permits for tax-free alcohol are filed with the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Department of the Treasury (<http://www.ttb.gov/>).² All tax-free alcohol use applications are to be made in the name of "The Regents of the University of California."

The Chancellor may re-delegate the authority to sign tax-free alcohol permit applications to an officer by the following action:

1. Preparing a letter which sets forth the authority re-delegated, identifies the staff member by name and title, and specifies the staff member's official campus mailing address;
2. Sending the original and one copy of the re-delegation letter to the TTB Director of Industry Operations with a cover letter requesting approval of the proposed re-delegation of authority and that an approved copy of the letter be returned to the originator; and

¹ On 1/24/2003, the responsibility for regulating and taxing alcohol was transferred to the Department of the Treasury.

² Tax and Trade Bureau
National Revenue Center
550 Main Street, Cincinnati, Ohio 45202

3. Sending a copy of any re-delegation letter to the Special Assistant Coordination-Review for the official records of the Senior Vice President-Business and Finance.

The Chancellor's designee may not sign tax-free alcohol documents before receiving approval from the TTB Director.

B. Approval by TTB

TTB will issue an official numbered "Permit to Use Alcohol Free of Tax" (Form 5150.9) and return a copy of the application form. These two forms shall be posted in a conspicuous place in the alcohol storage room. Permits are continuous unless automatically terminated by the terms of the permit.

When any information on the approved Permit changes, the University entity must file an amendment on Form [5150.22](#).

C. Obligations of University Permit Holders

Approved Permits may be photocopied exclusively for the purpose of furnishing proof of authorization to withdraw tax-free alcohol from tax-free alcohol suppliers. Any photocopy of the permit shall be signed, dated, and contain the word "COPY" across the face.

The University is responsible for obtaining and, as applicable, destroying all photocopies of its permit from a distilled spirits vendor when:

- An amended or corrected permit is issued which supersedes the copy on file;
- The permit is cancelled;
- The permit is revoked or suspended; or
- Another vendor is awarded the University contract.

1. Purchasing Requirements

On the initial order for tax-free alcohol, a copy of the approved Permit (Form 5150.9) shall be forwarded to the vendor with the order. On subsequent orders to that vendor, the purchase request shall contain: (a) the respective campus permit identification number; (b) the date of issuance of the permit, and (c) a statement that the University possesses a valid permit to withdraw and use tax-free alcohol, a copy of which is on file.

Shipments may not be made until the vendor has a signed copy of a valid permit on file. Each location is responsible for regulating withdrawals of

tax-free alcohol so that the cumulative quantity withdrawn or received in any calendar year does not exceed the quantity authorized by the permit.

2. Conditions of Use of Tax-Free Alcohol

Each campus shall establish guidelines for ensuring that withdrawals from inventory are made in quantities conforming to the stated monthly requirement for a given user (department, facility, etc). Deliveries which exceed the stated monthly requirement and deliveries of more than 25 gallons must conform to fire protection and environmental health and safety standards and have prior approval of the Chancellor or designee.

Persons authorized to withdraw quantities of alcohol shall sign a receipt for each delivery and shall maintain complete, accurate, up-to-date records of all tax-free alcohol received and issued.

All tax-free alcohol purchased by the University shall be used only on the premises of the University and may not be transported to any location other than a University-owned building on the campus to which the permit has been issued. (For possible exceptions, refer to Code of Federal Regulations, Title 27 – Alcohol, Tobacco and Firearms, Department of Treasury, Section 22.102 (see Exhibit 1)).

3. Storage Requirements

Each campus and user shall store tax-free alcohol in a space of adequate size and construction so as to assure proper ventilation and which provides convenience to authorized personnel while maximizing physical protection.

Storerooms or compartments shall be so constructed and secured as to prevent unauthorized access and will be equipped for locking. These storage facilities shall be of sufficient capacity to hold the maximum quantity of tax-free alcohol which will be on hand at one time. Storerooms and storage tanks shall be kept locked when unattended. A storage cabinet or locker kept inside a room which is locked when unattended is considered to be adequately secured (27CFR22.92).

Proper procedures shall be established to safeguard the keys to the storage areas.

4. Recordkeeping Requirements

Permit holders are required to keep accurate records of receipt, shipments, usage, destruction and claims pertaining to the withdrawal and use of tax-free alcohol. Records shall be maintained in sufficient detail to allow the University to reconcile any losses or gains for the TTB-required semiannual inventory, and to enable TTB officers to verify all transactions and evaluate compliance with law and regulations.

Records shall specify: (a) Type (by proof) and quantity of tax-free alcohol received (documented by invoice or bill of lading); (b) Date of receipt; (c) Purpose, amount and date of withdrawals and name of department and person to whom released. Any action taken shall be recorded the same day the action took place.

Records shall be maintained at the permit premises for a period of not less than three years.

5. Inventories

As required by federal law, a physical inventory of tax-free alcohol shall be taken (a) semiannually for periods ending June 30 and December 31 of each year; or (b) at other inventory periods approximately six months apart, upon filing a written notice with the Director of Industry Operations to establish another inventory period.

6. Losses and Claims

Each University entity holding a tax-free alcohol permit shall determine and record the quantity of tax-free alcohol lost on the premises (a) immediately upon discovery of any loss due to casualty, theft, or other unusual causes, or (b) at the time of the semi-annual inventory.

Each University entity holding a tax-free alcohol permit must file a claim (Form [5620.8](#)) with the TTB within 30 days of discovering any loss (a) which exceeds one percent of the quantity to be accounted for during that period and is more than ten proof gallons; or (b) regardless of quantity, when the loss was due to theft, unlawful use or removal. The claim shall include:

- a. Name, address, and permit number of the entity;
- b. Identification and locations of the container(s) from which the tax-free alcohol was lost, and the quantity lost from each container.

- c. Total quantity of tax-free alcohol covered by the claim and the aggregate quantity involved;
- d. Date of loss or discovery, the cause or nature of loss, and all relevant facts, including facts establishing whether the loss occurred as a result of negligence, connivance, collusion, or fraud on the part of any person, employee, or agent participating in or responsible for the loss;
- e. If the alcohol was lost in transit, the name of carrier and the carrier's statement regarding the loss in transit.

7. Special Occupational Tax

The Department of the Treasury assesses permit holders a special occupational tax of \$250 each July 1 for the following fiscal year. Each campus holding a permit is required to file a Special Tax Registration and Return (Form [5630.5](#)) and pay the tax. The necessary forms and instructions will be to each campus by June 15 of each year. Campuses which do not receive these forms by June 15 should contact the Director of Industry Operations. Failure to pay the tax will result in the imposition of penalties and interest.

IV. RESPONSIBILITIES

Each Chancellor is responsible for ensuring strict compliance with statutory and regulatory requirements concerning tax-free alcohol.

The Senior Vice President—Business and Finance is responsible for maintaining a record of re-delegations of the authority to sign tax-free alcohol permit applications.

EXHIBIT NO. 1

CONDITIONS OF USE OF TAX-FREE ALCOHOL

(TO BE POSTED IN A CONSPICUOUS PLACE WITHIN THE LOCKED STORAGE AREA)

1. NO FULL DRUM DELIVERIES SHALL BE MADE FROM STOREHOUSE STOCK AT ANY TIME.
2. DELIVERIES WHICH EXCEED THE STATED MONTHLY REQUIREMENT AND DELIVERIES OF MORE THAN 25 GALLONS MUST CONFORM WITH FIRE PROTECTION AND ENVIRONMENTAL HEALTH AND SAFETY STANDARDS AND HAVE PRIOR APPROVAL OF THE CHANCELLOR OR DESIGNEE.
3. THE USER'S CUSTODIAN SHALL SIGN A STOREHOUSE RECEIPT FOR EACH DELIVERY OF ALCOHOL AND SHALL MAINTAIN COMPLETE, ACCURATE, AND UP-TO-DATE RECORDS OF ALL TAX-FREE ALCOHOL TRANSACTIONS IN WHICH THE CUSTODIAN IS INVOLVED.
4. ALL TAX-FREE ALCOHOL SHALL BE USED ONLY ON THE PREMISES OF THE PERMITTEE AND SHALL NOT BE TRANSPORTED TO ANY LOCATION OTHER THAN A UNIVERSITY-OWNED BUILDING ON THAT PARTICULAR CAMPUS. (FOR POSSIBLE EXCEPTIONS REFER TO SEC. 22.102 OF THE FEDERAL REGULATIONS ON TAX-FREE ALCOHOL WHICH IS SET FORTH BELOW)
5. EACH CAMPUS AND USER SHALL ESTABLISH AND MAINTAIN ITS ALCOHOL STORAGE FACILITY IN ACCORDANCE WITH THE FOLLOWING CRITERIA:
 - A. ADEQUATE SIZE AND CONSTRUCTION TO PROVIDE GOOD VENTILATION.
 - B. SUITABLE LOCATION WHICH PROVIDES CONVENIENCE TO AUTHORIZED PERSONNEL AND AFFORDS MAXIMUM PHYSICAL PROTECTION.
 - C. USE OF OR ADHERENCE TO SECURITY DEVICES OR PRACTICES WHICH SHALL INCLUDE, BUT ARE NOT LIMITED TO THE FOLLOWING: USE OF A CYLINDER TYPE DOOR LOCK OR HEAVY-DUTY PADLOCK. IF A PADLOCK IS USED THE HASP MUST BE INSTALLED TO PRECLUDE ACCESS TO THE MOUNTING SCREWS OR BOLTS WHEN THE DOOR IS CLOSED AND THE LOCK IS IN PLACE. THE FACILITY CUSTODIAN SHALL HAVE SOLE CUSTODY OF THE

PRIMARY KEY TO THE FACILITY, AND THE PROCEDURES SHALL BE ESTABLISHED TO SAFEGUARD ALL KEYS.

EXCERPTS FROM THE FEDERAL REGULATIONS ON TAX-FREE ALCOHOL

SEC. 22.104(D) - EDUCATIONAL ORGANIZATIONS, SCIENTIFIC UNIVERSITIES, AND COLLEGE OF LEARNING - "...TAX-FREE ALCOHOL WITHDRAWN BY SUCH EDUCATIONAL ORGANIZATIONS, SCIENTIFIC UNIVERSITIES, AND COLLEGES OF LEARNING SHALL BE USED ONLY FOR SCIENTIFIC, MEDICINAL, AND MECHANICAL PURPOSES. USE OF THE TAX-FREE ALCOHOL AND RESULTING PRODUCTS ARE LIMITED AS PROVIDED IN SEC. 22.102.

SEC 22.102 - PROHIBITED USAGE OF TAX-FREE ALCOHOL - "UNDER NO CIRCUMSTANCES MAY TAX-FREE ALCOHOL WITHDRAWN UNDER THIS PART BE USED FOR BEVERAGE PURPOSES, OR IN ANY FOOD PRODUCT, OR IN ANY PREPARATION USED IN PREPARING BEVERAGE OR FOOD PRODUCTS. UNIVERSITIES, COLLEGES, EDUCATIONAL ORGANIZATIONS, LABORATORIES, HOSPITALS, CLINICS, BLOOD BANKS, AND SANITARIUMS ARE PROHIBITED FROM (A) SELLING TAX-FREE ALCOHOL, (B) USING TAX-FREE ALCOHOL IN THE MANUFACTURE OF ANY PRODUCT FOR SALE, OR (C) SELLING ANY PRODUCT RESULTING FROM THE USE OF TAX-FREE ALCOHOL...PERSONS QUALIFIED UNDER THIS PART MAY NOT REMOVE TAX-FREE ALCOHOL OR PRODUCTS RESULTING FROM THE USE OF SUCH ALCOHOL FROM PREMISES UNDER THEIR CONTROL UNLESS SUCH REMOVALS ARE SPECIFICALLY AUTHORIZED BY THE TERMS OF THEIR PERMIT, OR PERMISSION IS OBTAINED FROM THE REGIONAL DIRECTOR, (COMPLIANCE)."