

(2) *Benefits of amendment would accrue primarily to high income professional people.*—The apparent purpose of the increased tax benefits under the amendment is to encourage broader participation by the self-employed in retirement programs. While the present provisions have not had the widespread attraction that was contemplated, the Treasury Department is of the opinion that increased tax deductions will not materially alter this situation. Rather, the basic framework of the self-employed pension provisions is such as to make them usable mainly by only a narrow class of high-income professional people with the result that the increased tax benefits will accrue primarily to this group.

First, the existing provisions require that the self-employed place his savings in financial investments under what is intended to be a long-term, nonliquid retirement program. This immediately eliminates many self-employed individuals in businesses which require significant amounts of capital investment since they usually must reinvest their earnings to keep up with competition. For example, a farmer may have to reinvest all his earnings in his farm through buying land, buildings, and equipment. This, in turn, will give him an equity which he can lease or sell when he is ready to retire. This is one reason why it is so conspicuous in the data that the pension plan provisions appeal to doctors, lawyers, and dentists and why there are so few retailers, wholesalers, and farmers covered. Because of this characteristic, removal of the deduction limitation will simply increase the inherent discrimination in these provisions rather than bring in new classes of the self-employed.

Second, even among the professional group, pension plans of the type involved are, and will in all likelihood remain, attractive only to higher income people. For middle and lower income people, social security tax payments represent a significant financial outlay toward retirement. For example, a self-employed person with earnings of \$6,600 must, in 1967 and 1968 pay 6.4 percent of his income toward social security and medicare. A \$10,000 a year man must devote 4.2 percent of his income for this purpose. These percentages will rise to 7.1 and 4.7, respectively, in 1969. It is doubtful that many individuals at these income levels can afford to devote appreciably more to their retirement in the form of a long-term program.

Moreover, at these income levels, total savings as a percent of income are much lower than they are for people with higher incomes. For example, according to computations by the Survey Research Center, individuals at the \$6,000 income level on the average devote only 8.8 percent of their income to savings while people with incomes of \$15,000 and over save on the average of 23.8 percent of their income. Furthermore, much of these savings are, of course, not available for retirement plans of the type involved here. Instead, they must be used for other needs, such as insurance, mortgage payments, and college education of children.