dividuals' Tax Retirement Act of 1962.

The proposed amendment which embodies the provisions of H.R. 10 as recently passed by the House of Representatives by a unanimous vote, is designed to improve the Self-Employed Individuals' Tax Retirement Act of 1962 by amending certain restrictive features of the act which have prevented the full utiliaztion of it by the self-employed.

Briefly, the proposed amendment corrects two inequities in existing law. It would permit a self-employed to deduct the entire amount he contributes—but not in excess of $2,500, of course—for his own retirement benefits—the same as he may do for contributions on behalf of his other employees.

The 50 percent limitation in the present law is neither fair nor logical. Originally, this limtation was designed to place the self-employed plans on a par with those plans in which the employee, as well as the employer, contributes to the cost of the benefits.

The fact is that, according to the reports of the Secretary of Labor, over 70 percent of the plans registered under the Welfare and Pension Plans Disclosure Act do not require contributions from the employee but are financed entirely by the employer.

Moreover, it is a rare case where the employee pays for one-half of his benefits. Thus, it is difficult to justify the limitation on the ground that only half of the contribution represents a contribution by the self-employed as an employee rather than as an employer.

Second, it would remove the 30-percent limtiation on "earned income" to be considered for plan purposes. Since the allowable contribution for the self-employed is based upon his earned income, the existing limitation means that the individual's net earnings must be at least $83,333.33 if he is to make the maximum contribution of $2,500—30 percent of $83,333.33 is $25,000; 10 percent of $25,000 is $2,500.

The arithmetic alone demonstrates that it is highly unrealistic to attribute only 30 percent of the net profits of the business to personal services and that the act is of little help to small businessmen and farmers.

The new definition of "earned income" will continue to require that substantial personal services be devoted to the business if deductions are to be taken with respect to contributions for the self-employed individual's benefit. Deductions will not, therefore, be allowed for contributions based on income derived solely from capital.

It should be noted that the proposed amendment makes no change in the basic structure of the act. The more stringent requirements with respect to coverage of employees and the benefits which must be provided them will remain in effect to prevent discrimination in favor of the self-employed.

Let me explain in a little more detail why the proposed amendment is desirable to make the Self-employed Individuals' Retirement Act an effective one for the self-employed.

When the act was passed by the Congress in 1962, it represented the culmination of many years' effort to provide some means by which the self-employed could adopt pension plans for their retirement and deduct a part of the cost thereof in computing their Federal income tax liability. Although the self-employed were prevented from doing this, the tax laws for many years had permitted the corporate employer to establish pension plans and deduct the cost thereof, including the cost of pensions for employees who were also owners of business.

The 1962 act did not by any means equate the tax benefits of the self-employed and the corporate employers. While a step in the right direction, it imposed numerous limitations on the self-employed. Experience with the act since 1962 clearly demonstrates that the objectives of the act have not been fulfilled. In March of 1965, the distinguished Senator from West Virginia [Mr. RANDOLPH], chairman of the Subcommittee on Employment and Retirement Incomes of the Special Committee on Aging of the Senate, held hearings on the general problem of extending private pension coverage. Several witnesses testified to the fact that adoption of retirement plans by the self-employed had been small indeed.

When Congress considered legislation in 1962, it was estimated that some 6 million self-employed who pay income taxes would be permitted to establish retirement plans under the act. It is also estimated that these people employ about 9 million individuals. So there are approximately 15 million people who could be covered under pension plans for the self-employed. However, the Internal Revenue Service reports that as of March 31, 1966, only some 22,000 plans had been adopted, covering less than 40,000 people. In the same period qualified retirement plans were adopted by corporations which covered over 1,250,000 employers. It is obvious, therefore, that to date coverage of the self-employed and their employees has been negligible.

Additional evidence of the poor acceptance of the act by the self-employed is found in the fact that in 1962 the Treasury estimated the cost of the act would amount to around $115 million for the first year, while the actual cost for 1964 was only some $9 million. The Treasury Department estimates that only about one-half of 1 percent of the self-employed took advantage of the deduction for 1964.

The reason for the failure of the act