in much the same way as they and others could already do for their employees under the provisions of the then existing law. Congress provided this deferral for the self-employed individual at that time in order to remove this discrimination in tax treatment against the self-employed. However, the response of the self-employed to the tax deferral provided by this act has been exceedingly small so far. While, of course, to some extent this may occur because the deferral privilege for the self-employed still is relatively new (and, undoubtedly, the number covered by this will increase as more self-employed begin a plan of setting aside amounts for retirement), nevertheless, the extent to which this plan has been used to date has been disappointing. A report by the Treasury Department with respect to the self-employed retirement deduction in the taxable year 1964 shows that only about one-half of 1 percent of the self-employed individuals took advantage of this deduction in that year.

Your committee believes that Congress intended that this tax deferral should be available for self-employed individuals for their retirement in a comparable manner to that for employees. However, your committee has concluded that the two limitations described above are thwarting this objective of Congress. This is indicated by the fact that when the Self-Employed Individuals Tax Retirement Act of 1962 was enacted, the Treasury Department estimated that the cost of the act in the first full year of operation would be $115 million; yet, the actual cost as late as 1964 amounted to only $9 million. Certainly, this demonstrates that the act, as finally approved, did not carry out the objectives of the original act.

The requirement that a self-employed individual must not only provide a pension plan for his employees of more than 3 years, but also must tie up twice as much for his own retirement as he receives a tax deduction for, has discouraged the self-employed from making provision for their own retirement. The 50-percent requirement was added as a means of equating the tax treatment of the self-employed with employees covered by contributory plans. However, in fact, most employees are not covered under contributory plans. In 1965, 25 million employees were covered under the 34,110 corporate pension plans filed with the Secretary of Labor. Nearly three-fourths of these—72.9 percent—were financed entirely by employer contributions covering an estimated minimum of 18.5 million employees. On the other hand, only an estimated 5.8 million employees are covered under plans requiring contributions from employers and themselves. Moreover, over the past several years the trend has been away from contributory pension plans. Thus, requiring self-employed pension plans to be contributory, in reality, creates discrimination against the self employed, vis-a-vis employees, rather than removing it. For this reason, your committee has concluded that the 50-percent requirement should be removed. Not only will this remove discrimination against the self-employed, but it should also encourage them to make provision for their own old age, which was a principal objective of the 1962 act.

Your committee also believes that the 30-percent limitation on income derived from a mixture of capital and personal services represented too restrictive a rule with respect to the income likely to be attributable to personal services. Therefore, this limitation also has tended to discourage small proprietors, and especially farmers, from