REMOVAL OF SPECIAL LIMITATIONS WITH RESPECT TO DEDUCTIBILITY OF CONTRIBUTIONS TO PENSION PLANS BY SELF-EMPLOYED INDIVIDUALS

Existing section 404(a)(10) of the code limits the deduction with respect to contributions made on behalf of an individual who is an employee within the meaning of section 401(c)(1) (principally, the self-employed) to an amount equal to one-half of such contributions.

The Senate amendment repeals section 404(a)(10) of the code, effective with respect to taxable years beginning after December 31, 1967. The Senate amendment also amends section 401(c)(2) of the Code (relating to definition of earned income for purposes of certain pension and profit-sharing plans) to treat as earned income all of the net profits from a trade or business in which both the performance of personal services and capital are material income-producing factors. However, the earned income to be taken into account for this purpose includes only net earnings with respect to a trade or business in which personal services of the taxpayer are a material income-producing factor. Under the Senate amendment this provision is effective for taxable years beginning after December 31, 1967.

The action recommended in the accompanying conference report includes both the repeal of section 404(a)(10) and the amendment of the earned income provisions of section 401(c)(2), effective with respect to taxable years beginning after December 31, 1967.

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

Section 401(c)(2) of the code contains the definition of "earned income" for purposes of pension and profit-sharing plans which cover self-employed individuals and owner-employees.

The Senate amendment adds a new subparagraph providing that the term "earned income" includes gains (other than capital gains) 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.

Under the conference action, this provision is retained.

EXCLUSION OF CERTAIN RENTS FROM PERSONAL HOLDING COMPANY INCOME

Section 543(b)(3) of the code defines the term "adjusted income from rents" for purposes of the provisions of the code relating to personal holding companies. The Senate amendment adds a provision providing that such term does not include compensation, however designated, for the use of, or the right to use, any tangible personal property manufactured or produced by the taxpayer, if during the taxable year the taxpayer is engaged in substantial manufacturing or production of tangible personal property of the same type.

Under the conference action this provision is retained.