SEC. 2. Section 401(c)(2) of the Internal Revenue Code of 1954 (relating to definition of earned income for certain pension and profit-sharing plans) is amended to read as follows:

"(2) EARNED INCOME.—The term 'earned income' means the net earnings from self-employment (as defined in section 1402(a)), but such net earnings shall be determined—

"(A) only with respect to a trade or business in which personal services of the taxpayer are a material income-producing factor,

"(B) without regard to paragraphs (4) and (5) of section 1402(c),

"(C) in the case of any individual who is treated as an employee under sections 3121(d)(3)(A), (C), or (D), without regard to paragraph (2) of section 1402(c), and

"(D) without regard to items which are not included in gross income for purposes of this chapter, and the deductions properly allocable to or chargeable against such items.

For purposes of this paragraph, section 1402, as in effect for a taxable year ending on December 31, 1962,