# SELF-EMPLOYED RETIREMENT DEDUCTION

**The following report was prepared by the Department of the Treasury in response to the request of the Committee on Ways and Means on September 30, 1965.**

## DATA ON SELF-EMPLOYED RETIREMENT DEDUCTION FOR TAXABLE YEAR 1964

Under the provisions of Public Law 87–792, enacted in 1962, self-employed individuals may set up qualified retirement plans and deduct contributions (within specified limits) to the plans. A self-employed person establishing a plan for himself under this provision is required to provide comparable coverage in the plan for all his full-time employees with more than 3 years of service.

For a self-employed person, the contribution with respect to which a deduction may be claimed is limited to 10 percent of earned income, or $2,500, whichever is less. The annual deduction from gross income for amounts contributed on behalf of the self-employed person is limited to 50 percent of the contributions to such plans for himself up to a maximum of $1,250. Qualifying contributions for his employees are deductible in full.

*1. The present study*

Preliminary data are available from individual tax returns for 1964, filed during 1965. This permits an estimate of the total use for 1964 of the self-employed retirement deduction (covered in section 2 and table 1). These data are based on the regular sample drawn for Statistics of Income (SOI) for 1964, to the extent the returns were available near the end of 1965. The coverage in the preliminary data is relatively reliable in middle- and low-income levels where an adequate sample can be drawn from returns on hand. The data are more subject to change in the high-income brackets where the regular SOI, when it appears, will be based on 100 percent coverage.

A more detailed source of data on the self-employed retirement deduction is available from those returns in the SOI sample which had the form 2950–SE attached. This form should have been filed by all persons claiming the self-employed retirement deduction. A copy is attached.

Based on the preliminary data on tax returns, about 38,300 returns claimed self-employed retirement deductions in 1964 in an amount of $26.3 million. The number submitting the form 2950–SE was only about 25,600 claiming deductions of $20.7 million.

It should be kept in mind that the entire SOI tabulation is based upon unaudited data. It may be that some of the returns claiming the self-employed retirement deduction but not submitting the form 2950–SE will, on audit, prove to be ineligible for the deduction. There is no way to estimate this.



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