

if better productivity and labor relations were never promoted under the plan and were never management objectives in its adoption and management was not at all incentive-minded, considerably better labor harmony and efficiency would sometimes nevertheless result, and in addition, the operation of a plan without incentive objectives sometimes encourages management to become incentive-minded and adopt an incentive attitude toward the plan.

As compared to pensions, deferred profit-sharing plans would seem to warrant more encouragement by tax policy, since they are inherently less discriminatory than pensions, with the double crediting in pensions of high pay when high pay correlates with long past service, and with their frequent basing of benefits on final rather than on career pay.

In the interests of legislative simplicity we would "settle" for the same tax treatment of all deferred profit-sharing plans as of pension plans *provided* it is substantially equivalent to the present treatment which we consider equitable for pension plans along with those profit-sharing plans which possess little or no incentive realization.

We could not understand the allegation in the committee report that deferred profit-sharing plans now receive more favorable tax treatment than pension plans. If the capital gains treatment of lump-sum distributions is what is referred to, such treatment of lump-sum payouts may be an optional provision in pension plans.

Apropos of the capital gains treatment of lump-sum distributions on termination of service whether in profit-sharing or pension plans, we do not justify it on the grounds of a desired parity between saved labor income and property income. Our strong endorsement of the capital gains method of taxing lump-sum distributions is based on a sense of the universally accepted inequity of applying graduated income tax to an accumulation, on the inherent uncertainty whether the profit shares are true earned compensation or a gift of part of the "economic rent" component of accounting profit, and on the simplicity and practicality of this taxing method demonstrated over a long period of time.

The tax treatment of capital gain of stock of the employer is in our view the only practical way in which legislation can favor the incentive type of deferred profit-sharing plan over the type which is interested predominantly in retirement. The double interest of employees in improving productivity and labor relations, inherent in both receiving current profit shares and through the medium of the dividends and growth in the employer's stock, vastly increases the likelihood of plans which provide for investment in the employer's stock being strong incentive type plans. Possibly, even though IRS advance approval is required for all trust purchases of employer stock, this provision could be limited to stocks traded on major exchanges, as it in practice certainly largely is. We believe that many deferred profit-sharing plans are failing to avail themselves of this incentive to better employee productivity and labor-management relations where the use would be suitable and where IRS approval would be granted.

Now, as for specific qualifiable plan features, we see a great loss if deferred profit-sharing plans open to salaried or clerical workers only were prohibited per se (although we have in our consulting career