

will permit the self-employed individual to deduct from his gross income the full amount of this contribution toward his own retirement, in the same manner as he does the full contribution he makes for his employees eligible for coverage. No change, however, is made in the limitation on the size of his contribution for himself; it remains at 10 percent of his earned income or \$2,500, whichever is smaller.

Second, your committee has removed the restriction which limits the share of income considered "earned," where both personal services and capital are important income-producing factors. Presently, only 30 percent of net profits in such cases may be considered "earned" in determining the allowable size of the contribution except that the amount so treated is not to be less than \$2,500 in the case of substantially full-time employment. In removing the restriction which limits the share of income treated as earned where both personal services and capital are important income-producing factors, your committee's bill, nevertheless, imposes a restriction designed to prevent those who are not contributing significant personal services from receiving retirement plan deductions with respect to what is, in reality, income from their capital. This is accomplished by providing in such cases that the net profits involved with respect to any self-employed person are to be treated as earned income only in the case of a trade or business in which the personal services of the particular self-employed individual involved are a material income-producing factor. By this, it is contemplated that substantially full-time employment will be treated as a material income-producing factor. In the case of less than full-time employment, in determining whether the personal services of the taxpayer are a material income-producing factor there is to be taken into account the respective contribution made by his personal services and by his capital.

The provisions of this bill are to be effective for taxable years beginning after December 31, 1965.

V. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1954

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SEC. 401. QUALIFIED PENSION, PROFIT-SHARING, AND STOCK BONUS PLANS.

(a) **REQUIREMENTS FOR QUALIFICATION.**—A trust created or organized in the United States and forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries shall constitute a qualified trust under this section—

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