

personal services. It represents a method for deferring tax on part of an individual's earnings until after retirement. Where an individual invests both his time and capital in a business, the profits consist of both compensation for his services and a return on his investment. By permitting a self-employed individual to make pension contributions out of the entire net profits from his business, H.R. 10 in effect would allow him to defer tax on investment income. This is inconsistent with the basic concept of the pension provisions. If anything is to be done in this area, it should be to raise the minimum amount which may be treated as personal service earnings—perhaps from \$2,500 to \$6,600, the social security tax base for the self-employed.

There is attached a memorandum which more fully discusses the amendments and the reasons for the Treasury's opposition to them.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

MAY 25, 1966.

MEMORANDUM ON H.R. 10

H.R. 10, as ordered reported by the Ways and Means Committee, includes two liberalizing amendments to the tax provisions applicable to pension plans of the self-employed. These amendments are separately discussed below.

I. REMOVAL OF 50-PERCENT DEDUCTION LIMITATION

A. Description of amendment

The first amendment would increase the amount which a self-employed individual may claim as a tax deduction with respect to his contributions to a qualified pension or profit-sharing plan. A self-employed individual who participates in a tax qualified pension or profit-sharing plan may, each year, contribute to the plan (on his own behalf) amounts up to 10 percent of his earned income or \$2,500, whichever is the lesser. Under present law, only one-half of any such contribution is allowed as a tax deduction to the self-employed individual. This amendment would remove this "one-half" limitation, with the result that a self-employed individual would be allowed to deduct the full amount of his contribution within the above-described limits. In other words, under this amendment, a self-employed individual would be permitted a tax deduction for contributions up to 10 percent of his earned income or \$2,500, whichever is the lesser, instead of 5 percent or \$1,250, as under present law. The amendment would become applicable with respect to deductions for taxable years beginning after December 31, 1965.

This revenue loss is entirely inconsistent with the recent actions which have been taken by both the Congress and the administration to meet the current fiscal and economic