

two types of returns represent those which took the maximum allowable retirement deduction.

Because of high sampling variability, a detailed breakdown cannot be shown for income classes below \$25,000. However, for three income groups between \$5,000 and \$25,000, a total of only 11 percent of the returns took the maximum allowable deduction. In the \$25,000 to \$50,000 group (which constitutes about 40 percent of the returns in the special tabulation), the maximum deduction was taken by 60 percent of the returns. In the \$50,000 to \$100,000 group, 79 percent took the maximum deduction.

6. *Extent of coverage of employees*

The special tabulation indicates that self-employed retirement plans cover few employees. As is indicated in table 8, 20,000 of the 25,000 returns, or 80 percent of the total, had no covered employees. Contributions by the self-employed on behalf of covered employees amounted to less than 6 percent of the total contributions reflected in the returns. This total includes the actual amounts contributed on behalf of their covered employees plus the amounts (up to \$2,500) contributed on behalf of themselves which serve as a basis for the 50 percent deduction. It does not include amounts in excess of \$2,500 which may have been contributed by self-employed but which do not enter into the computation of the deduction.

Plans are permitted to exclude employees with a period of employment of less than 3 years and employees who are not full-time employees.

In the aggregate, sole proprietorships and partnerships in 1963 paid wages and salaries to employees of \$44.3 billion. The aggregate proprietorship-partnership income was \$50 billion. In terms of deductions, covered on forms 2950-SE, \$20.7 million was deducted with respect to self-employed individuals, and \$2.4 million was deducted with respect to employees. In view of the rule that only 50 percent of the contributions of the self-employed on behalf of themselves are deductible, the fact that deductions for employees were about one-tenth of deductions for employers would suggest that contributions must have been 20 times larger for employers than for employees. This contrasts with the fact that the aggregate income of proprietors in the whole area of unincorporated business is only about 1.1 times larger than the aggregate compensation of employees, and part of the proprietor income is a property return which would not be eligible for use as a basis for a self-employed retirement deduction.

In terms of numbers of employees, the aggregate wages and salaries of employees of sole proprietorships and partnerships would suggest that there must be about 9 million such employees in 1963, of which 6,700 were covered under self-employed retirement plans.¹ This represents about 0.07 of 1 percent of all employees of sole proprietorships and partnerships in 1963. The 25,000 employers claiming the deduction, however, represent about four-tenths of 1 percent of all of the individuals who filed self-employment tax returns in 1963.

These data cited above cover all types of employees of all unincorporated business. Under the law, full-time employees with at least 3 years of service must be covered if the self-employed person is to claim a deduction, and other employees may be excluded. The

¹ There are no comparable data readily available on the number of employees of all unincorporated businesses that would permit direct comparison with the figures on covered employees. Aggregate data do permit some inferences.