

situation. In this regard, Congress, on the recommendation of the administration, recently enacted the Tax Adjustment Act of 1966 which postponed certain excise tax reductions and instituted a graduated income tax withholding system and other provisions to put the payment of individual and corporate taxes on a more current basis. A tax reduction for self-employed people—in the nature of larger tax deductions for their retirement savings—would seem clearly inappropriate in this context.

It is important to note in this respect that, while the purpose of the amendment is to encourage increased participation by the self-employed in retirement plans, most (\$15 to \$20 million) of the estimated 1967 revenue loss would be in the nature of an automatic tax reduction for those self-employed who are already participating in pension plans. This is because, without any change in their pension contributions, their tax deduction will automatically double. According to the available data,¹ over 75 percent of the deductions are now taken by professional doctors, lawyers, and dentists. Thus, this group would be the beneficiary of an immediate tax reduction of \$11 to \$15 million. Looking at individual cases, the amendment would result in an additional \$400 of tax savings in 1967 for a \$25,000 a year married doctor with a pension plan; for a \$50,000 a year doctor, the additional annual tax savings would be \$625.

B. Treasury Department position

The Treasury Department is strongly opposed to this amendment for the following reasons:

(1) *Revenue loss inappropriate at this time.*—It is estimated that this amendment would produce an \$18 to \$27 million revenue loss for fiscal year 1967 and a \$30 to \$50 million revenue loss for fiscal 1968. The lower end of the range for fiscal year 1967 assumes that 1 percent of the self-employed will participate while the upper end of the range assumes that 1.5 percent participate. In the case of the loss for fiscal year 1968, the lower end of the range assumes participation by 1.5 percent of the self-employed and the upper end of the range assumes participation by 3 percent of the self-employed.

The annual revenue loss could increase substantially over the next few years if the liberalized tax benefits result in a higher percentage of the self-employed participating in pension or profitsharing plans. If the participation rate rises to 5 percent, the annual loss would be \$120 million; whereas, if 10 percent participate, the annual loss would jump to \$260 million.

Finally, in his Economic Report, President Johnson stated: "Against a background calling for fiscal restraint I cannot this year endorse any specific legislative measure, however meritorious, involving significant net tax reduction." Certainly, the needs of this high-income group are not so pressing as to override the need for fiscal restraint.

¹ Data on Self-Employed Retirement Deduction for Taxable Year 1965, p. 3.