

individuals a full deduction for amounts contributed to retirement plans established by them. Present law permits deduction for only one-half of contributions and is thus inequitable to self-employed individuals. Proposed H.R. 10 would remove this inequity and would encourage self-employed individuals to provide for their own retirement.

Sincerely,

WILLIAM D. GASSER.

Mr. Speaker, at this point, I want to publicly express my gratitude to one of the leading attorneys in Rochester, N.Y., who worked tirelessly to bring the facts on H.R. 10 to the attention of his colleagues, and to seek removal of the restrictions I have spoken of. Scott Stewart, Esq., of Nixon Hargrave, Devons & Doyle, deserves the thanks of all self-employed persons who will benefit from H.R. 10.

Mr. KEOGH. Mr. Speaker, I now yield to the Representative of the Commonwealth of Kentucky [Mr. WATTS].

Mr. WATTS. Mr. Speaker, I certainly rise in support of H.R. 10. I, too, would like to add my commendations to the gentleman from New York. This is a matter that has been very close to his heart for a number of years. He is to [P. 11676]

be congratulated not only by the House but by the whole country for taking the attitude he has in trying to provide some type of retirement for folks who have been left out heretofore. I had a small portion of this bill which dealt with the inequity imposed on small business people and farmers.

(Mr. WATTS asked and was given permission to revise and extend his remarks.)

Mr. WATTS. Mr. Speaker, I believe its passage is a matter of urgent necessity if we are to remove basic injustices in our tax laws.

An inequity existed as to the tax treatment accorded self-employed persons who desired to establish private retirement plans. Employer contributions to retirement plans have been tax deductible for some time and nontaxable to the employees until retirement benefits are actually received. The law discriminated against self-employed persons by requiring them to pay taxes on income they set aside for retirement. Farmers, ranchers, and other small businessmen make up a large portion of this group.

Congress recognized that discrimination did exist and enacted the Self-Employed Individuals Tax Retirement Act of 1962. This measure has tended to reduce the discrimination, but it has fallen demonstrably short of achieving its objective, especially with respect to farmers and other small businessmen.

Under the Self-Employed Individuals Tax Retirement Act of 1962, most farmers are classified as "owner-employees." Owner employees are authorized to con-

tribute up to 10 percent of their earned income but not more than \$2,500 per year, to a retirement plan and to claim a Federal tax deferral for 50 percent of such contributions.

However, in the case of farmers, the benefits of this act are drastically limited by a restrictive definition of "earned income." If the earnings of an "owner-employee" are a joint product of personal services and invested capital, as is the case with most farmers, not more than the larger \$2,500 or 30 percent of the taxpayer's earnings from self-employment may be treated as "earned income."

Limiting the deferral to 50 percent of the contributions has retained a serious inequity with respect to self-employed retirement programs. Consequently, very few retirement programs have been established. The restriction that earned income must be arbitrarily computed at 30 percent of net earnings has made the program meaningless to farmers and other self-employed who must invest capital as well as labor in their enterprises.

I do not believe that farmers should be penalized because they must invest capital as well as labor into their farming operations. That is why I introduced H.R. 8023 during the first session of this Congress.

The Ways and Means Committee has given careful consideration to this matter, and I am pleased that the decision was made to include the provisions which I introduced in H.R. 10, as reported by the committee. The effect of these provisions quite simply is to permit—not force—farmers and others who must invest capital in their enterprises to participate in self-help retirement programs on the same basis as other self-employed. This law does not provide a subsidy; it does not provide tax abatement; it simply permits all self-employed to contribute 10 percent of their net earnings to a qualified retirement program and defer tax payments until the benefits of such a program are received. At last, we will be giving the self-employed the same opportunity as the employee of a corporation.

Mr. Speaker, some misinformed people have commented that the Self-Employed Individuals Tax Retirement Act has operated for the benefit of only those with very large incomes. The fact of the matter is that, because of the restrictive provisions in the act, the program has been virtually inaccessible to the average self-employed. It is by removing these arbitrary and unrealistic restrictions that we open the door of opportunity to the individual with an average income so that he, too, can prepare for his retirement years.

H.R. 10, as reported by this committee, is a bill designed to help farmers and