

THE SENATE COMMITTEE TO INVESTIGATE PROFIT SHARING

In 1939 the Vandenberg-Herring committee conducted extensive research on profit sharing in U.S. business. The committee was charged with making a complete study of existing profit-sharing systems between employers and employees in the United States to consider what favorable contribution, if any, may be made in the encouragement of profit sharing by the Federal Government, including the grant of compensatory tax exemptions and tax rewards when profit sharing is voluntarily established; and to consider any other recommendations which may prove desirable in pursuit of the objectives. The committee had the following to state about profit sharing:

Prior to this time the term "profit sharing" had been given a varied and extremely limited definition. In fact no two writers or students of the subject seem to agree on the subject matter to be included in a definition of profit sharing. Practically all the literature on the subject is limited by the definition set forth by the International Cooperative Congress. * * *

In the discussion of this Congress, profits were further defined as being the actual net balance or gain realized by the total operations of the undertaking in relation to which the scheme exists, and the sums paid to employees out of profits were to be directly dependent upon the profits.⁶

For the purpose of classification of plans, this definition may be practical. However, for the purposes of this survey such limitations are not desirable since our objective is not the analysis of certain plans which might fall within a definition set forth 50 years ago, but rather an analysis of the existing employer-employee relationship.

In order to give implementation to the recommendations of the Vandenberg-Herring committee, more favorable tax legislation was passed which covered profit-sharing programs of the deferred type. This resulted in the following definition of deferred profit sharing which appears in connection with the Internal Revenue Code:

A profit-sharing plan is a plan established and maintained by an employer to provide for participation in his profits by his employees or their beneficiaries. The plan must provide a definite predetermined formula for allocating the contributions made to the plan amongst the participants and for distributing the funds accumulated under the plan after a fixed number of years, the attainment of a stated age, or upon prior occurrence of some event such as illness, disability, retirement, death, or severance of employment. (Commissioner of Internal Revenue in regulations interpreting sec. 401a of the 1954 Code.)

In 1947 the Council of Profit-Sharing Industries was established and it also defined profit sharing in the more restricted rather than the broader manner. This definition reads as follows:

Profit sharing is any procedure under which an employer pays or makes available to all regular employees subject to reasonable

⁶ "Senate Hearings Pursuant to S. 215," Washington, D.C., U.S. Government Printing Office, 1939, pp. 2-3.