

deduction for one-half of his contribution up to this amount. In the case of a person in a trade or business where both personal services and capital are material income-producing factors, not more than 30 percent of that person's share of the net profits of his trade or business may be treated as "earned income" for this purpose. However, if the person renders personal services on a full-time, or substantially full-time basis, a minimum of \$2,500 of net profits from such trade or business will qualify as earned income, notwithstanding the 30-percent limitation.

This amendment permits a minimum \$6,600 of earnings from a trade or business in which both personal services and capital are material income-producing factors and the taxpayer renders personal services on a full-time (or substantially full-time) basis, to be treated as "earned income." The 30-percent limitation will continue to apply as under present law, where the 30-percent rule gives rise to a greater amount of earned income than the minimum of \$6,600.

This amendment permits self-employed individuals in small businesses to make more significant contributions to pension plans. This is the same amount presently treated as the maximum tax base for social security purposes.

The greatest increases in deductible pension contributions resulting from this change will be available to those persons whose net profits range between \$6,600 and \$8,333. Lesser additional deductions will be available to those with net profits between \$2,500 and \$6,600 and between \$8,333 and \$22,000.

It is estimated that the revenue loss from this amendment in a full fiscal year would amount to less than \$1 million. This change applies to taxable years beginning after December 31, 1965.

6. Treatment of certain income of authors, inventors, and so forth, as earned income for retirement plan purposes (sec. 206 of the bill and sec. 401(c)(2) of the code)

Present law contains provisions designed to encourage self-employed persons to establish voluntary retirement plans. Under these provisions, self-employed persons are permitted to deduct contributions (within specified limits) made to pension or profit-sharing plans for the benefit of themselves and other employees covered by the plan.

Coverage under these provisions depends on "earned income," and such income is the basis for computing deductible contributions. This term includes professional fees and other compensation for personal services from a trade or business (but does not include amounts which constitute a return on capital invested in the trade or business).

With respect to authors, the Internal Revenue Service takes the position that if an author contracts to write articles for a given period or a book for a publisher who copyrights the literary material and pays the author a stipulated amount of cash, plus a percentage of the income derived from the material, the consideration is for the author's personal services and constitutes earned income. However, where the consideration received by an author is derived either from the sale, leasing, or renting of the author's writing, the consideration is paid for the use or sale of property and is held not to constitute earned income. A similar position is taken by the Service with respect to inventors and others who create property through the application of their personal efforts.