

**Drafting Information**

The principal author of these regulations is Craig Gerson, Office of Associate Chief Counsel (Passthroughs and Special Industries), IRS. However, other personnel from the IRS and Treasury Department participated in their development.

**List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

**Proposed Amendments to the Regulations**

Accordingly, 26 CFR part 1 is proposed to be amended in part as follows:

**PART 1—INCOME TAXES**

1. The authority citation for part 1 continues to read in part as follows:

**Authority:** 26 U.S.C. 7805. \* \* \*

2. Section 1.704–1 is amended as follows:

1. Paragraph (b)(2)(iv)(f)(5)(iii) is redesignated as paragraph (b)(2)(iv)(f)(5)(iv).

2. New paragraph (b)(2)(iv)(f)(5)(iii) is added.

**§ 1.704–1 Partner's distributive share.**

\* \* \* \* \*

(b) \* \* \*

(2) \* \* \*

(iv) \* \* \*

(f) \* \* \*

(5) \* \* \*

(iii) In connection with the grant of an interest in the partnership (other than a *de minimis* interest) on or after the date final regulations are published in the **Federal Register** as consideration for the provision of services to or for the benefit of the partnership by an existing partner acting in a partner capacity, or by a new partner acting in a partner capacity or in anticipation of being a partner.

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**Judith B. Tomaso,**

*Acting Deputy Commissioner of Internal Revenue.*

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**DEPARTMENT OF THE TREASURY****Alcohol and Tobacco Tax and Trade Bureau****27 CFR Parts 4 and 24**

**[Notice No. 13]**

**RIN 1512–AC48**

**Production of Dried Fruit and Honey Wines (2001R–136P)**

**AGENCY:** Alcohol and Tobacco Tax and Trade Bureau, Treasury.

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** The Alcohol and Tobacco Tax and Trade Bureau (TTB) requests comments on two proposed amendments to the regulations relating to the production of dried fruit and honey wines. The first amendment will allow the production of dried fruit wines with an alcohol by volume content of more than 14 percent. The second will lower the minimum starting Brix of 22 degrees to 13 degrees in the production of honey wines. These proposals are the result of two petitions submitted by producers of raisin and honey wines. We also correct a technical error in the wine labeling regulations by raising the maximum limit on alcohol content derived from fermentation from 13 to 14 percent for ameliorated agricultural wines.

**DATES:** Submit written comments on or before September 2, 2003.

**ADDRESSES:** You may view copies of the proposed regulations, related documents, and any comments received on this notice by appointment at the ATF Reference Library, Room 6480, 650 Massachusetts Avenue, NW., Washington, DC 20226.

You may send comments to any of the following addresses—

- Chief, Regulations and Procedures Division, Alcohol and Tobacco Tax and Trade Bureau, PO Box 50221, Washington, DC 20091–0221 (Attn: Notice No. 13);

- (202) 927–8525 (facsimile);
- [nprm@ttb.gov](mailto:nprm@ttb.gov) (e-mail); or
- <http://www.ttb.gov> (online). A comment form is available with the copy of this notice posted on our Web site.

See the Public Participation section of this notice for specific instructions and requirements.

**FOR FURTHER INFORMATION CONTACT:**

Jennifer Berry, Alcohol and Tobacco Tax and Trade Bureau, Regulations and Procedures Division, PO Box 18152, Roanoke, VA 24014; or telephone (540) 344–9333.

**SUPPLEMENTARY INFORMATION:****Background**

*Has Passage of the Homeland Security Act Affected Department of Treasury Rulemaking?*

Effective January 24, 2003, the Homeland Security Act of 2002 divided the Bureau of Alcohol, Tobacco and Firearms (ATF) into two new agencies, the Alcohol and Tobacco Tax and Trade Bureau (TTB) in the Department of the Treasury and the Bureau of Alcohol, Tobacco, Firearms, and Explosives in the Department of Justice. Regulation of wine production is the responsibility of the new TTB. References to ATF and TTB in this document reflect the timeframe, before or after January 24, 2003, of the rulemaking process.

*What Is TTB's Authority To Regulate the Production of Dried Fruit and Honey Wines?*

The Internal Revenue Code (IRC) of 1986 (26 U.S.C. 5387) states that wines made from agricultural products other than the juice of fruit must be made “in accordance with good commercial practice,” as prescribed by the Secretary of the Treasury through regulations. We define wines made according to these regulations, including those made from dried fruit and honey, as “standard agricultural wines.” The IRC specifies these production limitations:

- You may not add wine spirits to agricultural wines;
- You may not add coloring or flavoring materials to agricultural wines, with the exception of hops to honey wine; and
- You may not blend wines from different agricultural commodities.

Title 27 CFR part 24, Wine, Subpart I—Production of Agricultural Wine, contains regulations under the jurisdiction of TTB that implement these statutory requirements.

*What Are the Current Regulatory Requirements for the Production of Dried Fruit and Honey Wines?*

Subpart I contains provisions for the production of agricultural wines, including some derived from the IRC's “good commercial practice” provision. Sections 24.202 and 24.203 contain provisions specific to dried fruit wine and honey wine, respectively. Section 24.204 contains requirements for all agricultural wines other than dried fruit and honey wines. Among other requirements, all three of these sections prohibit the production of any agricultural wine with an alcohol content of more than 14 percent by volume after complete fermentation or complete fermentation and sweetening. The IRC does not specify this limitation,