

making provision for their retirement through the deduction for amounts set aside for their retirement plans.

Therefore, your committee concluded that where both capital and personal services were material income-producing factors, it would be better to permit the self-employed individuals in most cases to treat the entire amount as earned income for purposes of deductions for these retirement plans. Your committee in arriving at this conclusion took into account the fact that, in any event, only 10 percent of this earned income, not to exceed \$2,500, would be available as a deduction. Your committee recognized, however, that in some cases there is a mixture of capital and personal services producing the income where the taxpayer contributes very little, if anything, to the income in the form of rendition of personal services. Situations of this type are likely to arise, for example, in the case of silent partners, absentee landlords, etc. To forestall the treatment of what is essentially a return on capital from being used by these individuals as earned income giving rise to deductions for retirement plans, your committee has defined earned income for this purpose so as not to include those cases where personal services of the taxpayer were not a material income-producing factor.

III. REVENUE EFFECT

The revenue loss from enactment of this bill is estimated to be \$20 to \$30 million arising from income in 1966 and \$35 to \$60 million in 1967. The greater range of the estimates in 1967 and the increase over 1966 reflect the possibility of larger growth of self-employment retirement plans stimulated by the amendments in this bill as more time elapses after the adoption of these amendments and more self-employed come under the plan. The range in estimates for both years reflects varying assumptions as to the number who will avail themselves of the deductions. The range of \$20 to \$30 million for 1966 income assumes coverage of 1 to 1.5 percent of the self-employed. The range of \$35 to \$60 million for 1967 income assumes coverage of 1.5 to 3 percent of the self-employed.

Estimating the revenue loss from the provisions of this bill involves more uncertainty than usual. Presently, there is information available concerning coverage under these retirement plans for 1963 and 1964. This is too brief a period to offer even a satisfactory base for projecting a normal rate of increase in coverage under the provisions of present law. In addition, neither this base of information nor the detailed information that it contains furnishes a very reliable starting point for estimates of the revenue effect of the amendments in the bill or the increased coverage that can follow its enactment.

IV. GENERAL EXPLANATION

For the reasons given above, the bill as amended makes two amendments to the provisions of present law relating to retirement plans for the self-employed. The bill removes from these provision two limitations which seriously discourage broader use of the deduction for amounts set aside for retirement.

First, the present limitation of the deduction on behalf of a self-employed person to 50 percent of the contribution (10 percent of earned income up to a maximum of \$2,500) is to be repealed. This