



BFB-BUS-2: Tax-Free Alcohol Permits, Records, and Operations

Responsible Officer:	AVP - Chief Procurement Officer
Responsible Office:	PS - Procurement Services
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I. POLICY SUMMARY

Federal and state laws govern the purchase, storage, control and use of alcohol by educational institutions ([27 CFR 22.104](#)) and hospitals ([27 CFR 22.105](#)). This Bulletin addresses requirements for obtaining alcohol for research and clinical purposes on a tax-free basis, and summarizes the associated safeguards.¹

II. DEFINITIONS

Alcohol and Tobacco Tax and Trade Bureau: The Alcohol and Tobacco Tax and Trade Bureau (TTB) is the newest bureau under the [Department of the Treasury](#). Its responsibilities are protecting the public and collecting the revenue. They carry out these responsibilities by developing regulations, conducting product analysis, and ensuring tax and trade compliance with the [Federal Alcohol Administration Act](#) and the [Internal Revenue Code](#).

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

CFR: Code of Federal Regulations: [The Code of Federal Regulations \(CFR\)](#) annual edition is the codification of the general and permanent rules published in the [Federal Register](#) by the departments and agencies of the Federal Government.

e-CFR: Electronic Code of Federal Regulations is the on-line version of [The Code of Federal Regulations](#). While not the official legal version of the [CFR](#), the electronic version is the most up-to-date version of the Federal Code, as changes are made fairly frequently.

Permit to Use Alcohol Free of Tax: The [TTB Form 5150.22](#) which is the Permit allowing University of California Locations to purchase and accept delivery of Tax-Free Alcohol from Suppliers that is limited for use in research and medicinal settings.

Special Occupational Tax: This was a tax that was assessed on Tax-Free Alcohol and was original mentioned in BUS-2. This tax has since been repealed (on August 10, 2005 when President Bush signed, "[Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users,](#)" Public Law 109-59). [Section 11125 of the Act permanently repealed, effective July 1, 2008, the Repeal of Special \(Occupational\) Tax on Alcohol Occupations.](#)

TTB: Alcohol and Tobacco Tax and Trade Bureau of the [U.S. Department of the Treasury](#):

Tax-Free Alcohol: Tax-free alcohol is un-denatured alcohol used for non-beverage purposes in scientific research and medicinal uses by educational organizations, hospitals, and laboratories, etc. The use of alcohol free of tax is regulated to prevent illegal diversion to taxable beverage use.

III. POLICY TEXT

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](#). All tax-free alcohol use applications are to be made in the name of "The Regents of the University of California."

The Chancellor's designee may not sign tax-free alcohol documents before receiving approval from the [TTB Administrator](#).

B. Approval by TTB:

[TTB](#) will issue an official numbered "*Permit to Use Alcohol Free of Tax*" ([TTB Form 5150.22](#)) and return a copy of the application form. Permits are continuous unless automatically terminated by the terms of the permit.

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.

1. Purchasing Requirements:

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:

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.

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 at the location 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 Exhibits 1 and 2).

3. Losses and Claims:

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.

IV. COMPLIANCE / RESPONSIBILITIES

- A. 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 of California. 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.

- B. Each Chancellor is responsible for ensuring strict compliance with statutory and regulatory requirements concerning tax-free alcohol.
- C. The [CFO Finance](#) is responsible for maintaining a record of re-delegations of the authority to sign tax-free alcohol permit applications.

V. PROCEDURES

A. Securing Industrial Use Permits and Amending Permits:

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

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 National Revenue Center](#) 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
3. Sending a copy of any re-delegation letter to the Systemwide Policy Director for the official records of the [CFO Finance](#).

B. Approval by TTB:

1. [TTB](#) will issue an official numbered “Permit to Use Alcohol Free of Tax” ([TTB Form 5150.22](#)) 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.
2. 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.

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).

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

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.

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.

5. Inventories:

As required by federal law, a physical inventory of tax-free alcohol shall be taken semiannually or at other inventory periods approximately six months apart.

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:
 - i. Name, address, and permit number of the entity;
 - ii. Identification and locations of the container(s) from which the tax-free alcohol was lost, and the quantity lost from each container;
 - iii. Total quantity of tax-free alcohol covered by the claim and the aggregate quantity involved;
 - iv. 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;

- v. If the alcohol was lost in transit, the name of carrier and the carrier's statement regarding the loss in transit.

VI. RELATED INFORMATION

EXHIBIT # 1 BUS-2/TAX-FREE ALCOHOL, PERMITS, RECORDS, AND OPERATIONS: Conditions of Use, Tax-Free Alcohol.

EXHIBIT # 2 BUS-2/TAX-FREE ALCOHOL, PERMITS, RECORDS, AND OPERATIONS: Excerpts from the Federal Regulations on Tax-Free Alcohol.

[eCFR: Electronic Code of Federal Regulations](http://ecfr.gpoaccess.gov): (ecfr.gpoaccess.gov).

[UC Code of Conduct for Trademark Licensees](http://policy.ucop.edu/doc/3000130): <http://policy.ucop.edu/doc/3000130>.

[Alcohol and Tobacco Tax and Trade Bureau: Information for Tax-free Alcohol Applicants](#).

[Repeal of Special \(Occupational\) Tax on Alcohol Occupations](#).

VII. FREQUENTLY ASKED QUESTIONS

Not Applicable.

VIII. REVISION HISTORY

This revision of *BUS-2/Tax-Free Alcohol Permits, Records, and Operations* Policy was published on July 1, 2012 to reformat the existing policy per University of California standards revised in 2012. One additional change was to *remove Part III. Procedures, Section C. Obligations of Permit Holders, Sub- Section 7. Special Occupational Tax* since this requirement was repealed on August 10, 2008 when President Bush signed "[Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users](#)," [Public Law 109-59. Section 11125 of the Act](#) permanently repealed effective July 1, 2008 the *Repeal of Special (Occupational) Tax on Alcohol Occupations*.

A revision to *BUS-2/Tax-Free Alcohol Permits, Records, and Operations* Policy was created and published on May 16, 2003.

A revision to *BUS-2/Tax-Free Alcohol Permits, Records, and Operations* Policy was created and published on June 15, 1989.

A revision to *BUS-2/Tax-Free Alcohol Permits, Records, and Operations* Policy was created and published on December 1, 1985.

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On October 18, 1967 in a memo from W.G. Preston/Office of the Vice President/ Business and Finance, presented to the University community, *BFB BUS-2 Tax-Free Alcohol Permits, Records, and Operations* which went into effect October 20, 1967 and replaced Business Services Division, Interim Operation Instructions No. 1.

On October 10, 1966, the President of the University of California re-delegated his authority for the ability to sign all Tax-Free Alcohol documents to the Chancellor of each campus.

On October 22, 1965, The Regents of the University of California authorized the President of UC 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 \("TTB"\)](#). The Regents then passed a resolution delegating to the President of the University of California his authority for signing all documents related to Tax-Free Alcohol.



EXHIBIT # 1
BUS-2/TAX-FREE ALCOHOL, PERMITS, RECORDS, AND OPERATIONS
CONDITIONS OF USE OF TAX-FREE ALCOHOL

(To be Posted in a Conspicuous Location 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 to Fire Protection and Environmental Health and Safety Standards and have the 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 UC Location (For possible exceptions refer to SEC. 22 102 of the Federal Regulations on Tax-Free Alcohol which is set forth below).
5. Each UC Location 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 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 the sole custody of the primary keys to the Facility and procedures shall be established to safeguard all keys.



EXHIBIT # 2
BUS-2/TAX-FREE ALCOHOL, PERMITS, RECORDS, AND OPERATIONS
EXCERPTS FROM THE FEDERAL REGULATIONS ON TAX-FREE ALCOHOL

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&rgn=div5&view=text&node=27:1.0.1.1.18&idno=27#27:1.0.1.1.18.8.303.4>

Title 27/Section 22.104 Educational Organizations, Colleges of Learning, and Scientific Universities

(a) *Educational organizations.* Educational organizations authorized to withdraw and use tax-free alcohol under §22.101 are those organizations which normally maintain a regular faculty and curriculum and which normally have a regularly enrolled body of students in attendance at the place where their educational activities are regularly carried on and which are exempt from Federal income tax under 26 U.S.C. 501(a).

(b) *Colleges of learning.* Colleges of learning, for the purposes of this subpart, have a recognized curriculum and confer degrees after specified periods of attendance at classes or research work.

(c) *Scientific universities.* Scientific universities include any university incorporated or organized under any Federal or State law which provides training in the sciences.

(d) *Uses.* Tax-free alcohol withdrawn by educational organizations, scientific universities, and colleges of learning shall be used only for scientific, medicinal, and mechanical purposes. Use of tax-free alcohol and resulting products are limited by the provisions of §22.102.

(Sec. 201, Pub. L. 85-859, 72 Stat. 1362, as amended (26 U.S.C. 5214))

Title 27/Section 22.105 Hospitals, Blood Banks, and Sanitariums

(a) Tax-free alcohol withdrawn for use by hospitals, blood banks, and sanitariums shall be used exclusively for medicinal, mechanical (analysis or test) and scientific purposes and in the treatment of patients. The use of tax-free alcohol and of products resulting from the use of tax-free alcohol shall be confined to the permit premises, except as provided in this section and §22.102. Medicines compounded with tax-free alcohol on the premises of a hospital or sanitarium, for use of patients on the premises, may not be sold, but a separate charge may be made for the medicine.

(b) A hospital, operating a clinic on premises, may withdraw tax-free alcohol for use in the clinic, if the clinic is operated for charity and not for profit. Medicines compounded with tax-free alcohol may be dispensed to patients at a clinic for use outside of the clinic, if the furnishing of the medicine is not conditioned upon payment.

(c) A hospital or sanitarium, operating a pathological or other laboratory on premises, may withdraw tax-free alcohol for authorized use in the laboratory.

(Sec. 201, Pub. L. 85-859, 72 Stat. 1362, as amended (26 U.S.C. 5214))

Title 27/Section 22.102 Prohibited Uses

(a) *Usage.* Under no circumstances may tax-free alcohol withdrawn under this part be used for beverage purposes, food products, or in any preparation used in preparing beverage or food products.

(b) *Selling.* Persons qualified under this part are prohibited from selling tax-free alcohol, using tax-free alcohol in the manufacture of any product for sale, or selling any products resulting from the use of tax-

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free alcohol. A separate charge may be made by a hospital, sanitarium or clinic for medicines compounded with tax-free alcohol and dispensed to patients for use on the premises, as provided in §§22.105 and 22.106. Hospitals may not furnish tax-free alcohol for use of physicians in their private practice.

(c) *Removal from premises.* Persons qualified under this part may not remove tax-free alcohol or products resulting from the use of tax-free alcohol from the permit premises unless specifically authorized by the terms of their permit, or permission is obtained from the appropriate TTB officer, except that:

(1) Products made through the use of tax-free alcohol which contain no alcohol may be removed to other premises for the sole purpose of further research; or

(2) Under the provisions of §§22.105 and 22.106, clinics operated for charity and not for profit may compound bona fide medicines with tax-free alcohol, and dispense the medicine from the premises for use by its patients outside of the clinic, if the furnishing of the medicine is not conditioned upon payment.

(d) *Liability for tax.* Permittees who use tax-free alcohol in any manner prohibited by this section become liable for the tax on the alcohol. Any permittee who sells tax-free alcohol becomes subject to the provisions of part 31 of this chapter.

(Sec. 201, Pub. L. 85-859, 72 Stat. 1314, as amended, 1343, as amended, 1362, as amended (26 U.S.C. 5001, 5121, 5214))

[T.D. ATF-199, 50 FR 9183, Mar. 6, 1985, as amended by T.D. TTB-79, 74 FR 37404, July 28, 2009]