

“(A) IN GENERAL.—The term ‘earned income’ means the net earnings from self-employment (as defined in section 1402(a)), but such net earnings shall be determined—

“(i) only with respect to a trade or business in which personal services of the taxpayer are a material income-producing factor,

“(ii) without regard to paragraphs (4) and (5) of section 1402(c),

“(iii) in the case of any individual who is treated as an employee under sections 3121(d)(3) (A), (C), or (D), without regard to paragraph (2) of section 1402(c), and

“(iv) without regard to items which are not included in gross income for purposes of this chapter, and the deductions properly allocable to or chargeable against such items.

For purposes of this subparagraph, section 1402, as in effect for a taxable year ending on December 31, 1962, shall be treated as having been in effect for all taxable years ending before such date.”

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 205. TREATMENT OF CERTAIN INCOME OF AUTHORS, INVENTORS, ETC., AS EARNED INCOME FOR RETIREMENT PLAN PURPOSES.

(a) INCOME FROM DISPOSITION OF PROPERTY CREATED BY TAXPAYER.—Section 401(c)(2) (relating to definition of earned income) is amended by adding at the end thereof the following new subparagraph:

“(C) INCOME FROM DISPOSITION OF CERTAIN PROPERTY.—For purposes of this section, the term ‘earned income’ includes gains (other than any gain which is treated under any provision of this chapter as gain from the sale or exchange of a capital asset) and net earnings derived from the sale or other disposition of, the transfer of any interest in, or the licensing of the use of property (other than good will) by an individual whose personal efforts created such property.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 206. EXCLUSION OF CERTAIN RENTS FROM PERSONAL HOLDING COMPANY INCOME.

(a) RENTS FROM LEASES OF CERTAIN TANGIBLE PERSONAL PROPERTY.—Section 543(b)(3) (relating to adjusted income from rents) is amended by striking out “but does not include amounts constituting personal holding company income under subsection (a)(6), nor copyright royalties (as defined in subsection (a)(4) nor produced film rents (as defined in subsection (a)(5)(B)).” and inserting in lieu thereof the following: “but such term does not include—

“(A) amounts constituting personal holding company income under subsection (a)(6),

“(B) copyright royalties (as defined in subsection (a)(4)),

“(C) produced film rents (as defined in subsection (a)(5)(B)), or

“(D) compensation, however designated, for the use of, or the right to use, any tangible personal property manu-

68A Stat. 353.
26 USC 1402.

79 Stat. 381.

26 USC 3121.
74 Stat. 945.

Ante, p. 1577.

78 Stat. 84.
26 USC 543.