

various professions. Available data provide no basis for allocating the returns of the nonfilers of form 2950-SE.

4. Type of plan and method of funding

About 65 percent of the returns with self-employed retirement deduction designated their plans as pension or annuity plans, 18 percent were profit-sharing plans, and the remaining 17 percent did not indicate the type of plan.

A number of choices are available as to the manner in which a self-employed retirement plan can be funded. As is indicated in table 3, the most common method of funding (used by approximately one-third of all plans) is a trust. Approximately 20 percent of the plans use custodial accounts, 15 percent are insured plans, and 10 percent invest in U.S. Government retirement plan bonds. Almost 20 percent of returns did not indicate the type of plan used.

5. Size of deduction

Table 4 shows the size of deduction by income classes based upon the special tabulation of forms 2950-SE. This would tend to overstate the typical deduction claimed. On all returns claiming the deduction, the average size of deduction was \$687. On the returns submitting form 2950-SE the average deduction was \$808.

As indicated by table 4, nearly 30 percent of the returns involved a deduction of less than \$500, and one-third involved a deduction of \$1,250, the maximum allowable. As income increases, the size of the deduction also increases. In the \$25,000 and over classes, the vast majority of the returns took the maximum deduction of \$1,250.

The distribution by size of deduction for the various occupation groups is shown in table 5. This breakdown by occupational groups is subject to high sampling variability. For some of the groups the classification by size of deduction is based on a very small sample of returns. It is useful, however, as a general indication of the extent to which the maximum deduction is used by various occupational groups. Of the returns of physicians with a self-employed retirement deduction, 55 percent took the \$1,250 maximum deduction, and these returns accounted for almost two-thirds of the total deduction taken by this group. More than one-third of the lawyers with the deduction took the \$1,250 maximum, and these returns accounted for more than half of the total deduction taken by this group.

On the other hand, a deduction of less than \$1,250 was taken by more than 75 percent of two groups: (1) dentists and dental surgeons, and (2) retail, wholesale, and manufacturing, and about 90 percent of those engaged in (1) accounting and auditing services and (2) finance, insurance, and real estate.

Table 6 shows for returns with a retirement deduction of less than \$1,250 the relationship of the deduction to earned income.¹ Under the law, the deduction may not exceed 5 percent of earned income. For 45 percent of these returns, the deduction was between 4 and 5 percent of earned income. For 13 percent of returns, it was between 3 and 4 percent of earned income, and for 33 percent of returns it was less than 3 percent of earned income.

Table 7 shows by adjusted gross income classes the distribution of (1) returns with a deduction equal to 5 percent or more of earned income and (2) returns with a deduction of \$1,250 and over. These

¹ Where the deduction is \$1,250 or more, the relation of the deduction to earned income is irrelevant because the \$1,250 limitation applies at all income levels above \$25,000.