SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-SIXTH CONGRESS

FIRST SESSION

ON

H.R. 10

AN ACT TO ENCOURAGE THE ESTABLISHMENT OF VOLUNTARY PENSION PLANS BY SELF-EMPLOYED INDIVIDUALS

JUNE 17 AND 18, JULY 15, AND AUGUST 11, 1959

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SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959

WEDNESDAY, JUNE 17, 1959

U. S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:25 a.m., in room 2227, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd (presiding), Frear, Smathers, Gore, Talmadge, Williams, Carlson, Butler, Cotton, Curtis, and Hartke.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The committee has before it H.R. 10.

(H.R. 10 follows:)

[H.R. 10, 86th Cong., 1st sess.]

AN ACT To encourage the establishment of voluntary pension plans by self-employed individuals

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Self-Employed Individuals' Retirement Act of 1959".

SEC. 2. DEDUCTION OF AMOUNTS PAID AS RETIREMENT DEPOSITS.

(a) ADJUSTED GROSS INCOME.—Section 62 of the Internal Revenue Code of 1954 (relating to definition of adjusted gross income) is amended by inserting after paragraph (6) the following new paragraph:

"(7) DEDUCTION OF AMOUNTS PAID AS RETIREMENT DEPOSITS.—The deduction allowed by section 217."

(b) ALLOWANCE OF DEDUCTION.—Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to additional itemized deductions for individuals) is amended by renumbering section 217 as section 218 and by inserting after section 216 the following new section:

"SEC. 217. AMOUNTS PAID AS RETIREMENT DEPOSITS.

"(a) GENERAL RULE.—In the case of a self-employed individual, there shall be allowed as a deduction amounts paid by him within the taxable year as retirement deposits. Any amount paid by an individual as a retirement deposit on or before the 15th day of the fourth month following the close of the taxable year may, at this election (made under regulations prescribed by the Secretary or his delegate), be treated as having been paid on the last day of such taxable year. No deduction shall be allowed under this section for any taxable year of the taxpayer beginning after he attains age 70.

"(b) LIMITATIONS.—

"(1) ANNUAL LIMIT.—Except as provided in paragraph (2), the amount allowable under subsection (a) to any self-employed individual for any taxable year shall not exceed whichever of the following is the lesser:

"(A) $2,500, or

"(B) 10 percent of his net earnings from self-employment (as defined in subsection (d)).

"(2) ANNUAL LIMIT FOR INDIVIDUALS ATTAINING AGE 50 BEFORE 1959.—In the case of any individual who attained age 50 before January 1, 1959, the annual limit for the taxable year provided by paragraph (1) shall be increased by one-tenth for each full year of his age in excess of 50, determined as of January 1, 1959.

"(3) LIFETIME LIMIT.—The aggregate amount allowed as deductions to an individual under subsection (a) for all taxable years during his lifetime shall not exceed an amount equal to 20 times the maximum annual deduction allowable if the annual limit provided in paragraph (1) (A) (computed without the application of paragraph (2)) were the only annual limit.

"(4) LIFETIME LIMIT FOR PARTICIPANTS IN CERTAIN EMPLOYEE PLANS.—In the case of an individual who—

"(A) for any prior taxable year has received any amount under an employee plan (as defined in subsection (c)(2)(B)), or

"(B) at the close of the immediately preceding taxable year, has nonforfeitable rights in any such plan,

if any portion of such amount or rights is attributable to an employer contribution, the lifetime limit provided in paragraph (3) shall be computed by using (in lieu of 20) a lesser number, equal to 20 reduced by the number of years of such individual's service to which his rights under such plan are attributable.

"(c) SELF-EMPLOYED INDIVIDUAL DEFINED.—

"(1) IN GENERAL.—For purposes of this section, the term 'self-employed individual' means, with respect to any taxable year, any individual who is subject to tax for the taxable year under section 1401 (imposing a tax on self-employment income), or who would be subject to such tax for the taxable year but for—

"(A) paragraph (4) (relating to ministers of a church and members of a religious order) or paragraph (5) (relating to physicians, etc.) of section 1402(c) or

"(B) section 1402(b)(1) (relating to reduction of net earnings for wages paid).

"(2) INDIVIDUALS COVERED BY CERTAIN EMPLOYEE PLANS.—

"(A) IN GENERAL.—Not withstanding paragraph (1), the term 'self-employed individual', with respect to any taxable year, does not include an individual—

"(i) who during such taxable year receives an amount any portion of which is attributable to an employer contribution under an employee plan, or

"(ii) in respect of whom during such taxable year an employer contribution is made (or treated under section 404(a)(6) as having been made) under an employee plan, whether or not such individual's rights under the plan are nonforfeitable.

"(B) EMPLOYEE PLAN DEFINED.—For purposes of subparagraph (A) of this paragraph and subsection (b)(4), the term 'employee plan' means—

"(i) a pension, profit-sharing, or stock bonus plan described in section 401(a) which is exempt from tax under section 501(a), or an annuity plan meeting the requirements of section 401(a)(3), (4), (5), and (6), or

"(ii) a pension plan established for its employees by the United States or any agency thereof, by a State or Territory or the District of Columbia or any political subdivision or instrumentality thereof, or by any organization described in section 501(c)(3) (relating to religious, charitable, etc., organizations) which is exempt from tax under section 501(a).

For purposes of this subparagraph, references to provisions of this chapter shall be treated as including references to the corresponding provisions of the Internal Revenue Code of 1939.

"(d) NET EARNINGS FROM SELF-EMPLOYMENT DEFINED.—For purposes of this section, the term 'net earnings from self-employment' means the net earnings from self-employment as defined in section 1402(a), but determined—

"(1) without regard to paragraphs (4) and (5) of section 1402(c), and

"(2) without regard to items which are not included in gross income for purposes of this chapter, and the deductions properly allocable to or chargeable against such items.

"(e) RETIREMENT DEPOSIT DEFINED.—For purposes of this section, the term 'retirement deposit' means a payment in money to—

"(1) a restricted retirement fund (as defined in section 405(a)), or

"(2) a domestic life insurance company (as defined in section 801) as premiums under a restricted retirement policy issued on the life of the taxpayer.

In the case of premiums described in paragraph (2), only that portion of such premiums which (under regulations prescribed by the Secretary or his delegate) is properly allocable to the cost of restricted retirement benefits shall be allowable as a deduction under this section.

"(f) RESTRICTED RETIREMENT POLICY DEFINED.—

"(1) IN GENERAL.—For purposes of this section, the term 'restricted retirement policy' means a contract (other than a term insurance contract) which is an annuity, endowment, or life insurance contract, or combination thereof—

"(A) issued by a domestic life insurance company (as defined in section 801) on the life of the taxpayer,

"(B) which provides for the payment of restricted retirement benefits, and

"(C) which meets the requirements of paragraph (3).

"(2) RESTRICTED RETIREMENT BENEFITS.—For purposes of paragraph (1) (B), a policy shall be treated as providing restricted retirement benefits only if it provides that the entire value of the policy is payable in one or more of the following methods:

"(A) to the insured not later than at age 70½,

"(B) to the insured as a life annuity (which may provide for a minimum term certain not extending beyond his life expectancy), beginning not later than at age 70½,

"(C) to the insured and his spouse as a joint life annuity or as a joint and survivor annuity (which may provide for a minimum term certain not extending beyond the insured's life expectancy), beginning not later than the time the insured attains age 70½, or

"(D) to the insured (or, in the event of his death, to his beneficiary) as an annuity certain beginning not later than the time the insured attains age 70½ and not extending beyond his life expectancy.

No annuity shall be treated as satisfying the requirements of subparagraph (B), (C), or (D) if it provides for payments which (after annuity payments begin) may increase for any reason other than dividends or increases in investment income allocable to the policy.

"(3) RESTRICTED RETIREMENT POLICIES MUST BE NONASSIGNABLE, ETC.—

"(A) IN GENERAL.—To meet the requirements of this paragraph, a policy—

"(i) shall be nonassignable, and no person other than the insured shall have any of the incidents of ownership, and

"(ii) shall not provide for life insurance protection after age 70½.

"(B) SPECIAL RULES.—For purposes of subparagraph (A) (i), there shall not be taken into account—

"(i) the right to make any designation described in paragraph (2),

"(ii) the right to designate one or more beneficiaries to receive the proceeds payable in the event of the death of the insured before he attains age 70½, and

"(iii) any designation made pursuant to a right described in clause (i) or (ii).

"(g) IDENTIFICATION OF POLICIES AND FUNDS.—

"(1) POLICIES.—No deduction shall be allowed under this section with respect to any amount paid as a premium on a restricted retirement policy for any period before such policy has been identified as such, in such manner and form as the Secretary or his delegate shall by regulations prescribe.

"(2) FUNDS.—No deduction shall be allowed under this section with respect to any amount paid to a restricted retirement fund by any individual before such fund has been identified as such, and before such individual has been identified as a participant in such fund, in such manner and form as the Secretary or his delegate shall by regulations prescribe.

(h) FACE-AMOUNT CERTIFICATES.—For purposes of this title, any reference to a restricted retirement policy as defined in subsection (f) of this section shall

be treated as including a face-amount certificate, as defined in section 2(a)(15) of the Investment Company Act of 1940 (15 U.S.C., sec. 80a–2), issued after December 31, 1954, but only if such certificate provides restricted retirement benefits within the meaning of subsection (f)(2) and meets the requirements of subsection (f)(3). With respect to any face amount certificate described in the preceding sentence, references to an insurance company or the insurer in this section and sections 78, 6047, and 7207 shall be treated as including a reference to the company issuing such certificate.

"(1) CROSS REFERENCES.—

"(1) For taxation of amounts received from a restricted retirement fund or policy, see section 78.

"(2) For provisions relating to information requirements with respect to restricted retirement funds and policies, see section 6047."

(c) CLERICAL AMENDMENT.—The table of sections for such part VII is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 217. Amounts paid as retirement deposits.
"Sec. 218. Cross references."

SEC. 3. AMOUNTS RECEIVED FROM RESTRICTED RETIREMENT FUNDS OR POLICIES.

(a) GENERAL RULE.—Part II of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to items specifically included in gross income) is amended by adding at the end thereof the following new section:

"SEC. 78. AMOUNTS RECEIVED FROM RESTRICTED RETIREMENT FUNDS OR POLICIES.

"(a) RESTRICTED RETIREMENT FUNDS.—

"(1) IN GENERAL.—Except as otherwise provided in this section, amounts of money and the fair market value of property received from a restricted retirement fund shall be included in the recipient's gross income for the taxable year in which received.

"(2) SPECIAL RULES.—In the case of a restricted retirement fund—

"(A) RETURN OF EXCESS CONTRIBUTIONS.—There shall be excluded from gross income any amount received which has become an excess contribution by reason of the disallowance of a deduction taken with respect to amounts paid to the fund, but only if such excess contribution (and the income attributable thereto) is returned as provided in section 405(c)(2)(D). The exclusion provided by this subparagraph shall not apply to income attributable to any such excess contribution.

"(B) CONTRIBUTIONS KNOWN TO BE EXCESSIVE.—If at any time an individual knowingly makes contributions to one or more restricted retirement funds in excess of the amount which he reasonably believes will be allowable as a deduction for such contributions for the taxable year, his entire interest in all restricted retirement funds shall be treated for purposes of paragraph (1) as amounts received during such taxable year.

"(C) DISTRIBUTION OF ANNUITIES.—Notwithstanding any other provision of this subtitle, no amount shall be includible in gross income by reason of the receipt of an annuity contract from such fund, if such contract and the distribution thereof meets the requirements of section 405.

"(3) PROHIBITED TRANSACTIONS, ETC.—If the trustee of a restricted retirement fund knowingly engages in a prohibited transaction (within the meaning of section 405(d)(3)), the member (or members) in respect of whom such transaction occurred shall be treated as having received, in his taxable year in which such transaction occurred, his entire interest in the fund. The period for assessing a deficiency for any taxable year, to the extent attributable to the interest described in the preceding sentence, shall not expire before one year after the date on which the Secretary or his delegate is notified, in such manner as he shall by regulations prescribe, of such prohibited transaction.

"(4) BASIS.—The adjusted basis of any person in a restricted retirement fund shall be zero.

"(b) POLICIES.—

"(1) GENERAL RULE.—Any amount received under a restricted retirement policy shall be taxable under section 72 (relating to annuities) with the modifications set forth in paragraph (2).

"(2) APPLICATION OF SECTION 72.—In applying section 72 for purposes of paragraph (1)—

"(A) Section 72(e)(3) shall not apply.

"(B) Notwithstanding section 72(e)(1)(B), any amount received before the annuity starting date shall be included in the recipient's gross income for the taxable year in which received to the extent that—

"(i) such amount, plus all amounts theretofore received by all persons under such policies and includible in gross income under this subparagraph, does not exceed

"(ii) the aggregate amount allowed as deductions under section 217 with respect to the policy for the taxable year and all prior taxable years.

"(C) In computing—

"(i) the aggregate amount of premiums or other consideration paid for the policy for purposes of section 72(e)(1)(A) (relating to investment in contract), and

"(ii) the aggregate premiums or other consideration paid for purposes of section 72(e)(1)(B) (relating to certain amounts not received as an annuity),

there shall not be taken into account any amount allowed as a deduction under section 217, nor (as determined under regulations prescribed by the Secretary or his delegate) any portion of the premiums or other consideration which is properly allocable to other than the cost of restricted retirement benefits (within the meaning of section 317(f)(2)). Proper adjustment to basis, or premiums or other consideration paid, shall be made for advances which are treated as income under paragraph (3)(B), and shall have been repaid.

"(3) SPECIAL RULES.—In the case of a restricted retirement policy—

"(A) PROCEEDS OF LIFE CONTRACTS PAYABLE BY REASON OF DEATH.—Paragraph (1) shall not apply to the extent that amounts received under a life insurance contract by reason of the death of the insured exceed the cash surrender value of such contract immediately before the death of the insured, and to such extent such amounts shall be treated as provided in section 101.

"(B) BORROWING, PURCHASE OF INSURANCE.—

"(i) If during any taxable year of the insured any part of the value of the policy is borrowed by the insured from the insurer, the amount so borrowed shall be treated for purposes of paragraph (1) as having been received by the insured under the policy during such taxable year. This clause shall not apply to a borrowing in an amount not in excess of the current annual premium, if applied to the payment of such premium and if repaid in full within 12 months after the due date of such premium.

"(ii) If, under any option or under any other arrangement with the insurance company, any amount of the value of a restricted retirement policy is applied to the purchase of other than restricted retirement benefits (within the meaning of section 217(f)(2)), the entire cash surrender value of such policy at such time shall be treated for purposes of paragraph (1) as an amount received under such policy, except to the extent that such value is within 60 days after such time irrevocably converted into a contract which provides only such restricted retirement benefits.

"(iii) This subparagraph shall not apply in the case of any borrowing or any purchase, to the extent that the aggregate amount which has been so borrowed or applied does not exceed the cash surrender value at the time the policy (or a predecessor policy) became a restricted retirement policy.

"(C) ASSIGNMENT OF CONTRACT.—If during any taxable year the insured assigns (or agrees to assign) any portion of the value of the policy in violation of section 217(f)(3), the entire cash surrender value of such policy at such time shall be treated for purposes of paragraph (1) as an amount received under such policy.

"(D) TAXATION OF CASH SURRENDER VALUE ON DEATH BEFORE AGE 70½.—If the insured dies before he attains age 70½, the entire cash surrender value of a restricted retirement policy shall be treated for purposes of paragraph (1) as an amount received under the policy, except to the extent that such value is applied to provide an immediate annuity for his surviving spouse which will be payable for her life (or for a term certain not extending beyond her life expectancy).

"(c) COMPUTATION OF TAX.—

"(1) AMOUNTS TO WHICH SUBSECTION APPLIES.—This subsection shall apply only to amounts (other than dividends) referred to in subsection (a) or (b) which are received by any person, while the self-employed individual is living and has not attained age 64½, and includible in such person's gross income.

"(2) INCOME TO BE SPREAD FOR PURPOSES OF COMPUTATION.—

"(A) IN GENERAL.—If the aggregate of the amounts to which this subsection applies received by any person in his taxable year equals or exceeds $2,500, the increase in his tax for the taxable year in which such amounts are received shall not be less than 110 percent of the aggregate increase in taxes, for the taxable year and the 4 immediately preceding taxable years, which would have resulted if such amount had been included in such person's gross income ratably over such taxable years.

"(B) PERIOD WHERE DEDUCTIONS HAVE BEEN TAKEN FOR LESS THAN 4 YEARS.—If the self-employed individual has been allowed deductions under section 217 for a number of prior taxable years less than 4, subparagraph (A) shall be applied by taking into account a number of taxable years immediately preceding the taxable year in which the amount was so received equal to such lesser number.

"(3) AMOUNTS AGGREGATING LESS THAN $2,500.—If paragraph (2) does not apply to a person for the taxable year, the increase in tax of such person for the taxable year attributable to the inclusion in gross income of amounts to which this subsection applies shall be 110 percent of such increase (computed without regard to this paragraph).

"(d) LUMP SUM DISTRIBUTIONS OF ENTIRE INTEREST.—

"(1) APPLICATION OF SUBSECTION.—This subsection shall apply—

"(A) in the case of a self-employed individual, if—

"(i) after attaining age 64½ he receives within one taxable year his entire interest under all his restricted retirement funds and policies,

"(ii) he has been allowed deductions under section 217 for 5 or more prior taxable years (whether or not consecutive), and

"(iii) no person has theretofore received any amount under any of his restricted retirement funds or policies (other than dividends on such policies); and

"(B) in the case of the estate or other beneficiary of a deceased self-employed individual, if there is received by such beneficiary within one taxable year such beneficiary's entire interest under all restricted retirement funds and policies of the deceased.

"(2) LIMITATION ON TAX.—In any case to which this subsection applies, the tax attributable to the amounts so received for the taxable year in which so received shall not be greater than 5 times the increase in tax resulting from the inclusion in gross income of the recipient of 20 percent of the amount so received which is includible in gross income.

"(e) DETERMINATION OF TAXABLE INCOME.—Notwithstanding section 63 (relating to definition of taxable income), for purposes only of computing the tax under this chapter attributable to amounts includible in gross income by reason of this section, the taxable income of the recipient for the taxable year of receipt (and for any other taxable year involved in the computation under subsection (c)) shall be treated as being not less than the amount by which—

"(1) the aggregate of such amounts so includible in gross income, exceeds

"(2) the amount of the deductions allowed for such taxable year under section 151 (relating to deductions for personal exemptions).

In any case in which the preceding sentence results in an increase in taxable income for any taxable year, the resulting increase in the taxes imposed by section 1 or 3 for such taxable year shall not be reduced by any credit under part IV of subchapter A (other than section 31 thereof) which, but for this sentence, would be allowable.

"(f) DEFINITIONS.—For purposes of this section—

"(1) SELF-EMPLOYED INDIVIDUAL.—The term 'self-employed individual' means an individual who has been allowed a deduction under section 217 for any taxable year.

"(2) DIVIDEND.—The term 'dividend' means any amount received, by a policyholder of a restricted retirement policy in his capacity as a policyholder, which is in the nature of a dividend or similar distribution.

"(3) RESTRICTED RETIREMENT FUND.—The term 'restricted retirement fund' means any fund (including a predecessor fund) with respect to which the self-employed individual has been allowed a deduction under section 217 for any taxable year.

"(4) RESTRICTED RETIREMENT POLICY.—The term 'restricted retirement policy' means any policy (including a predecessor policy) with respect to which the self-employed individual has been allowed a deduction under section 217 for any taxable year."

(b) TECHNICAL AMENDMENTS.—

(1) Section 72 (m) of the Internal Revenue Code of 1954 (relating to cross references) is amended to read as follows:

"(m) CROSS REFERENCES.—

"(1) For special rules relating to amounts received under restricted retirement policies, see section 78.

"(2) For limitations on adjustments to basis of annuity contracts sold, see section 1021."

(2) Section 316 (b) (1) of the Internal Revenue Code of 1954 (relating to definition of dividends) is amended by adding at the end thereof the following new sentence: "The definition in subsection (a) shall not apply to the term 'dividend' as used in section 78 (relating to amounts received under restricted retirement funds and policies) or in section 217 (relating to deduction for retirement deposits)."

(c) CLERICAL AMENDMENT.—The table of sections for part II of subchapter B of chapter 1 of the Internal Revenue Code of 1954 is amended by adding at the end thereof the following new item:

"Sec. 78. Amounts received from restricted retirement funds or policies."

SEC. 4. RESTRICTED RETIREMENT FUNDS.

(a) DEFINITION.—Part I of subchapter D of chapter 1 of the Internal Revenue Code of 1954 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by adding at the end thereof the following new section:

"SEC. 405. RESTRICTED RETIREMENT FUNDS.

"(a) IN GENERAL.—For purposes of this chapter and section 6047, the term 'restricted retirement fund' means a trust established under a retirement plan for one or more self-employed individuals.

"(b) RETIREMENT PLAN.—For purposes of subsection (a), the term 'retirement plan' means a trust instrument for the exclusive benefit of the participating individual or individuals who are members of the plan, for the purpose of investing and reinvesting, and of distributing to the respective members of the plan, or to their estates or other beneficiaries, the corpus and income of the trust.

"(c) REQUIREMENTS FOR RETIREMENT PLAN.—A plan described in subsection (b) shall be treated as a retirement plan only if the requirements of paragraphs (1), (2), and (3) of this subsection are met:

"(1) TRUSTEE MUST BE BANK.—The trustee is a bank (as defined in section 581).

"(2) TERMS OF TRUST.—Under the trust instrument—

"(A) INTEREST NONASSIGNABLE.—A member may not assign (or agree to assign) any portion of his interest in the fund, but he may—

"(i) designate one or more beneficiaries in the event of his death, or

"(ii) direct the trustee to transfer his entire interest to another restricted retirement fund designated by such member.

"(B) TERMINATION OF TRUST, ETC.—

"(i) Before the member attains age 70, his entire interest in the trust will be distributed or applied to the purchase of an annuity described in subparagraph (B), (C), or (D) of section 217 (f) (2) which does not provide life insurance protection, and which is immediately distributed to the member, or he will have elected to have his entire interest in the trust distributed before he attains age 80 (with not less than 10 percent of the value of such interest, determined at age 70, being distributed in each taxable year beginning with the taxable year in which he attains age 70).

"(ii) If the member dies before he attains age 70, his entire interest in the trust will, within 5 years after the date of his death, be distributed, or applied to the purchase of an immediate

annuity for his surviving spouse which will be payable for her life (or for a term certain not extending beyond her life expectancy) and which will be immediately distributed to such spouse.

"(C) INTERESTS TO BE PROPORTIONATE.—If the trust has more than one member, the interest of each member shall be proportionate to the money he has paid in (or his interest which has been transferred thereto in accordance with subparagraph (A) (ii)), and to the income and other adjustments properly attributable thereto.

"(D) RETURN OF EXCESS CONTRIBUTIONS.—The trustee is required to distribute promptly to the member, any amount paid in by him for any taxable year in excess of the amount deductible by such member for such year under section 217, together with all income attributable to such excess.

"(3) PERMISSIBLE INVESTMENTS.—Under the trust instrument, the trustee may not invest or reinvest the corpus or income of the trust other than in—

"(A) (i) stock or securities listed on a securities exchange which is registered with the Securities and Exchange Commission as a national securities exchange (not including stock and securities in a corporation if, immediately after the acquisition thereof, the aggregate ownership of voting stock in such corporation by the trust and by its members (including ownership attributed to such members under section 318) is more than 10 percent of such voting stock), (ii) bonds or other evidences of indebtedness issued by the United States, any State or Territory, or the District of Columbia, or any political subdivision or instrumentality of any of the foregoing, and (iii) stock in a regulated investment company meeting the requirements of section 851; and

"(B) the purchase, for the account in the plan of a member thereof, of an annuity on the life of such member (or a face-amount certificate which meets the requirements of section 217 (h)) which provides only restricted retirement benefits (within the meaning of section 217 (f) (2)).

"(d) REQUIREMENTS FOR EXEMPTION FROM TAX.—

"(1) IN GENERAL.—A restricted retirement fund which has engaged in a prohibited transaction shall not be exempt from taxation under section 501 (a).

"(2) TAXABLE YEARS AFFECTED.—Paragraph (1) shall apply only for taxable years after the taxable year during which the fund is notified by the Secretary or his delegate that it has engaged in a prohibited transaction; except that if the trustee knowingly engaged in a prohibited transaction, paragraph (1) shall apply with respect to the accounts in the fund of the member or members in respect of whom such transaction occurred for the taxable year in which such transaction occurred and all taxable years thereafter.

"(3) PROHIBITED TRANSACTION DEFINED.—For purposes of this subsection, the term 'prohibited transaction' means any transaction in which the trustee—

"(A) lends any part of the corpus or income of the fund to;

"(B) pays any compensation for personal services rendered to the fund to;

"(C) makes any part of its services available on a preferential basis to; or

"(D) acquires for the fund any stock, securities, or evidences of indebtedness from, or sells any stock, securities, or evidences of indebtedness of the fund to,

any person described in section 503 (c) (for this purpose treating each member of the plan as the grantor of the trust). The term also includes any transaction pursuant to which the fund ceases to meet any requirement of subsection (c) of this section, and any failure to comply with any provision of the trust instrument required by such subsection.

"(4) CROSS REFERENCES.—

"(A) For tax consequences to members involved in a prohibited transaction, see section 78 (a) (3).

"(B) For tax-free transfer of interests to other restricted retirement funds of members not involved in the prohibited transaction, see subsection (c) (2) (A) (ii).

"(e) OTHER TRUST RULES INAPPLICABLE.—The provisions of part I of subchapter J (section 641 and following, relating to estates, trusts, and benefi-

clarles) shall not apply with respect to restricted retirement funds, so long as they are exempt from tax under section 501(a)."

(b) EXEMPTION FROM TAXATION.—Section 501(a) of the Internal Revenue Code of 1954 (relating to exemption from tax of certain organizations) is amended by adding at the end thereof the following new sentence: "A restricted retirement fund (as defined in section 405) shall be exempt from tax under this subtitle except to the extent such exemption is denied under section 405(d)."

(c) CLERICAL AMENDMENT.—The table of sections for part I of subchapter D of chapter 1 of such Code is amended by adding at the end thereof the following new item:

"Sec. 405. Restricted retirement funds."

SEC. 5. TECHNICAL AMENDMENTS.

(a) RETIREMENT INCOME CREDIT.—Section 37(c) of the Internal Revenue Code of 1954 (relating to definition of retirement income) is amended by adding at the end thereof the following new sentence: "Such term does not include any amount received from a restricted retirement fund (as defined in section 405) or under a restricted retirement policy (as defined in section 217(f))."

(b) TREATMENT OF AMOUNTS RECEIVED BY SPOUSE OR OTHER BENEFICIARY UNDER A RESTICTED RETIREMENT FUND OR RESTRICTED RETIREMENT POLICY.—Section 691 of the Internal Revenue Code of 1954 (relating to recipients of income in respect of decedents) is amended by relettering subsection (e) as subsection (f), and by inserting after subsection (d) the following new subsection: "(e) AMOUNTS RECEIVED BY BENEFICIARY OF A PARTICIPANT IN RESTRICTED RETIREMENT FUND, ETC.—For purposes of this section, amounts received after the death of the member of a restricted retirement fund (as defined in section 405), or after the death of the insured under a restricted retirement policy (as defined in section 217(f)), from such fund or under such policy shall, to the extent included in gross income under section 78, be considered as amounts included in gross income under subsection (a).

(c) INFORMATION REQUIREMENTS.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 of the Internal Revenue Code of 1954 (relating to information concerning transactions with other persons) is amended by adding at the end thereof the following new section:

"SEC. 6047. INFORMATION RELATING TO RESTRICTED RETIREMENT FUNDS AND POLICIES.

"(a) BANKS AND INSURANCE COMPANIES.—Every bank which is a trustee of a restricted retirement fund (as defined in section 405), and every insurance company which is the issuer of a policy which is a restricted retirement policy (as defined in section 217(f)), shall file such returns (in such form and at such times), keep such records, make such identification of policies and funds (and accounts within such funds), and supply such information, as the Secretary or his delegate shall by forms or regulations prescribe.

"(b) SELF-EMPLOYED INDIVIDUALS.—Every individual who—

"(1) is a member of a restricted retirement fund (as defined in section 405), or

"(2) is the insured under a restricted retirement policy (as defined in section 217(f)),

shall furnish the bank or insurance company such information, at such times and in such form and manner, as the Secretary or his delegate shall by forms or regulations prescribe.

"(c) CROSS REFERENCE.—

"For criminal penalty for furnishing fraudulent information, see section 7207."

(2) CLERICAL AMENDMENT.—The table of sections for such subpart B is amended by adding at the end thereof the following:

"Sec. 6047. Information relating to restricted retirement funds and policies."

(3) PENALTY.—Section 7207 of the Internal Revenue Code of 1954 (relating to fraudulent returns, statements, or other documents) is amended by adding at the end thereof the following new sentence: "Any person required pursuant to section 6047(b) to furnish any information to any bank or insurance company who willfully furnishes any information known by him to be fraudulent or to be false as to any material matter shall be fined not more than $1,000, or imprisoned not more than 1 year, or both."

SEC. 6. TAXABLE YEARS TO WHICH APPLICABLE.

The amendments made by this Act shall apply only with respect to taxable years beginning after December 31, 1958.

Passed the House of Representatives March 16, 1959.

Attest: RALPH R. ROBERTS,
Clerk.

The CHAIRMAN. Senator Gore.

Senator GORE. Mr. Chairman, I would like to have printed in the record a resolution of the Tennessee State Dental Association.

The CHAIRMAN. Without objection, the insertion will be made.

(The resolution referred to follows:)

Whereas there has been introduced in the Congress of the United States of America proposed legislation known as H.R. 10 (S. 1979), to amend the tax laws so that the self-employed might achieve a measure of equality to establish individual retirement program similar to the tax plan that grants tax deferment and retirement benefits to employees, and

Whereas it is the consensus of opinion of the Tennessee State Dental Association that such principles of equal tax rights for the self-employed are right and just and that there is a great and definite need for such proposed legislation: Now, therefore, be it

Resolved by the Tennessee State Dental Association, in convention assembled at Gatlinburg, Tenn., That we actively endorse and support the proposed legislation embodied in bills H.R. 10 and S. 1979, and that we earnestly recommend and solicit the active support for said legislation from the two U.S. Senators from Tennessee and the Members of Congress from the State of Tennessee.

The CHAIRMAN. And the Chair offers for insertion a statement by Robert C. Howard for the T. Clifton Howard Co.

(The statement referred to follows:)

T. CLIFTON HOWARD CO.
Washington, D.C., June 17, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR BYRD: I greatly appreciate this opportunity to submit a statement, for the record, concerning H.R. 10, a pension-type program for the self-employed. This legislation could be of tremendous importance to self-employed persons, like myself, who operate small businesses. In the past, small business has been the backbone of the economy of this country, from its inception.

I am a resident and native of Alexandria, Va., and have been self-employed in the food brokerage business in Washington, D.C., since 1931. This business was founded by my father in 1892.

In these days of intense competition, and in a field as competitive as the food business, to operate a self-employed small business is most difficult, due to the increased cost of necessary operating expenses and the increased cost of living expenses, as well. Therefore, it is not practicable or desirable to incorporate to obtain the advantages of a company-paid pension program. Also, under the present tax laws, it is impossible for me to establish a pension program to provide for my retirement years.

This picture is unquestionably applicable to all other small business firms so situated. It is my view that we should be permitted the same opportunity for making adequate provision for retirement years as the man employed by a corporation. It should not be necessary for small businessmen to work far beyond retirement years because they are not able to provide for a modest retirement program in their earlier years. To deny the self-employed or small businessman the same rights for tax deferment on pension programs as afforded to corporations, is to accelerate further the trend toward big corporate operations and monopolies resulting in the further demise of small business firms.

H.R. 10 which is now before you for consideration, although a modest program of encouragement for the small businessman, would be of great assistance in planning for future years. Your favorable consideration of H.R. 10 would be greatly appreciated.

May I thank you for this opportunity to present to this committee my sincere opinion on this important legislation.

Sincerely yours,

ROBERT C. HOWARD.

The CHAIRMAN. The first witness is the Honorable David A. Lindsay, assistant to the Secretary of the Treasury.

STATEMENT OF HON. DAVID A. LINDSAY, ASSISTANT TO THE SECRETARY OF THE TREASURY, ACCOMPANIED BY JAY W. GLASMANN, ASSISTANT GENERAL COUNSEL, AND ARTHUR FEFFERMAN, ECONOMIST, TAX ANALYSIS STAFF, DEPARTMENT OF THE TREASURY

Mr. LINDSAY. Mr. Chairman, it is a privilege to appear before this committee.

I have on my right Mr. Arthur Fefferman, who is an economist with the Tax Analysis Staff, Treasury Department; and on my left Mr. Jay Glasman, Assistant General Counsel of the Treasury.

We have been asked to testify on H.R. 10 a bill to encourage the establishment of voluntary pension plans by self-employed individuals.

H.R. 10 would allow self-employed people to deduct amounts up to 10 percent of their otherwise taxable income from self-employment, provided they invest such amounts in certain specified types of retirement funds, annuities and insurance contracts. Individual retirement funds which are not made up exclusively of annuities and insurance contracts must be placed with a bank as trustee. There would be an annual celing on the deduction of $2,500 and a lifetime ceiling of $50,000.

The bill would allow individuals who are 50 years of age or over at the effective date to increase their regular deductions by one-tenth for each year that their age exceeds 50.

Senator GORE. May I ask a question here, Mr. Chairman or do you want to let him finish?

The CHAIRMAN. I believe it would be better to let the witness finish his statement of the case, unless the Senator has to leave.

Mr. LINDSAY. These extra deductions would cease after the taxable year in which the individual reaches the age of 70.

Participants withdrawing the funds invested under the plan after reaching the age of 65 would generally be required to include the entire proceeds in taxable income in the year the withdrawal occurs. However, a special averaging procedure would apply where a participant withdraws his funds in a lump sum in one taxable year after the age of 65. The tax on such proceeds would be limited to five times the tax resulting from including one-fifth of the lump sum in the participant's taxable income in the year of withdrawal. Withdrawals made before the participant reaches the age of 65 would be taxed at a rate of 110 percent of the liability otherwise resulting from including such sums in taxable income. However, if such withdrawals amount to $2,500 or more they generally would be taxed at 110 percent of the liability resulting from spreading them in equal parts over the taxable year and up to 4 immediately preceding years.

To prevent indefinite postponement of tax on the sums invested under the plan, in all cases withdrawals of such funds would have to be started not later than the age of 70.

The Treasury opposes this bill. H.R. 10 will involve a substantial loss of revenue, estimated at $365 million for the first year, which, in the interest of fiscal soundness, we can ill afford.

This legislation should be considered against the background of our present fiscal position. We are now moving toward the close of the fiscal year with a deficit which may be in the order of magnitude of $12.5 to $13 billion. We will shortly appear before this committee requesting an extension for another year of the Korean war corporate and excise tax rates. As you know, the President in his budget message to the Congress this year stated that the budget outlook for 1960 makes it essential to extend present tax rates for corporation profits and certain excise taxes another year beyond their present expiration date of June 30, 1959. Not only will the the budget outlook for 1960 make the rate extension essential, but we are also of the opinion that a reduction of corporate rates is not justified when reduction in rates for individuals cannot properly be made. By the same token, we do not believe it is appropriate to permit selective tax relief when more general tax reduction cannot properly be made. There are many alleged discrepancies in the tax law, and it is difficult to pick out just one and provide tax relief for a particular group of taxpayers when you do not have a general leavening or a total amount of money that you can release and agree as to how it should be distributed.

The Treasury recognizes that present law does not give self-employed persons tax treatment for their retirement savings comparable to that now accorded to employees covered by employer-financed pension plans. Employee pension plans, if arranged on a nondiscriminatory basis, receive favorable tax treatment.

At present, employers are permitted to take current deductions in computing their taxable incomes for contributions which they make to nondiscriminating pension funds for the benefit of their employees. No tax is imposed on the employee until the pensions are received after retirement. The opportunity to postpone the receipt and the taxation of income currently set aside in pension funds makes it possible for employees who are covered by such plans to secure larger net retirement incomes after tax from any given payment by an employer.

Qualified pension trusts have a further tax advantage. The investment income earned on the funds held by the pension trusts is tax exempt until received by employees as part of their pensions. There is, in effect, a tax-free buildup on nontaxed earnings. Though there is no final tax exemption of the income paid by employers, or of the income earned on accumulated funds, the advantages of postponement of tax on both are important, and combine to increase materially the net retirement income of employees.

The purpose of H.R. 10 is to remove a discrimination or inequity in the tax law affecting self-employed persons. I believe it is fair to say that sponsors of this legislation have worked conscientiously for many years in an attempt to remove the inequity in a manner which they believe to be modest from the point of view of the taxpayers benefitted and from the point of view of the impact on the revenues. In the attempt to remove the inequity, however, new in-

equities and new discrepancies are created. This, in turn, will create pressure for still further modifications in the tax law to eliminate the new inequities created by this legislation.

The tax benefit which has been conferred on those covered under private and certain public pension plans is not the result of any legislative purpose to discriminate in favor of one group to the exclusion of others. The present tax treatment of employees covered by pension plans arose, to a significant degree, in recognition of the circumstances under which pensions are usually provided. Employees typically do not require vested rights under pension plans until they have reached a certain age or work for a company for a specified number of years or both and may forfeit their pensions if they leave the firm before acquiring vested rights. Consequently, the present postponed tax treatment granted to employees covered by pension plans is, in a sense, a practical solution since to tax all employees currently on their potential benefits under pension plans would be unfair to those who never received actual benefits. A similar reason does not exist for allowing self-employed people to postpone payment of tax on their retirement savings since they always retain rights to such funds.

Moreover, self-employed people may often have offsetting advantages over employees with respect to their retirement. Many professional persons and other self-employed people do not have definite retirement ages. They can and often do prefer to work at least on a reduced schedule long after employees are required to retire. Self-employed persons therefore are able to spread their earned incomes over longer periods. In this connection, it should be noted that there is no need to retire in order to receive the full benefits under H.R. 10.

H.R. 10 would grant the self-employed unique advantages under the tax law.

First, under H.R. 10, self-employed persons may voluntarily establish their own private pension plans without making provision for the retirement of their own employees. Thus for the first time voluntary plans may, subject to the limitations under the bill as to amounts, be adopted for the benefit only of the employer.

Second, the self-employed persons may time contributions to suit their individual needs without losing the benefits of past or future contributions. Self-employed persons would not have to finance their investments in the specified funds out of current earned income but instead could finance such investments by utilizing past savings.

Third, although H.R. 10 is intended to provide tax relief for funds set aside for retirement purposes, there is no effective means provided to prevent or discourage the withdrawal and consumption of the specified savings before the age of retirement. The relatively moderate "penalty" imposed on such withdrawals under H.R. 10 would frequently be more than offset by the tax advantages resulting from spreading the income over as long as a 5-year period for tax purposes. Consequently, people with fluctuating incomes would have the incentive to use the plan for averaging their incomes rather than for retirement purposes, since they would be able to withdraw savings made under the plan with tax advantages when their incomes are relatively low.

The Treasury has estimated the revenue loss under H.R. 10 at $365 million on a full year's basis. About $100 million of this revenue

loss would be accounted for by the extra deductions granted to those already 50 years of age or over on the effective date of the bill. These estimates assume that actual deductions would be only a part of the maximum allowable, ranging from 15 percent of the maximum for taxpayers with less than $3,000 of income to 66⅔ percent of the maximum for those with more than $20,000 of income.

Comment has been received to the effect that because of the uncertainty regarding the extent to which eligible individuals will participate in the plans, the Treasury's estimate of the revenue loss is high and that the actual revenue loss will be lower. It is suggested that many self-employed persons will not be able to take full advantage of the legislation and still keep up their normal expenses. In this connection it is well to reiterate that the revenue estimate was based on the assumption that the actual deductions would be only a part of the maximum allowable, and that self-employed persons with more than $20,000 of annual income would use only two-thirds of their maximum allowable deduction. On this assumption, it is nevertheless estimated that self-employed persons with incomes of $20,000 or over would receive about $200 million or about 55 percent of the total tax reduction.

The revenue loss could very well be larger than our estimates. The fact that the bill would grant tax deductions for investments in a wide range of assets, including stocks, Government bonds, and specified types of insurance and annuity contracts, coupled with the fact that the bill would not require such investments to be financed out of current earnings, suggests that there might well be close to maximum utilization of the benefits in the higher income brackets.

The adoption of H.R. 10 in whatever limited or modified form might well constitute a precedent for widespread tax relief for savings which would further erode the tax base. It should be pointed out, however, that the same argument as to discrimination cannot be made in every case involving employees as is available to the self-employed. Under the private and Government pension plans, while the employee's contributions are not deductible, the contributions by the employer are not currently taxed to the employee.

In addition, in the case of social security and railroad retirement, the benefits when paid are tax free. On the other hand, there are many employees who have no coverage under private or Government pension plans or, while covered, have inadequate coverage as compared with the benefits proposed under H.R. 10. Furthermore, as previously noted, employees covered by pension plans frequently have no vested rights in the contribution made on their behalf by the employer and lose such benefits should they leave their employer.

Under earlier versions of the bill before us, more widespread coverage was provided. The bill was subsequently limited to the self-employed because of objections from the Treasury based on the revenue impact and because employees at least potentially may benefit from private and public pension plans established by their employers whereas under the tax law self-employed individuals do not have the potentiality of tax benefits available to employees to provide retirement income.

However, proponents of the bill have observed that sooner or later the pensionless employee must also be brought under the bill, since

those employees who are forced to provide their own retirement are entitled to the same right of tax deferment on the portion of their earnings so used as their more fortunate colleagues who are provided for by their employers under qualified employee pension plans. Moreover, it has been suggested that, as the revenue permits, those inadequately covered under qualified employee pension plans should be given an opportunity to supplement such benefits by being able to participate in a limited way under the bill. Thus, in all likelihood, adoption of H.R. 10 will be used as a precedent for more widespread tax relief in this particular area, with pressures to permit the deduction of employee contributions to public and private plans.

If the benefits of H.R. 10 are extended to all employees not covered by pension plans, the additional revenue loss under H.R. 10 would amount to more than $1.2 billion. If the benefits are further extended to inadequately covered employees, that is to say, covered employees with the employer's contribution deducted from the allowable limit, the additional revenue loss would amount to about $500 million. The overall revenue loss would accordingly be in excess of $2 billion, taking into account the three separate classes of (1) self-employed, (2) pensionless employees, and (3) inadequately covered employees.

Other revenue estimates based on different approaches or broader coverage were previously submitted to this committee in our report of February 16, 1959, on this legislation. If tax deductions for the retirement savings of other groups, including employees' contributions under private pension plans and under the social security, railroad retirement, Federal, State, and local civil service retirement programs, were permitted, the revenue loss would amount to over $1.3 billion. Alternatively, if all taxpayers were allowed deductions for retirement savings up to 10 percent of their adjusted gross income or $2,500 a year with the maximum also raised for persons over 50 years of age, as provided in the bill, it is estimated that the revenue loss would be $3 billion a year.

As stated at the outset, we will shortly appear before this committee requesting an extension of certain corporate and excise tax rates. We cannot at this time support a major tax reduction bill. We recommend that the tax treatment of retirement savings be carefully considered in conjunction with the Ways and Means Committee's announced plans for an extensive inquiry into the opportunities for constructive reform of the Federal tax system, a project in which the Treasury is cooperating. The committee will investigate the practical possibilities of broadening the tax base sufficiently to permit significant reductions in individual and corporation income tax rates, without sacrificing the revenues needed by the Government. Problems relating to retirement, including pension and profit-sharing plans, are included in this inquiry.

The CHAIRMAN. Thank you, Mr. Lindsay. You have stated very clearly the effect of House bill 10 with regard to the self-employed. Now, in regard to social security, would you state the coverage?

Mr. LINDSAY. Well, most all persons are covered by social security except ministers on an optional basis and doctors.

The CHAIRMAN. Are social security contributions by the individuals deductible for tax purposes?

Mr. LINDSAY. No, sir; those contributions are not deductible. Receipts of the benefits later on are tax-free, however, in connection with social security.

The CHAIRMAN. When the benefits are paid at the age of 65 for men and 62 for women, they are tax exempt?

Mr. LINDSAY. That is tax exempt.

Senator CURTIS. Would you yield for one brief question at that point?

That is tax exempt by ruling of the Treasury and not by statute, is that correct?

Mr. LINDSAY. That is correct.

The CHAIRMAN. If an individual who began payments at the age of 21 should die at 64 there would be no tax deduction, or any tax benefit, is that correct?

Mr. LINDSAY. There might be survivors' benefit. There would have been no deduction throughout the period of time he was covered by social security.

The CHAIRMAN. If he or she is a single person, there is a payment for the burial?

Mr. LINDSAY. Yes, for burial there is.

The CHAIRMAN. Now, the next category is the self-employed, and employees of the self-employed. I understand you to say that there would be no retirement fund established for the employees of the self-employed.

Mr. LINDSAY. There can be. A sole proprietor with employees, or a partnership, can set up a pension plan for the employees. There is nothing in the tax law that prevents that. However, the proprietor or the partner cannot participate in that plan.

The CHAIRMAN. This can be done?

Mr. LINDSAY. It can be done.

The CHAIRMAN. Such a plan is subject to approval by the Treasury, is it not?

Mr. LINDSAY. The plan has to be nondiscriminatory and meet the requirements of the statute. There is no requirement that there has to be an advance ruling. But most plans are adopted after receiving an advance ruling.

The CHAIRMAN. There has been considerable complaint about the pensions paid by corporations where there is no contribution by beneficiaries. To what extent does the Treasury control the pension plans set up by corporations?

Mr. LINDSAY. The Treasury does not require that the plans be contributory or noncontributory. And most plans today, according to statistics, are noncontributory.

The CHAIRMAN. Is it true that in some cases a man, an official of the corporation, could receive as much as $100,000 a year, deductible on the part of the corporation?

Mr. LINDSAY. The contribution by the corporation to the pension trust would be deductible if it were a qualified plan. The plan must be a nondiscriminatory plan. It may not discriminate in favor of the higher paid employers or owners of the business. However, if it qualifies he could have a very large pension.

The CHAIRMAN. I am seeking to ascertain to what extent Treasury Department controls payments made to pension funds of corporations which are deducted in income tax calculations.

Mr. LINDSAY. The Treasury Department polices the statute, and the control is limited to the guidance set forth in the statute, the rules as to discrimination.

Now, there are limitations in the statute as to how much can be set aside for the employees under a plan. I believe 15 percent of the compensation applies in connection with profit-sharing plans. There is an automatic 5 percent rule for pension plans, but if the pension plan is actuarily set up on a different basis, and it is nondiscriminatory, the percentage can be more than 5 percent, it might be up to 25 percent.

The CHAIRMAN. Five percent of what?

Mr. LINDSAY. The yearly compensation.

The CHAIRMAN. Is it possible for a man, an official of the company, to receive $100,000 in pensions which are deducted for income tax purposes?

Mr. LINDSAY. Yes.

The CHAIRMAN. It is on the basis of 5 percent of the salary?

Mr. LINDSAY. No. On the basis of a classification of employees, which has been ruled not to be discriminatory—or it may be on the basis of a pension plan arrangement that is not discriminatory—in order to meet the pension payments, the actuarial amounts that have to be set aside may exceed 5 percent.

The CHAIRMAN. Are these plans approved by the Treasury or by the Internal Revenue Service?

Mr. LINDSAY. By the Internal Revenue Service, Ruling Division.

The CHAIRMAN. Have there been any instances where the Treasury has refused to approve plans which give large pensions to officials of corporations?

Mr. LINDSAY. I am sure there have been many instances where the Internal Revenue Service has refused to approve, and the plan has had to be amended to meet the requirements of the Statute.

The CHAIRMAN. Would you prepare for the record a statement outlining to what extent the Treasury has controlled the pension systems and on what basis?

Mr. LINDSAY. I will be glad to do that.

Senator GORE. Mr. Chairman, as I understand your request, you would like that information to be printed in the record of the current hearing?

The CHAIRMAN. I think that will be the very important part of it.

Senator GORE. Could I supplement the request in a minor way?

The CHAIRMAN. Yes, sir.

Senator GORE. I would like some explanation, Mr. Lindsay, as to what you mean by "nondiscriminatory," if that applies only to amounts or positions, and if, for instance, there is only one chairman of the board and he receives treatment different from the other employees of the corporation, that would meet the test of nondiscriminatory treatment. I would like some elaboration of this nondiscriminatory provision.

The CHAIRMAN. Mr. Lindsay, I hope you will make that a very complete statement.

Mr. LINDSAY. I might for the moment indicate that if the contributions by the employer are based on a percentage of salary, it would not be discriminatory if the same percentage is involved, even though

a larger contribution would be set aside for the employee with $100,000 salary than for the employee with $5,000 salary.

Senator GORE. Mr. Chairman, I would like one additional thing, I would like an explanation of how this is applied to small family corporations, the new corporations with very limited operations, a limited number of employees, but with officials who draw handsome salaries.

Mr. LINDSAY. I might say for the moment, Senator Gore, that the Treasury and the Internal Revenue Service initially ruled that if 30 percent of the contributions inure to the benefit of persons who own as much as 10 percent of the stock, the plan can be discriminatory. But this ruling was overturned by the Tax Court and, since then, the ruling has been rescinded. You can have a one-man corporation with a pension plan now.

Senator GORE. That is what I thought.

Mr. LINDSAY. That is correct.

The CHAIRMAN. I hope you will make that very complete.

(The following was subsequently received for the record:)

QUALIFIED PENSION, PROFIT-SHARING, AND STOCK-BONUS PLANS

Present law accords special tax treatment with respect to pension, profit-sharing, and stock-bonus plans that qualify under the Internal Revenue Code. Covered employees are not taxed currently on employers' contributions made on their behalf to these plans. Instead, the employees include the benefits from such plans in taxable income in the year they are received or made available. Trusts established to administer qualified pension, profit-sharing, and stock-bonus plans are exempt from tax. In addition, employers are permitted to take tax deductions, within specified limits, for their contributions to qualified plans, regardless of whether the employees have a forfeitable or nonforfeitable right to such contributions at the time they are made.

In order to satisfy the requirements for qualification, a pension, profit-sharing, or stock-bonus plan must not discriminate as to coverage, contributions, or benefits in favor of employees who are stockholders, officers, supervisors, or highly compensated employees. Any trust established to carry out such a plan must be created or organized in the United States and must be for the exclusive benefit of the employees or their beneficiaries.

1. Coverage requirements

The coverage requirements for qualification are met if the plan covers 70 percent or more of all the employees, or 80 percent or more of all the employees who are eligible to benefit if 70 percent or more of all the employees are eligible to benefit under the plan. For purposes of satisfying these percentage requirements there may be excluded individuals who have been employed not more than a minimum period not exceeding 5 years, employees whose customary employment is for not more than 20 hours in any 1 week and employees whose customary employment is for not more than 5 months in any calendar year.

As an alternative to meeting these specified percentage requirements the plan can meet the coverage requirements if it covers employees who qualify under a classification set up by the employer and found by the Internal Revenue Service not to be discriminatory in favor of employees who are officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees. Section 401 of the 1954 code specifically indicates that a plan shall not be discriminatory merely because it is limited to salaried or clerical employees. Most plans satisfy the coverage requirements for qualification under this option rather than by meeting the percentage of employees test.

2. Rate and amount of benefit

A qualified pension, profit-sharing, or stock-bonus plan must not discriminate in contributions or benefits in favor of employees who are stockholders, officers, supervisors, or highly compensated. Thus, if a higher rate of benefit is provided for higher paid employees than for lower paid employees or for stockholder

employees than for those who are not stockholders, the plan fails of qualification. However, the mere fact that contributions or benefits bear a uniform relationship to compensation of participants does not result in disqualification. Accordingly, the dollar amount of the benefit for the higher paid employees may be larger than for the lower paid employees.

Total compensation, however, inclusive of the employer's contributions to provide benefits under the plan, must be reasonable for the services rendered. Where such total compensation is reasonable, there is no limit on the amount of the benefit which may be paid to an employee in accordance with the plan. If, for example, the benefit rate is 50 percent of compensation, an annual pension of $100,000 will result for a $200,000-a-year-man, while the pension for a $5,000-man will be $2,500 per year. This is not discriminatory within the purview of the statute since the benefit rate is no greater for the higher compensated employee than for the lower paid man.

3. Treatment of stockholders

Stockholders who are bona fide employees of a corporation may participate in the corporation's plan to the same extent as other employees. This is so whether the employer-corporation is a large publicly-owned enterprise, a small family corporation, or a one-man corporation. In this respect, the statute provides for qualification, under the applicable requirements, of a "plan of an employer for the exclusive benefit of his employees or their beneficiaries." It makes no distinction, however, as between stockholder and non-stockholder-employees. Where the total compensation for the stockholder-employee, inclusive of the employer's contributions to provide benefits under the plan, is reasonable, such contributions are allowable deductions from gross income within the prescribed limits. A contribution, however, which is primarily for the benefit of an individual in his capacity as a stockholder may constitute a dividend and is not allowable as a deduction.

In 1944, the Internal Revenue Service issued ruling I.T. 3674 which restricted employer contributions on behalf of stockholder-employees under qualified pension, profit-sharing, and stock-bonus plans. This ruling provided, that in general, no more than 30 percent of the total employer contributions under such a plan could be used to finance benefits for stockholder-employees who own directly or indirectly more than 10 percent of the voting stock. However, in 1949 the Tax Court in the *Volckening* case, 13 T.C. 723, rejected this limitation and held that the mere fact that a stockholder-employee participates in a plan is no reason for limiting the contributions or benefits on his behalf if they do not discriminate in his favor. The Commission of Internal Revenue acquiesced in this decision (C.B. 1950–1, p. 5).

4. Employer deductions

An employer who makes contributions under a pension, profit-sharing, or stock-bonus plan is allowed to deduct them, within prescribed limits, if such contributions are otherwise deductible as ordinary and necessary business expenses. The contribution, together with other amounts for services rendered, must constitute reasonable compensation. Deductions for contributions under a pension plan may be claimed under any one of three limitations. These are: (a) an amount not in excess of 5 percent of the compensation of covered employees, (b) an amount based on level funding for the remaining unfunded cost of past and current service credits (i.e. an amount determined by spreading the total unfunded cost of anticipated benefits evenly over the remaining future service of the covered employees), or (c) an amount equal to the normal cost of benefits under the plan (i.e. the pension cost attributable to the employees' service in the current year) plus an additional amount which is not in excess of 10 percent of the past service liability. A contribution in any taxable year which exceeds the allowable limit is deductible in the succeeding taxable years, in the order of time, within the applicable limitation.

Deductions for contributions under profit-sharing and stock-bonus plans are allowable to the extent of 15 percent of compensation of participants, with provision for carryovers for excess contributions, and additional contributions where the maximum deductible contributions had not been made in prior years. Where an employer maintains a pension or an annuity plan and also a profit-sharing or stock-bonus plan, and one or more employees participate in each, the employer's overall deduction is limited to 25 percent of compensation of participants. Where contributions for a taxable year exceed this limitation, the excess may be carried over and be deductible in succeeding taxable years, in the

order of time, up to a maximum of 30 percent of compensation of covered employees.

The foregoing limitations apply to contributions under qualified plans. If, however, a contribution is made under a nonqualified plan, it may be deductible in the year paid only to the extent that employees' rights thereto are nonforfeitable, if so, such contribution is includible in gross income of the employees concerned.

5. Prohibited transactions and unrelated trade or business income

Exemption is denied to an employees' trust which engages in a prohibited transaction in dealings with the employer or controlled interests, consisting of unsecured loans, or purchases or sales other than at fair market value, or the payment of excessive compensation, or providing services on a preferential basis, or any other transaction which results in a substantial diversion of trust funds. Also, although a trust may otherwise be exempt, if it derives income from an unrelated trade or business it is subject to tax on such income.

6. Control exercised in obtaining compliance with pension requirements

The Treasury Department through the Internal Revenue Service, exercises control as to compliance with the statutory requirements relating to pension, profit-sharing, and stock-bonus plans through the use of annual returns, supporting data, and examinations of books and records. Every exempt employees' trust is required to file an annual information return with respect to its financial operations and related activities. Furthermore, every employer who claims deductions for contributions under a pension, annuity, profit-sharing, or stock-bonus plan, or under a plan deferring the receipt of compensation, is required to furnish information as to compliance with the statutory requirements for qualification of the plan, and as to the allowance of the deductions within the prescribed limits. Also, if an employees' trust makes investments in the stock or securities of the employer, financial information must be filed to establish compliance with the applicable requirements. The returns are subject to examination by the Internal Revenue Service and data furnished must be supported by books and records of the taxpayer concerned.

Senator GORE. In a one-man corporation, 25 percent of whatever salary that man draws can be exempt from taxation if contributed to a retirement plan?

Mr. LINDSAY. Subject only to whether or not the compensation is reasonable under the circumstances.

Senator GORE. And then when he reaches a certain age he may draw it whether he retires or not?

Mr. LINDSAY. No, I don't believe—in a profit-sharing plan he could, in a pension plan he probably would have to retire.

Senator FREAR. But that withdrawal is subject to tax at that time, is it not?

Mr. LINDSAY. Yes, it is.

Senator TALMADGE. Would the Senator yield at that point?

To get back to the question that Senator Gore was asking, in the case of the small family-type corporation, I believe you stated that 25 percent of the income of, say, the president of the corporation, could be made tax free, if it were applied to a retirement program?

Mr. LINDSAY. Yes, I believe that is correct.

Senator TALMADGE. Would such a pension plan also require that every employee of the corporation be set up on a similar basis of 25 percent of his salary?

Mr. LINDSAY. Yes. But there may be rules as to eligibility, based on years of service and age.

Senator TALMADGE. In other words, he could restrict it largely for the benefit of the family-owned corporation?

Mr. LINDSAY. No, I don't believe he could. But he probably would not have to set aside contributions for those employees who are with

a corporation for less than the specified number of years, say 3 or 4 years.

Senator TALMADGE. By that, he could exclude a large number of employees?

Mr. LINDSAY. He might exclude a large number with what you might call the rapid turnover of employees.

Senator TALMADGE. That plan would have to be submitted to the Director of Internal Revenue for his approval, would it not?

Mr. LINDSAY. That is correct.

Senator SMATHERS. In connection with supplying this information, I think it would be helpful if the Treasury would also supply to us the rate of growth of these pension plans in the private corporations.

Mr. LINDSAY. I can give you some information on that now, if you would like, Senator Smathers.

Senator SMATHERS. I personally would like it, but I don't want to interfere with the questioning. We can get it later on.

Mr. LINDSAY. We have tables on the number of plans, the rate of growth, the assets, the amount of contributions. And if you want me to summarize them now, I would be glad to do so. Or, if it is more convenient, we will submit the tables for the record.

(The following was subsequently received for the record:)

SELECTED DATA REGARDING PENSION, PROFIT-SHARING AND STOCK-BONUS PLANS

The following tables present selected data regarding pension, profit-sharing and stock-bonus plans. They indicate the rapid growth in the number of such plans in recent years. By the end of 1958, there were over 47,500 qualified plans. As of the same date, such plans, including those administered by unions and established by nonprofitmaking institutions, held assets totaling over $39 billion, consisting principally of corporate bonds, stocks and Government bonds. Employers' contributions to provide pensions for employees have risen correspondingly and by 1956 corporate deductions for such contributions amounted to $3.6 billion. The tables also present information regarding eligibility requirements for coverage in pension plans as well as the conditions under which employees receive vested rights to employer contributions under such plans. As a general rule, employees receive such vested rights only after relatively long periods of service or the attainment of a specified age.

Selected tables on pension, profit-sharing and stock-bonus plans

1. Internal Revenue Service rulings as to the qualification of pension, profit-sharing and stock-bonus plans, 1942–58.
2. Number of new pension, profit-sharing and stock-bonus plans receiving rulings from the Internal Revenue Service and number of employees covered by such plans.
3. Deductions by corporations for contributions to pension, profit-sharing and stock-bonus plans, 1945–56.
4. Frequency distribution of qualified pension, profit-sharing and stock-bonus plans by ratio of employer contribution to nondeferred compensation of covered employees.
5. Frequency distribution of qualified pension, profit-sharing and stock-bonus plans, by size of firms' assets.
6. Deductions of corporations for contributions to qualified pension, profit-sharing and stock-bonus plans as percentages of net income, by size of firms' assets.
7. Number of pension, profit-sharing and stock-bonus plans, and number of employees covered by such plans, classified by contributory and noncontributory plans.
8. Percentage distribution of pension, profit-sharing and stock-bonus plans and number of employees covered by such plans, classified by contributory and noncontributory plans.

9. Eligibility requirements for coverage: Percentage distribution of 239 pension plans in effect during the years 1953–55.
10. Conditions under which employees receive vested rights to employer pension contributions: Percentage distribution of 239 pension plans in effect during the years 1953–55.
11. Size of pension in relation to compensation: Percentage distribution of 239 plans in effect during the years 1953–55.
12. Assets of private pension plans for selected years, 1950 and 1954–58.
13. Assets of noninsured corporate pension funds for selected years, 1954–58.

TABLE 1.—*Internal Revenue Service rulings as to the qualification of pension, profit-sharing and stock-bonus plans, 1942–58*

	Number of plans receiving rulings during period	Number of plans terminated by ruling during period	Total number of plans at end of period
Oct. 21, 1942 to June 30, 1947	10,608	209	10,399
Fiscal year:			
1948	1,134	275	11,258
1949	1,123	227	12,154
1950	1,034	263	12,925
1951	1,897	151	14,671
1952	2,493	146	17,018
1953	3,780	123	20,675
July 1, 1953 to Dec. 31, 1953 (half-year)	1,917	84	22,508
Calendar year:			
1954	4,321	256	26,573
1955	3,647	336	29,884
1956	5,289	303	34,870
1957	6,463	351	40,982
1958	6,999	403	47,578

Source: Internal Revenue Service.

TABLE 2.—*Number of new pension, profit-sharing, and stock-bonus plans receiving rulings from the Internal Revenue Service and number of employees covered by such plans, fiscal years 1956–58*

	Fiscal 1956	Fiscal 1957	Fiscal 1958	July 1 to Dec. 31, 1958 (½ year)
Number of new plans:				
Pension plans	2,824	3,483	3,757	1,756
Profit-sharing plans	1,579	2,549	3,100	1,429
Stock-bonus plans	17	10	15	4
Total	4,420	6,042	6,872	3,189
Number of employees covered by new plans:				
Pension plans	531,410	584,396	595,892	232,285
Profit-sharing plans	87,470	145,638	154,287	294,986
Stock-bonus plans	177,290	2,511	7,206	756
Total	796,170	732,545	757,385	528,027

Source: Internal Revenue Service.

TABLE 3.—*Deductions by corporations for contributions to pension, profit-sharing, and stock-bonus plans, 1945–56*

[In millions]

Year	Amount	Year	Amount
1945	$776.2	1951	$2,326.9
1946	834.6	1952	2,551.8
1947	1,038.3	1953	2,936.3
1948	1,153.5	1954	2,840.3
1949	1,216.1	1955	3,296.2
1950	1,660.9	1956	3,645.5

NOTE.—The amounts shown in the above table for years prior to 1952 include contributions to employee benefit plans other than pension, profit-sharing, and stock-bonus plans.

Source: Statistics of Income, Corporation Income Tax Returns.

TABLE 4.—*Frequency distribution of qualified pension, profit-sharing, and stock-bonus plans by ratio of employer contribution to nondeferred compensation of covered employees*

[Tabulation of 8,568 plans of employers submitting such information on 1951 tax returns]

Type of plan	Total number of plans	Percent of nondeferred compensation						
		Under 5 percent	5 to 10 percent	10 to 15 percent	15 to 20 percent	20 to 25 percent	25 percent and over	Not known
Pension or annuity	5,830	1,366	2,290	1,141	409	128	71	425
Individual contract	2,299	377	954	521	195	71	29	152
Group contract	1,826	467	726	329	98	31	18	157
Self-insured	1,705	522	610	291	116	26	24	116
Profit-sharing	1,836	404	493	580	225	18	22	94
Stock-bonus	21	15	2	3			1	
Mixed	55	15	19	9	1	4	3	4
Not known	826	233	306	121	48	16	21	81
Total	8,568	2,033	3,110	1,854	683	166	118	604
	Percentage distribution							
Pension or annuity	100	23.4	39.3	19.6	7.0	2.2	1.2	7.3
Individual contract	100	16.4	41.4	22.7	8.5	3.1	1.3	6.6
Group contract	100	25.6	39.7	18.0	5.4	1.7	1.0	8.6
Self-insured	100	30.6	35.8	17.1	6.8	1.5	1.4	6.8
Profit sharing	100	22.0	26.8	31.6	12.3	1.0	1.2	5.1
Stock bonus	100	71.4	9.5	14.3			4.8	
Mixed	100	27.3	34.4	16.4	1.8	7.3	5.5	7.3
Not known	100	28.2	37.1	14.7	5.8	1.9	2.5	9.8
Total	100	23.7	36.3	21.6	8.0	1.9	1.4	7.1

NOTE.—Table does not include data on a large number of plans for which detailed information was not available on tax returns.

TABLE 5.—*Frequency distribution of qualified pension, profit-sharing, and stock-bonus plans, by size of firms' assets*

[Tabulation of 8,507 plans of employers submitting such information on 1951 tax returns [1]]

Assets (000)	Number of plans				
	Pension	Profit sharing	Stock bonus	Other [1]	Total
Under $50	60	10	----------	17	87
$50 to $100	124	30	----------	35	189
$100 to $250	352	160	1	94	607
$250 to $500	502	246	1	93	842
$500 to $1,000	731	336	----------	106	1,173
$1,000 to $5,000	1,760	655	7	247	2,669
$5,000 to $10,000	612	152	1	87	852
$10,000 to $50,000	1,014	184	3	135	1,336
$50,000 to $100,000	242	22	2	26	292
$100,000 and over	397	26	6	31	460
Total	5,794	1,821	21	871	8,507
Type of plan as percent of total	68.1	21.4	0.3	10.2	100
	Percentage distribution				
Under $50	1.0	0.6	----------	1.9	1.0
$50 to $100	2.1	1.6	----------	4.0	2.2
$100 to $250	6.1	8.8	4.8	10.7	7.2
$250 to $500	8.7	13.5	4.8	10.7	9.9
$500 to $1,000	12.6	18.4	----------	12.2	13.8
$1,000 to $5,000	30.4	36.0	33.3	28.4	31.4
$5,000 to $10,000	10.6	8.4	4.8	10.0	10.0
$10,000 to $50,000	17.5	10.1	14.3	15.5	15.7
$50,000 to $100,000	4.2	1.2	9.5	3.0	3.4
$100,000 and over	6.8	1.4	28.5	3.6	5.4
Total	100.0	100.0	100.0	100.0	100.0

[1] Includes some plans combining pension, profit-sharing and stock-bonus features and plans for which only partial information was available.

NOTE.—Table does not include a large number of plans for which detailed information was not available on tax returns.

TABLE 6.—*Deductions of corporations for contributions to qualified pension, profit-sharing, and stock-bonus plans as percentages of net income, by size of firms' assets*

[Tabulation of 7,733 corporations submitting such information on 1951 tax returns. Assets and dollar amounts in thousands]

Assets	Number of corporations	Net income	Deductions for contributions to qualified plans	
			Amount	Percent of net income
Under $50	82	$602	$348	57.8
$50 to $100	187	1,902	693	36.4
$100 to $250	584	15,505	3,561	23.0
$250 to $500	800	42,406	7,720	18.2
$500 to $1,000	1,121	121,186	19,953	16.5
$1,000 to $5,000	2,437	891,418	94,723	10.6
$5,000 to $10,000	758	653,864	64,412	9.9
$10,000 to $50,000	1,130	2,869,443	216,732	7.6
$50,000 to $100,000	239	1,543,150	100,598	6.5
$100,000 and over	342	12,256,905	1,055,193	8.6
Assets not reported	53	40,453	2,024	5.0
Total	7,733	18,436,835	1,565,957	8.5
	Percentage distribution			
Under $50	1.1	(1)	(1)	
$50 to $100	2.4	(1)	0.1	
$100 to $250	7.6	0.1	.2	
$250 to $500	10.3	.2	.5	
$500 to $1,000	14.5	.7	1.3	
$1,000 to $5,000	31.5	4.8	6.1	
$5,000 to $10,000	9.8	3.5	4.1	
$10,000 to $50,000	14.6	15.6	13.8	
$50,000 to $100,000	3.1	8.4	6.4	
$100,000 and over	4.4	66.5	67.4	
Assets not reported	.7	.2	.1	
Total	100.0	100.0	100.0	

[1] Less than 0.1 of 1 percent.

NOTE.—Table does not include data for a large number of plans for which detailed information was not available on tax return.

TABLE 7.—*Number of pension, profit-sharing, and stock-bonus plans and number of employees covered by such plans, classified by contributory and noncontributory plans*

[Tabulation of 7,638 plans of employers submitting such information on 1951 tax returns]

Type of plan	Number of plans			
	Contributory	Noncontributory	Not known	Total
Pension or annuity	1,666	3,005	628	5,300
Individual contract	620	1,230	253	2,104
Group contract	659	758	201	1,621
Self-insured	387	1,017	109	1,575
Profit-sharing	100	1,401	145	1,649
Stock-bonus	4	6	2	12
Mixed	21	24	8	53
Not known	167	255	199	624
Total	1,958	4,691	977	7,638
	Number of covered employees			
Pension or annuity	1,287,315	2,415,014	726,217	4,428,546
Individual contract	51,378	99,512	23,891	174,781
Group contract	554,929	345,427	124,014	1,024,190
Self-insured	681,008	1,970,255	578,312	3,229,575
Profit-sharing	34,912	257,484	137,982	430,378
Stock-bonus	1,340	81,188	88	82,616
Mixed	6,729	63,552	7,992	78,273
Not known	30,193	45,946	70,105	146,244
Total	1,360,489	2,863,184	942,384	5,166,057

NOTE.—Table does not include a large number of plans for which detailed information was not available on tax return.

TABLE 8.—*Percentage distribution of pension, profit-sharing, and stock-bonus plans and number of employees covered by such plans, classified by contributory and noncontributory plans*

[Tabulation of 7,638 plans of employers submitting such information on 1951 tax returns]

Type of plan	Number of plans			
	Contributory (percent)	Noncontributory (percent)	Not known (percent)	Total (percent)
Pension or annuity	31.4	56.8	11.8	100.0
Individual contract	29.5	58.5	12.0	100.0
Group contract	40.7	46.9	12.4	100.0
Self-insured	24.6	64.7	10.7	100.0
Profit-sharing	6.1	85.1	8.8	100.0
Stock-bonus	33.3	50.0	16.7	100.0
Mixed	39.6	45.3	15.1	100.0
Not known	26.9	41.1	32.0	100.0
Total	25.7	61.5	12.8	100.0
	Number of covered employees			
Pension or annuity	29.1	54.5	16.4	100.0
Individual contract	29.4	56.9	13.7	100.0
Group contract	54.2	33.7	12.1	100.0
Self-insured	21.1	61.0	17.9	100.0
Profit-sharing	8.1	59.8	32.1	100.0
Stock-bonus	1.6	98.3	.1	100.0
Mixed	8.6	81.2	10.2	100.0
Not known	20.7	31.4	47.9	100.0
Total	26.3	55.4	18.3	100.0

NOTE.—Table does not include a large number of plans for which detailed information was not available on tax return.

TABLE 9.—*Eligibility requirements for coverage: Percentage distribution of 239 pension plans in effect during the years 1953–55*

Eligibility requirements	Percent of plans
Age and service (ranging from under 1 year of service and under 25 years of age to over 5 years of service and over 35 years of age)	36
Service only:	
2 years or less	20
3–4 years	5
5 years or over	6
Total, service only	31
Age only:	
25 years and under	2
30 years	2
35 years	1
Total, age only	5
No requirements	30
Total	100

Source: Bankers Trust Co., "A Study of Industrial Retirement Plans," 1956 ed.

NOTE.—Figures are rounded and will not necessarily add to totals. Table includes only conventional plans which are not of the pattern type. The latter are plans which have been negotiated, with only minor variations, by unions with individual companies.

TABLE 10.—*Conditions under which employees receive vested rights to employer pension contributions: Percentage distribution of 239 pension plans in effect during the years 1953–55*

Vesting requirement	Percent of plans
Service (usually 10 to 20 years) plus specified age:	
45 years or less	10
50 to 55 years	24
60 years	8
Total, service and age	42
Service only:	
10 years or less	8
15 years	5
20 years or more	8
Total, service only	21
Age only:	
50 to 55 years	3
60 years	2
Total, age only	5
Immediate vesting on employment	
Partial vesting only	6
No vesting prior to retirement	25
No information on vesting practice	1
Total	100

NOTE.—Table includes only conventional plans which are not of the pattern type. The latter are plans which have been negotiated, with only minor variations, by unions with individual companies.

Source: Bankers Trust Co., A Study of Industrial Retirement Plans, 1956 edition.

TABLE 11.—*Size of pension in relation to compensation: Percentage distribution of 239 plans in effect during the years 1953–55*

Pension (exclusive of social security) as percent of compensation	Annual wages			
	$3,000	$4,200	$7,200	$20,000
Under 25	37	27	10	4
26–35	40	52	30	12
36–45	11	17	43	39
46–55	2	2	14	37
56 and over	1	2	3	8
Total	100	100	100	100

NOTE.—Benefits based on 30 years of future service. Table includes only conventional plans which are not of the pattern type. The latter are plans which have been negotiated, with only minor variations, by unions with individual companies.

Source: Bankers Trust Co., A Study of Industrial Retirement Plans, 1956 ed.

TABLE 12.—*Assets of private pension plans for selected years, 1950 and 1954–58* [1]

[In billions of dollars]

Year	Noninsured corporate pension funds	Insured pension reserves	Total [2]
1950	5.5	5.6	11.7
1954	12.2	10.0	23.0
1955	14.2	11.2	26.5
1956	16.6	12.4	30.3
1957	19.3	14.0	34.8
1958	22.1	15.5	39.3

[1] Book value at end of year.
[2] In addition to noninsured corporate funds and insured funds the total includes reserves of nonprofit organizations, multiemployer plans and union-administered plans, as estimated by the Social Security Administration for the years 1950–57. The 1958 figure is an extrapolation of the Securities and Exchange Commission.

Source: Securities and Exchange Commission, Corporate Pension Funds 1958, release No. 1605, May 26, 1959.

TABLE 13.—*Assets of noninsured corporate pension funds for selected years, 1954–58* [1]

[In millions of dollars]

	1954	1955	1956	1957	1958
Corporate bonds	6,359	7,225	8,704	10,392	11,731
Own company	(2)	(2)	598	641	638
Other companies	(2)	(2)	8,106	9,751	11,094
Common stock	2,286	2,958	3,774	4,770	6,042
Own company	382	434	505	584	646
Other companies	1,904	2,524	3,269	4,187	5,396
Preferred stock	454	510	570	611	655
U.S. Government securities	2,284	2,536	2,293	2,032	1,985
Mortgages	(3)	146	230	313	405
Cash and deposits	296	343	332	368	383
Other assets	473	511	736	833	892
Total assets	12,153	14,230	16,639	19,319	22,094

[1] Book value at end of year.
[2] Not available separately.
[3] Included with other assets.

NOTE.—Table does not include reserves of insurance companies attributable to insured pension plans, which amounted to $15.5 billion in 1958.

Source: Securities and Exchange Commission, Corporate Pension Funds, 1958, release No. 1605, May 26, 1959.

Senator TALMADGE. May I ask one question at this point, Mr. Chairman?

What is the approximate loss of revenue to the Government on these pension plans?

Mr. LINDSAY. That is a difficult question to answer. According to our tables through 1956, the deductions by corporations for contributions to pension, profit sharing, and stock bonus plans, amounted to $3.6 billion. Now, does that mean that that is the loss of revenue? This is compensation, and if not set aside in a plan, part of it, all of it or none of it might be paid as direct compensation. So the loss may be what would have been picked up had the employees been required to include in income currently the contributions paid on their behalf by the employer. Under that test, we estimate—and it is a very rought estimate—that the revenue loss would be in the order of $800 million, not counting the Government plans, just the private corporation plans.

Senator SMATHERS. How much, Mr. Lindsay?

Mr. LINDSAY. I neglected to mention the trust exemption which amounts to another $350 million.

Senator FREAR. Are they annual? Is that an annual figure?

Mr. LINDSAY. These are annual figures.

Senator SMATHERS. What is the total amount of money now being held in private pools or pension plans?

Mr. LINDSAY. In the trusteed plans alone, the corporation trusteed plans that are private, I think the assets as of 1958 were $22 billion. In addition, there are plans which are insured pension plans which amount to $15 billion, or a total of $37 billion.

Sentaor SMATHERS. Do you know, Mr. Lindsay, how much is being held now by what you would call noncontributory approved pension plans? How much is being held in that?

Mr. LINDSAY. I don't think we have those figures. We have a sampling, and a very small sampling, that was actually conducted by another concern, indicating percentages, but whether that sample would be a fair sample or not, I don't know.

Senator SMATHERS. Do you have the information as to the percentage of growth of noncontributory approved pension plans?

Mr. LINDSAY. We do not have figures on the percentage of growth. I believe—and it is just a guess—that the direction is in the trend of noncontributory plans.

Now, on a tabulation of 7,600 plans from the information submitted on 1951 income tax returns, I note that 61 percent of the plans were noncontributory, 25 percent were contributory, and the balance was not known. The balance would be about 12 percent, and it might be in the same proportion.

Senator SMATHERS. But you are satisfied that the trend is toward the approval or the setting up of approved noncontributory pension programs?

Mr. LINDSAY. I can't say that I am satisfied on that, it is just a guess. We don't have figures to prove it.

Senator GORE. Mr. Chairman, could I ask a question out of turn?

The CHAIRMAN. Yes.

Senator GORE. We have an executive session of the Foreign Relations Committee to which I would like to go.

Mr. Lindsay, your testimony verifies and reveals the existence of favoritism in corporation pension plans. The principal appeal that has been made to me by the advocates of H.R. 10 is based upon the existence of such favoritism. Now, as an offset to this unjustified situation which you have described, H.R. 10 proposes tax exemption for the self-employed of $3,100 per year, provided these self-employed persons are able to invest, and do invest, $2,500 of their income in a retirement plan of some sort. Is that correct?

Mr. LINDSAY. That is correct. It is $2,500 per year, not $3,000.

Senator GORE. Well, the taxpayer would have $600 under the present law. Under the present law, he has an exemption of $600. Is that right?

Mr. LINDSAY. Yes. Everybody has a $600 exemption.

Senator GORE. But this additional $2,500 would only be available to those who have sufficient income so that they can afford to invest $2,500 in a retirement plan, or have sufficient savings which they can allocate on an annual basis to that extent, is that right?

Mr. LINDSAY. Well, I would say that is correct, Senator Gore.

Senator GORE. Mr. Chairman, I think this would be using one wrong to justify another. Instead of supporting H.R. 10 I shall avail myself of the first opportunity to amend the law to remove the favoritism which has just been described.

The CHAIRMAN. Mr. Lindsay, in your statement, I would like for you to make it clear what authority, if any, exists for these pension plans.

Mr. LINDSAY. Well, there have been provisions for pension plans since the 1924 and 1926 Revenue Acts. In 1942 there was a complete revision, and a very elaborate statute laid out, which was section 165 of the 1939 code, and with some modifications this was reenacted in the 1954 code under section 401 and succeeding sections. There the rules specifically and in detail set forth the circumstances under which a pension plan may be set up and qualified.

The CHAIRMAN. Would you make clear what discretion the Treasury Department has? Do you have some discretion in regard to these plans, or not?

Mr. LINDSAY. We have discretion only to interpret the statute as fairly and accurately as we can, and if we see that a plan is discriminatory, we would not rule in its favor. However, if it meets the statutory requirements as to discrimination, we have to rule in favor of the plan.

The CHAIRMAN. What do you mean by "discriminatory"?

Mr. LINDSAY. By "discriminatory" I mean a plan that inures to the benefit of the more highly paid employers and owners of the business, or gives them higher proportional benefits, not on a straight percentage of compensation, but, say, permits the top executives to have a 25 percent contribution by the employer while the lower paid employees would have a 5- or 10-percent contribution.

The CHAIRMAN. Do you adhere to a policy of the pension being in proportion to the salary, a certain percent of the salary?

Mr. LINDSAY. If it is in proportion to a certain percent of the salary, the same percent of the salary, it would not be discriminatory.

The CHAIRMAN. But you said that some get $100,000 and that on the basis of 5 percent——

Mr. LINDSAY. I think under some plans, Mr. Chairman, benefits tend to be large because of forfeitures of employees who leave the company, when the contribution made by the employer on their behalf, if it is forfeitable, stays in the plan for the benefit of the remainder of the employees.

The CHAIRMAN. Is it true that certain retired officials are receiving $100,000 or more in tax exempted funds?

Mr. LINDSAY. I don't personally have any specific case before me. I do know that some of the pension plans and profit-sharing plans have come to a considerable amount.

The CHAIRMAN. I think this is an extremely important matter, and I wish in the material which you are to furnish you would explain how you determine the control you exercise over these matters.

Mr. LINDSAY. Yes, sir.

The CHAIRMAN. The civil service pension plan is the next to be considered. How many are in that plan?

Mr. LINDSAY. In civil service, there are about 2 million employees. There are altogether about 6 million government employees, State, local and Federal, covered by a government plan, and 2 million are covered by civil service.

The CHAIRMAN. Are there contributions deductible from the income taxes of the individuals?

Mr. LINDSAY. No, Mr. Chairman.

The CHAIRMAN. When they receive the retirement payments are they taxable or not?

Mr. LINDSAY. That is taxable except to the extent of their own investment, of their own nondeductible contributions.

The CHAIRMAN. Are these payments exempt?

Mr. LINDSAY. Well, if over a period of years a Government employee has contributed, we will say, $1,000 to his civil service retirement plan, and the Federal Government has contributed $1,000, he would have $2,000 spread over a number of years during his retirement, and he pays only on that portion that was attributable to the Government's contribution, not on that portion attributable to his own contribution.

The CHAIRMAN. In the first instance, is it deductible from the income tax of the individual?

Mr. LINDSAY. No, it is not.

The CHAIRMAN. Is there any provision in the tax laws now under which an individual can deduct payment to the retirement fund for his own benefit?

Mr. LINDSAY. No, I am not aware of any instance.

The CHAIRMAN. Now, let's turn to the railroad retirement fund. Will you explain that?

Mr. LINDSAY. I don't have the number of people covered there. It is a 6¾ percent contribution. I don't have the number of employees.

The CHAIRMAN. Is it on the same basis as civil service so far as taxation is concerned?

Mr. LINDSAY. Well, it is more like social security in the sense that the benefits, when paid, are tax exempt.

The CHAIRMAN. And the contribution is not deductible?

Mr. LINDSAY. The contribution is not deductible. But the employer's contribution is not taxed to the employee, nor is it taxed to the employee when ultimately received on retirement.

The CHAIRMAN. Now, the so-called self-employed bill, now before us, would affect 7 million?

Mr. LINDSAY. Six or seven million.

The CHAIRMAN. Six or seven million. And the social security, of course, that can be duplicated.

Mr. LINDSAY. Yes.

The CHAIRMAN. Except in the case of physicians——

Mr. LINDSAY. And ministers, on an optional basis.

The CHAIRMAN. In other words, they can receive both? Social security covers about 65 million?

Mr. LINDSAY. I am advised that it is somewhere in the neighborhood of that.

The CHAIRMAN. About 7 or 8 million are now enjoying benefits?

Mr. LINDSAY. Yes.

The CHAIRMAN. Now I would like to know for the record how many individuals are covered under the pension systems of corporations.

Mr. LINDSAY. The number of private employees that are covered in private corporation plans is in the order of 18 million.

The CHAIRMAN. Assuming enactment of the pending bill, how many employees would have no coverage except social security?

Mr. LINDSAY. Thirty-two million.

The CHAIRMAN. In other words, at the present time, excepting social security, 39 million have no coverage. If this bill were passed, 32 million would have no coverage except social security.

Mr. LINDSAY. I think it is 32 million, not 42 million.

The CHAIRMAN. Thirty-two million. And there are 39 million at the present time?

Mr. LINDSAY. At the present time, yes.

The CHAIRMAN. Thirty-nine million. And 39 million will not be covered even though H.R. 10 is enacted?

Mr. LINDSAY. That is correct.

The CHAIRMAN. Social security applies only to those who are employed?

Mr. LINDSAY. That is correct. But social security applies to self-employed as well as employed individuals, with the exceptions previously noted.

The CHAIRMAN. There would be another group not eligible for social security and has no other pension system?

Mr. LINDSAY. That is correct.

The CHAIRMAN. I am attempting to get a picture of this whole question of retirement funds with respect to taxation. Is there any way to ascertain how many of these 32 million, or 39 million, have social security available to them?

Mr. LINDSAY. I suspect all of them could, with the exception of doctors.

The CHAIRMAN. Then, of course, a person that is not employed at all, there is no retirement plan of any sort for such a person, even though that person would make a contribution?

Mr. LINDSAY. I expect he couldn't afford one if he had one.

The CHAIRMAN. Senator Frear.

Senator FREAR. Mr. Chairman, I would like to ask a question of you, sir.

Are these things to be printed?

The CHAIRMAN. Yes, sir.

Senator FREAR. Will the information that has been requested of the Treasury be made a part of the printed record? In other words, will this information requested be presented in time to be included in the printed record?

The CHAIRMAN. Yes.

And I would suggest, Mr. Lindsay, in addition to submitting this material for the record that you send a copy to each member of the committee.

Mr. LINDSAY. I would be very glad to.

Senator FREAR. Did I understand that the chairman also took the suggestion of Mr. Lindsay that certain information he had available this morning would be made a part of the record also?

The CHAIRMAN. Yes. Please send copies of all material requested for this record to members of the committee. The record won't be printed until later.

Senator FREAR. Mr. Lindsay, I think you have already stated that the statute permits company contributions to employee pension funds to be tax exempt, if the plan is a qualified plan?

Mr. LINDSAY. Yes.

Senator FREAR. Now, the amount of money that is contributed by the company is derived from what source by the company?

Mr. LINDSAY. Presumably from earnings.

Senator FREAR. Could it be from investment income?

Mr. LINDSAY. I suppose it could be from whatever available income the company has, yes.

Senator FREAR. Well, is it, or isn't it?

Mr. LINDSAY. It comes out of gross receipts, gross income which includes everything.

Senator FREAR. Then it would include investment income, would it not?

Mr. LINDSAY. Yes.

Senator FREAR. I am sure the Treasury supports the plan or the idea of the free enterprise system, which we regard as being one of the most laudable characteristics of our country. And I am sure you agree that the company without employees would be unlikely to have any taxable income whatsoever, do you not? We will say a large company—I don't think we need to get down to four or five—but the great industries of this country.

Mr. LINDSAY. There must be employees ordinarily.

Senator FREAR. There must be employees. And also, in order to give those employees their jobs, there must be some investment by stockholders?

Mr. LINDSAY. That is correct.

Senator FREAR. Would you approve, as far as the Treasury is concerned, the same type of treatment for stockholders that the statute now provides for employees under pension plans?

Mr. LINDSAY. Stockholders are not excluded under the statute from participation in pension and profit-sharing plans, provided they are employees of the company.

Senator FREAR. Yes, sir. But you have already stated, I think, that the stockholder is just as important a segment of this industry as is the employee. But in order to have the advantages as set out by the statute now, a stockholder must also be an employee.

Mr. LINDSAY. Yes, that is correct. And you are suggesting that maybe the stockholder should also be entitled to set up a plan for retirement income?

Senator FREAR. Well, I am asking you whether the same consideration should not be given to them.

Mr. LINDSAY. I am not so sure, because while the employee is, during his younger and middle years, productive years, in a position to earn income, he may or may not have any investments. When he reaches 65 or 70, or a later period in his life, he may not be able to earn that income, and he must rely only on retirement income. Now, the stockholder in a sense has investment income all along. He may or may not need further retirement income. But whatever arguments might be made in that connection only indicate the direction in which this kind of legislation could be extended.

Senator FREAR. Is it the policy of the Treasury Department to attempt to limit future income or pension plans on which a person may survive only to employees? Has it not been the policy of this country that we have invited employees and other people to invest in the industries of this country by purchasing stock, and are the stockholders who have made their income from some other source just as much entitled to the benefits of that plan and policy as are the employees of big corporations?

Mr. LINDSAY. What this leads to in my mind, Senator Frear, is the concept of exempting savings from the income tax. Maybe on a small scale or maybe on a large scale, carried to a logical conclusion, we would be turning the income tax on which we have relied for many years into a tax on spending. The thought of extending the benefits of this bill to stockholders as stockholders has never crossed my mind until you asked the question. I think that the direction that we should go in tax law is to attempt to revise the rate structure, which we can never do if we constantly make further and further exceptions in the tax base.

Senator FREAR. Mr. Chairman, I think there are other questions that I would like to ask the Treasury Department along this line, but I feel that other members of this committee have the privilege of asking questions before I get into something which really may not be directly on H.R. 10. And if the chairman would let the other members of the committee exercise their rights before I get into something that the chairman might say was not relevant to this situation, I would be glad to wait.

The CHAIRMAN. Very well.

Mr. Lindsay, there is one other phase that I would like for you to include in the information you are going to furnish to us.

Now, when a corporation deducts the contributions it makes to the plan, that is deducted on the basis of business expense, is it not?

Mr. LINDSAY. That is right.

The CHAIRMAN. Now, what regulations have you established as to a reasonable business expense? Take the case of the man who gets $100,000. Is it reasonable for a corporation to pay $100,000 retire-

ment, and deduct that $100,000 from its tax liability? Is this a business expense? Can it be deducted any other way? Have you any control over what is a reasonable business expense?

Mr. LINDSAY. That is always a very difficult question. It depends upon the particular facts and circumstances of each case. Certainly if a company is giving a large stockholder a tremendous salary and no dividends, it would appear that the salary was set up in part to obtain a deduction, because dividends to that stockholder would not be deductible. In that kind of a case, if it is a small company it would certainly have to be scrutinized very carefully and similar salaries and similar lines of endeavor compared to see if it was competitive or reasonable. Ordinarily when you are dealing with a publicly held corporation with many stockholders the question seldom arises as to whether the management is being unreasonable in the compensation it chooses to pay. If it were unreasonable, the stockholders would have a lot to say at the stockholders' meeting.

The CHAIRMAN. Senator Williams.

Senator WILLIAMS. Mr. Lindsay, in line with the questioning of the chairman, did the 1954 code liberalize or restrict the provisions for establishing corporate pension plans?

Mr. LINDSAY. I think they are basically the same. There was an attempted tightening up in the original version of H.R. 8300 in 1954. By the time it was adopted, however, there were very little changes, some liberalization as to lump sum payments, capital gains treatment, and the like.

Senator WILLIAMS. Did the Treasury Department approve of those changes that were made in 1954?

Mr. LINDSAY. I believe so.

Incidentally, there were also some elaborate rules spelled out for prohibited transactions which you could call tightening.

Senator WILLIAMS. You mentioned earlier that a ruling which the Treasury Department had had in connection with these pension plans had been overruled by the Tax Courts.

Mr. LINDSAY. That is correct.

Senator WILLIAMS. When was that overruled?

Mr. LINDSAY. I believe the date was 1949, the Tax Court decision.

Senator WILLIAMS. Has the Treasury Department made any recommendations to Congress for corrective legislation in connection with that ruling?

Mr. LINDSAY. Not to my knowledge.

Senator WILLIAMS. The assumption is that the Treasury approves of the ruling as it stands?

Mr. LINDSAY. You mean approves of the Tax Court decision?

Senator WILLIAMS. Yes.

Mr. LINDSAY. Well, I think that we are concerned about the limitations in connection with pension trusts and profit-sharing where you have very few employees. You are really dealing only with the owners of the business.

Senator BUTLER. Will the Senator yield at that point, for one question?

Senator WILLIAMS. Yes.

Senator BUTLER. Mr. Lindsay, has the Treasury Department a practice of acquiescing or not acquiescing in the opinions of the courts?

Mr. LINDSAY. Most decisions are acquiesced in when they are adverse.

Senator BUTLER. Did you acquiesce in this one?

Mr. LINDSAY. I do not recall. I don't believe so. I will have to look it up, sir.

Senator WILLIAMS. In making your recommendations for revision of the 1954 code, did you call this to the attention of Congress and ask that any consideration be given to correction?

Mr. LINDSAY. I don't believe so.

Senator WILLIAMS. Does the Treasury Department have any recommendations in connection with the existing law as regards corporate pension plans?

Mr. LINDSAY. We do not have a specific recommendation at this time. We do believe that a most careful study and analysis should be made. And I note that there is on the program, starting this fall, a reexamination of the entire tax structure.

Senator WILLIAMS. Now you discussed earlier social security. Now are the contributions to the social security plan either by the self-employed or employed deductible?

Mr. LINDSAY. No.

Senator WILLIAMS. But the social security payments to the individuals are tax exempt; is that correct?

Mr. LINDSAY. That is correct.

Senator WILLIAMS. And they are tax exempt as a result of a ruling of the Treasury Department?

Mr. LINDSAY. Yes; some years ago.

Senator WILLIAMS. When was that ruling issued?

Mr. LINDSAY. In 1937 and in 1941.

Senator WILLIAMS. At the time the ruling was made, was it based on changes made in the law by the Congress at that time?

Mr. LINDSAY. I don't recall the basis of the ruling, Senator Williams.

Senator WILLIAMS. Could you furnish that for us?

Mr. LINDSAY. Yes; I would be glad to.

(The following was subsequently received for the record:)

Social security benefits were exempted from tax under an Internal Revenue Service ruling issued in 1941. Apparently, this ruling was based on the concept that such benefits, which are based on family status and are financed by taxes on employees and employers, do not contain any element of compensation. The ruling (I.T. 3447, C.B. 1941–1, p. 191) is reproduced in full below:

"Advice is requested whether the monthly payments made under the provisions of section 202 of title II of the Social Security Act, as amended by the Social Security Act Amendments of 1939 (53 Stat. 1360), under which such payments are to begin in 1940 instead of in 1942 as originally provided are subject to the Federal income tax.

"Effective as of January 1, 1940, there was created under section 201(a) of title II, as amended, on the books of the Treasury of the United States, a trust fund to be known as the Federal old-age and survivors insurance trust fund, and all amounts credited thereto are made available for the payment of the insurance benefits specified under section 202 as amended.

"The old-age and survivor's insurance benefit payments thus provided for include the primary insurance benefits as set forth or defined in section 202(a); wife's insurance benefits, defined in section 202(b); child's insurance benefits, defined in section 202(c); widow's insurance benefits, defined in section 202(d); widow's current insurance benefits, defined in section 202(e); parent's insurance benefit, defined in section 202(f); and the lump-sum death payments, as stated in section 202(g).

"It is held that the sundry insurance benefit payments made to individuals under section 202 (a), (b), (c), (d), (e), (f), and (g), title II of the Social Security Act, as amended by the Social Security Act Amendments of 1939, are not subject to Federal income tax in the hands of the recipients."

Senator WILLIAMS. A suggestion has been made that in England and in Canada they have adopted similar legislation to this proposed under H.R. 10. Is that correct?

Mr. LINDSAY. That is correct. There is a marked difference in England and Canada. For years in England the employees received deductions for their own contributions to the superannuation fund or plan, and were not taxed on the employers' contributions which were deductible to the employer. Accordingly, at the time they passed legislation of this kind, they were in the status of having a larger discrimination against the self-employed, because employees were not only not taxed on the employers' contributions but they received a deduction for their own. In Canada, that is less true.

I think the contributions by the employees in Canada for years have been deductible, with a ceiling, however, of $1,500 a year, something in that order.

The CHAIRMAN. Senator Smathers.

Senator SMATHERS. Mr. Lindsay, is it the position of the Treasury that social security should be the sole retirement program for the people of the country, or does the Treasury take the position that there should be other retirement programs, and they should be encouraged?

Mr. LINDSAY. We think private plans should be encouraged. Whether that should be done with a very high rate and a special exemption for retirement savings, or whether that should be done with a lower rate, leaving it up to the taxpayer as to whether he wishes to take care of his own retirement in his own way, is a large question.

Senator SMATHERS. You do agree, as I gather from what you say, that people should not be restricted to relying on social security to look after them when they have ceased their employment.

Mr. LINDSAY. I agree with that very definitely, Senator Smathers.

Senator SMATHERS. You would agree that the social security payments as such are not today actually sufficient to keep most people living in a decent and dignified fashion, would you not?

Mr. LINDSAY. They are modest.

Senator SMATHERS. Would you agree with that?

Mr. LINDSAY. I agree with you, Senator Smathers.

Senator SMATHERS. If you agree that we should have pension programs, do you think that some pension programs should be set up for people who are self-employed?

Mr. LINDSAY. Well, I believe, through life insurance and through investments, people should look after their retirement needs. Whether that should be accomplished by special exceptions in the tax law, or whether it should be accomplished through rates that are less steeply progressive, is another question.

Senator SMATHERS. Well, the Treasury has approved special exceptions for a large number of people, has it not?

Mr. LINDSAY. There are special exceptions for a large number of people.

Senator SMATHERS. But you think that self-employed people should not be granted these exceptions?

Mr. LINDSAY. I don't think I can make that statement, Senator Smathers. I think that self-employed persons should be able to provide for their own retirement. That is not to say that there should be a special exception in the tax law to accomplish that.

Senator SMATHERS. Well, we have special exceptions in the tax law to accomplish a retirement program for your so-called approved private retirement systems, have we not?

Mr. LINDSAY. Yes, we have. But those retirement systems provide that employees are required to retire, in many instances, at a specified age, maybe 65, and they receive small emoluments after that date. Self-employed persons at least have the advantage, if they keep their health, of continuing on with their profession and other jobs as long as they wish. They do not have to retire, and many of them don't wish to.

I believe the resistance of the medical profession to social security is that they don't need it, why pay for it, why retire?

Senator SMATHERS. Just let me get it clearly in my mind about what you do think about whether or not self-employed people should be permitted to set up some form of retirement program for themselves. Do you think that they should?

Mr. LINDSAY. I think that they should.

Senator SMATHERS. Then the only argument that the Treasury has is the extent of such a program and the manner of how it is administered, is that correct?

Mr. LINDSAY. I would say "Yes." I would say also at this time that any tax provision for the self-employed, to be worth anything to the self-employed, would involve revenue losses which we cannot afford.

Senator SMATHERS. Then actually is it not the Treasury's position that the real reason you are opposed to this legislation is the revenue loss, and only the revenue loss?

Mr. LINDSAY. That is not the only reason, Senator Smathers. But it is an overriding consideration. Perhaps in the sense that we are not only dealing with the self-employed but the problems of pensionless employees and others who are inadequately covered, we see the direction of this legislation and the potential revenue impact of it. We are in a position in this country where we ought to be able to live as a Government within our means, which either requires lower expenditures or higher taxes. Every time we hake an exception and erode the tax base, we lose revenue, and have to make it up with rates, which always is difficult.

Senator SMATHERS. So your greatest concern, then, is the loss of revenue to the Government?

Mr. LINDSAY. The loss of revenue, and the counterdiscrimination suggested by the adoption of this bill.

Senator SMATHERS. You don't go so far as to say that, because some are inadequately provided for under approved pension plans, that that should mean the self-employed should not even be entitled to consideration with respect to retirement programs, do you?

Mr. LINDSAY. No, I don't go so far.

Senator SMATHERS. That doesn't automatically block consideration of the retirement program merely because, we will say, X number of people are inadequately provided for under a retirement program?

Mr. LINDSAY. You can say that there is a discrimination today between some employees and others.

Senator SMATHERS. Aren't those two separate problems, Mr. Lindsay?

Mr. LINDSAY. They are.

Senator SMATHERS. Actually, there is no basis for relating them together. The fact that some groups are inadequately provided for under the private retirement program, that is one thing. But here we have another group of people who are not able to have any kind of retirement program. That is a totally separate problem, is it not?

Mr. LINDSAY. It is a distinguishable problem in that the tax law prevents them from having a retirement program available to employees.

Senator SMATHERS. Mr. Lindsay, are you familiar with this statement—and I am going to read it to you:

> In 1942 the Government made an important supplement to the Social Security Act by legislation which offered tax advantages to corporations and their employees in the establishment of pension funds. I am thoroughly in accord with the principle of this legislation. Over 10,000 pension plans have been filed under this law providing more adequate security for the employees of the corporations covered thereby. When this legislation was being considered, self-employed individuals were evidently forgotten, and yet they get old and sick just as other people. There are over 10 million workers who cannot take advantage of these tax relief provisions now offered to corporation employees—owners of small businesses, lawyers, doctors—

and so on. I won't go into that.

The statement goes on:

> If I am elected, I will favor legislation along these lines.

Are you aware who made that statement?

Mr. LINDSAY. I believe you are referring to a press release of the President.

Senator SMATHERS. The President of the United States. Do you recall what time of the year that statement was made?

Mr. LINDSAY. 1952, was it not?

Senator SMATHERS. October 1952. Was that prior to the election of 1952?

Mr. LINDSAY. It was.

Senator SMATHERS. Is the Treasury taking the position now that the statement was right or wrong at the time he made it?

Mr. LINDSAY. I think the President also promised a balanced budget at the same time. It is pretty hard to do both. And I might add that since that time in 1955 Secretary Humphrey appeared before the Ways and Means Committee and indicated that something, perhaps, should be done sometime, in this area. But when pressed on the question, Secretary Humphrey said:

> Whether anything should be done or not I have a very definite opinion: I think it should not be done now, and when the time comes, I think we should weigh it against the demands of others and the situation with respect to others and see where it can most fairly be done.

Senator SMATHERS. Do you recall Secretary Humphrey ever making a speech on the stump to the American people that he believed self-employed people should be permitted to set up a retirement program?

Mr. LINDSAY. I don't recall it.

Senator SMATHERS. Do you think that a statement by the President of the United States to the American public should have more weight than a statement by a Secretary of the Treasury?

Mr. LINDSAY. It should have tremendously more weight. At the same time, I think that everything has to be considered in the light of the needs at the time of the legislation, and its specifics.

Senator SMATHERS. That is right. So that we come down to the fact that the real objection to this program is the fact that it might cost revenues to the Government.

Mr. LINDSAY. That is the overriding consideration.

Senator WILLIAMS. Just one question. That is the overriding consideration against a broad tax cut at this time, isn't it?

Mr. LINDSAY. Yes. That is why we are forced to request rate extension. Nobody wants to request rate extension, but we have to.

Senator SMATHERS. I would just like to get clear the Treasury's position. In fact, they do not have any objection to self-employed people having the same treatment that millions of other people have, in fact they can set up a retirement program for themselves, but the two conditions that you have are, one, that this not cost the Government any money; and two, that it not be discriminatory. Is that correct?

Mr. LINDSAY. That it not be discriminatory, correct.

I think we stated in our report of February 16, 1959, to this committee, and indicated in our prepared statement, that to permit a self-employed person to have his own private, voluntary pension plan, without providing comparable benefits for his own employees, gives a rather unique advantage to the self-employed not available to corporate personnel.

Senator SMATHERS. That was the next question I wanted to ask you. If this bill were amended to provide that for a self-employed person who had, say, X number of employees, that if he provided for those employees some form of pension plan, and did not include himself in that, that thereafter you would approve of his plan as the retirement program of a self-employed person which would be applicable only to what we call the self-employed?

Mr. LINDSAY. I believe that definitely would improve the bill.

Senator SMATHERS. It would improve it.

Mr. LINDSAY. I hesitate in saying—I assume that you mean his own plan would not be more favorable relatively, taking into consideration the different amounts of income, earned income, in the pension plan set up for his own employees.

Senator SMATHERS. Do you think it is natural for a person who is self-employed, running a little business, to sort of say to himself, "Well, I am not permitted by this Government to set up a retirement program for myself, and therefore I am naturally somewhat reluctant to make a contribution to the retirement program for my employees." Do you think that that is a natural reaction, and that if we made it possible for the self-employed to have a retirement pro-

gram for himself, that in fact would encourage the creation of retirement programs for these 32 million people who are now pensionless?

Mr. LINDSAY. It might very well, Senator Smathers.

Senator SMATHERS. You don't want to say whether in your judgment it would, but you say it might?

Mr. LINDSAY. Well, I can think of the situations in which it would, and situations in which it might not. I don't know what the overall effect would be.

Senator SMATHERS. Then if, as I understand it, the Treasury really as a basic principle has no objection to provisions being made for a self-employed retirement program, except for the cost—let me put it this way—you agree that as a principle everybody should be treated somewhat the same?

Mr. LINDSAY. Nobody can disagree with that as a principle.

Senator SMATHERS. And if it is now provided that the heads of corporations, employees of large corporations, can have retirement programs, then certainly the self-employed should be permitted to have a retirement program, should they not?

Mr. LINDSAY. Generally speaking, there are advantages in being self-employed as opposed to being an employee of a large concern. You cannot leave that large concern and keep your benefits; the freedom of choice is less. So that I don't think the same argument for the employee applies to the self-employed.

Senator SMATHERS. But you will agree that if a large employer has himself included in a corporate retirement program, and receives considerable benefits, as indicated by the question of Senator Gore, that there certainly should be no discrimination against the self-employed, would you not?

Mr. LINDSAY. Not as between the self-employed and the situation of owners of corporate businesses now.

Senator SMATHERS. So as a matter of principle, then, would you not say that either you must come in and ask for a repeal of the present provisions of the law, or else we must in fairness make it possible for self-employed people to have equal opportunity to set up a retirement program; isn't that a sound basis?

Mr. LINDSAY. I don't know whether it goes so far as to repeal. I think that the limitations and requirements with respect to pension trusts should be reexamined.

Senator SMATHERS. You do not take the position that the self-employed people should never be permitted to set up a retirement program, do you?

Mr. LINDSAY. I can only state for the moment—I would not make a statement that they should never.

Senator SMATHERS. Well, as a matter of principle, they should be permitted to be treated the same way as other citizens, should they not?

Mr. LINDSAY. Yes.

Senator SMATHERS. Do you think that everybody in this country should have to go to work for large corporations?

Mr. LINDSAY. No.

Senator SMATHERS. Do you think that is a desirable trend in our business?

Mr. LINDSAY. No. Nor do I think that everybody should necessarily be required to retire at 65 if he chooses to be his own boss.

Senator SMATHERS. Do you think that every young lawyer who graduates from law school should have to go to work for a large corporation rather than for himself because when he works for a corporation he has a retirement program, and when he works for himself he doesn't?

Mr. LINDSAY. No.

Senator SMATHERS. So as a matter of equity, the self-employed people could have this privilege of setting up a retirement program; is that not a sound conclusion, if others are going to have it?

Mr. LINDSAY. I think, in general, it is a sound principle. I don't think that the arguments for the self-employed are as strong as they are for the average employee.

Senator SMATHERS. If you agree that the principle is reasonably sound—and I know you have some difficulty making a completely frank expression, I understand that, and I am not endeavoring to push you too hard—but would you not come back to the thought, as you said, that the overriding objection is the fact that it is going to cost the Government a great deal of money at a time when we do not have a balanced budget?

Mr. LINDSAY. That is correct.

Senator SMATHERS. Now, suppose we postpone the effective date of this bill until such time as we do have a balanced budget. Then would you not agree that the principle should go on the books just as a matter of equity?

Mr. LINDSAY. I don't think it is well to legislate for the future. I think it would be better if such a time arises to consider where the greatest inequities are. There may be an inequity here, but it may not be the largest. And I think under the circumstances, until such time as you can afford a reduction of revenue, you should not just look at one piece of the whole picture, but look at the whole, if possible.

Senator SMATHERS. You agree that your own particular overriding objection is the loss of revenue, and the fact that we do not have a balanced budget. But if we did have a balanced budget, that overriding objection would be eliminated, would it not?

Mr. LINDSAY. True. But I do not know whether, if there is a small surplus and it is decided not to pay off part of the country's debt but to have a tax reduction, whether this particular inequity would have priority and precedence over some other.

Senator SMATHERS. No further questions.

The CHAIRMAN. In connection with Senator Smathers questions; I have received a number of letters like this one:

I understand that there is a bill pending in your committee, H.R. 10, to allow self-employed persons to take a current tax reduction of 10 percent with a maximum limitation, provided the self-employed person makes an investment in certain types of retirement annuity for the specific time and terms of the trust. If such a bill was to be enacted into law, it would be grossly unfair to those individuals, such as my husband, who are employed by companies who have no retirement plans in operation for their employees. All individuals not covered by pension plans should be included in the provisions of this bill, whether self-employed or not. Most of the individuals involved who are not self-employed, are small salaried people, unlike those that would be taken care of under the bill now pending.

As I understand it, there are 39 million working people who now have no pension plan except social security.

Senator SMATHERS. Thirty-two, I think the figure was.

Mr. LINDSAY. That included the self-employed, the 39 million.

The CHAIRMAN. Now, if this bill is enacted, that reduces it to 32 million. What is your answer? What would be the answer of this committee and the Members of the Senate and House as to those 32 million people that will have no pension plans and can't establish pension plans where they can make a complete deduction for income tax purposes?

Mr. LINDSAY. I don't think there is any easy answer to that at all, Mr. Chairman. And in going through the arguments that have been written by the proponents of the bill and the testimony on the earlier bills, I think the strongest proponents have suggested that the pensionless employees should be included.

The CHAIRMAN. What will it cost in revenue reduction to include the entire 39 million?

Mr. LINDSAY. Over $1.2, between $1.2 and $1.3 billion.

The CHAIRMAN. Do you believe that if this bill was passed, legislation should then be enacted applying the same principle for the other 32 million? What did you say the cost in revenue would be?

Mr. LINDSAY. $1.2 billion.

Senator SMATHERS. Mr. Chairman, in view of the fact that you referred to me in connection with that letter, may I just ask him this question?

As I gather, what you would say is that if we have got roughly 39 million people starving, we should let them all starve until we can take care of every one of them as the same time, isn't that it?

The CHAIRMAN. I haven't seen any of them starving yet.

Senator SMATHERS. I am just using that as an illustration.

Mr. LINDSAY. I think you are starting with the group that is starving the least.

Senator SMATHERS. It may be. I would say that the self-employed as a rule are better off than the 32 million pensionless people, but I cannot help but believe that once you give to these people the opportunity to have retirement programs for themselves, then they will do what the law now authorizes them to do and encourages them to do, but which thus far they haven't done, which is to provide a pension plan for their own employees.

Mr. LINDSAY. I am not sure that follows. There are many pensionless employees who are working for smaller corporations which have not chosen to set up pension plans. The owners of those small corporations would not have the benefit of the Simpson-Keogh bill, would be unlikely to change their minds about a pension plan and incur the cost of setting up a pension plan for their own employees.

The CHAIRMAN. What about the employees of the self-employed, where would their pension come from?

Mr. LINDSAY. They would not be covered under this bill, unless it were amended along the lines that Senator Smathers was indicating.

Senator SMATHERS. Well, the law now provides for the covering of these 32 million; they just haven't gotten around to doing it.

Mr. LINDSAY. That is right.

Senator SMATHERS. The law now covers it.

Mr. LINDSAY. There are some partnerships and proprietorships which do have pension plans for their employees.

The CHAIRMAN. What law covers the employees of the self-employed?

Senator SMATHERS. What I say is this. The self-employed do have many employees working for them, they could now, under the law go to the Treasury and say, "I want an approval of the pension program which I am going to set up for my X number of employees." That is permissible today, but they don't do it.

Isn't that correct? The law permits them to do it, as a matter of fact?

Mr. LINDSAY. The law permits them to do it.

Senator SMATHERS. The law permits. That is right. And as a matter of fact, I think the statistics will show that the number of the uncovered pension people is decreasing.

Mr. LINDSAY. That is correct.

Senator WILLIAMS. Just one question, Mr. Lindsay. We are speaking of establishing equity under the law for all of the different groups. Are there any provisions under the existing law where the self-employed, attorneys, and others, have special advantages that are now accorded to the average employees of the corporation?

Mr. LINDSAY. Well, I think they have a little bit more freedom of choice than the average employee. The professional man——

Senator WILLIAMS. Does he have permission under the existing law to average his income in fees by spreading them back over the years?

Mr. LINDSAY. A partner of a firm under certain circumstances may spread his fees over the period earned, whereas an employee cannot.

Senator SMATHERS. Is a farmer permitted to do that. Of course not.

Mr. LINDSAY. I don't believe a farmer can do that. You could, I think, set up different categories of taxpayers and find distinctions.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. Mr. Lindsay, I would like to make this inquiry. After reading this bill and hearing your statement this morning, in which we are dealing with self-employed, with the exception of doctors, and ministers optional, are not the self-employed presently covered under social security?

Mr. LINDSAY. That is correct.

Senator CARLSON. Now, assuming that we pass H.R. 10, would the self-employed be entitled to two types of retirement pensions, the social security plus this additional, if we should approve this legislation?

Mr. LINDSAY. As I understand the bill; yes.

Senator CARLSON. I have been reading it, and I have been trying to check it to see if that was the situation. Then under those circumstances, would not the self-employed person be contributing to a retirement plan with income that is taxed, plus an additional amount of nontaxable income to another retirement plan, is that correct?

Mr. LINDSAY. That is correct; yes. And many of the corporate pension plans are integrated into social security, that is to say, the benefits provided for take into account the social security benefits.

Senator BUTLER. Do you mean by that, Mr. Lindsay, that they receive the difference?

Mr. LINDSAY. They may receive the difference; yes.

Senator BUTLER. I believe that is all, Mr. Chairman.

The CHAIRMAN. Senator Talmadge.

Senator TALMADGE. Mr. Lindsay, your testimony, particularly in response to questions from Senator Smathers, has been very enlightening to me. Let me review the situation briefly and see if I have it in a nutshell now. We have approximately 65 million Americans covered under social security at the present time; is that correct?

Mr. LINDSAY. That is correct.

Senator TALMADGE. And of that 65 million, approximately 7 million are drawing social security benefits now?

Mr. LINDSAY. That is correct.

Senator TALMADGE. These sums were contributed by the employee and none of it was tax deductible?

Mr. LINDSAY. True. Also contributed by the employer.

Senator TALMADGE. We also have at the present time 39 million people who have no coverage of any kind for retirement benefits.

Mr. LINDSAY. Other than social security.

Senator TALMADGE. Of that 39 million, how many are covered by social security and how many are not?

Mr. LINDSAY. I should say the majority of them are covered by social security.

Senator TALMADGE. The majority of them are covered by social security. And we have 18 million people who are fortunate enough to work for corporations that have retirement benefits, a portion of which is contributed by the corporation and is tax exempt as a business contribution?

Mr. LINDSAY. That is correct.

Senator TALMADGE. So approximately 25 percent of the American labor force has retirement benefits, a portion of which has been made available by tax exemption?

Mr. LINDSAY. It is 35 to 36 percent.

Senator TALMADGE. 35 to 36 percent instead of 25 percent?

Mr. LINDSAY. I have to correct that, Senator Talmadge; 36 percent of the employees in private employment are covered, and 42 percent of all employees in government and private industry are covered either by private pensions plans or government plans.

Senator TALMADGE. In other words, those employees get an advantage that other employees do not get?

Mr. LINDSAY. That is correct, sir.

Senator TALMADGE. Let me go a step further. Can a personal holding company set up a retirement program for the benefit of the owners of a corporation?

Mr. LINDSAY. I don't believe ordinarily a personal holding company would do that, but I am not sure.

Senator TALMADGE. Suppose I had a personal holding company with with assets of $1 million, and I was an employee of the holding company and had one secretary. Could I set up such a retirement program?

Mr. LINDSAY. I am informed that you can set up a pension plan with a personal holding company. I hesitated because I was wondering what the earned income, what the salary would be based on.

Senator TALMADGE. Your answer is that I could or could not?

Mr. LINDSAY. You probably could.

Senator TALMADGE. Then anyone that is fortunate enough to set up a corporation can create their own retirement benefit which would be tax exempt?

Mr. LINDSAY. Yes.

Senator TALMADGE. Have some of these self-employed individuals taken such action?

Mr. LINDSAY. I imagine, yes.

Senator TALMADGE. It follows, then, that any self-employed individual could incorporate himself and set up his own retirement program and get the same benefits that 18 million other employees enjoy at the present time?

Mr. LINDSAY. Except professional people, doctors, lawyers, dentists, architects; in many States engineers are not permitted to incorporate.

Senator TALMADGE. They could, however, incorporate a personal holding company and transfer some of their assets to it, could they not?

Mr. LINDSAY. Well, I think a professional man who is primarily engaged in his profession, if he set up a personal holding company that was nothing but an investing company, I doubt very much if he could.

Senator TALMADGE. Suppose he had income from rents or dividends from stocks.

Mr. LINDSAY. Well, if he spends time enough on the rents and everything else to justify a salary from that corporation, then, with respect to his salary from that corporation, he could probably get the deduction. If it is a personal holding company, however, there are other disadvantages.

Senator TALMADGE. I was impressed very much with the questions of the distinguished Senator from Florida, and your answers thereto. It seems to me that if we are going to give 18 million Americans the benefits of this tax exemption we ought to consider making it applicable to all Americans. But there is one thing about H.R. 10 that disturbs me somewhat. The average income of the people in America, as I understand it, is about $5,000 a year. A person with that income couldn't enjoy very much benefit under H.R. 10, could he?

Mr. LINDSAY. It would be less than if he earned more income.

Senator TALMADGE. In other words, he couldn't participate at the rate of $2,500 a year for 20 consecutive years?

Mr. LINDSAY. No, he could not.

Senator TALMADGE. He would have to spend too much of his money on rent, meat, bread, and clothing, wouldn't he?

Mr. LINDSAY. And even if he could afford it, he is limited to 10 percent.

Senator TALMADGE. Wouldn't the best way to approach this thing, in order to give equal opportunity for all Americans, be to have a fixed percentage of the income that they could apply to a retirement benefit tax exempt?

Mr. LINDSAY. Well, the bill has a fixed percentage of income. It is 10 percent.

Senator TALMADGE. I am talking about all individuals in America now, of every kind, including 65 million under social security. Aren't we presently paying a tax of 2½ percent on social security?

Mr. LINDSAY. Yes.

Senator TALMADGE. The employer contributes 2½ and the employee 2½.

Mr. LINDSAY. And it is scaling up in the next few years.

Senator TALMADGE. And it is scaling up. That is a total of 5 percent. Suppose we had a 5 percent exemption for all Americans provided they applied it to future retirement benefits, what would it cost the Treasury?

Mr. LINDSAY. Well, on the basis of 10 percent, and the other features of this bill, the total cost would be $3 billion. So 5 percent must be—I don't know if it would be half, but it would be substantially less, I suppose, than $3 billion. However, by permitting all employees and self-employed alike to set aside X percent of their income for retirement savings, you are just leaving along the discrimination that is here sought to be resolved, that the employees would not only have the benefit of the contributions of the employer, but on top of that they would have a deduction of their own, as compared to the self-employed, who would have only this X percent deduction, and would not have the other benefits that the employee has.

Senator TALMADGE. Did I understand you to say that social security contributions in Canada are tax exempt?

Mr. LINDSAY. I don't believe I said that. No, they are taxable.

Senator TALMADGE. What about England?

Mr. LINDSAY. In England? I was there talking about contributions to superannuation funds, pension funds. In that case the employee is entitled, and has for years been entitled, to deduct his contributions. Well, the discrimination as between employees and self-employed was far greater than we have here.

Senator TALMADGE. Is that applicable to the self-employed and employees both?

Mr. LINDSAY. The self-employed have a bill permitting a self-employed person to set aside a certain percentage of his income, I believe it is 10 percent there too, with a ceiling in the order of $2,000 and 750 pounds, as I recall. And that is their percentage and ceiling. But it cannot lead to deductions by employees for their contributions over and above the exemptions by the employer contributions, because they already had it.

Senator TALMADGE. The thing that concerns me about this particular program is, under the terms of the bill, as I understand it, you will grant benefits to those who have considerably above average earnings, yet those benefits cannot be enjoyed by those people who have average or low earnings. Assuming that it is the desire of this committee and Congress to make some plan to aid people to obtain their own retirement benefits, how would you resolve the problem?

Mr. LINDSAY. That is a large order. How would I resolve the problems?

Senator TALMADGE. How would you resolve the problem so as to give the same advantage to a fellow who runs a country filling station in south Georgia as you would to a Wall Street lawyer.

Mr. LINDSAY. I think so long as you have progressive income tax rates where the more you make the more you pay, it it not unfair to have the benefits go in the same direction where there is an appropriate deduction. So I don't know how to resolve that question.

Senator TALMADGE. If you are going to have a program of this type, wouldn't you have to say that everyone would have the same opportunity to participate in it under the terms of the law? I mean, wouldn't you make a particular portion of their income tax exempt for any retirement benefit program?

Mr. LINDSAY. If we were adopting a law of this kind I think it would be very difficult to try to equate one type of person with another.

An employee, a $5,000 a year employee, may be a beneficiary under a pension plan. He may not receive the employer's contribution until he retires, and he may not stay with the employer long enough to have a nonforfeitable right in that contribution. Therefore, he might feel discriminated against as compared to a self-employed person who would be accorded a 10-percent deduction for retirement savings. However, if that same employee who had a 10-percent contribution for him by the employer, in addition had a 10-percent contribution of his own on top of that, then he in certain circumstances would be far better off than the self-employed.

Senator TALMADGE. No further questions, Mr. Chairman.

The CHAIRMAN. Senator Butler?

Senator BUTLER. I have no questions.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. I have no questions.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. As I understand, Mr. Lindsay, your opposition to this is that there can be no revision of this sort until there is an overall revision of the tax law?

Mr. LINDSAY. I think it would be better to do it in connection with an overall revision.

Senator HARTKE. What I want to know is, is the principal objection of the Treasury Department to the principle embodied he[illegible], or to the revenue aspect, as Senator Smathers was talking about?

Mr. LINDSAY. I indicated before that the overriding consideration was revenue, and also the fact that it is difficult to justify providing this kind of a benefit for a small group, leaving a large group who have no benefit whatsoever.

Senator HARTKE. Well, taking Senator Smathers' statement there awhile ago about the effective date of the act, assuming that there would be a surplus in fiscal 1960, would the Treasury Department's opposition then pretty well be taken care of?

Mr. LINDSAY. I don't know that it would. I think that in any major revenue reduction it is always a question of priorities. We are not here at the moment to say what is the best thing you could do with a tax law, if you could reduce it by a billion dollars, we will say, or $2 billion. We are here discussing just one aspect of the tax law.

Senator HARTKE. Was there any reduction in tax rate in fiscal 1959?

Mr. LINDSAY. No reduction in tax rates then, except there were some taxes eliminated, I believe, such as the transportation tax on freight, for fiscal 1958.

Senator HARTKE. What was the major cause of the deficit in fiscal 1959? Was it an adjustment of tax rate or a reduction in actual tax receipts?

Mr. LINDSAY. I think the major cause was the reduction in corporate tax receipts.

Senator HARTKE. And it is anticipated that that is going to be reversed in fiscal 1960, isn't that right?

Mr. LINDSAY. We certainly hope so.

Senator HARTKE. And the deficit was about what? It was anticipated at about $13 billion?

Mr. LINDSAY. $12½ to $13 billion.

Senator HARTKE. And the cost of this, if extended to all nonpension people, you estimate it at $1.2 billion, isn't that right?

Mr. LINDSAY. Yes, depending on how it is extended, there are different estimates on different bases.

Senator HARTKE. So this really is not of importance in the overall aspect of adjustment of tax items, as it is in the general economy and tax receipts, isn't that right?

Mr. LINDSAY. In part, yes.

Senator HARTKE. So when we talk about tax revenue in relation to particular tax items, we are not on a sound ground as if we were to talk on general taxation principles, isnt that true?

Mr. LINDSAY. I think taxation is a function of producing revenue and the two are related.

Senator HARTKE. But the principles of taxation should be to make them have as much equity as possible, isn't that right?

Mr. LINDSAY. That is correct.

Senator HARTKE. Do you agree with the proponents of the legislation as you quote them, where you say:

> Those employees who are forced to provide their own retirement are entitled to the same right of tax deferment on the portion of their earnings so used as their more fortunate colleagues who are provided for by their employers under qualified employees pension plans.

Mr. LINDSAY. I know that that has been suggested many times.

Senator HARTKE. I know that this is a statement which is an argument by the proponents. All I am asking you is whether or not you agree with this overall principle.

Mr. LINDSAY. I think, carrying the principle to a logical conclusion, it leads in that direction.

Senator HARTKE. And then you make this statement, that at the present time, employees pension plans, if arranged on a nondiscriminatory basis, do receive favorable tax treatment, isn't that right?

Mr. LINDSAY. Yes, sir.

Senator HARTKE. And, second, that the purpose of H.R. 10 is to remove discrimination and inequity in the tax law affecting self-employed persons.

Mr. LINDSAY. That is right.

Senator HARTKE. And that this attempt has been conscientiously made to relieve this inequity for a number of years.

Mr. LINDSAY. Yes.

Senator HARTKE. And the statement of the Treasury Department, when this bill was considered—well, not considered—but last fall the statement was to the effect, as I read it, that the proponents have attemted to correct the inequities as a result of the objections of the Treasury Department. Isn't that right?

Mr. LINDSAY. Are you referring to a prior statement?

Senator HARTKE. I am referring to the statement on August 6, 1958, by Dan Throop Smith, Deputy to the Secretary, in a statement to the Honorable Harry F. Byrd, chairman of the Committee on Finance.

Mr. LINDSAY. I think, from what you read, that it is consistent with the remarks in the prepared statement due today.

Senator HARTKE. I didn't mean to allege any inconsistency, but I mean that the statement there states that the amended bill represents a substantial improvement over the prior version, and largely meets technical objections to it—in other words, this is an attempt by the proponents of the bill, at least, to meet the objections of the Treasury Department.

Mr. LINDSAY. I think that is correct.

Senator HARTKE. Now, is there any reason for anyone who is attempting to follow along this procedure, to try to meet the objections of the Treasury Department if the real objection is merely loss of revenue?

Mr. LINDSAY. That objection has been consistently made all along, and unfortunately we haven't reached the point we would like to reach where we can have a surplus. Now, in 1960, under the budget, the surplus would be in the order of $70 million, which is a rather narrow line, and what will actually happen is something that I cannot anticipate.

Senator HARTKE. Well, let me ask you something that I don't know on that first. The Treasury Department still stands on its original estimate as of January, isn't that right?

Mr. LINDSAY. On the $365 million?

Senator HARTKE. On the amendment of anticipated tax receipts for fiscal 1960.

Mr. LINDSAY. I think we will be making some statements on that in the next week in connection with the rate extension bill.

Senator HARTKE. I don't want to anticipate that, but I don't see how I can avoid it without saying that it is generally conceded that anticipated tax revenue is going to be considerably higher than estimated by the President in his budget message. Isn't that right?

Mr. LINDSAY. I know that there have been suggestions that it would. But the budget estimate also assumed the passage of the fuel tax, which has not as yet been adopted by the Congress.

Senator HARTKE. It has not been introduced, has it?

Mr. LINDSAY. It has not been introduced. It has been submitted.

Senator HARTKE. But no Congressman has introduced it yet, is that right?

Mr. LINDSAY. I don't believe it has been introduced.

Senator HARTKE. The point that I am trying to get to—this is the thing that disturbs me. If there is a principle here which is to be recognized as being right or wrong, if the principle is wrong, then there is no reason to try to meet the Treasury Department's objectives on the matter of revenue, because then there just never can be an acceptance of it. And that is what I would personally like to know. Does the Treasury Department feel that the principle is wrong, or is it the mere revenue aspect that is posing the difficulty?

Mr. LINDSAY. Senator Hartke, I don't think it is a black and white situation. And it is very difficult to equate the self-employed with

employees. This bill is an attempt to do that. It has a precedent in Canada and the United Kingdom, where, however, employees already were entitled to deductions for their contributions to pension funds.

I think in principle it is wrong to have an inequity in the tax law. And I think to a certain degree there is an inequity against the self-employed as compared particularly with the top corporate executives of business enterprises. But I am not so sure that the solution, that any particular solution that has been devised to date is a complete answer to it. And therefore if I answer you by saying, in principle this is good but it is only a question of revenue, I would be going further than I think is justified.

Senator HARTKE. Well, as you answered to the distinguished Senator from Florida a few minutes ago, something must be done sometime in this regard. Has the Treasury Department submitted any plans, or does it have in process submitting any plans to remove this inequity?

Mr. LINDSAY. We have attempted to review this legislation and submit our own ideas on it as time goes on. But we haven't come up with a solution so that we can say, "Here it is; this is perfect."

Senator HARTKE. But at least we all have to recognize that there has been a general recognition of inequity since at least 1952.

Mr. LINDSAY. I would say since before that.

Senator HARTKE. I mean even under this administration; isn't that right?

Mr. LINDSAY. Yes.

Senator HARTKE. And there has been no proposal to remove that inequity by the Treasury Department up to this time?

Mr. LINDSAY. There has not.

Senator HARTKE. That is all.

The CHAIRMAN. Senator Cotton.

Senator COTTON. You have indicated that you base your objection to this bill not only on the loss of revenue—which, incidentally, is the loss you have estimated—but you also say, "In the attempt to remove the inequity, however, new inequities and new discrepancies are created. This, in turn, will create pressures for still further modifications in the tax law to eliminate the new inequities created by this legislation." I assume that you have in mind that if this bill should pass, the next thing would happen, they would be knocking at that door out there to see to it that in fairness to the employee who now pays a tax on the wages from which are taken his contribution to social security, for instance, there should be an exemption. Is that one of the things you had in mind?

Mr. LINDSAY. I think the argument will be made.

Senator COTTON. Now, suppose you also have estimated the amount of the loss that this bill in its present form would occasion the Treasury.

Mr. LINDSAY. Yes.

Senator COTTON. Suppose this bill were amended so that the self-employed person could set aside, we will say, not $2,500, but up to $3,000, and that whatever amount he actually set aside, he would have a tax exemption on only one-half, which would bring it somewhat in line with the situation of the employee. And suppose the set-aside

would be irrevocable, he couldn't recapture it, nor could he enjoy it, until he retired, either at or subsequent to the age of 65, and if it went on to his heirs, it would be subject to proper tax. Would that remedy some of the objections of the Treasury to this bill, and would that change your estimate of the loss to the Treasury?

Mr. LINDSAY. I think it would change the estimate of the loss. You indicated a figure of $3,000, half of which is deductible, which is $1,500.

Senator COTTON. But he would have to set aside——

Mr. LINDSAY. He would have to set aside $3,000 to be entitled to a $1,500 deduction. And you are trying to put him more in the position of an employee with a contributory plan. He can make his contribution, and the other half of the $3,000 would be assumed to be the employer's contribution for him, and, therefore, not taxed.

Senator COTTON. That is right.

Mr. LINDSAY. I am reminded that the larger amount would go to the trust. If the self-employed person uses a trust instead of an insurance company, of course, under the bill the income is exempt. I don't know that that would have much of an offsetting effect. I suspect, initially at least, that the revenue lost would be less.

Senator COTTON. Suppose that the figures were left just as they are, but an amendment is made—the fundamental idea being that he shall not have this advantage over the employee—and that on whatever the full amount is that he sets aside, we will say up to the amount in this bill of $2,500, he only gets an exemption for one-half of what he sets aside. And suppose he doesn't have the opportunity to juggle it back and forth and set it aside and let it accumulate, and then bring it back into his pocket again until he needs to have retirement. Would that make it more palatable to the Treasury, first, and, second, would it considerably lessen the impact of loss of funds to the Treasury?

Mr. LINDSAY. I think it would considerably lessen the impact on the revenue. But I would want to examine it further. I think it would be less attractive to many self-employed persons, because they would have to make a larger contribution in order to get a smaller deduction. And also the fact that the funds are frozen, if you will, until retirement age, might induce the self-employed person to hesitate before he makes this investment. Presumably, as under past versions of this bill, special provision would have to be made for disability and major disasters.

Senator COTTON. You said you would have to think about it?

Mr. LINDSAY. On the revenue estimate, it would certainly be more palatable.

Senator COTTON. You are objecting to quite a few inequities. Now, wouldn't that provision prevent the very thing that is likely to happen instantly after the bill passes in its present form, a demand on Congress to exempt from taxes the money that the employee now pays?

Mr. LINDSAY. That is correct.

Senator COTTON. Forgetting the financial impact on the Treasury, such a change in this bill would correct at least some of the inequities, the principal ones to which you refer, and prevent the immediate demand which would seem to be a just demand if we passed the bill in its present form, that the employee be exempted for his contributions that he now makes, would it not?

Mr. LINDSAY. It would be a more modest bill for the self-employed than the proposed legislation. I imagine there would still be feelings in many circles with respect to the position of the pensionless employee if legislation is passed for the self-employed, for reasons, which otherwise may make sense, that the tax law blocks the self-employed person, and does not in and of itself block the employee. Nevertheless, that would be hard to understand for the employee; there would still be a discrimination apparently created, but to a lesser degree.

Senator COTTON. Would you be able or willing—and I am not asking that this be inserted in the record necessarily—would you be willing to consider and to make some estimate as to the financial impact on the Treasury of the loss of revenue if this bill restricted the tax exemption to one-half of the actual amount set aside, and—I will phrase it this way—made it more difficult to recapture—and I concede that there has to be provisions made for loss of health, but in a sense those refunds are for the purpose for which they were set aside—would you be willing to indicate an approximation of what the impact would be of such a bill?

Mr. LINDSAY. We would be glad to try and do that, Senator Cotton. I suspect it is going to be an extremely rough estimate, because it depends on the actions of so many people with reasons for not doing it. Under the present bill, I see very little reason for not utilizing the benefits of the bill, if you can afford it, you may take the money out again and you get the full deduction at the time. We will try to compute an estimate for you based on assumptions that appear to us to be reasonable.

Senator COTTON. I understood you to say in your original statement that your present estimates were not based on the assumption that everyone would avail themselves of this who could.

Mr. LINDSAY. No, we discounted a little bit on the revenue estimates, and we have originally estimated the cost of the self-employed retirement plan bill on statistics of income for 1953. There has been so much disagreement as to the amount of our estimates that we have not tried to update the year of income from 1953 to the latest statistics of income in 1956. We have to make arbitrary assumptions in any estimate. And on the basis of the 1953 statistics of income, we assume that 66⅔ percent of those receiving an income of $20,000 or more would utilize the benefit of the bill, and less as you go down to the smaller figures.

Senator COTTON. If your estimate of the impact of the bill were amended in the manner that I have indicated, would it be any more arbitrary and less accurate than the approximation you have made of the bill in its present form?

Mr. LINDSAY. I think this. For those self-employed persons with $20,000 or more adjusted gross income, we will say, there would be very little incentive, I should imagine, not to set aside 10 percent of $2,500, or whichever is less, where you would get an immediate deduction from the whole amount, and where you can pull it down any time you wish, unless that same person must set aside $3,000 in order to get half the deduction, particularly if it is frozen.

Senator COTTON. I am talking now on the basis of the same figures in this bill, I want to make that clear—forget the $3,000 and make it the same limits in the present bill—I have just one more question.

Would it be possible to make an estimate of the impact if the bill were simply amended so that exemption was granted only for one-half of that set aside without a change in the other features of the bill?

Mr. LINDSAY. We are giving the best estimate we can.

Senator COTTON. Would it be too much trouble to give it on both?

Mr. LINDSAY. No; we will try to do the best we can.

Senator COTTON. One with the simple amendment, the other with the two amendments, that is, paying of one-half of what is set aside, and the tightening or the freezing amendment so that it isn't too easy to recapture.

Mr. LINDSAY. Yes.

(The following was subsequently received for the record:)

Under the present version of H.R. 10, eligible self-employed individuals would be allowed to deduct annually up to 10 percent of their self-employment income, but not in excess of $2,500, provided they invest such amounts in specified retirement funds, annuities, and insurance contracts. If H.R. 10 were amended to allow self-employed persons to take income tax deductions for only one-half of the amounts they invest under the bill, with no change in the present annual investment limit of 10 percent of self-employment income up to $2,500 a year, the revenue loss would still be substantial. While difficult to estimate the annual revenue loss might well amount to about $175 million.

If, in addition to limiting the income tax deductions to one-half of the amount invested under H.R. 10 within the prescribed limits, participants were prohibited from withdrawing funds invested under the plan before reaching the age of 65, except in the case of permanent and total disability, the annual revenue loss under the plan would be reduced still further. The actual revenue loss under these circumstances is extremely difficult if not impossible to estimate with any degree of confidence. Our best estimate is that the revenue loss would be in the order of $100 million.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. In referring, Mr. Lindsay, to these estimates of revenue loss, as I recall, you estimate that probably two-thirds of the taxpayers with net incomes of more than $20,000 would avail themselves of the benefits of this bill.

Mr. LINDSAY. That is correct.

Senator CURTIS. And then you grade that down. Do you recall what you estimated, of the people making $5,000, what percent of the self-employed might avail themselves of that?

Mr. LINDSAY. Are you talking about the revenue loss in the various brackets, or the percentage of utilization in the various brackets?

Senator CURTIS. I am talking about the percentage of utilization.

Mr. LINDSAY. It would be 15 percent for the $3,000 income group, 20 percent for the $3,000 to $5,000 and one-third for the $5,000 to $10,000; 50 percent in connection with the 10 to 20, and 66⅔ for the $20,000 and over.

Senator CURTIS. And in your assumption, do you assume that they would avail themselves to the fullest extent that they might under the law?

Mr. LINDSAY. There are two ways that you could approach these assumptions. One is that 15 percent, if that is the figure you use, avail themselves of the full benefit of the law, or that all of them avail themselves to the extent of 15 percent of the benefits, or anything in between.

Senator CURTIS. Now, generally speaking, if that maximum were reduced to $2,500, say to $2,000, would it follow that the revenue loss would be one-fifth of your present estimate?

Mr. LINDSAY. It would be less. I don't know that it would follow that it would be one-fifth.

Senator CURTIS. It would be less. You do not have something that you can base your guess on that would be more than a fifth, or less than a fifth?

Mr. LINDSAY. I think a little bit more than a fifth.

Senator CURTIS. Now, this has been covered, I believe, but I would like to have it summarized in one place in the record, and that is my reason for asking the question again. And I would like the reply to be in nontechnical terms. In summary, what are the requirements for a qualified pension plan now?

Mr. LINDSAY. A qualified pension plan must be set up on a nondiscriminatory basis following the provisions of the code, either utilizing a separate trustee plan or a group annuity plan. Now, there are a number of bases under which a plan might qualify as nondiscriminatory. But running through it all, the trust must be organized in the United States and it must be part of a profit-sharing or a pension or a stock bonus plan. There are mathematical tests as to coverage which loom large in the code, but apply to a relatively small group of plans. The mathematical tests I can summarize briefly. The plan must benefit either 70 percent of all employees, excluding new or part-time and seasonal employees, or 80 percent of all eligible, if 70 percent are eligible. Also, a plan, apart from those mathematical tests, can qualify under a classification found by the Commissioner not to discriminate in favor of officers, shareholders, supervisory, or highly compensated employees.

Senator CURTIS. But not discriminating in favor, that means percentagewise?

Mr. LINDSAY. Right.

Senator CURTIS. Not as to total dollars?

Mr. LINDSAY. That is right, not as to total dollars, percentagewise. Of course, the plan must be set up for the exclusive benefit of employees, so that the benefit will not inure to the corporate employer. That, in very rought outline, is the qualification.

Senator CURTIS. In other words, it might be stated that he has to include all employees, except that he can have requirements that they have to work a season before they are eligible?

Mr. LINDSAY. That is right.

Senator CURTIS. And seasonal employees are not counted?

Mr. LINDSAY. There might be certain classifications of salaried employees as opposed to wage earners, something like that.

Senator CURTIS. In other words, a corporation could set one up that did not include those paid on an hourly basis?

Mr. LINDSAY. It could.

Senator CURTIS. Are many of the major plans so set up?

Mr. LINDSAY. I imagine it depends on the plan.

Senator CURTIS. What I am getting at, is it possible, then, for a corporation to have the bulk of their payroll go to people working for hourly wages, and have the plan approved which totally excluded those?

Mr. LINDSAY. Yes. It is entirely possible. Presumably there would be a union-negotiated pension plan covering the wage earners. But it is entirely possible to approve such a plan.

Senator TALMADGE. Then anyone that is fortunate enough to set up a corporation can create their own retirement benefit which would be tax exempt?

Mr. LINDSAY. Yes.

Senator TALMADGE. Have some of these self-employed individuals taken such action?

Mr. LINDSAY. I imagine, yes.

Senator TALMADGE. It follows, then, that any self-employed individual could incorporate himself and set up his own retirement program and get the same benefits that 18 million other employees enjoy at the present time?

Mr. LINDSAY. Except professional people, doctors, lawyers, dentists, architects; in many States engineers are not permitted to incorporate.

Senator TALMADGE. They could, however, incorporate a personal holding company and transfer some of their assets to it, could they not?

Mr. LINDSAY. Well, I think a professional man who is primarily engaged in his profession, if he set up a personal holding company that was nothing but an investing company, I doubt very much if he could.

Senator TALMADGE. Suppose he had income from rents or dividends from stocks.

Mr. LINDSAY. Well, if he spends time enough on the rents and everything else to justify a salary from that corporation, then, with respect to his salary from that corporation, he could probably get the deduction. If it is a personal holding company, however, there are other disadvantages.

Senator TALMADGE. I was impressed very much with the questions of the distinguished Senator from Florida, and your answers thereto. It seems to me that if we are going to give 18 million Americans the benefits of this tax exemption we ought to consider making it applicable to all Americans. But there is one thing about H.R. 10 that disturbs me somewhat. The average income of the people in America, as I understand it, is about $5,000 a year. A person with that income couldn't enjoy very much benefit under H.R. 10, could he?

Mr. LINDSAY. It would be less than if he earned more income.

Senator TALMADGE. In other words, he couldn't participate at the rate of $2,500 a year for 20 consecutive years?

Mr. LINDSAY. No, he could not.

Senator TALMADGE. He would have to spend too much of his money on rent, meat, bread, and clothing, wouldn't he?

Mr. LINDSAY. And even if he could afford it, he is limited to 10 percent.

Senator TALMADGE. Wouldn't the best way to approach this thing, in order to give equal opportunity for all Americans, be to have a fixed percentage of the income that they could apply to a retirement benefit tax exempt?

Mr. LINDSAY. Well, the bill has a fixed percentage of income. It is 10 percent.

Senator TALMADGE. I am talking about all individuals in America now, of every kind, including 65 million under social security. Aren't we presently paying a tax of 2½ percent on social security?

Mr. LINDSAY. Yes.

Senator TALMADGE. The employer contributes 2½ and the employee 2½.

Mr. LINDSAY. And it is scaling up in the next few years.

Senator TALMADGE. And it is scaling up. That is a total of 5 percent. Suppose we had a 5 percent exemption for all Americans provided they applied it to future retirement benefits, what would it cost the Treasury?

Mr. LINDSAY. Well, on the basis of 10 percent, and the other features of this bill, the total cost would be $3 billion. So 5 percent must be—I don't know if it would be half, but it would be substantially less, I suppose, than $3 billion. However, by permitting all employees and self-employed alike to set aside X percent of their income for retirement savings, you are just leaving along the discrimination that is here sought to be resolved, that the employees would not only have the benefit of the contributions of the employer, but on top of that they would have a deduction of their own, as compared to the self-employed, who would have only this X percent deduction, and would not have the other benefits that the employee has.

Senator TALMADGE. Did I understand you to say that social security contributions in Canada are tax exempt?

Mr. LINDSAY. I don't believe I said that. No, they are taxable.

Senator TALMADGE. What about England?

Mr. LINDSAY. In England? I was there talking about contributions to superannuation funds, pension funds. In that case the employee is entitled, and has for years been entitled, to deduct his contributions. Well, the discrimination as between employees and self-employed was far greater than we have here.

Senator TALMADGE. Is that applicable to the self-employed and employees both?

Mr. LINDSAY. The self-employed have a bill permitting a self-employed person to set aside a certain percentage of his income, I believe it is 10 percent there too, with a ceiling in the order of $2,000 and 750 pounds, as I recall. And that is their percentage and ceiling. But it cannot lead to deductions by employees for their contributions over and above the exemptions by the employer contributions, because they already had it.

Senator TALMADGE. The thing that concerns me about this particular program is, under the terms of the bill, as I understand it, you will grant benefits to those who have considerably above average earnings, yet those benefits cannot be enjoyed by those people who have average or low earnings. Assuming that it is the desire of this committee and Congress to make some plan to aid people to obtain their own retirement benefits, how would you resolve the problem?

Mr. LINDSAY. That is a large order. How would I resolve the problems?

Senator TALMADGE. How would you resolve the problem so as to give the same advantage to a fellow who runs a country filling station in south Georgia as you would to a Wall Street lawyer.

Mr. LINDSAY. I think so long as you have progressive income tax rates where the more you make the more you pay, it it not unfair to have the benefits go in the same direction where there is an appropriate deduction. So I don't know how to resolve that question.

Senator TALMADGE. If you are going to have a program of this type, wouldn't you have to say that everyone would have the same opportunity to participate in it under the terms of the law? I mean, wouldn't you make a particular portion of their income tax exempt for any retirement benefit program?

Mr. LINDSAY. If we were adopting a law of this kind I think it would be very difficult to try to equate one type of person with another.

An employee, a $5,000 a year employee, may be a beneficiary under a pension plan. He may not receive the employer's contribution until he retires, and he may not stay with the employer long enough to have a nonforfeitable right in that contribution. Therefore, he might feel discriminated against as compared to a self-employed person who would be accorded a 10-percent deduction for retirement savings. However, if that same employee who had a 10-percent contribution for him by the employer, in addition had a 10-percent contribution of his own on top of that, then he in certain circumstances would be far better off than the self-employed.

Senator TALMADGE. No further questions, Mr. Chairman.

The CHAIRMAN. Senator Butler?

Senator BUTLER. I have no questions.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. I have no questions.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. As I understand, Mr. Lindsay, your opposition to this is that there can be no revision of this sort until there is an overall revision of the tax law?

Mr. LINDSAY. I think it would be better to do it in connection with an overall revision.

Senator HARTKE. What I want to know is, is the principal objection of the Treasury Department to the principle embodied here, or to the revenue aspect, as Senator Smathers was talking about?

Mr. LINDSAY. I indicated before that the overriding consideration was revenue, and also the fact that it is difficult to justify providing this kind of a benefit for a small group, leaving a large group who have no benefit whatsoever.

Senator HARTKE. Well, taking Senator Smathers' statement there awhile ago about the effective date of the act, assuming that there would be a surplus in fiscal 1960, would the Treasury Department's opposition then pretty well be taken care of?

Mr. LINDSAY. I don't know that it would. I think that in any major revenue reduction it is always a question of priorities. We are not here at the moment to say what is the best thing you could do with a tax law, if you could reduce it by a billion dollars, we will say, or $2 billion. We are here discussing just one aspect of the tax law.

Senator HARTKE. Was there any reduction in tax rate in fiscal 1959?

Mr. LINDSAY. No reduction in tax rates then, except there were some taxes eliminated, I believe, such as the transportation tax on freight, for fiscal 1958.

Senator HARTKE. What was the major cause of the deficit in fiscal 1959? Was it an adjustment of tax rate or a reduction in actual tax receipts?

Mr. LINDSAY. I think the major cause was the reduction in corporate tax receipts.

Senator HARTKE. And it is anticipated that that is going to be reversed in fiscal 1960, isn't that right?

Mr. LINDSAY. We certainly hope so.

Senator HARTKE. And the deficit was about what? It was anticipated at about $13 billion?

Mr. LINDSAY. $12½ to $13 billion.

Senator HARTKE. And the cost of this, if extended to all nonpension people, you estimate it at $1.2 billion, isn't that right?

Mr. LINDSAY. Yes, depending on how it is extended, there are different estimates on different bases.

Senator HARTKE. So this really is not of importance in the overall aspect of adjustment of tax items, as it is in the general economy and tax receipts, isn't that right?

Mr. LINDSAY. In part, yes.

Senator HARTKE. So when we talk about tax revenue in relation to particular tax items, we are not on a sound ground as if we were to talk on general taxation principles, isnt that true?

Mr. LINDSAY. I think taxation is a function of producing revenue and the two are related.

Senator HARTKE. But the principles of taxation should be to make them have as much equity as possible, isn't that right?

Mr. LINDSAY. That is correct.

Senator HARTKE. Do you agree with the proponents of the legislation as you quote them, where you say:

> Those employees who are forced to provide their own retirement are entitled to the same right of tax deferment on the portion of their earnings so used as their more fortunate colleagues who are provided for by their employers under qualified employees pension plans.

Mr. LINDSAY. I know that that has been suggested many times.

Senator HARTKE. I know that this is a statement which is an argument by the proponents. All I am asking you is whether or not you agree with this overall principle.

Mr. LINDSAY. I think, carrying the principle to a logical conclusion, it leads in that direction.

Senator HARTKE. And then you make this statement, that at the present time, employees pension plans, if arranged on a nondiscriminatory basis, do receive favorable tax treatment, isn't that right?

Mr. LINDSAY. Yes, sir.

Senator HARTKE. And, second, that the purpose of H.R. 10 is to remove discrimination and inequity in the tax law affecting self-employed persons.

Mr. LINDSAY. That is right.

Senator HARTKE. And that this attempt has been conscientiously made to relieve this inequity for a number of years.

Mr. LINDSAY. Yes.

Senator HARTKE. And the statement of the Treasury Department, when this bill was considered—well, not considered—but last fall the statement was to the effect, as I read it, that the proponents have attemted to correct the inequities as a result of the objections of the Treasury Department. Isn't that right?

Mr. LINDSAY. Are you referring to a prior statement?

Senator HARTKE. I am referring to the statement on August 6, 1958, by Dan Throop Smith, Deputy to the Secretary, in a statement to the Honorable Harry F. Byrd, chairman of the Committee on Finance.

Mr. LINDSAY. I think, from what you read, that it is consistent with the remarks in the prepared statement due today.

Senator HARTKE. I didn't mean to allege any inconsistency, but I mean that the statement there states that the amended bill represents a substantial improvement over the prior version, and largely meets technical objections to it—in other words, this is an attempt by the proponents of the bill, at least, to meet the objections of the Treasury Department.

Mr. LINDSAY. I think that is correct.

Senator HARTKE. Now, is there any reason for anyone who is attempting to follow along this procedure, to try to meet the objections of the Treasury Department if the real objection is merely loss of revenue?

Mr. LINDSAY. That objection has been consistently made all along, and unfortunately we haven't reached the point we would like to reach where we can have a surplus. Now, in 1960, under the budget, the surplus would be in the order of $70 million, which is a rather narrow line, and what will actually happen is something that I cannot anticipate.

Senator HARTKE. Well, let me ask you something that I don't know on that first. The Treasury Department still stands on its original estimate as of January, isn't that right?

Mr. LINDSAY. On the $365 million?

Senator HARTKE. On the amendment of anticipated tax receipts for fiscal 1960.

Mr. LINDSAY. I think we will be making some statements on that in the next week in connection with the rate extension bill.

Senator HARTKE. I don't want to anticipate that, but I don't see how I can avoid it without saying that it is generally conceded that anticipated tax revenue is going to be considerably higher than estimated by the President in his budget message. Isn't that right?

Mr. LINDSAY. I know that there have been suggestions that it would. But the budget estimate also assumed the passage of the fuel tax, which has not as yet been adopted by the Congress.

Senator HARTKE. It has not been introduced, has it?

Mr. LINDSAY. It has not been introduced. It has been submitted.

Senator HARTKE. But no Congressman has introduced it yet, is that right?

Mr. LINDSAY. I don't believe it has been introduced.

Senator HARTKE. The point that I am trying to get to—this is the thing that disturbs me. If there is a principle here which is to be recognized as being right or wrong, if the principle is wrong, then there is no reason to try to meet the Treasury Department's objectives on the matter of revenue, because then there just never can be an acceptance of it. And that is what I would personally like to know. Does the Treasury Department feel that the principle is wrong, or is it the mere revenue aspect that is posing the difficulty?

Mr. LINDSAY. Senator Hartke, I don't think it is a black and white situation. And it is very difficult to equate the self-employed with

employees. This bill is an attempt to do that. It has a precedent in Canada and the United Kingdom, where, however, employees already were entitled to deductions for their contributions to pension funds.

I think in principle it is wrong to have an inequity in the tax law. And I think to a certain degree there is an inequity against the self-employed as compared particularly with the top corporate executives of business enterprises. But I am not so sure that the solution, that any particular solution that has been devised to date is a complete answer to it. And therefore if I answer you by saying, in principle this is good but it is only a question of revenue, I would be going further than I think is justified.

Senator HARTKE. Well, as you answered to the distinguished Senator from Florida a few minutes ago, something must be done sometime in this regard. Has the Treasury Department submitted any plans, or does it have in process submitting any plans to remove this inequity?

Mr. LINDSAY. We have attempted to review this legislation and submit our own ideas on it as time goes on. But we haven't come up with a solution so that we can say, "Here it is; this is perfect."

Senator HARTKE. But at least we all have to recognize that there has been a general recognition of inequity since at least 1952.

Mr. LINDSAY. I would say since before that.

Senator HARTKE. I mean even under this administration; isn't that right?

Mr. LINDSAY. Yes.

Senator HARTKE. And there has been no proposal to remove that inequity by the Treasury Department up to this time?

Mr. LINDSAY. There has not.

Senator HARTKE. That is all.

The CHAIRMAN. Senator Cotton.

Senator COTTON. You have indicated that you base your objection to this bill not only on the loss of revenue—which, incidentally, is the loss you have estimated—but you also say, "In the attempt to remove the inequity, however, new inequities and new discrepancies are created. This, in turn, will create pressures for still further modifications in the tax law to eliminate the new inequities created by this legislation." I assume that you have in mind that if this bill should pass, the next thing would happen, they would be knocking at that door out there to see to it that in fairness to the employee who now pays a tax on the wages from which are taken his contribution to social security, for instance, there should be an exemption. Is that one of the things you had in mind?

Mr. LINDSAY. I think the argument will be made.

Senator COTTON. Now, suppose you also have estimated the amount of the loss that this bill in its present form would occasion the Treasury.

Mr. LINDSAY. Yes.

Senator COTTON. Suppose this bill were amended so that the self-employed person could set aside, we will say, not $2,500, but up to $3,000, and that whatever amount he actually set aside, he would have a tax exemption on only one-half, which would bring it somewhat in line with the situation of the employee. And suppose the set-aside

would be irrevocable, he couldn't recapture it, nor could he enjoy it, until he retired, either at or subsequent to the age of 65, and if it went on to his heirs, it would be subject to proper tax. Would that remedy some of the objections of the Treasury to this bill, and would that change your estimate of the loss to the Treasury?

Mr. LINDSAY. I think it would change the estimate of the loss. You indicated a figure of $3,000, half of which is deductible, which is $1,500.

Senator COTTON. But he would have to set aside——

Mr. LINDSAY. He would have to set aside $3,000 to be entitled to a $1,500 deduction. And you are trying to put him more in the position of an employee with a contributory plan. He can make his contribution, and the other half of the $3,000 would be assumed to be the employer's contribution for him, and, therefore, not taxed.

Senator COTTON. That is right.

Mr. LINDSAY. I am reminded that the larger amount would go to the trust. If the self-employed person uses a trust instead of an insurance company, of course, under the bill the income is exempt. I don't know that that would have much of an offsetting effect. I suspect, initially at least, that the revenue lost would be less.

Senator COTTON. Suppose that the figures were left just as they are, but an amendment is made—the fundamental idea being that he shall not have this advantage over the employee—and that on whatever the full amount is that he sets aside, we will say up to the amount in this bill of $2,500, he only gets an exemption for one-half of what he sets aside. And suppose he doesn't have the opportunity to juggle it back and forth and set it aside and let it accumulate, and then bring it back into his pocket again until he needs to have retirement. Would that make it more palatable to the Treasury, first, and, second, would it considerably lessen the impact of loss of funds to the Treasury?

Mr. LINDSAY. I think it would considerably lessen the impact on the revenue. But I would want to examine it further. I think it would be less attractive to many self-employed persons, because they would have to make a larger contribution in order to get a smaller deduction. And also the fact that the funds are frozen, if you will, until retirement age, might induce the self-employed person to hesitate before he makes this investment. Presumably, as under past versions of this bill, special provision would have to be made for disability and major disasters.

Senator COTTON. You said you would have to think about it?

Mr. LINDSAY. On the revenue estimate, it would certainly be more palatable.

Senator COTTON. You are objecting to quite a few inequities. Now, wouldn't that provision prevent the very thing that is likely to happen instantly after the bill passes in its present form, a demand on Congress to exempt from taxes the money that the employee now pays?

Mr. LINDSAY. That is correct.

Senator COTTON. Forgetting the financial impact on the Treasury, such a change in this bill would correct at least some of the inequities, the principal ones to which you refer, and prevent the immediate demand which would seem to be a just demand if we passed the bill in its present form, that the employee be exempted for his contributions that he now makes, would it not?

Mr. LINDSAY. It would be a more modest bill for the self-employed than the proposed legislation. I imagine there would still be feelings in many circles with respect to the position of the pensionless employee if legislation is passed for the self-employed, for reasons, which otherwise may make sense, that the tax law blocks the self-employed person, and does not in and of itself block the employee. Nevertheless, that would be hard to understand for the employee; there would still be a discrimination apparently created, but to a lesser degree.

Senator COTTON. Would you be able or willing—and I am not asking that this be inserted in the record necessarily—would you be willing to consider and to make some estimate as to the financial impact on the Treasury of the loss of revenue if this bill restricted the tax exemption to one-half of the actual amount set aside, and—I will phrase it this way—made it more difficult to recapture—and I concede that there has to be provisions made for loss of health, but in a sense those refunds are for the purpose for which they were set aside—would you be willing to indicate an approximation of what the impact would be of such a bill?

Mr. LINDSAY. We would be glad to try and do that, Senator Cotton. I suspect it is going to be an extremely rough estimate, because it depends on the actions of so many people with reasons for not doing it. Under the present bill, I see very little reason for not utilizing the benefits of the bill, if you can afford it, you may take the money out again and you get the full deduction at the time. We will try to compute an estimate for you based on assumptions that appear to us to be reasonable.

Senator COTTON. I understood you to say in your original statement that your present estimates were not based on the assumption that everyone would avail themselves of this who could.

Mr. LINDSAY. No, we discounted a little bit on the revenue estimates, and we have originally estimated the cost of the self-employed retirement plan bill on statistics of income for 1953. There has been so much disagreement as to the amount of our estimates that we have not tried to update the year of income from 1953 to the latest statistics of income in 1956. We have to make arbitrary assumptions in any estimate. And on the basis of the 1953 statistics of income, we assume that 66⅔ percent of those receiving an income of $20,000 or more would utilize the benefit of the bill, and less as you go down to the smaller figures.

Senator COTTON. If your estimate of the impact of the bill were amended in the manner that I have indicated, would it be any more arbitrary and less accurate than the approximation you have made of the bill in its present form?

Mr. LINDSAY. I think this. For those self-employed persons with $20,000 or more adjusted gross income, we will say, there would be very little incentive, I should imagine, not to set aside 10 percent of $2,500, or whichever is less, where you would get an immediate deduction from the whole amount, and where you can pull it down any time you wish, unless that same person must set aside $3,000 in order to get half the deduction, particularly if it is frozen.

Senator COTTON. I am talking now on the basis of the same figures in this bill, I want to make that clear—forget the $3,000 and make it the same limits in the present bill—I have just one more question.

Would it be possible to make an estimate of the impact if the bill were simply amended so that exemption was granted only for one-half of that set aside without a change in the other features of the bill?

Mr. LINDSAY. We are giving the best estimate we can.

Senator COTTON. Would it be too much trouble to give it on both?

Mr. LINDSAY. No; we will try to do the best we can.

Senator COTTON. One with the simple amendment, the other with the two amendments, that is, paying of one-half of what is set aside, and the tightening or the freezing amendment so that it isn't too easy to recapture.

Mr. LINDSAY. Yes.

(The following was subsequently received for the record:)

Under the present version of H.R. 10, eligible self-employed individuals would be allowed to deduct annually up to 10 percent of their self-employment income, but not in excess of $2,500, provided they invest such amounts in specified retirement funds, annuities, and insurance contracts. If H.R. 10 were amended to allow self-employed persons to take income tax deductions for only one-half of the amounts they invest under the bill, with no change in the present annual investment limit of 10 percent of self-employment income up to $2,500 a year, the revenue loss would still be substantial. While difficult to estimate the annual revenue loss might well amount to about $175 million.

If, in addition to limiting the income tax deductions to one-half of the amount invested under H.R. 10 within the prescribed limits, participants were prohibited from withdrawing funds invested under the plan before reaching the age of 65, except in the case of permanent and total disability, the annual revenue loss under the plan would be reduced still further. The actual revenue loss under these circumstances is extremely difficult if not impossible to estimate with any degree of confidence. Our best estimate is that the revenue loss would be in the order of $100 million.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. In referring, Mr. Lindsay, to these estimates of revenue loss, as I recall, you estimate that probably two-thirds of the taxpayers with net incomes of more than $20,000 would avail themselves of the benefits of this bill.

Mr. LINDSAY. That is correct.

Senator CURTIS. And then you grade that down. Do you recall what you estimated, of the people making $5,000, what percent of the self-employed might avail themselves of that?

Mr. LINDSAY. Are you talking about the revenue loss in the various brackets, or the percentage of utilization in the various brackets?

Senator CURTIS. I am talking about the percentage of utilization.

Mr. LINDSAY. It would be 15 percent for the $3,000 income group, 20 percent for the $3,000 to $5,000 and one-third for the $5,000 to $10,000; 50 percent in connection with the 10 to 20, and 66⅔ for the $20,000 and over.

Senator CURTIS. And in your assumption, do you assume that they would avail themselves to the fullest extent that they might under the law?

Mr. LINDSAY. There are two ways that you could approach these assumptions. One is that 15 percent, if that is the figure you use, avail themselves of the full benefit of the law, or that all of them avail themselves to the extent of 15 percent of the benefits, or anything in between.

Senator CURTIS. Now, generally speaking, if that maximum were reduced to $2,500, say to $2,000, would it follow that the revenue loss would be one-fifth of your present estimate?

Mr. LINDSAY. It would be less. I don't know that it would follow that it would be one-fifth.

Senator CURTIS. It would be less. You do not have something that you can base your guess on that would be more than a fifth, or less than a fifth?

Mr. LINDSAY. I think a little bit more than a fifth.

Senator CURTIS. Now, this has been covered, I believe, but I would like to have it summarized in one place in the record, and that is my reason for asking the question again. And I would like the reply to be in nontechnical terms. In summary, what are the requirements for a qualified pension plan now?

Mr. LINDSAY. A qualified pension plan must be set up on a nondiscriminatory basis following the provisions of the code, either utilizing a separate trustee plan or a group annuity plan. Now, there are a number of bases under which a plan might qualify as nondiscriminatory. But running through it all, the trust must be organized in the United States and it must be part of a profit-sharing or a pension or a stock bonus plan. There are mathematical tests as to coverage which loom large in the code, but apply to a relatively small group of plans. The mathematical tests I can summarize briefly. The plan must benefit either 70 percent of all employees, excluding new or part-time and seasonal employees, or 80 percent of all eligible, if 70 percent are eligible. Also, a plan, apart from those mathematical tests, can qualify under a classification found by the Commissioner not to discriminate in favor of officers, shareholders, supervisory, or highly compensated employees.

Senator CURTIS. But not discriminating in favor, that means percentagewise?

Mr. LINDSAY. Right.

Senator CURTIS. Not as to total dollars?

Mr. LINDSAY. That is right, not as to total dollars, percentagewise. Of course, the plan must be set up for the exclusive benefit of employees, so that the benefit will not inure to the corporate employer. That, in very rought outline, is the qualification.

Senator CURTIS. In other words, it might be stated that he has to include all employees, except that he can have requirements that they have to work a season before they are eligible?

Mr. LINDSAY. That is right.

Senator CURTIS. And seasonal employees are not counted?

Mr. LINDSAY. There might be certain classifications of salaried employees as opposed to wage earners, something like that.

Senator CURTIS. In other words, a corporation could set one up that did not include those paid on an hourly basis?

Mr. LINDSAY. It could.

Senator CURTIS. Are many of the major plans so set up?

Mr. LINDSAY. I imagine it depends on the plan.

Senator CURTIS. What I am getting at, is it possible, then, for a corporation to have the bulk of their payroll go to people working for hourly wages, and have the plan approved which totally excluded those?

Mr. LINDSAY. Yes. It is entirely possible. Presumably there would be a union-negotiated pension plan covering the wage earners. But it is entirely possible to approve such a plan.

Senator CURTIS. So there is considerable latitude under the provision that they can classify them?

Mr. LINDSAY. There is a fair amount of latitude.

Senator CURTIS. Are bonuses included in compensation, from the standpoint of putting the established percentage into a plan?

Mr. LINDSAY. Yes, I believe so.

Senator CURTIS. Can a corporation avail themselves of the deduction for its contributions to a qualified pension plan if it operates at a loss in a given year?

Mr. LINDSAY. Yes, but in that particular year it wouldn't get any tax benefits for the contributions, unless they carry over or carry back to another year.

Senator CURTIS. Pardon me, I didn't get your answer.

Mr. LINDSAY. In a loss year, the deduction wouldn't give the corporation any tax benefit in that year. It might conceivably have been the straw that broke the camel's back, it might have created the loss, and in that sense, there may have been a tax benefit. The loss, however, could be carried back 3 years, and then carried forward 5 years and used to offset income in a better year. And the amount of the loss would be influenced by this deduction.

Senator CURTIS. In other words, to quite an extent, then, they could do it, even if they operated at a loss in a given year?

Mr. LINDSAY. Yes.

Senator CURTIS. Now, reference was made to a survey by some business institution as to the number of people that avail themselves of this. Did you refer to that?

Mr. LINDSAY. I referred to some statistics earlier. I am not sure what you are referring to now, Senator Curtis.

Senator CURTIS. I understood the Bank of New York made a survey.

Mr. LINDSAY. Oh, yes.

Senator CURTIS. Was their survey limited to professional people?

Mr. LINDSAY. I am sorry, Senator Curtis, I didn't hear your question.

Senator CURTIS. Was their survey limited to professional people?

Mr. LINDSAY. No, I don't believe it was.

I was thinking of the Bankers Trust Co. study of industrial retirement plans. Apparently, the Bank of New York did make a study of professional persons.

Senator CURTIS. Now, there have been proposals, for instance, relating to railroad retirement payments by workers, that they become deductions to the employees. Do you recall, has the Treasury had occasion to submit a recommendation to Congress on those proposals?

Mr. LINDSAY. I believe we have strongly opposed the deduction in that area.

Senator CURTIS. And the proposal has also been made from time to time that civil service employees deduct their contributions to the fund. Has the Treasury, as you recall, had occasion to make a recommendation on those?

Mr. LINDSAY. I don't recall a recent proposal that we have reported on, but we would oppose it.

Senator CURTIS. I realize that you perhaps have not made such a survey, and maybe would have no means of making a survey of this. But as I gathered from your answer in regard to excluding classes

of employees under existing qualified plans, one factor that perhaps prevents that from happening on a very wide scale is the collective bargaining power of the employees to insist that they be included, is that right?

Mr. LINDSAY. I imagine that is a very important factor. Perhaps on the classification of employees it would help if I read from the regulations.

Senator CURTIS. I would be pleased to have you do it. It is lengthy?

Mr. LINDSAY. It is a ruling, actually, which refers to the classification of employees. And it says:

In lieu of meeting the percentage requirements of section 401(a), et cetera, an employer may set up a classification of employees which, if found by the Commissioner are not to be discriminatory in favor of officers, shareholders, supervisors or highly compensated employees, will set aside the requirements of the section. Under such section, plans may qualify which are limited to employees who are within a prescribed age group who have been employed for a stated number of years, have been employed in certain designated departments, or in other classifications, provided that the effect of covering only such employees does not discriminate in favor of employees within the enumerations with respect to which discrimination is prohibited.

Those enumerations include the higher paid employees, and the like.

Senator CURTIS. Then by regulation you could deny certification to a plan where the bulk of their payroll went to people paid on an hourly wage and they were excluded from the plan?

Mr. LINDSAY. The statute permits that kind of classification on salaried employees, including only salaried employees.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Senator Smathers.

Senator SMATHERS. Mr. Lindsay, just two questions. Are you familiar with the statement in the Social Security Bulletin for March 1959, with respect to private retirement programs, where it says:

The private retirement programs continued in 1957 the rapid growth experienced in World War II. By the end of 1957, 17.7 million employees were covered. Total contributions to the financial plan arose to almost $4,600 million—

and so on. And then there is a chart in connection with that statement which shows that from 1950 there was a total number of plans, 2,600, and in 1957 that had increased to 4,500, with a coverage each year of over a million people. Are you aware of that fact?

Mr. LINDSAY. Yes.

Senator SMATHERS. So then you can answer in the affirmative when I ask you the question——

Mr. LINDSAY. Excuse me. That is 45,000.

Senator SMATHERS. Forty-five hundred insured plans here. I am referring to page 12.

Mr. LINDSAY. I believe in 1957 there were around 40,000 plans, and in 1958 47,000 plans.

Senator SMATHERS. I am talking about insured plans.

Mr. LINDSAY. I see.

Senator SMATHERS. But the point that I am most interested in is that there has been a steady increase in the number covered from 1950, 9,800,000, to 1957, 17,500,000. So we can say that there is 32 million uncovered with respect to private pension plans. Apparently that number is being decreased at a reasonably rapid rate, is that not correct?

Mr. LINDSAY. There are more and more people covered, and there are more and more people going into employment each year. I think there are 3 million a year added to the number of people who are employed, or that we attempt to absorb in the labor market. But certainly the coverage is extended, as you indicated.

Senator SMATHERS. One other question. Actually, the people, the employees who are not covered today, they would not want a program such as H.R. 10, would they, because actually no one makes any contribution to this program except the self-employed. They would prefer, would they not, the employees, a program where not only would they contribute, but the employer would also contribute? That is usually the case, isn't it?

Mr. LINDSAY. I think that is right.

Senator SMATHERS. That is all.

Senator FREAR. One last question. Mr. Lindsay, on page 3 of H.R. 10, in line 3, if that were changed to $1,000, and if in line 4 the word "net" was omitted, I would like to have Treasury's opinion on those two changes separately as to revenue.

Mr. LINDSAY. You are referring to the changing of $2,500 to $1,000, and 10 percent——

Senator FREAR. Of his earnings.

Mr. LINDSAY. Of his earnings.

Senator FREAR. All I want is Treasury's opinion on each of those, and what the effect would be together and separately.

(The following was subsequently received for the record:)

If the income tax deductions of self-employed people for investment under H.R. 10 were limited to 10 percent of their net self-employment income with an annual ceiling on such deductions of $1,000, it is estimated that this bill would involve an annual revenue loss of $250 million. The estimated revenue loss would be about $275 million a year if self-employed people were allowed to deduct up to 10 percent of their gross income from self-employment (i.e. gross receipts from the profession, trade or business) with an annual ceiling on such deductions of $1,000, provided they invest this amount under the plan.

The CHAIRMAN. Thank you, Mr. Lindsay.

The next witness is the Honorable Eugene J. Keogh, the author of the Simpson-Keogh bill.

STATEMENT OF HON. EUGENE J. KEOGH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. KEOGH. Mr. Chairman and members of the committee, in order to conserve the obviously pressed time of the committee, I should like very much to submit for the record my relatively brief formal statement, and then, if I may, address the committee more briefly, I trust.

The CHAIRMAN. Without objection, it may be inserted.

(The prepared statement of Mr. Keogh follows:)

STATEMENT OF HON. EUGENE KEOGH BEFORE SENATE FINANCE COMMITTEE ON H.R. 10

H.R. 10 applies to individuals subject to the tax on self-employment income and to certain others exempt from the self-employment tax, such as doctors and ministers. In addition, the bill covers those not subject to the self-employment tax because they receive, in addition to self-employment income, wages of $4,800, subject to social security tax. No deductions are allowable to an individual for a year during which his employer contributes for his benefit to

a qualified pension, profit-sharing, or stock-bonus plan or during which the individual draws benefits under such a plan.

H.R. 10 permits a deduction for an amount paid as premium on a restricted retirement policy or as a deposit in a restricted retirement trust fund. The deduction is generally limited to 10 percent of the individual's self-employment income and may not, in most cases, exceed $2,500 a year. The aggregate deductions during an individual's lifetime may not exceed $50,000 and no deduction is allowed after an individual attains the age of 70. There is an annual increase of one-tenth of the limitation for each year that an individual's age exceeds 50, as of January 1, 1959. Thus, an individual who is 60 years old on January 1, 1959, would be permitted a deduction of 20 percent of his self-employment income, but not over $5,000.

If an individual has previously received payments of employer contributions, under an employer plan, or has received nonforfeitable rights to employer contributions, there is a downward adjustment of the lifetime limitation on deductions.

The restricted retirement policy for which a deduction is allowed for the premium must be an annuity or an endowment policy issued by a domestic life insurance company. The policy may provide either for an endowment not later than the time the self-employed individual reaches age 70 or a life annuity or a joint and survivor annuity to the individual and his spouse beginning not later than the time the individual reaches age 70. If the policy provides some current life insurance, as well as restricted retirement benefits, only the portion of the premium allocable to the retirement benefits may be deducted.

The deduction is also available for deposits in a restricted retirement trust fund. The trust must be for the exclusive benefit of the participating individuals and may invest only in listed stocks or securities, stock of a regulated investment company, and Government bonds or face-amount certificates. The income of the trust will not be subject to tax. The tax exemption will be lost, however, if the trust engages in any of a specified list of prohibited transactions involving one or more of the participating individuals.

The trust may distribute either income or corpus to the participating members at any time, but must begin distributing to any member when he attains the age of 70 and must complete its distribution of a member's interest before he reaches age 80.

The bill provides general rules for including amounts in income which are received either from retirement policies or trust funds, as well as special rules for determining when income is received, and further provides special rules relating to the method of determining the tax attributable to the income.

Amounts received from a restricted retirement trust fund must be included in income when received, except that an individual may receive from a trust fund an annuity contract on his life purchased by the fund without paying an immediate tax.

Amounts received under a restricted retirement policy will be taxed in the same manner as annuities are generally taxed under the Internal Revenue Code. However, any part of the premium not allocable to the cost of retirement benefits will not be treated as consideration paid for the annuity, and amounts received before the annuity starting date must be included in gross income to the extent that they do not exceed the aggregate of deductions taken.

If amounts are paid on the death of an individual under a restricted retirement policy, the amount not exceeding cash surrender value immediately before death is treated as income to the beneficiaries. This amount is regarded as deferred income. The balance of the death benefits is regarded as pure life insurance and, as under existing law, will not be treated as income subject to tax. If an individual borrows on a retirement policy an amount in excess of that needed to pay one annual premium or elects under any option in a policy to apply the cash surrender value to the purchase of a policy providing benefits other than the type of endowment or annuity permitted, he will realize income from the transaction.

In the case of a restricted retirement fund, any participating individual will be treated as realizing his entire interest if he makes a sale of his own securities to the fund or otherwise engages in a prohibited transaction with the fund or if he makes excessive contributions to the fund to take advantage of its tax-exempt status.

Special rules are applicable if a person receives any amount from either a retirement fund or a policy before reaching the age 65. If the amount received exceeds $2,500, the tax must be at least 110 percent of the aggregate increase

in taxes that would have occurred if the amount had been received equally in the taxable year of receipt and the 4 preceding years. If the amount is less than $2,500, the tax must be at least 110 percent of the tax attributable to including the amount in income for the year of receipt.

Special rules are also provided where an individual receives his entire interest in one taxable year after reaching the age 65. In this case, the tax will be computed by determining the increase in tax resulting from including one-fifth of the amount in gross income and multiplying the tax increase by 5. This same rule, to modify the effect of the progressive tax rates on amounts received in a single year, also applies to the estate or other beneficiaries of a deceased individual where the entire interest is received in one taxable year.

In order to prevent the deductions to which an individual may be entitled from thwarting taxation of amounts received from a restricted retirement fund or policy, the bill provides that the tax may not be less than the tax that would apply if the taxpayer's only income was the amount received from the fund or policy and his only deduction was his personal exemptions.

The bill also contains reporting requirements under which each bank-trustee of a restricted retirement fund and each insurance company which has issued a restricted retirement policy must file such returns and information as the Secretary requires. Each self-employed individual must also furnish information to the trustee or to the insurer.

H.R. 10 embodies a comprehensive program for the deferment of tax on the retirement income of self-employed individuals and, in general, any proposals for its amendment should probably await the increased knowledge that will be gained from an accumulation of experience under its existing provisions. However, several amendments are necessary at the present time in order to avoid upsetting normal investment patterns. In its present form, the bill requires restricted retirement policies to be issued by a domestic insurance company and also requires bank-trustees to invest restricted retirement trust funds in stocks, securities, or Government obligations. The bill should be amended to permit retirement policies to be issued by foreign life insurance companies and to permit trustees to place retirement trust funds in insured savings accounts.

PROPOSED AMENDMENT TO H.R. 10 AS PASSED BY THE HOUSE, 86TH CONGRESS

AMENDMENT NO. 1

Page 26, line 21, strike out the word "and"

Page 26, line 23, add the following: "(iv) savings accounts in institutions in which accounts are insured by Federal Savings and Loan Insurance Corporation or by Federal Deposit Insurance Corporation or by Cooperative Bank Share Insurance Fund of Massachusetts or by Ohio Guarantee Deposit Fund or by Savings Banks Deposit Guaranty Fund of Conn., Inc. or by Mutual Savings Central Fund, Inc. of Mass., and"

AMENDMENT NO. 2

Page 7, line 3, strike out the words "a domestic life insurance company (as defined in section 801),"

Page 7, line 17, strike out the words "by a domestic life insurance company (as defined in section 801)"

Page 16, line 12, strike out the words "insurance company" and insert the word "insurer"

Page 30, line 20, strike out the words "insurance company" and insert the word "insurer"

Mr. KEOGH. We are not here today, Mr. Chairman, in any effort to take away from anyone that which the law has given them for years. I firmly believe that we have traveled too far down the road of the obviously sound, basic, philosophical concept that the workers of this country should be able adequately to provide for their superannuation, to turn back. We are simply here appealing to this committee to give its favorable consideration to the only group in this country who by law cannot do that which may be done for every other worker in the country. We say to you, Mr. Chairman, that the

7 to 10 million of self-employed people in this country represent, for the most part, the solid, courageous, typically foresighted and far-seeing American middle class, the continued existence and growth of which makes this country different from most, if not all, in the world.

Much has been put in the record with respect to the Treasury Department's position. But I can assure you, Mr. Chairman, that a review of the record of the hearing held before the Committee on Ways and Means in June of 1955, and also in January of 1958, and an examination of the modified forms of the bills that have been introduced in the House of Representatives since 1951, will reveal, I think, a conscientious and continued effort on the part of the proponents of this legislation to meet, as far as reasonably possible, the objections of the Treasury Department.

Let me cite an example. The original form of the bill introduced by the late Representative Daniel Reed of New York and me in 1951 provided for the inclusion not only of the self-employed, but of the pensionless employed. It was only by reason of the position of opposition taken by the Treasury Department that we later reluctantly amended the bill to exclude those pensionless employees. Yet the Department comes before us today, as they did before the House Ways and Means Committee last year and this year, and cites that exclusion as one of the reasons to oppose the bill.

On reflection, we feel that it is far sounder to provide for the exclusion of the pensionless employees, for, to the extent that we permit or encourage any employees of this country to do for themselves that which their employers are permitted under the law to do, we would be reducing, if not destroying, the incentive on the part of those employers to do it.

Now, Mr. Chairman, I am sorry that so much discussion followed on the questioning of Mr. Lindsay with respect to collateral matters as, first, to social security and, second, to existing qualified private retirement plans; for, in my opinion, the principle embodied in this bill is totally separate and apart from either one of those two things. The great body of self-employed of this country, Mr. Chairman, with the exception of medical doctors and a relatively few types of clergymen in the country, are covered by social security. You, the Congress, has recognized the uniqueness of the self-employed, even in the social security bill, in which we have imposed upon them a tax of 150 percent of that paid by the individual employees of the country. And that tax at 150 percent is not tax deductible to the self-employed.

Mr. Chairman, we have recognized that section 165 and section 401 are sound law, and we have recognized that the employers of this country, in an effort to promote the economic well-being of their employees, have the right voluntarily to set up what are considered fair, reasonable and nondiscriminatory plans. But, we have consistently refused to permit those who, by reason of their courage and foresight in not becoming employees but engaging in business for themselves, to do the same.

Much has been said to the effect that the enactment of this bill will give rise to additional demands which will deplete the Treasury of this country.

H.R. 10, to permit the self-employed voluntarily to establish restricted retirement funds, should not logically be used to strengthen

any claims for tax deduction of employees' shares of qualified private and public retirement plans, nor employees' social security taxes. The self-employed are those who by law cannot, or by choice do not, operate as corporations. They have no employer to establish a retirement system, and are not employees for whom under existing law a system may be established.

As to private qualified plans, it has been admitted here today, as it must be, that the trend toward the establishment of such plans is noncontributory on the part of the employees. The question of employee deductions for private qualified plans becomes of obviously lesser and decreasing importance. The opportunity in the field of the corporate employers to give valuable stock option and profit-sharing plan participation, both of which are obviously forms of deferred compensation, further tips the scale in favor of such employees.

As to public retirement systems and social security, including Railroad Retirement, let me point out that which you all know. The employee members of the foregoing types of systems are uniformly the beneficiaries of virtually tax-free gifts equal to their own contributions plus accrued tax-exempt interest.

And, Mr. Chairman, if I may be pardoned in making a personal reference, by reason of the good fortune of my having been in public service as long as I have, I have been permitted under the law of this country and of the State of New York to make personal contributions to the retirement—to my own retirement system, to the point where I have on deposit in Albany and in Washington a sum approaching $50,000 upon which full taxes have been paid.

The CHAIRMAN. May I interrupt you, Congressman?

Are they deducted from your income tax?

Mr. KEOGH. No, sir, they are not. But I would certainly resist any effort on the part of such groups to seek such deduction, because on my retirement the employing agencies of government will contribute to me or to my designated beneficiary a tax-free sum equal to my contribution, plus the accrued interest thereon.

Now, Mr. Chairman——

Senator WILLIAMS. Might I interrupt you for a moment?

Mr. KEOGH. Yes, sir.

Senator WILLIAMS. It will be taxable upon receipt, will it not?

Mr. KEOGH. As was pointed out, there was a slight change in the 1954 code, as you well know. Previously, I would, on retirement, be permitted a deduction until I had withdrawn my own personal contributions. But I would have to include in my income a decreasing amount representing the earnings for that year on the total reserves set up for me. The treatment is generally the same, but it was intended to simplify the arithmetic on those declining balances.

Now, I need not point out, Mr. Chairman, that the contributions made to the public employees are contributions made by the employing agencies of Government out of tax revenues to which these 7 million self-employed themselves have contributed their proportionate share.

Mr. Chairman, H.R. 10, simply and briefly, should be looked upon precisely in the same way as the establishment by the self-employed employer of a noncontributory pension plan.

Mr. Chairman, much has been said today about requiring the self-employed to include their employees in such plans. That is a radical and novel departure from the basic and historical concept of retirement legislation. The section 165 plans under the 1939 code, the section 401 plans under the 1954 code, have never been made compulsory. Those are voluntary plans. This is the typical, historical American way of permitting a person voluntarily to do for himself that which is socially desirable.

Now, Mr. Chairman, I want to point out that we are dealing with this group of 7 million people for whom nothing has been done. And certainly and obvioulsy, equity and fairness should impel us to do something for them before more is done for those for whom so much has been permitted.

Mr. Chairman, the Treasury Department indicated that many of the private plans integrate the social security benefits. They will have to admit that the integration of social security benefits, with the social security coverage becoming broader and broader, is decreasing in the qualified plans.

Now, we have tried, as I pointed out, studiously and conscientiously to limit this bill to a reasonable beginning of what is obviously a just system. We have even specifically provided in the bill that the retirement income credit, which is available to all people under conditions of existing law, would specifically not be available to the income of these funds or the proceeds of the restricted policies provided in this bill.

I might point out to some of the members of the committee, Mr. Chairman, that even if you were to enact legislation that might to a degree, or even drastically, restrict the rights of employers under section 401 of the code, this inequity against the self-employed would still continue.

There is presented here a simple, basic question as to whether we are going to extend a principle of law that has been time tested, that has been encouraged, to a group which has by accident or design been totally and completely excluded.

With respect to the fiscal effects of this or any other proposal, Mr. Chairman, I should confine myself solely to reminding you that the tremendous growth of the private pension plans in this country dates from 1941. And I need not remind you that there have been very few if any years intervening since 1941 in which the revenues of the Treasury have exceeded the disbursements. But notwithstanding that, as has been pointed out, close to $40 billion, tax free, has been deposited in existing plans, at the annual rate now of approximately $4.4 billion of which $3.8 billion is deposited by the employers of the country, totally tax free.

Are we to say to the farmer, to the grocer, to the beauty shop operator, to the doctor, to the lawyer, to the accountant, that "because you chose this business or profession, and because you do not or cannot operate as a corporation, we will not permit you to do anything for yourself?"

Why, the statement indicates the obvious inequity of present law.

Much has been said concerning the pensionless employee. The fact that they have no pensions supplementing their social security is not due to the fact that they are excluded by law. But the self-employed are.

Now, Mr. Chairman, I pointed out to you that we have constantly and consistently sought to accommodate ourselves to the position of the Treasury Department. But we have constantly and consistently been faced with an ever-changing position on their part. But they always come back to the overriding influence of the fiscal effects of this bill.

Mr. Chairman, my position on that simply is this, that if it is just, if it is equitable, if it is moral, if it is right, the figures and the amounts do not frighten me. But I am sure that you will be given testimony by the witnesses who will appear later, Mr. Chairman, which in my opinion, completely disproves the authenticity of the estimated effects given by the Treasury.

I would like only to point out to you that Mr. Lindsay in his testimony somewhat aptly, and I daresay justifiably, did not go too much into detail with respect to the fact that this very principle embodied in this bill has been adopted and enacted in Great Britain, in Canada, and in Australia. And in the British plan the self-employed—I am not talking about employees, I don't care whether their shares are deductible or not—the self-employed were permitted to deposit, tax deferred, 750 pounds a year, when the pound was $2.80; that is, approximately, $2,100 a year. We have provided in the bill a double maximum, as you know, a percentage, and a dollar maximum. To reduce that dollar maximum, is not to accomplish equity, Mr. Chairman. That is further to penalize those who, either by good fortune, or by good work, or by hard work, or by any other means, earn more than $25,000 a year. Most of us who were around here, remember the serious objections that were raised by the Congress when the executive branch sought at one time to limit gross incomes in this country to a maximum of $25,000.

Now, in connection with these figures, reference has been made to the survey made by a distinguished and outstanding banking institution in New York. These are figures that have been received as a result of a survey that they made. They are not guesses or assumptions as to the percentage of those in various wage brackets or income brackets who will participate. These are the replies from the people themselves. And rather than burden the record at this point, Mr. Chairman, I am going to reserve the right to have the more appropriate witness refer to these figures and have them inserted in the record.

This, Mr. Chairman, is the culmination of many years of persistent—and I hope it will be said to have been dignified—effort to do something for a large and distinguished group of Americans for whom nothing has been done. Were I authorized to speak for the 7 to 10 million people, I would pay to you their respects. I can pay my own to you, Mr. Chairman. And I know that when this committee goes into its executive session, when it seeks and obtains the sound, informed, and intelligent services of those who advise on such matters, there will be no question remaining but this is not a fair plan. It is not an effort to benefit the high income groups of the self-employed, but this is simply a feeble start to afford them some degree of equity and justice, to which all Americans should be entitled.

Mr. Chairman, you have been very kind.

The CHAIRMAN. Thank you, Mr. Congressman.

Senator Smathers?

Senator SMATHERS. I want to ask just one or two questions, Mr. Congressman. First, I congratulate you on your fine statement. I think it was excellent, moving, and to the point.

You continue to refer to a deferment of tax. What do you mean by that with respect to the self-employed?

Mr. KEOGH. I mean by that, that we have incorporated in the bill, provisions that will make certain that some time there will be some taxes paid on the funds deposited under the provisions of the bill. We have, for example, provided that no deposits can be made after reaching age 65. Withdrawals must begin not later than age 70, and must be paid out completely by age 80. We have eliminated the retirement income credit, as I indicated to you.

I would like to refer briefly to a subject touched upon by a question by Senator Cotton. That is with respect to not permitting the withdrawal of funds prior to reaching eligible age, or incurring permanent and total disability.

We had that in an earlier form of the bill, and it was taken out because when we decided to incorporate in the bill the alternative of the restrictive retirement policy we found that under most, if not all, of the State laws any annuity policy that is issued, must have a cash surrender value. And that is why we were faced with the necessity of permitting the early withdrawal on the payment of the penalty provided in the bill.

The Treasury makes some question as to whether 110 percent is enough. I am not going to quarrel about that. But it is a penalty, nonetheless.

Senator SMATHERS. Mr. Keogh, it has been suggested that if we pass this bill which will take care of the self-employed that it will be unjust discrimination against the 31 million people who are not now covered. I wish you would once again make that clear in your reasoning as to why you do not think it unfair or unjust.

Mr. KEOGH. It is not unfair and it is not unjust, because those 31 million employees could very well be the beneficiary of plans set up under existing law, whether those plans be contributory on their part or noncontributory. The fact of the matter is that there is a provision in existing law whereby somebody could set up for those 31 million employees a pension plan, part if not all of which would be made up of tax-free money.

Now, I might point out to you, Senator, and I should, I think, that the National Labor Relations Board has ruled that the setting up of a qualified pension plan for the employees of a corporation may properly be an item for negotiation in a collective bargaining agreement. That is one of the reasons you have seen such a tremendous increase in the number and the coverage of existing private plans. And you will continue to see it.

Senator SMATHERS. Mr. Congressman, there are those on this committee and in this side of Congress who have a great and deep devotion to what we call the free enterprise system, and the system of self-initiative, self-reliance. If we do not pass this plan, this proposal of yours, is it possible, in your judgment, that most young lawyers and most young doctors and most independent businesses will cease operating as independent businesses, and will feel that the only way

they can look after themselves in their declining years is to become a part of some joint corporation, thereby lessening the strength of our so-called free enterprise system?

Mr. KEOGH. Precisely. And this is not solely your opinion or mine, but it is supported and borne out by testimony previously inserted in the record before our committee by deans of law schools and deans of medical schools, in which they expressed increasing concern about the difficulty of obtaining an adequate number of qualified students to enter these schools. The sociological implications of this bill, and the benefits to be derived therefrom, especially in the field of such professions as medicine and engineering, are tremendous to contemplate.

Senator SMATHERS. I know you understand this very well, but just for the record, is it because they know by going to work for some company they of course can get a retirement?

Mr. KEOGH. Precisely. And all you need to do is to make inquiry of personnel people and of vocational guidance people in the schools and colleges and universities of this country, and you will find that more and more of the young people of this country inquire as to the retirement benefits of a prospective employer.

Senator SMATHERS. That is all.

The CHAIRMAN. Thank you very much, Mr. Congressman.

Mr. KEOGH. Mr. Chairman, you are always very kind, and I certainly appreciate this opportunity of coming before you in your relatively new, obviously sumptuous hearing room.

The CHAIRMAN. I may say, you make a very excellent presentation.

Mr. KEOGH. Thank you very much. I wish I could do better, because I feel very deeply on the subject.

The CHAIRMAN. The committee will now recess until 2:30. Unfortunately, the Chair has to be on the floor at that time. The hearing will be started by Senator Frear.

(Whereupon, at 1:15 p.m., the committee recessed, to reconvene at 2:30 p.m. of the same day.)

AFTERNOON SESSION

Senator FREAR (now presiding). The committee will come to order.

The first witness this afternoon is Mr. Ross L. Malone, American Bar Association.

Senator CARLSON. Before Mr. Malone proceeds, may I place in the record a resolution adopted by the Bar Association of the State of Kansas urging the enactment of H.R. 10. And I would like to mention that Mr. Malone was out at Hutchinson, Kans., within the last few weeks and made a very fine speech to that organization, and I placed it in the Congressional Record the day before yesterday.

Senator FREAR. The resolution will be placed in the record.

(The resolution referred to follows:)

RESOLUTION

Whereas the Bar Association of the State of Kansas has previously urged the enactment of H.R. 10, the Keogh-Simpson bill; and

Whereas high taxes and inflated living costs make it difficult for the self-employed person to set aside money for retirement in the absence of tax deferments which are already available to corporation employees; and

Whereas individual enterprise is being stifled because of the unfair advantage that employees of big corporations have over the self-employed individual; and

Whereas the present Keogh-Simpson bill would enable about 10 million self-employed persons to establish individual retirement programs comparable to those provided by corporation retirement and pension programs: Now, therefore, be it

Resolved, That this association recommends passage of the Keogh-Simpson bill currently under consideration in the Finance Committee of the Senate; and be it further

Resolved, That the Bar Association of the State of Kansas requests and petitions the Honorable Andrew F. Schoeppel, and the the Honorable Frank C. Carlson, who is a member of the Senate Finance Committee, to use their good offices to the end that H.R. 10 will be reported out of committee and to the floor of the Senate by the Finance Committee and that a copy of this resolution, signed by the president and attested by the secretary, be sent to each of the distinguished Senators from Kansas and to the members of the Senate Finance Committee who have the matter under consideration.

Adopted this 9th day of May, 1959.

THE BAR ASSOCIATION OF THE STATE OF KANSAS,
WILLIAM M. BEALL, *President.*

Attest:

JOHN W. SHUART, *Executive Secretary.*

Senator CARLSON. I would also like to place in the record a resolution by the Kansas Livestock Association approving H.R. 10.

Senator FREAR. It will be made a part of the record.

(The resolution referred to follows:)

KANSAS LIVESTOCK ASSOCIATION,
Topeka, Kans., June 16, 1959.

Senator FRANK CARLSON.
Senate Office Building,
Washington, D.C.

DEAR SENATOR CARLSON: We of the Kansas Livestock Association, and farmers and ranchers in general, feel we should have the privilege of voluntarily setting aside tax-free funds for retirement purposes, the same as most citizens have today.

We hope you see fit to support the Keogh-Simpson Self-Employed Retirement Act.

Respectfully yours,

A. G. PICKETT, *Secretary.*

Senator CARLSON. And the Kansas Farm Bureau Association has written a letter signed by the president, W. I. Boone.

Senator FREAR. It may be made a part of the record.

(The letter referred to follows:)

KANSAS FARM BUREAU,
Manhattan, Kans., April 24, 1959.

Senator FRANK CARLSON,
Senate Office Building, Washington, D.C.

DEAR SENATOR CARLSON: Under consideration in the Senate Finance Committee is a bill for which I solicit your support. It is H.R. 10, the Keogh-Simpson bill. I believe you are a member of this committee.

Last fall at our State convention in Topeka, farm bureau delegates from our county organizations adopted the following resolution: "Many companies have retirement programs which are financed by company funds on which the employee is not required to pay income taxes. To give a similar tax advantage to self-employed persons the Kansas Farm Bureau further recommends that self-employed people be permitted to deduct from gross taxable income, investments in restricted types of retirement program up to specified limits."

I believe the resolution adopted at the American Farm Bureau convention is a more substantial agreement than the resolution adopted in Kansas by our members. Following is the resolution adopted by the American Farm Bureau: "Retirement plans.—Under present laws certain employer contributions to retirement plans are deductible by the employer and nontaxable to the employees.

This discriminates against self-employed persons, who are required to pay taxes on any income that they set aside for retirement. In the interest of equity we recommend that a self-employed person be permitted to deduct from gross income the amounts paid during the tax year to purchase a single premium annual life annuity, beginning at age 65, equal to 1 percent of his earnings from self-employment during the year, within limits adequate to prevent abuse. Annuity payments received under this plan should be fully taxable when received without exemption, deduction, or offset of any kind other than personal exemptions.

"We oppose efforts to give employees a tax reduction for payments to retirement plans where the benefits are nontaxable when received."

I do hope that you can give the Keogh-Simpson bill your full support. I also would appreciate any influence you may use to secure the cooperation of the executive department in this matter. I am convinced that this legislation is badly needed to make it possible for farmers to provide for themselves in their years of retirement.

With kindest regards, I am

Sincerely yours,

W. I. BOONE, *President.*

Senator CARLSON. I would like to read a wire from Mr. Robert F. Ellsworth, of Lawrence, Kans.:

With respect to Senate Finance Committee hearings on Simpson-Keogh, we note that the Treasury Department has issued Revenue Ruling 59–185 permitting employed persons to put 10 percent of their compensation into tax-deferred trust funds. This seems rather strange in view of Treasury opposition to self-employed Retirement Act based on revenue grounds. In view of the existence of 45,000 Treasury-approved tax-deferred pension plans covering over 18 million employed persons, and in view of Treasury argument that Revenue Ruling 59–185 helps encourage savings, we trust you are vigorously supporting Simpson-Keogh which gives us 6 million self-employed an even break.

I do want to get a little additional information when the Treasury comes back.

I also have a very excellent telegram from two of our accountants in Salina, Kans., Mr. M. J. Kennedy and Mr. C. L. Coe.

Senator FREAR. Very well. The telegram will be made a part of the record.

(The telegram referred to follows:)

SALINA, KANS., *June 16, 1959.*

HON. FRANK CARLSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR CARLSON: It is our recollection that you are apprehensive about H.R. 10 because of its possible effect on the revenues. Many authorities believe the Treasury has grossly overstated the adverse effects. Please keep in mind that this legislation will not provide a means of tax avoidance but will only permit the deferral of tax to a limited extent. We urge that you reconsider your position and that you support the bill. More and more corporations are making it possible for their employees to look forward confidently to an adequate retirement income through the adoption of benefits and profit-sharing plans. Surely it is contrary to the "American way" to deny similar benefits to farmers, merchants, professional persons, and others who are self-employed. We notice an increasing interest on the part of such persons in the fate of this bill.

Kindest regards.

M. J. KENNEDY.
C. L. COE.

Senator FREAR. Our next witness is Mr. Ross L. Malone of the American Bar Association.

Mr. Malone, we are glad to have you. You may proceed.

STATEMENT OF ROSS L. MALONE, PRESIDENT OF THE AMERICAN BAR ASSOCIATION, ACCOMPANIED BY LESLIE RAPP, CHAIRMAN, ADVISORY COMMITTEE TO THE SPECIAL COMMITTEE ON RETIREMENT BENEFITS, AMERICAN BAR ASSOCIATION

Mr. MALONE. Mr. Chairman and gentlemen of the committee, my name is Ross L. Malone. I practice law at Roswell, N. Mex., as a member of the firm of Atwood & Malone. I have been engaged in the practice of law in Roswell for more than 26 years. I have the honor of being the president of the American Bar Association, which is composed of approximately 95,000 lawyers of the United States. I deeply appreciate the opportunity which is afforded me by the committee to appear and present the position of the association in connection with this proposed legislation which will encourage the establishment of voluntary pension plans by self-employed individuals.

I have a prepared statement which I would like to offer for the record, if I may, and, in the interest of expediting my testimony, I will undertake to give portions of it but not to give it in its entirety.

Senator FREAR. The entire statement will be made a part of the record at this point, Mr. Malone.

(The prepared statement of Mr. Malone follows:)

STATEMENT OF ROSS L. MALONE, PRESIDENT, AMERICAN BAR ASSOCIATION, ON LEGISLATION TO ENCOURAGE THE ESTABLISHMENT OF VOLUNTARY PENSION PLANS BY SELF-EMPLOYED INDIVIDUALS

My name is Ross L. Malone. I practice law at Roswell, N. Mex., as a member of the firm of Atwood and Malone. I have been engaged in the practice of law in Roswell for more than 26 years. I am president of the American Bar Association which is composed of approximately 95,000 members, and am appearing on behalf of the association in support of legislation to encourage the establishment of voluntary pension plans by self-employed individuals. In so doing, I speak primarily as a representative of the legal profession in this country, but also in the interest of all self-employed—farmers, merchants, professional persons; all who are not employees of some other person or of a corporation.

H.R. 1 by Representative Eugene J. Keogh and co-sponsored by Representative Richard M. Simpson, has been overwhelmingly passed by the House of Representatives. Three similar bills have been introduced in the Senate—S. 841, by Senator Morton; S. 944, by Senator Kefauver; and S. 1979, by Senator Smathers.

With a view to saving the committee's time, we have not encouraged local and state bar associations to present witnesses. However, we have received numerous telegrams during the past 48 hours from bar associations requesting that they be included in this statement as officially endorsing the principle of the legislation before this committee to permit self-employed persons to defer taxes on a limited amount of income which is put into restricted retirement funds. I should like to have permission to include these telegrams in the record. The associations included can only be considered a partial list of those which have gone on record in support of this legislation.

In 1942 our tax laws were changed to offer substantial tax benefit to corporations and their employees in the establishment of pension plans, supplementing social security. The tax effects of these plans are:

First, the contributions by the employer for the employee although in the nature of additional compensation, are not taxable to the employee until the retirement benefits are received in later years.

Second, the employer gets a tax deduction for the contributions when made.

Third, the earnings from the retirement fund are tax exempt until distributed.

Fourth, the retirement benefits are distributed at a time when the employee would normally be in a lower tax bracket.

There has been a tremendous growth of such plans since 1942. Upwards of 45,000 such plans, covering over 18 million employees, are now in existence. The annual contributions to these funds aggregate some $4 billion annually, and their total reserves are in excess of $35 billion.

The result of the legislation enacted in 1942 was to discriminate in favor of employed persons and against all self-employed persons and the opportunity afforded to them to provide for their old age and resultant loss of earning power through a pension plan.

As a result of this discrimination, in 1945 a movement began to obtain legislation authorizing restricted retirement programs for those not eligible for or covered by employee pension plans. In 1950, the American Bar Association appointed a committee to study the problem. This committee undertook a study of means whereby the discrimination which resulted from the 1942 Act could be corrected. This study resulted in the drafting of proposed legislation which was introduced in 1951 by Congressmen Keogh and Reed of New York. The original draft was prepared under the supervision of Mr. Leslie M. Rapp, who presently serves as chairman on the Advisory Committee to the American Bar Association's Special Committee on Retirement Benefits. Mr. Rapp is present today and is available to answer any questions.

Since its original introduction, this legislation has had strong bipartisan support in Congress and widespread support throughout the country.

When Representative Reed became chairman of the Ways and Means Committee, Representative Thomas A. Jenkins, co-sponsored the bill with Mr. Keogh. The Jenkins-Keogh bill was overwhelmingly passed by the House of Representatives on July 29, 1958, but was not acted upon by the Senate prior to adjournment. Upon convening of the 86th Congress, legislation substantially identical in form to that passed by the House of Representatives was introduced under the sponsorship of Congressman Keogh and Congressman Simpson of Pennsylvania. The House of Representatives, on March 16, 1959, passed H.R. 10 by an overwhelming vote.

This is the first occasion that persons affected by the proposed legislation have had an opportunity to appear before the Senate Finance Committee in support of the proposed legislation. It is my understanding that the more technical aspects of this legislation and its possible impact upon tax revenues will be discussed by Dr. Roger Murray and other witnesses so I will confine my remarks to matters which will not duplicate their testimony.

It should not be necessary to go into detail as to the inequity in the present tax law relative to private pension plans which presently give preferential tax treatment only to pension plans set up by employers for the benefit of their employees. That self-employed persons, who, of course, cannot qualify as employees, are discriminated against is freely admitted by the Treasury Department. This inequity not only has existed for many years, but in each passing year the disparity in tax treatment increases in magnitude as more and more employed pension plans are approved by the Treasury for this favorable tax treatment. The legislation before you today seeks to correct in some measure this clear inequity in our tax structure by giving the self-employed similar tax deferment on a portion of their income set aside for their retirement.

In addition to correcting the obvious inequity in the tax laws which now exists, the proposed legislation should be enacted for the following reasons:

First, this legislation is in the national interest in that it encourages thrift and self-reliance by encouraging the self-employed to provide for their own retirement and not to look to the Federal, State or local governments for assistance in their old age.

Second, there is a definite trend away from the professions into corporate employment, due in a large part to the retirement advantages and other so-called fringe benefits made available by corporations and Government. This is evidenced by the fact that there are now more than three times the number of salaried lawyers in private employment in the United States than there were 10 years ago. This Nation was built by the self-employed individual who was willing to go it alone. He is disappearing far too rapidly. Certainly our tax laws should not be such as to discourage self-reliance, individual initiative and thrift, and to drive young men and women into corporate employment, yet that is the effect of the present tax situation resulting from the 1942 act. Without some tax deferral for retirement savings adequate saving for old age by the self-employed is virtually impossible because of the high income tax rates now in effect. The practicing lawyer, for example, has a peak earning period of 20 years, generally between 45 and 65 years of age. He has reached that

stage by going through a period of "starvation." He must in those years put aside enough to take care of his old age. He has no depreciation or depletion deductions. The result is that, after he pays his taxes and the high cost of living, the opportunity to provide for his old age is virtually nonexistent. According to the most recent studies available from the U.S. Department of Commerce, the net income of one-half of the lawyers of the United States was less than $7,382 annually, before taxes. This is based on income figures for 1954. This study also shows that the net income of one-third of all practicing lawyers was less than $5,485, a figure which compares unfavorably with going wages in industry today for skilled workers.

Third, fairness demands that tax equalization should come before any general tax reduction. The Treasury Department, in opposing present action on the bill, has taken the position that consideration should be deferred until general tax reduction is possible. Others who have opposed the bill have even gone so far as to contend that if there were a general tax reduction the need for the proposed legislation would largely disappear. This latter argument completely disregards the fact that a general tax reduction would not remove, but would only perpetuate, the present discrimination against the self-employed and the pensionless employed in the matter of tax relief for private pensions.

As Congressman Simpson well said in the House of Representatives on March 16 of this year:

"There is not only an inequity or tax discrimination contained in the present law, but we find from statistical evidence that in each passing year in which H.R. 10 remains unpassed the disparity in tax treatment increases in magnitude. We hear it said that the revenue loss precludes our giving tax justice to the self-employed, but as I have already pointed out, every year thousands of new qualified pension plans are approved by the Treasury without consideration being given to the revenue loss entailed. The discrimination against the self-employed increases each year that the existing tax treatment continues.

"Why is it that we are concerned with revenue loss only when the tax saving would benefit the self-employed?"

Fourth, it is contended that this measure would lead to demands for a tax deduction for contributions made by employees under the Social Security Act and the Railroad Retirement Act. While there is nothing to stop such a demand being made, the real question is whether it would be a meritorious one. Since neither social security nor railroad retirement benefits are taxable to the recipients, there could be no justification for also giving a tax deduction for their contributions. It must be remembered that the proposed legislation does not call for complete tax exemption, but only for tax deferment on the portion of the income set aside for retirement. Thus the benefits under the bill, unlike social security payments, would be includible in gross income when received.

The fifth point pertains to coverage. Some criticism has been made of H.R. 10 because it is limited to the self-employed and does nothing for the pensionless employed.

The fact is that in the original bill, as introduced in 1951, all groups would have been eligible to obtain its benefits. In the case of those covered under employee pension plans, the deduction would have been limited to the amount that the permissible deduction under the bill was in excess of the employer's contribution in behalf of the employee. However, it was objected that it would be administratively impossible to determine the contribution made by an employer in behalf of any particular employee. Accordingly, in the 1952 redraft of the bill this provision was eliminated, leaving the measure applicable only to the pensionless employed and the self-employed, as in the case of the British counterpart of the proposed legislation.

Later, in connection with the 1955 hearings before the House Ways and Means Committee, the Treasury Department, while conceding that both the pensionless employed and the self-employed were being discriminated against under existing law, said that on balance it might be better to limit the benefits of any new provision to the self-employed since employees, at least potentially, may benefit from qualified pension plans set up by their employers. "Tax relief," the Department said, "seems most clearly indicated for self-employed individuals who do not have even potential tax benefits under existing law in providing themselves with retirement income."

As a result of this suggestion by the Treasury Department the bill was modified in 1955 to confine it to the self-employed, which reduced the potential revenue loss to a fraction of what it would be if the pensionless employed were also covered. Of course, the fact is that every year more and more qualified em-

ployee plans are being set up under existing law, so that the number of employed persons not covered by pension plans is constantly diminishing.

Sixth, there has been some criticism of the bill because it does not extend to contributions made by employees under private and governmental pension plans. Actually, the effect of the bill is only to give self-employed persons a tax benefit comparable to that enjoyed by the employee with respect to the employer's contributions for the benefit of the employee. It thus eliminates discrimination by putting the self-employed person on the same basis as one who is employed by another person.

Finally, I would like to point out that the tax treatment for self-employed persons provided by this proposed legislation was enacted in England in 1956 and in Canada and New Zealand in 1957. Undoubtedly all of the arguments which have been made in opposition to this bill by the Treasury Department could have been made (and perhaps were) with much greater force and validity in England where the tax burden is even greater and the national economic condition is far more critical than ours. Nonetheless, recognizing the fairness and justice of the elimination of this inequity, the Parliament of England enacted the legislation. Its impact upon revenues in both England and Canada has been only a fraction of the amount which was estimated at the time of enactment. I am confident that the Senate has no intention of denying to the self-employed people of the United States the same fair treatment that they have received in their other English-speaking countries.

On behalf of the American Bar Association and its 95,000 members, as well as the tens of thousands of lawyers who have expressed themselves in support of this legislation through the action of State and local bar associations, I urge enactment of H.R. 10 or legislation which is its substantial equivalent to eliminate an inequity which has existed for more than 17 years and which has increased in magnitude in each passing year.

I deeply appreciate the opportunity which has been afforded me to express the views of the American Bar Association upon this important legislation, as well as the courtesies which have been extended to me by the committee in connection with the time of my appearance.

Mr. MALONE. Thank you, sir.

With the hope of further expediting the hearing, we have not encouraged State and local bar associations to send representatives to this hearing, although a great many State and local associations have contacted the American Bar Association with reference to the possibility of so doing. When they were advised that I would appear as a representative of the association, it was suggested that they might send a telegram if they wished their views recorded. And we have approximately 150 telegrams, which have been handed to the staff and which I would like to ask permission to have incorporated in the record.

Senator FREAR. Without objection, those telegrams will be made a part of the record.

(The telegrams referred to follow:)

PHOENIX, ARIZ. *June 15, 1959.*

DONALD E. CHANNELL,
American Bar Association, Washington, D.C.:

The State Bar of Arizona has consistently in the past pledged its support to the Keogh-Simpson type of proposed legislation in Congress and this support recently has been reaffirmed and the Arizona delegation in Congress so advised.

D. W. PHILLIPS,
Executive Secretary State Bar of Arizona.

WEST MEMPHIS, ARK. *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Arkansas Bar Association support Keogh-Simpson bill and has sent resolutions to Senators and Congressmen.

JOHN A. FOGLEMAN,
President Arkansas Bar Association.

LOS ANGELES, CALIF., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Board of Governors of State Bar of California, representing 20,000 lawyers urge passage of Keogh-Simpson bill (H.R. 10). Have previously written Senators Kuchel and Engle to this effect.

GRAHAM L. STERLING, Jr.,
President State Bar of California.

HARTFORD, CONN., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please list Connecticut Bar Association in support of Keogh-Simpson legislation.

JONATHAN F. ELLS, *President.*

ELBERTON, GA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Georgia Bar Association voted unanimously to urge passage of Keogh-Simpson legislation. We have written to our Senators and Congressman advising them to this effect.

ROBERT M. HEARD,
President, Georgia Bar Association.

COEUR D'ALENE, IDAHO, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include the Idaho State bar in the list of those supporting the Keogh-Simpson legislation.

CLAY V. SPEAR,
President, Idaho State Bar.

INDEPENDENCE, KANS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Executive council of the Kansas bar Saturday wired Senator Carlson, a member of the Senate Finance Committee, insisting that he vote in favor of getting this bill out for action on the Senate floor.

JAY W. SCOVEL.

FRANKFORT, KY., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Kentucky Bar Association has repeatedly endorsed and persistently advocated passage of the Keogh-Simpson bill on behalf of 4,000 Kentucky lawyers and judges.

H. H. HARNED, *Secretary.*

BASTROP, LA., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Louisiana State Bar Association at its annual meeting in May reaffirmed its previous position and adopted resolution supporting Keogh-Simpson bill H. R. 10 and copies sent to Senators Long and Ellender. Ask that you list Louisiana State Bar Association as supporting this bill.

GEO. T. MADISON,
Chairman, Committee on Retirement Benefits.

NEW ORLEANS, LA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Louisiana State Bar Association has through its house of delegates and board of governors, endorsed in principle legislation which would allow self-employed persons a tax deferment for a limited amount of income put into voluntary pension plans. This action has previously been called to the attention of Louisiana congressional delegation.

W. W. THIMMESCH,
Executive Counsel, Louisiana.

BALTIMORE, MD., *June 12, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Maryland State Bar Association is on record of favoring and urging the passage of the Keogh-Simpson bill and has so notified the Maryland Senators and Representatives.

S. VANNORT CHAPMAN, *Secretary.*

SPRINGFIELD, MO., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Missouri Bar Integrated, the official organization of all Missouri lawyers, has previously endorced Keogh-Simpson bill (H.R. 10). In behalf of the Missouri Bar favorable consideration of this bill is urged and we request you so advise Senate Finance Committee.

CLARENCE O. WOLLSEY,
President, the Missouri Bar Integrated.

KEARNEY, NEBR., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Include Nebraska in your list. We have contacted our Senators.

J. C. TYE,
President, Nebraska State Bar Association.

CONCORD, N.H., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Bar Association of State of New Hampshire has adopted resolution in support of Jenkins-Keogh bill.

WILLOUGHBY A. COLBY.

TRENTON, N.J., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include the New Jersey State Bar Association in the list of associations supporting the principle involved in the Keogh-Simpson bill. Our membership at annual meeting May 16 unanimously endorsed this measure.

JOHN P. RYAN, Jr.,
Executive-Secretary.

ALBUQUERQUE, N. MEX., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Re Keogh-Simpson H.R. 10. The State Bar of New Mexico ardently supports H.R. 10 and has heretofore enlisted the aid of Senators Anderson and Chavez of New Mexico and both have given assurances of support.

WILLIAM A. SLOAN,
President, State Bar of New Mexico.

RALEIGH, N.C., *June 14, 1959.*

DONALD E. CHANNELL,
Director, American Bar Association, Washington Office,
Washington, D.C.:

North Carolina Bar Association has repeatedly and strongly supported H.R. 10. Please include us.

WILLIAM M. STOREY,
Secretary, North Carolina Bar Association.

GRAFTON, N. DAK., *June 15, 1959.*

THE AMERICAN BAR ASSOCIATION,
Washington, D.C.:

State Bar Association of North Dakota has by resolution supported Keogh-Simpson bill.

LYNN GRIMSON, *Executive Director.*

COLUMBUS, OHIO, *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

This association along with many other groups in Ohio has repeatedly endorsed legislation similar to H.R. 10 and strongly urge its adoption during this session of Congress.

OHIO STATE BAR ASSOCIATION,
WM. R. VAN AKEN, *President.*

PORTLAND, OREG., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The board of governors of the Oregon State Bar has endorsed and urges the passage of H.R. 10, the Keogh-Simpson legislation, and the principle of any such legislation to allow self-employed persons a tax deferment for a limited amount of income put into voluntary pension plans.

OREGON STATE BAR,
JOHN H. HOLLOWAY, *Secretary.*

STILLWATER, OKLA., *June 13, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

You are authorized to include the Oklahoma Bar Association among those urging the Congress for H.R. 10 legislation.

CLEE FITZGERALD, and CECIL CHAMBERLIN,
Cochairmen.

SIOUX FALLS, S. DAK., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The State bar of South Dakota is unanimous in its support of the Keogh-Simpson (H.R. 10) legislation. Senators Case and Mundt have been so advised and I have wired them again today. I ask that you again call this to their attention.

ELLSWORTH E. EVANS, *President.*

AUSTIN, TEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The State bar of Texas has for several years endorsed principle involved in the Keogh-Simpson (H.R. 10) legislation and should be included in the list of groups supporting this type of legislation.

WILLIAM E. POOL,
Executive director, State Board of Texas.

SALT LAKE CITY, UTAH, *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include the Utah State bar in your list of associations supporting Keogh-Simpson type of legislation. Resolution of board of commissioners has been sent to Utah delegation in Congress urging support. Copies follow by airmail.

DEAN W. SHEFFIELD,
Secretary, Utah State Bar.

BURLINGTON, VT., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Vermount Bar Association at its midwinter meeting on March 14 unanimously approved Keogh-Simpson bill and informed our three Members of Congress at that time.

LEON D. LATHAM, Jr.,
President, Vermont Bar Association.

HUNTINGTON, W. VA., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The executive council of this association has urged upon Senators Randolph and Byrd the adoption of H.R. 10 or a similar measure. You may list our group among the supporters of this type of legislation.

HARRY SCHERR, Jr.,
President, the West Virginia Bar Association.

BIRMINGHAM, ALA., *June 13, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Birmingham (Ala.) Bar Association should be included as supporting Keogh-Simpson bill.

LUCIEN D. GARDNER, Jr., *President.*

ARKADELPHIA, ARK., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Clark County Bar Association, Arkadelphia, Ark., supports principle of Keogh-Simpson resolution.

H. W. MCMILLAN,
President.
ARVIN A. ROSS,
Secretary.

BURBANK, CALIF., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please record endorsement of Burbank, Calif. Bar Association, of Keogh-Jenkins bill, H.R. 10.

EARL C. BLAIS,
Secretary, Burbank Bar Association.

PASADENA, CALIF., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Pasadena Bar Association supports type of legislation contained in H.R. 10.

HARRY M. BOWMAN, *President.*

SACRAMENTO, CALIF., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Sacramento County Bar Association has endorsed and urges the passage of the Keogh-Simpson bill. Its name should be included with those associations supporting that legislation.

JOHN F. DOWNEY,
President, Sacramento County Bar Association.

NORTH HOLLYWOOD, CALIF., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The San Fernando Valley Bar Association has resolved in favor of passage of H.R. 10.

JACK W. SWINK,
President, San Fernando Valley Bar Association.

SAN FRANCISCO, CALIF., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Include Lawyers Club of San Francisco among those wholeheartedly supporting Keogh-Simpson bill.

THOMAS M. JENKINS.

SANTA BARBARA, CALIF., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Santa Barbara County Bar Association (California) unanimously endorses H.R. 10.

FRANCIS PRICE, JR., *President.*

WHITTIER, CALIF., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Whittier California Bar Association composed of 55 lawyers endorses the Keogh-Simpson bill and urges its favorable consideration by the Senate Finance Committee.

WILLIAM M. LASSELBEN, JR., *President.*

ROCKY FORD, COLO., *June 15, 1959.*

THE AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Bar Association 165, Judicial District of Colorado, endorses principle of Keogh-Simpson bill.

KATHRYN MCCLEARY, *President.*

BRIDGEPORT, CONN., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Bridgeport Bar Association as supporting Keogh-Simpson bill.

BERNARD H. TRAGER, *President.*

GAINESVILLE, FLA., *June 13, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please add the Bar Association of the Eighth Judicial Circuit of Florida to the list of associations endorsing the principle of Keogh-Simpson H.R. 10.

JOE C. WILLCOX,
President, Bar Association of the Eighth Judicial Circuit.

JACKSONVILLE, FLA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include the name of the Jacksonville Bar Association among those who support the Keogh-Simpson legislation.

DAVID W. FORRESTER, *President.*

LAKELAND, FLA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Yes; we are supporting H.R. 10. Wish to be included in A.B.A. effort.

J. TOM WATSON,
President of Lakeland Bar Association.

ORLANDO, FLA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Orange County Bar Association endorses principle of tax deferment for self-employed persons and sincerely urges passage of Keogh-Simpson bill. Passage of bill would help retain top caliber men in the profession and eliminate one of the many worries of practitioners.

DAVID W. HEDRICK, *President.*

SARASOTA, FLA., *June 13, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Sarasota County Bar Association highly in favor of Keogh-Simpson bill per your letter June 11.

JOHN C. PINKERTON,
President, Sarasota County Bar Association.

DELAND, FLA., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Volusia County Bar Association highly in favor of Keogh-Simpson (H.R. 10) legislation.

ERNEST A. RANO,
President, Volusia County Bar Association.

ATLANTA, GA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Lawyers Club of Atlanta should be included in list of bar associations supporting Keogh-Simpson bill.

HARRY S. BAXTER, *President.*

ATLANTA, GA., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Re letter June 11, 1959, please include the Atlanta Bar Association as endorsing the Keogh-Simpson bill.

ATLANTA BAR ASSOCIATION.

AUGUSTA, GA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Augusta, Ga. Bar Association had adopted resolutions recommending to Congress passage of the Keogh-Simpson legislation and Congressmen have been so notified.

JOHN BELL TOWILL, *President.*

SAVANNAH, GA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Savannah Bar Association, Savannah, Ga., as supporting Keogh-Simpson bill.

J. P. HOULIHAN, Jr., *President.*

DEKALB, ILL., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

DeKalb County Bar Association majority voted its inclusion in list favoring Keogh-Simpson type legislation.

ALLEN K. DAVY, *President.*

TUSCOLA, ILL., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

List Douglas County, Ill., bar association in support of Keogh-Simpson legislation.

HAROLD C. JONES, *President.*

MURPHYSBORO, ILL., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please add Jackson County Bar Association to list in support of Keogh-Simpson house rule.

JACKSON COUNTY BAR ASSOCIATION.

GENEVA, ILL., *June 13, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Kane County Bar Association strongly supports Keogh-Simpson bill or similar legislation.

ROBERT W. QUALEY, *President.*

CHICAGO, ILL., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Lake County, Ill., bar association unanimously favors Keogh-Simpson bill.

AXEL F. LIDMAN, *President.*

CHICAGO, ILL., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Patent Law Association of Chicago favors enactment of the Keogh-Simpson H.R. 10.

BENJAMIN H. SHERMAN, *President.*

ROCK ISLAND, ILL., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Rock Island County Bar Association, Rock Island County, Ill., wishes shown supporting Keogh-Simpson (H.R. 10) bill.

C. C. MCANDREWS, *President.*

WASHINGTON, IND., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please list the Daviess County Bar Association as supporting H.R. 10.

D. H. NEERIMER,
President, Daviess County Bar Association.

SOUTH BEND, IND., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The St. Joseph County, Ind., Bar Association supports the type of legislation represented by the Keogh-Simpson bill.

WILLIAM E. VOOR, *President.*

ROCKPORT, IND., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

We want the Keogh-Simpson legislation.

BAR ASSOCIATION OF SPENCER COUNTY, IND.,
JOHN A. POSEY, *President.*

CEDAR RAPIDS, IOWA, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Include the Cedar Rapids (Linn County, Iowa) Bar Association (150 active members) in support of Keogh-Simpson (H.R. 10).

LINN COUNTY BAR ASSOCIATION,
ALIN J. KEYES, *President.*

ATCHISON, KANS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Bar Association, Atchison County, Kans. Endorses self-employed tax deferment.

GERALD W. FOLEY, *President.*

LAWRENCE, KANS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Include Douglas County, Kans., Bar Association in the list of associations in support of the Keogh-Simpson bill.

JACK C. MAXWELL, *President.*

MISSION, KANS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Johnson County (Kans.) Bar Association endorses and supports the Keogh-Simpson (H.R. 10) legislation.

JOHNSON COUNTY BAR ASSOCIATION,
DONALD C. AMREIN, *Secretary.*

HUTCHINSON, KANS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

On February 19, 1959, the Reno County Bar Association unanimously adopted a resolution favoring passage of the Keogh-Jenkins H.R. 10, and so advised our Congressmen.

RENO COUNTY (KANS.) BAR ASSOCIATION,
MICHAEL E. CHALFANT, *Secretary.*

TOPEKA, KANS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

You may include the Topeka Bar Association among those favoring the Keogh-Simpson (H.R. 10) legislation.

CLAYTON E. KOINE, *President,*
THE TOPEKA BAR ASSOCIATION.

WICHITA, KANS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Wichita Bar Association favors the Keogh-Simpson legislation (H.R. 10).

ROBERT H. NELSON, *President.*
WICHITA BAR ASSOCIATION.

ASHLAND, KY., *June 13, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Re your notice June 11. Boyd County (Ky.) Bar Association favors principle Keogh-Simpson (H.R. 10) legislation.

C. B. CREECH,
President, Boyd County Bar Association.

LOUISVILLE, KY., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

We desire to be included in list of those supporting Keogh-Simpson bill. We will submit statement for hearing record to Kentucky Senators with copy to you.

ROBERT L. SLOSS,
Louisville Bar Association.

BALTIMORE, MD., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include bar association of Baltimore City on list in support of Keogh-Simpson bill.

RIGNAL W. BALDWIN,
President, Bar Association of Baltimore City.

BOSTON, MASS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Kindly include Cambridge Bar Association, Cambridge, Mass., among those in favor of Keogh-Simpson bill, H.R. 10.

ROBERT S. JUDGE,
President, Cambridge Bar Association.

DEDHAM, MASS., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Norfolk County Bar Association, Massachusetts, is strongly in favor of Keogh-Simpson (H.R. 10) bill.

MYRON N. LANE,
President, Norfolk County Bar Association.

GLOUCESTER, MASS., *June 17, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Gloucester, Mass., Bar Association is in favor of the Keogh-Simpson Bill.

WILLIAM G. CLARK,
President.

ROCKLAND, MASS., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Plymouth County Bar Association of Plymouth County, Mass., is to go on record favoring the Keogh-Simpson Bill, H.R. 10.

ALTON F. LYON,
President, Plymouth County Bar Association.

LANCASTER, N.H., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Our association strongly endorses legislation allowing self-employed persons limited tax deferment for voluntary pension plans as embodied in Keogh-Simpson Act.

JOHN E. GROMLEY,
President, Coos County Bar Association.

WOODRIDGE, N.J., *June 14, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Bergen County Bar Association in list supporting Keogh-Simpson bill.

CHARLES L. BERTINI,
President Bergen County Bar Association.

CAMDEN, N.J., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Include us in the list of those in support of Keogh-Simpson legislation.

CAMDEN COUNTRY BAR ASSOCIATION.

NEWARK, N.J., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

This association should be included as supporting Keogh-Simpson bill. Previously wrote both New Jersey Senators requesting their support.

ESSEX COUNTY BAR ASSOCIATION,
DAVID STOFFER, *President.*

PASSAIC, N.J., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Include Passaic County Bar Association in list of associations supporting passage of Keogh-Simpson bill.

BERNARD FEINBERG, *President.*

ALBUQUERQUE, N. MEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Albuquerque, N. Mex., Bar Association endorses Keogh-Simpson (H.R. 10) and desires inclusion on list of those in support thereof.

SCOTT H. MABRY, *President.*

ROSWELL, N. MEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Chaves County Bar Association wholeheartedly endorses principle allowing self-employed to establish pension plan. Include association and support.

WILLIAM C. SCHAUER,
President, Chaves County Bar Association.

NEW YORK, N.Y., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include the Association of the Bar of the City of New York as endorsing H.R. 10.

PAUL B. DEWITT, *Executive Secretary.*

BUFFALO, N.Y., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Bar Association of Erie County, N.Y., favors Keogh-Simpson bill.

JOHN S. RYAN, *President.*

NEWARK, N.Y., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Federation of Bar Associations of Western New York comprising Erie and Monroe County Bar Associations, 3 city and 14 county bar associations in western New York, total of 19, unanimously endorse principle of legislation allowing self-employed a tax deferment for limited amount of income put into voluntary pension plan.

MARSHALL E. LIVINGSTON, *President of Federation.*

ROCHESTER, N.Y., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Monroe County Bas Association strongly supports the Keogh-Simpson bill.

MELVIN H. ZURETT, *President.*

NEW YORK, N.Y. *June 18, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include the New York County Lawyers Association representing over 9,500 members as supporting the Keogh-Simpson bill (H.R. 10). It is high time that self-employed persons should have the benefit of voluntary pension plans. Discrimination against them is unfair and uneconomic. Regards.

ARTHUR H. SCHWARTZ,
President New York County Lawyers Association.

SYRACUSE, N.Y., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Definitely include Onondaga County Bar Association of New York State with membership of over 500 attorneys as favoring passage Smathers-Keogh-Simpson bill.

HUBERT C. STRATTON, *President, Onondaga Bar Association.*

PEARL RIVER, N.Y., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Rockland County Bar Association in the list of those supporting the Keogh-Simpson bill.

MARSHALL ROONEY, *President.*

TYLER, TEX., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Smith County Junior Bar Association of Tyler, Tex., endorses Keogh-Simpson legislation, H.R. 10, allowing self-employed pension plans.

SMITH COUNTY JUNIOR BAR ASSOCIATION,
ROBB HADDEN, *President.*

ITHACA, N.Y., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Tompkins County Bar (New York) supports Keogh-Simpson type legislation. So inform New York delegation.

GABRIEL M. MECKENBURG, *President.*

YONKERS, N.Y., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Westchester County Bar Association in list supporting Keogh-Simpson bill. Have written New York Senators to support it.

JOHN H. GALLOWAY, Jr., *President.*

YONKERS, N.Y., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Add Yonkers Lawyers Association, Yonkers, N.Y., to list at H.R. 10 hearings.

JOSEPH SHAPIRO, *President.*

NEW YORK, N.Y., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please add our name to list supporting Keogh-Simpson type bill.

FEDERAL BAR ASSOCIATION OF NEW YORK,
NEW JERSEY, AND CONNECTICUT.

CLEVELAND, OHIO, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Cleveland Bar Association in support of H.R. 10.

JOHN S. PYKE, *President.*

COLUMBUS, OHIO, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Columbus Bar Association in list of those supporting H.R. 10.

COLUMBUS BAR ASSOCIATION.

LORAIN, OHIO, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Lorain County, Ohio, Bar Association has previously unanimously endorsed Keogh-Simpson bill. We commend your active efforts in the Senate. We have previously telegraphed our Representatives and Senators.

LORAIN COUNTY BAR ASSOCIATION.
E. H. DAVIDSON, *President.*

WADSWORTH, OHIO, *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Medina County Bar Association supports the Keogh-Simpson legislation.

LOUIS R. WILSON, *President.*

WARREN, OHIO, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Trumbull County Bar Association in list of supporters to H.R. 10.

TRUMBULL COUNTY BAR ASSOCIATION.
PAUL GUARNIERI, *President.*

NEW PHILADELPHIA, OHIO, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Tuscarawas County Bar Association we wish to advise your to endorse the Keogh-Simpson H.R. 10 legislation.

LESLIE R. EARLY, *Secretary.*

VAN WERT, OHIO, *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Van Wert County, Ohio, Bar Association approves principles of Keogh-Simpson bill H.R. 10.

VAN WERT, OHIO, BAR ASSOCIATION,
CHARLES E. BALDWIN, *Secretary.*

HUGO, OKLA., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Choctaw County Bar Association is in favor of H.R. 10.

JAMES BOUNDS, *President.*

TULSA, OKLA,, *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Tulsa County Bar Association supports Keogh-Simpson legislation.

HESS CROSSLAND, *President.*

ALVA, OKLA., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Woods County, Okla., Bar unanimously favors Keogh-Simpson bill.

H. C. CRANDALL, *President.*

HARRISBURG, PA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Dauphin County Bar Association on March 6, 1957, unanimously endorsed principle of the legislation to allow self-employed persons a tax deferment for a limited amount of income put in voluntary pension plans. Kindly place name of this association on American Bar list for Senate hearings.

WILLIAM D. BOSWELL,
Secretary, Dauphin County Bar Association.

WILLIAMSPORT, PA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Lynching Law Association endorses Keogh-Simpson bill.

LYCOMING LAW ASSOCIATION OF WILLIAMSPORT, PA.

NORRISTOWN, PA., *June 12, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Include Montgomery County Bar Association of Norristown, Montgomery County, Pa., in support of H.R. 10, or similar legislation.

M. PAUL SMITH,
President, Montgomery County Bar Association.

WESTERLY, R.I., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Washington County Bar Association (Rhode Island) urge support of Keogh-Simpson (H.R. 10) bill.

HAROLD B. SOLOVEITZIK,
President.

MEMPHIS, TENN., *June 15, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.:

The Memphis and Shelby County Bar Association wholeheartedly endorses the principle of the Keogh-Simpson bill (H.R. 10) and urgently recommends its passage. The self-employed person has no paid vacations, sick leaves, nor other fringe benefits. He also must provide for his own retirement. There is no reason why he should be treated differently from other citizens. Sincerely urge your support of this legislation.

JOHN S. MONTEDONICO,
President, Memphis and Shelby County Bar Association.

CLARKSVILLE, TENN., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Montgomery County, Tenn., Bar Association strongly in favor of Keogh bill.

COLLIER GOODLETT, JR.,
President, Montgomery County Bar Association.

AMARILLO, TEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please consider this evidence of our wholehearted support of the Keogh-Simpson bill.

ROBERT CARNAHAN,
Secretary, Amarillo Junior Bar Association.

LUFKIN, TEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Angelina County, Tex., Bar Association favors legislation of the type involved in Keogh-Simpson bill. Urge your strong support in favor of this legislation.

LOUIS RENFROW,
President, Angelina County Bar Association.

TEXARKANA, TEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Bowie County Bar Association, Texarkana, Tex., recommends approval of Keogh-Simpson bill.

WM. E. WIGGINS, *President.*

DALLAS, TEX., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Dallas Bar Association wholeheartedly favors the Keogh-Simpson bill. Will you kindly include our association in the list of those in support of this legislation.

Sincerely,

JOHN N. JACKSON,
President, Dallas Bar Association.

CARRIZO SPRINGS, TEX., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Dimmit County, Tex., Bar Association enthusiastically endorses Keogh-Simpson bill, H.R. 10.

DIMMIT COUNTY BAR ASSOCIATION.

FORT WORTH, TEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Please include Fort Worth Junior Bar Association in list of those supporting Keogh-Simpson (H.R. 10) legislation.

R. G. GUTHRIE,
President, Fort Worth Junior Bar Association.

PAMPA, TEX., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Twenty-nine members of Gray County Bar Association support Keogh-Simpson bill.

GRAY COUNTY BAR ASSOCIATION.

BEAUMONT, TEX., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Our association is highly in favor of the Keogh-Simpson bill.

SENATOR JEP S. FULLER,
President, Jefferson County Bar Association.

GILMER, TEX., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Northeast Texas Bar Association wholeheartedly supports Keogh-Simpson bill.

EDWIN M. FULTON,
President, Northeast Texas Bar Association.

DALHART, TEX., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The 69th Judicial Bar Association is unanimously in support of Keogh-Simpson (H.R. 10) legislation and endorse the same. Please include our association on the list of those supporting this type of legislation at the hearing.

FLOYD H. RICHARDS, *President.*

ROANOKE, VA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Roanoke Bar Association, Roanoke, Va. (160 members), unanimously supports Keogh-Simpson (H.R. 10) legislation by formal resolution adopted June 9 and sent to Virginia senators.

J. N. KINCANON,
Secretary, Roanoke Bar Association.

OGDEN, UTAH, *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Weber County Bar Association on June 5, 1959, unanimously voted to approve in principle and to support the Keogh-Simpson legislation (H.R. 10) and should be included in your list of supporters.

PAUL THATCHER,
President, Weber County Bar Association.

MARTINSBURG, W. VA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Berkeley County Bar Association wishes to express support of the Keogh-Simpson bill before Congress.

ROBERT M. STEPTOE, *President.*

CLARKSBURG, W. VA., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Harrison County Bar Association through its executive committee supports H.R. 10, Keogh-Simpson bill.

JAMES P. ROBINSON,
President, Harrison County Bar Association.

BECKLEY, W. VA., *June 15, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

The Raleigh County Bar Association unanimously approves the Keogh-Simpson bill and urges that independent businessmen be given the same consideration as employees by providing their own trust funds. Passage urged.

RALEIGH COUNTY BAR ASSOCIATION,
ROBERT J. ASHWORTH, *President.*

LANCASTER, WIS., *June 16, 1959.*

AMERICAN BAR ASSOCIATION,
Washington, D.C.:

Grant County Bar Association, Wisconsin, strongly behind Keogh-Simpson bill.

PATRICK KINNEY, *President.*

AMERICAN BAR ASSOCIATION,
Washington, D.C., June 22, 1959.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR BYRD: In addition to the telegrams which have been submitted from bar associations endorsing H.R. 10, the following associations have requested that they be listed in the hearing record as in support of the legislation

to encourage voluntary retirement pension plans for self-employed. We would appreciate your listing these bar associations in the hearing record following insertion of the telegrams:

Delaware State Bar Association, James T. McKinstry, secretary
Bar Association of the District of Columbia, George L. Norris, executive secretary
Junior bar section, Bar Association of the District of Columbia, Walter F. Sheble, chairman
Edgar County, Ill., Bar Association, Harvey Gross, president
Mercer County, Ill., Bar Association, James C. Allen, president
Sangamon County, Ill., Bar Association, Frederick H. Stone, president
Adair County, Iowa, Bar Association, J. E. Don Carlos
Caroline County, Md., Bar Association, Robert W. Downes, Jr., president
State Bar of Michigan, Milton E. Bachmann, executive secretary
New York State Bar Association, John E. Berry, executive secretary
Newburgh Bar Association, New York, Isadore Shapiro, president
Buncombe County, N.C., Bar Association, William J. Cocke, president
Middletown, Ohio, Bar Association, Harold G. Dance, president
Seminole County, Okla., Bar Association, Marion R. Wells, president
The Windham, Vt., County Bar Association, Osmer C. Fitts, president
Virginia State Bar, R. E. Booker, secretary-treasurer
Richmond, Va., Bar Association, George E. Allen, president
Petersburg, Va., Bar Association, T. Taylor Cralle, secretary
Fifteenth Judicial Circuit Bar Association of Virginia, Edward Stehl III

Respectfully submitted.

DONALD E. CHANNELL,
Director, Washington Office.

Mr. MALONE. Mr. Chairman, when in 1942, the laws with reference to voluntary and nondiscriminatory pension plans supplementing social security were made more certain, there began, as has been testified this morning, to be created throughout the country an increasing number of pension plans by corporations that were qualified under the law to set up these plans. Obviously, since they extended to all employees of corporations, they included the management employees as well as those who might be subject to collective bargaining agreements. This amendment of the law, and the opportunity which it afforded for the deferment of tax liability, has resulted in some 45,000 plans being prepared, filed, and approved by the Internal Revenue Service during the period since 1942. As was pointed out this morning, there are now 18 million employees under such plans, and that number under the existing law is increasing by approximately 1 million people each year. The annual contributions which are made tax free to these funds are now aggregating approximately $4 billion annually.

Senator FREAR. Mr. Malone, that $4 billion does not include employees' social security taxes?

Mr. MALONE. That is correct. This is the corpus of the pension fund set up under the existing legislation. And their total reserves are now approximately $35 billion.

The obvious results of this legislation, as has been recognized by everyone here this morning, was to discriminate in favor of persons who are employed by corporations or employed by individuals——

Senator GORE. Mr. Chairman, may I ask a question?

Senator FREAR. Yes, Senator.

Senator GORE. Are you taking the position that one discrimination justifies another, and that two discriminations make a right?

Mr. MALONE. No, sir, and I do not think that it is necessary to take that position, Senator, in order to see the validity of the request for this legislation.

Senator GORE. Isn't that, in fact, the position you are taking now, you are just telling us about the favoritism to which reference has already been made, you say this constitutes a discrimination in favor of another group, and you are prepared to say now, because of that, you think discrimination should be made in favor of your group, is that right?

Mr. MALONE. No, I do not believe it is.

Senator GORE. I thought you were ready to do that.

Mr. MALONE. I respectfully suggest that what I was going to say is this——

Senator GORE. You go right ahead and say it, I just thought you were ready to say that.

Mr. MALONE. If I was about ready to fall into a trap, I am glad you stopped me, sir.

Senator GORE. You were already in it. I thought you knew it.

Mr. MALONE. I was going to suggest that the Congress, in the legislation which authorized the creation of voluntary pension plans of this type, determined that this is a desirable thing to be done in our system of individual enterprise and initiative motivation. Having determined that this is a desirable policy, they extended it to only a part of the people who should benefit from any such policy. And my proposal is that it be extended to include those who are self-employed as being perhaps an even more worthy group to receive the benefits of such a plan.

Senator GORE. How would you extend it, now, to the head of the family who only has an income of $2,500 a year?

Mr. MALONE. If an opportunity is afforded to a self-employed individual, as proposed by this act, he is permitted to put into such a plan or into such a pension trust up to 10 percent of his net earnings from his self-employment.

Senator GORE. But that is not the question I asked you. How is he going to benefit, the self-employed person whose total income is $2,500 a year?

Mr. MALONE. Well, he is going to benefit to the extent of his savings which are put into the plan. And presumably——

Senator GORE. Suppose he has none that he can afford to put in the plan, how is he going to benefit?

Mr. MALONE. Of course, any opportunity afforded by the law, of which we do not take advantage, regardless of what the cost may be, doesn't benefit us. And certainly a person who has no money to put into his own retirement is not going to have any funds available for his retirement.

Senator GORE. Now, if this person with a $2,500 income has a wife and two children, and we raise the personal exemption from $600 to $800, he would benefit, wouldn't he?

Mr. MALONE. That is correct.

Senator GORE. Would you prefer that?

Mr. MALONE. I would suggest, Senator, that before there is a reduction, an overall reduction in taxes, obvious inequities such as exist here should be eliminated, because when you have an overall reduction, and leave the obvious inequity in existence, you merely perpetuate it.

Senator GORE. I agree with you on the elimination of the inequities. Do you really mean what you say, or do you want to put more inequities in the law?

Mr. MALONE. No, sir. I certainly would not appear before this committee and advocate anything which I felt would put more inequities in the law.

Senator GORE. Then you think that the Congress should proceed promptly to eliminate the inequities, the discrimination to which you testified now in the law in favor of corporate employees?

Mr. MALONE. I heard the Senator's statement this morning just before his departure——

Senator GORE. I thought you had just agreed with me.

Mr. MALONE. And I fully agree that there are two ways that you can eliminate a situation which results in an inequity to a given group. You can take the privilege away from those who have it, or you can give it to everyone who is in the class that should have it. Now, those are the alternatives which would seem to be available.

Senator GORE. Everyone that should have it?

Mr. MALONE. Yes, sir. And I would respectfully——

Senator GORE. Do you mean everyone should have it?

Mr. MALONE. I think that everyone who is in the position of being employed, whether he be self-employed or employed by someone else, should under authorizing legislation of the Congress have available a means to have a pension plan of this type. And if the proposed legislation were enacted, that situation would exist.

Senator GORE. Well, the most glaring—there are so many glaring inequities I hesitate to say which is the most glaring—one of the most noticeable inequities in the law is the personal exemption of each taxpayer and dependent of only $600. Don't you agree that $600 is utterly unrealistic when considered against the cost of rearing a child?

Mr. MALONE. I would not disagree with the Senator on that. I would, however, suggest that that is not an inequity, because it applies uniformly to everyone. An inequity would apply only to some of the people, and not to all who are equally situated. But I agree with you that it is not a realistic allowance for the cost of living.

Senator GORE. I think I will accept your correction. I think your language is better than mine. I think it is an unfairness, I will use that term.

Mr. MALONE. It could well be.

Senator GORE. And I have been advocating that the exemption be raised to at least $800, which still doesn't approach the cost of my children, it doesn't even get in the proximity of it. And yet you are advocating here for those who can afford it an exemption of $3,100 a year, $2,500 on top of the $600. Now, the discrimination arises out of the fact that the great mass of our people do not have sufficient income to take advantage of such a provision, therefore it would operate as another discrimination in favor of those who do not need it nearly so badly as the mass of our people who cannot afford to take advantage of it.

Mr. MALONE. Senator, of course there is a great deal of opinion involved in the expression on the subject. I would like to point to

one experience that I have had that leads me to think that situation may not be as extreme as you feel. I happen to be a director of a small savings and loan association. I have been very much interested in the people who are trying through the facilities of that association to accumulate a little money for a rainy day or for their old age. And I find that the people who are in a low income bracket are fighting harder, and in many instances simply amaze you with what they accomplish because of their desire to take care of the hazards of old age. And I agree——

Senator GORE. They would do a little better if they had an exemption of $800; wouldn't they?

Mr. MALONE. They could do better if they had this pension provision, too; they could do better on both of them.

Senator GORE. I am not so sure about that; the latter. But go ahead.

Mr. MALONE. In any event, the result of this situation, in which one segment of the population was permitted to make provision for its old age, and another segment composed of the self-employed people was not permitted to do so——

Senator GORE. I agree with you.

Mr. MALONE. Quite obviously resulted in some pressures to do something about the situation.

Senator GORE. Pressures?

Mr. MALONE. Yes, sir.

Senator GORE. I agree with you thoroughly.

Mr. MALONE. As far as the American Bar Association is concerned, I have in mind right now—and of course those pressures do get transmitted, I guess—but back in about in 1945, just about 3 years after the 1942 act, a client began coming to his lawyers and saying, "Look, I have got a grocery store over here, this friend down the street has got a small corporation, and he has set up a pension plan whereby he is able to make some provisions for his old age. I am just as good a citizen as he is, now, why can't I do that?" And it is kind of hard to explain to a client why he can't and why the law makes provision for a man employed by a corporation as a corporation executive to have that benefit, and a man who is self-employed not to have it.

Senator GORE. The man is right, he has got justice on his side. And if the Congress doesn't do something to strike down discrimination, I want to employ you to create one for me.

Mr. MALONE. Thank you, sir.

Senator GORE. We had better fix the fee, though.

Mr. MALONE. Well, these pressures that resulted from this obvious inequity did result in about 1950 in the American Bar setting up a committee to study this thing, not only as it related to lawyers, but as it related to all self-employed. And legislation was prepared and introduced in 1951. The author of our original legislation that was sponsored by Congressmen Keogh and Reed is Mr. Leslie Rapp, who is the chairman of our advisory committee. Mr. Rapp is present here today with me and is available to answer any questions the committee might wish to ask as far as the history of the legislation is concerned—he is personally familiar with it.

As a result of the original legislation, one inequity occurred, and down through the 17 years there has been an increase in that inequity

as a result of the fact that the people who have had the benefit of this legislation have had the benefit of an increase in the funds placed in pension funds set up during this period, which is a not inconsiderable benefit.

This morning's Washington Post has a story, page C–10, "Profit-Sharing Rise Tops Firm's Salaries." This is an AP story from Chicago.

I would like to offer it for the record. I will read only very briefly from it:

A net worth increase of more than 50 percent in the employees' profit-sharing fund of Material Service Corp. during the last year was reported by Col. Henry Crown, chairman.

He said that the increase—this is the increase in the value of the corpus of this pension trust, or profit-sharing trust—amounted to $8,579 per employee last year, with the result that a woman who earned $7,500 in salary as a chief clerk will find that her profit-sharing fund grew by $7,800, so that her salary in effect was doubled by the appreciation of the funds that had been placed in this trust fund, or this pension fund.

Now, the self-employed man has been denied the opportunity to do the same thing for 17 years. He was denied the opportunity to get the benefit of the appreciation which is reflected here. So that the magnitude of the injustice which has resulted from this situation is certainly not inconsiderable.

And I would like to offer this for the record.

Senator FREAR. It will be made a part of the record, Mr. Malone.

(The article referred to follows:)

[From the Washington Post and Times Herald, June 17, 1959]

PROFIT-SHARING RISE TOPS FIRM'S SALARIES

CHICAGO, June 16 (AP).—A net worth increase of more than 50 percent in the employees' profit-sharing fund of Material Service Corp. during the last year was reported by Col. Henry Crown, chairman.

Crown, who managed investments on behalf of 780 employee members of the fund, proudly told reporters the pool reached $6,692,000 at the end of 1958. The increase during the year was $2,389,613.

The balance average, he said, was $8,579 per employee. Members of the fund are employees not covered by the union pension plans.

The fund was started in 1945 with a $41,000 contribution by the firm which has continued to add to it an additional amount each year equal to 15 percent of the salaries of the member employees.

In specific terms, Crown said, employees will be notified of increases in their fund shares generally equal to more than their entire year's salaries.

"A woman who earns $7,500 a year as a chief clerk will find that her profit-sharing fund grew by $7,831," Crown said. "A $19,000-a-year executive will learn that his fund grew by $40,500—more than double his salary."

Last year's increase of the fund included $1,745,558 through income received from investments and increases in their market value. The other $856,048 represented the 15-percent contribution by the big fuel and building materials firm.

Some of the more successful stock investments in the fund were Boeing Aircraft purchased at an average price of 8½ a share and worth 46½ at the close of 1958, Goodyear bought at 12¾ and worth 121 at year's close.

Senator FREAR. The injustice was that you could have done it, but you would have paid taxes on it, and the other one was tax free?

Mr. MALONE. That the funds would have been accumulated, and tax would be paid on them at the time they come out of the fund, rather than at the time they were received in the current year.

Senator FREAR. But there was nothing in your statement to say that you or this other person or any other person could not have invested the same amount of money as the chief clerk of the Material Corporation, is that right?

Mr. MALONE. Except that the funds may only have been available for investment because they were nontaxable at the time. If you pay taxes on them, you wouldn't have them available to invest. And their availability for investment resulted in part at least from the plan.

Senator FREAR. All I am trying to say is, the inequity that you stated, as I understood it, is tax.

Mr. MALONE. As it relates to this plan and its availability, yes. I would like to mention briefly six factors which seem to me to recommend the enactment of this legislation.

First, the fact that it encourages thrift and self-reliance by encouraging self-employed people to provide for their own retirement and not to look to Federal, State, and local governments to care for them in their old age.

Second, I would like to mention the fact that was referred to this morning, that the social impact of this situation is becoming increasingly great. It so happens that this time yesterday I was in a conference over at the law school of the University of Michigan on the "future of legal education."

That conference was attended by about 110 lawyers, including about 55 deans of law schools, a very distinguished group of law school deans.

The subject that they discussed yesterday morning was the fact that the law is having an increasingly difficult time attracting qualified young men and young women, and that the percentage of top students that the law used to get are not coming to them. And now, there are obviously a number of factors in it.

But in the discussion yesterday morning, one thing that was brought out more than once was the fact that a young man says to his college adviser, "Well, if I take an engineering course and get out as an engineer, I can go to work for a corporation; it will have a pension plan, and I can work until retirement, then I can retire and get some years of pleasure, so this looks very attractive. If I study law, I am going to have to go to law school longer, and if I go into private practice, I am not going to have an opportunity to accumulate such a fund, except such money as I can save after taxes, which it doesn't look like is going to be very much."

Now, I have only the statement of these law school deans that this has become a sufficient factor that it is reflected in the conversations that they have with the students.

That it is having an impact upon students in law schools as they enter the profession is disclosed by the fact that there are three times as many lawyers employed by corporations today as there were 10 years ago. So that in a 10-year period the number of members of the legal profession who have turned to corporate employment—certainly for other reasons than the pension fund, of course—but unquestionably the

opportunity for retirement benefits which is afforded by this law that we are discussing through corporate employment is a considerable factor in it, and it points up, as I say, the sociological effect of the inequity that exists.

This Nation, we can all agree, was built by self-employed individuals who were willing to go it alone. And, unfortunately, the self-employed individual is disappearing from Main Street, from the farms, and from the professions all too rapidly.

It is difficult to justify, it seems to me, a provision in the tax law which tends to force individuals to employment by large firms and corporations and to discourage them from continuing as individuals self-employed people who, in my opinion at least, are the backbone of this country.

The problem is perhaps even more acute with lawyers than it is with a great many people. A practicing lawyer has a peak earning period of 20 years. Generally, it is estimated to be from age 45 to age 65. He goes through a well-recognized starvation period to reach that point. When he gets to that peak earning period, he has no depreciation because his assets are his law library and his typewriter and his mind. He has no depletion or carryback or carry forward in the application of the Federal Internal Revenue Code. The result is that he is in perhaps a more serious situation than many other self-employed people.

The last study by the U.S. Department of Commerce disclosed that one-half of the lawyers in the United States have a net income of less than $7,382 per year, and that one-third of the practicing lawyers of the United States have a net income of less than $5,485 a year, an income which compares most unfavorably with the amount suggested here this morning as being the average earning of unskilled labor.

A third point, which I would like to suggest, is the one which I referred to earlier, and I will not elaborate on it, that it would seem that the elimination of an inequity which is as gross as this one, should precede a general tax reduction, because of the fact that the effect of a general tax reduction is merely to perpetuate the inequity.

Congressman Simpson, in a statement, pointed this out very effectively—I will not take time to read the statement, which was made in the House of Representatives, but it is included in the statement which I am filing.

The fourth aspect of the problem which I would like to mention is the contention that this measure would lead to demands for tax reduction for contributions made by employees under social security and the Railroad Retirement Act. But, as Congressman Keogh so effectively pointed out this morning, the two situations are in no sense comparable, inasmuch as the benefits under the social security and the Railroad Retirement Act are tax free when received, and hence the premium is paid by tax dollars, whereas under the proposed legislation the premium, if we wish to refer to it in that fashion, is paid by untaxed dollars, but tax is imposed on the funds when they come out of the pension fund.

So that it would seem to us that the question in its relation to social security or the Railroad Retirement Act is not at all pertinent to the issues here.

It has been suggested that H.R. 10 should not be enacted because it is limited to the self-employed and does nothing for the pensionless em-

ployed. Now, as you know, Mr. Chairman, under the present law, an individual or a partnership or a corporation employing people does have the opportunity to set up a pension plan under this act if he desires to do so. But, again, as pointed out this morning, there is no inducement for a self-employed man to set up a pension plan for his employees and contribute funds to it when he is prohibited from benefiting himself, whereas his brother employer in a corporate status does the same thing and benefits from it himself.

Now that situation, certainly, it seems to me, distinguishes the two cases.

Let me offer this further distinction. We are dealing here with legislative inequity. This legislative inequity is the fact that the law prohibits the benefit of a pension fund of this type to a self-employed man. The law does not prohibit the benefit of a pension fund of this type to the employee of a self-employed man, or to other employees who are not covered by pension funds at the present time.

I fully anticipate that if this legislation is passed, the rate of one million employees a year that is now coming under pension funds will increase tremendously, because as self-employed individuals set up funds from which they can benefit themselves, they are going to set up funds benefiting their employees, and the result is going to be that this million a year increase will accelerate tremendously.

Finally, I return again to my original statement, which is that the law does not prevent the present pensionless employed person from receiving the benefit of a pension fund. The law does prohibit a self-employed person from receiving that benefit. So in discussing the inequity which can be eliminated by the law, we need discuss only the one with reference to the self-employed person. The question of whether the Congress would want to set up a mandatory requirement that every employer must set up a pension fund is an entirely different and unrelated question to the question of eliminating the inequity which now exists so far as the self-employed are concerned.

I would like to point out in that connection, that, as Congressman Keogh suggested, it was at the suggestion of the Treasury Department itself, in earlier hearings on this legislation that the pensionless employees be eliminated from the bill. Tax relief, the Treasury Department said, seems most clearly indicated for self-employed individuals who do not have even potential tax benefits under existing law, and providing themselves with the time and income.

The sixth subject which I would like to mention very briefly is the suggestion that the bill should not be enacted because it does not extend the contributions made by employees under private and governmental pension plans.

The purpose of this legislation and the effect of the proposed legislation is to put self-employed persons in the same position as those employed by corporations and other individuals, and to eliminate that discrimination.

Finally, I would like to point out that the tax treatment of self-employed persons which is proposed by this legislation was enacted in England in 1956, and in Canada and New Zealand in 1957. I have no doubt that every argument made in opposition to this legislation by the Treasury Department could have been made and was made in England with even greater force where the tax rate is even higher, and

the economic problems incident to revenue are even greater. Nonetheless, in the face of that fact, the Parliament of England, as well as those of Canada, Australia, and New Zealand, recognized this inequity, recognized the desirability of helping self-employed people provide for their old age, the desirability of strengthening the self-employed as the backbone of our society, and made this relief available to them.

No doubt, the estimates as to the cost in revenue to the Government were very large, as were the estimates of the Treasury Department here. A witness will be presented later as to the actual experience and the actual cost which we think will result from this legislation.

But suffice to say here that the cost in actual operation in terms of reduced revenue was very, very materially less than the anticipated figures which had been worked out on the basis of theory at the time the legislation was under consideration.

On behalf of the American Bar Association and its 95,000 members, as well as the tens of thousands of lawyers throughout the country who have expressed themselves in support of this legislation, I appreciate the opportunity to encourage enactment of H.R. 10, or its substantial equivalent, to eliminate an inequity which has existed for 17 years, and increased every one of those 17 years, and to further the strengthening of the self-employed man, who is the backbone of this Nation.

I thank you very much.

Senator FREAR. Mr. Malone, why can't the self-employed take advantage of that which H.R. 10 is now designed to give them?

Mr. MALONE. Because they are not permitted to set up a pension plan, to pay funds in that plan, which are not taxed at the time they go in, but are taxed at the time they come out. They can set up a plan for their employees, but they cannot set up a plan in which they participate, as distinguished from the corporate executive who does participate.

Senator FREAR. Is the difference because the self-employed is not a corporation?

Mr. MALONE. That is just what it comes down to.

Senator FREAR. I am sure you are familiar with the amendments that were made to the code either last year or the previous year by the Congress—and I might mention that it was made for the benefit of small business—whereby a corporation could elect to file a return as a partnership, or vice versa.

Mr. MALONE. Subchapter S, I believe they refer to.

Senator FREAR. I believe that is right. Don't you think that under that subchapter S, the self-employed could take advantage of that corporate status?

Mr. MALONE. That is exactly right, sir, as far as most self-employed businessmen are concerned, and farmers, and people in that category. Unfortunately, the lawyers are prohibited from practicing law as a corporation by the laws of practically ever State in the United States. And there is no way that they can do so.

I know of a case, with which the Senator is probably familiar, in which some doctors out in Montana felt that this discrimination was so great, and were so determined to try to get the benefit that other people in their situation got, that they formed a business association

which would be taxable as a corporation, and undertook to set up a pension plan as corporation executives on that basis.

The result of the law, as you can see, was to force these doctors to resort to a subterfuge in order to do what under the law they should be permitted to do just like other people in a comparable position.

And doctors, lawyers, and professional men who are prohibited from practicing as corporations cannot take advantage of it.

Senator FREAR. As I understand it they don't have to be a corporation to file as a corporation and gain the benefit of the corporation.

Mr. MALONE. I don't think I am qualified to answer that question, Senator. I do not engage in the practice of tax law, and my knowledge is superficial. It is quite possible that Mr. Rapp here could answer the question.

Senator FREAR. Mr. Rapp, would you please identify yourself.

Mr. RAPP. Leslie M. Rapp, New York, chairman of the Advisory Committee to the Committee on Retirement Benefits, American Bar Association.

Senator FREAR. I think the people in the room can hear your, sir.

Mr. RAPP. Would you restate the question to me, Senator?

Senator FREAR. The question, I think, was from Mr. Malone that they did not have to be a corporation under title S; they merely filed as a partnership under the code, under S, to have the advantages of a corporation. They didn't have to be a corporation to file and receive these benefits; they could do it as a partnership and not as a corporation and still receive the benefits as though they were a corporation?

Mr. RAPP. I think not, Senator. I think the purpose of subchapter S was to permit corporations—actual corporations—meeting certain tests to be taxed as though they were partnerships.

In other words, you have to begin with a corporation to take advantage of subchapter S.

These doctors out in Montana formed an association which was not a corporation but had attributes of a corporation. Therefore, it was taxed as a corporation.

Senator FREAR. Perhaps subchapter R is where the partnership can file as a corporation. I have been reminded that it is section 1361, with which I am sure you are familiar.

Mr. RAPP. Subchapter R, of section 1361, permits unincorporated businesses to be taxed as a corporation, at their election, but it specifically provides that a partner or proprietor of such a business shall not be considered an employee for purposes of section 401, the qualified employee pension plan provision.

It seems to me that without reference to subchapter S, those who wanted to do so could do as the doctors did out in Montana, that is, enter this subterfuge of forming not a corporation, but just an association which by virtue of its centralized management and so forth, became taxable as a corporation so that the members of the association could obtain the benefits of a pension plan as though they were corporate employees——

Senator FREAR. Did these doctors obtain the advantage that H.R. 10 seeks to obtain?

Mr. RAPP. They obtained the advantages that the corporate executives and employees obtain under qualified pension plans.

Senator FREAR. Would that prohibit a group of attorneys from seeking the same advantages by the same partnership structure or association structure?

Mr. RAPP. I have had it looked into, so far as New York is concerned—and there seems to be some doubt that lawyers could enter into that kind of a setup.

Senator FREAR. Mr. Malone said all the States do prohibit attorneys from acting as a corporation or being incorporated, do you think that the intention of that would be to continue not to give this preferential treatment under 1361 to attorneys, or to doctors?

Mr. RAPP. I think perhaps so. The availability of section 1361 does not carry with it the right to qualify as an employee for purposes of the qualified pension plan provisions.

Senator FREAR. I don't recall that that was the construction put upon it when it was passed. However, I would certainly not want to put my judgment up against yours or Mr. Malone's in this case.

Mr. RAPP. This is just an offhand judgment on my part.

Senator FREAR. Could you write an opinion for the committee without charge?

Mr. RAPP. Yes, sir.

Mr. MALONE. Mr. Chairman, I believe that Mr. Williamson has prepared for the committee a memorandum on this subject which I understand will be introduced in the record.

Senator CURTIS. Before Mr. Rapp leaves the stand, I would like to ask you: Are you familiar with the Canadian plan?

Mr. RAPP. I have some familiarity with it, Senator, yes.

Senator CURTIS. It is not identical with H.R. 10, is it?

Mr. RAPP. No, but it is quite similar in that——

Senator CURTIS. Can you give us the essentials of it?

Mr. RAPP. They allow a deduction of 10 percent but not to exceed $2,500 for amounts put aside by employed and self-employed persons.

Senator CURTIS. Available to everybody?

Mr. RAPP. For their old age. It even covers people who are under qualified plans, but with a lower ceiling. Their ceiling is $1,500 as against $2,500 for everybody else.

Now, the English plan covers all persons not under a pensionable employment, which means that it covers everybody but those under qualified plans under the English system.

Senator CURTIS. It was my understanding that the Canadian plan was a plan available to everybody.

Mr. RAPP. That is correct.

Senator CURTIS. And it gave a tax incentive to every citizen to save some of his money for his own old age.

Mr. RAPP. That's correct.

Senator CURTIS. Which is anti-inflationary.

It also reduces the pressure for increased benefits of public financed plans.

Mr. RAPP. That certainly is true.

Senator CURTIS. We are approaching the time not too far off when our social security budget in this country is going to be in the neighborhood of $20 to $25 billion a year. I am sure as a distinguished tax lawyer of the country you realize that social security is not a

pension plan in that it is funded and is an accumulation of savings of the beneficiaries.

Mr. RAPP. Correct.

Senator CURTIS. It is a tax on the employer, a tax on the employee, a tax on the self-employed, and from it is paid a social benefit to certain people.

I am disturbed about some of the current problems that we face as enumerated by the Treasury. I would be less than frank if I didn't say this. I do think that in the broader long-range field, the proposition of every citizen, employed, self-employed, everybody, having a tax incentive for saving money, in view of our inflationary trends in the foreseeable future, in view of the costs and pressures to demand more and more from public pension plans, is a matter of public policy that merits our study.

Is the New Zealand plan more like the English plan or it is more like the Canadian plan?

Mr. RAPP. It isn't too much like either one. It is so far set up on a very small scale and actually I have never seen a complete summary of it and haven't too much information about it. It is not as comprehensive as either of the other two.

Senator CURTIS. The British income tax is not a pay-as-you-go system; is it? Don't they pay in the subsequent year for the prior years' income?

Mr. RAPP. I am not familiar with the English system.

Senator CURTIS. I am not sure, either, but I do know there are a number of foreign countries where their income tax is a deduction from the tax. In other words, the amount that they paid out in the current year for income tax is treated in the same manner as what we pay out for State and local taxes here.

Mr. RAPP. Yes.

Senator CURTIS. It is a little bit hard to transpose one plan on another because of the peculiarities.

Thats' all, Mr. Chairman.

Senator FREAR. Have you finished, Mr. Malone?

Mr. MALONE. Yes, sir.

Senator FREAR. Senator Boyd; Senator Hartke?

Senator HARTKE. As a fellow member of the bar and as one who is a member of your association, let me ask you: What would be your position if this would cause the budget to be thrown out of balance for fiscal 1960?

Mr. MALONE. If this would cause the budget——

Senator HARTKE. If the adoption of this particular bill would cause the budget to be unbalanced in fiscal 1960, would you still ask the Congress to enact this legislation?

Mr. MALONE. I am expressing only a personal opinion, but if the factors that go to determine whether the budget is in balance or out of balance were so closely in balance that this was going to make the difference between balancing or unbalancing, I would say that the magnitude of the inequity justified its correction and the seeking of revenue elsewhere.

Senator HARTKE. Very good lawyer.

Let me ask you, then, in this regard: Do you feel that you can, in good faith, come in and ask for this type of legislation as it is written without including it to extend to the other groups that it was for-

merly intended to include which are not of so-called pensionless employees?

Mr. MALONE. Pensionless employees.

I think that the action to be taken as regards pensionless employees is a matter for the Congress to determine but the legislative inequity which exists against the self-employed does not exist against the pensionless employee. The law permits them to have a pension. It does not permit the self-employed to. So, in eliminating the legislative inequity, the Congress has no occasion to look toward the pensionless employee. That becomes a question of whether the Congress wants to say to an employer, you must have a pension fund for your employee.

Senator HARTKE. Isn't that a legalistic interpretation rather than a factual approach to the problem? The fact of the matter is, many of these pensionless people are not in a position where they can establish their own pension funds if they wanted to or not.

Mr. MALONE. I am not taking a position in opposition to action on that subject. I am saying that it seems to me that the factors to be considered in it are different than the factors here because this is the legislative inequity.

Now, looking at it factually, and I believe I have made, I may have made this statement before you came in, Senator, it was testified that the number of people being covered under pension plan each year, new people, is now a million a year. If H.R. 10 is established so that a self-employed man has some inducement to set up a plan for himself and his employees, I would anticipate that that figure would double, treble, or even become greater in terms of the number of pensionless people that are brought under. I am not sure that you would be dealing with the same situation at all after H.R. 10 had been in effect for 2 years, we will say, as you are dealing with right now, with H.R. 10 never having been in effect.

Senate HARTKE. Let me ask you: The Treasury contends that if you take this step, that this is just a first step, and as I understand the position of the proponents, that they have withdrawn the extent to which this particular provision is to go in response to certain Treasury objections heretofore, is that correct?

Mr. MALONE. The Treasury suggestion that it be done on a previous occasion, yes.

Senator HARTKE. Now they contend that even though they objected to the wide extension of the provisions of this type, you have cut it down and, as a result, it is going to be expanded because this will be a legislative precedent, isn't that right?

Mr. MALONE. That's right.

Senator HARTKE. In your opinion, will it be a legislative precedent?

Mr. MALONE. It does not seem to me that it is for the reason that I have just stated.

Senator HARTKE. Assuming that it was, for the moment, if it is, would it be a legislative ground for legislative precedent and a resulting cost to the Government would be in excess of $1 billion, then, which is a significant amount?

Mr. MALONE. It certainly is.

Senator HARTKE. Would your position then, still, your personal or your cumulative, however you wanted to testify, would your position

still be that if it would affect the Treasury balance to that extent, would your position still be in favor of this type of bill?

Mr. MALONE. That becomes a difficult question.

Senator HARTKE. It is a difficult question, but I think that is a question that the Senator is going to ultimately have to face. I want you to help me give an answer to it.

Mr. MALONE. I think that as you posed it, it is the question of what kind of a price are you willing to pay for unfairness and injustice and inequity: How much are you willing to pay to continue it?

Senator HARTKE. Don't ask me a question.

Mr. MALONE. Well, I mean those are the questions I ask myself in trying to answer your question.

Senator HARTKE. That is the one I asked myself, too. I want your help as my superior.

Mr. MALONE. I would say that if we are going to put a price tag on every change in the tax law and to say, until the budget is in balance and we have a surplus we will not correct any inequities of any kind or make any change in the tax law of any kind, then I would say this change is no more entitled to be considered than another. But with all due respect, I believe the Senator will agree with me that that will not be the case and is not the case, and it becomes rather a matter of weighing the extent of the inequity and the injustice that results from it.

I think when you weigh that with reference to this legislation, it puts it very high on the priority list for attention.

Senator HARTKE. The Treasury's contention is, and after all this is something I think that is major, is that they recommend that the tax treatment of retired savings be carefully considered in conjunction with the Ways and Means Committee's announced plans for an extensive inquiry into the operating for constructive reform of the Federal tax system, a project in which the Treasury is cooperating.

In view of that statement, do you feel that you could in good conscience still recommend that we adopt this or do you feel that we should follow the procedure as outlined here by the Treasury Department and the weight of this overall study?

Mr. MALONE. In all frankness, Senator, in the light of the experience that we have had, I can only evaluate that as another excuse that the Treasury Department has come up with to postpone consideration of this legislation.

Congressman Keogh told you the long history of the basis of opposition by the Treasury Department, our meeting its objection, its coming up with another objection, and finally coming up here with the objection that we had met their former objection and hence we were not entitled to action. So that I must say I have to have a little salt to go along with that statement.

Senator HARTKE. Do you believe that any group is entitled to selective tax relief and more general tax reduction cannot be properly made as it is alleged by the Treasury Department?

Mr. MALONE. I do not believe they are entitled to tax relief but I do believe they are entitled to the elimination of inequity and an injustice because it is perpetuated by general tax reduction and you would never get rid of injustices and inequities if you put them on the basis of general tax reduction.

Senator HARTKE. In other words, you do not classify this in terms as selective tax relief but, as I understand, you say this is removal of inequity in taxation, is that right?

Mr. MALONE. That's right.

Senator HARTKE. Now then, the Treasury also says that the right to the funds under the employee pension plans is not wholly within the control of the ultimate recipient but, under this proposal, it would be under the control of the individual self-employed person.

Now, how would you meet that?

Mr. MALONE. I frankly didn't follow that statement; I couldn't follow it this morning when it was made and I am not sure what they mean by it.

Senator HARTKE. In other words, as I understand his contention, the pensioned employee under the pension plan has to stay a certain period of time before he can ultimately acquire any of the benefits under the pension plan whereas, under this particular proposal, the funds are always within the jurisdiction and control of the individual and can always be gathered back unto him.

Mr. MALONE. In other words, they are saying that because a man has the initiative to be his own boss, they are going to deprive him of the right to do this. I cannot subscribe to that doctrine and it seems to me that it is really a strawman because, if the Treasury Department had information which indicated that any substantial number of employees had lost the rights to participate, so that it was a major factor in this entire picture, they would have come in here with some statistics to support it. Since it was only a general statement, without statistics, I assume it cannot be supported.

Senator HARTKE. The Treasury Department also contends that self-employed people may often have offsetting advantages over employees with respect to their retirement. In other words, he contends that there is no fixed retirement age and that they can continue to be in an earning capacity long after their retirement age is acquired and that this is an advantage to a self-employed person that a person under a pension plan does not. How would you meet that objection?

Mr. MALONE. I know many retired corporation employees who have gone to work in other capacities after their retirement.

Senator HARTKE. Many retired generals have also taken positions of importance.

Mr. MALONE. Which are quite remunerative.

Senator HARTKE. Sometimes they do business with the Government afterward.

Mr. MALONE. I cannot see that there is any difference at all between self-employed men and the employed man in that regard.

Senator HARTKE. They also contend that self-employed persons are able to spread their earned income over a longer period of time. Do you feel that that is a valid objection?

Mr. MALONE. As far as the legal profession is concerned, it is a shorter period of time. The starvation period that the average young lawyer goes through until he reaches approximately 45 and has about 20 years of peak earning which then falls off again, I think his maximum earning period is shorter than the maximum earning period of a great many employed people.

Senator HARTKE. Just as an offside, Senator Byrd, Mr. Chairman, if you will excuse me, I remember when my father told me during the depression, after sending three other children ahead of me to college, that it certainly was a waste of time to send children to school and they would be better off to go out and spend their time digging ditches and he didn't want me to go ahead and continue my education.

Mr. MALONE. I was there in the depression, too. I have some appreciation of your father's problem.

Senator HARTKE. There are three specific objections which the Treasury Department then proceeds to make in addition to these generalized statements. I would like to, if you do not care to comment on these—one of them is that H.R. 10 establishes a system which provides for a benefit only to the employer which would not necessarily extend to his employees—a new concept in the law.

Mr. MALONE. That is a very iffy objection. If the self-employed man were authorized to set up a pension fund, if he set it up himself, and if he did not set it up for his employees, then that situation would exist; but the pressures from employees that are going to result, are going to force a great majority of employers to set up these pension funds for employees.

Either they are going to be set up or the employer is going to have to pay higher salaries to keep his employees to compensate for the failure to get this retirement benefit because, when you get 18 million people under pension funds now with an increase of from 3 or 4 million a year, the forces to push the creation of these funds by self-employed people, when they have the inducement that they can participate themselves, are going to be tremendous.

Senator HARTKE. Let me ask you, isn't it true under this setup under the present time that these employees could still have the benefit of the pension now and now just employers are excluded, isn't that right?

Mr. MALONE. That is correct.

Senator HARTKE. This does not create any differentiation in the present situation, but the actual, as I understand it, the pension plan, is added inducement to retain employment and also the benefit of the employment, isn't that right.

Mr. MALONE. That's right, but my point is that as more and more employers set up pension plans, there will be a greater and greater demand from employed persons that they be available.

Senator HARTKE. You and I are not in disagreement on that point.

Second, he says that the self-employed persons may time their contributions. In other words, this is an element that he cannot even go to his wages or his earnings, but it comes back as a savings and he can time his contributions in an effort to set up his financing of his particular plan. How would you meet that specific objection?

Mr. MALONE. It would be limited to 10 percent of his earned income so even if he goes and digs into his past savings once or twice, I can't see that any great inequity is going to result.

Senator HARTKE. The third objection here is, it says that it will prevent or discourage, that there is nothing to prevent or discourage

the withdrawal and consumption of the specified saving before the age of retirement, that the penalty is not strong enough to keep him from doing that.

Mr. MALONE. The proponents of this bill have admitted the desirability of a penalty to discourage that. If the penalty is not adequate, I think that there would be no objection to making it adequate. We have admitted a penalty is desirable. I think it is adequate. If it is not, it is a matter of degree.

Senator HARTKE. You are willing to concede that to make an adequate penalty to stop that.

Let me ask you this, in regard to lawyers generally, are they entitled to participate in pension plans now if they can qualify as an individual employee of a corporation?

Mr. MALONE. If they are an employee of a corporation, they can.

Senator HARTKE. Isn't it generally true that as far as security is concerned, for individuals, and the real feature that those people that are corporate lawyers, so to speak, are in some way employed by corporations, that they are not the ones who are the most needing help of a retirement fund?

Mr. MALONE. I believe that perhaps before the Senator came in I mentioned the fact that there is an alarming trend toward employment, toward the acceptance of employment by corporations in the legal profession. The number of lawyers employed by corporations have trebled in the last 10 years. This is the result of a number of factors but a not inconsiderable factor, in my opinion, is the availability of the pension plan, that he receives the benefit, through a corporation which he cannot receive if he works for a private law firm, as a partner in the law firm or practices individually.

This conference on legal education at the University of Michigan which I attended yesterday, it was brought out by a number of law deans that in the thinking of the average young college student who is looking for a career, substantial weight is given to the availability of a pension plan on which he can expect to retire after his career is prety well over.

Senator HARTKE. That's all.

Senator FREAR. Mr. Malone, Senator Anderson of New Mexico is delayed on the floor of the Senate because of pressing legislation in which I am sure you know the Senator has very keen interest. He would like for me to state on his behalf that he regrets not being here to present you to this committee and also, I am sure, make a statement of high regard and esteem in which you are held in New Mexico, and to the devotion that you have to its citizens as well as the very valuable and able service you are rendering to the people of the United States as President of the American Bar Association.

On behalf of the committee, we thank you for your testimony.

Mr. MALONE. Thank you, Senator. I am sure Senator Anderson could not have made the statement better. I appreciate it.

Senator FREAR. Thank you, sir.

The next witness is Mr. Peter Henle, assistant director of research, AFL–CIO.

STATEMENT OF PETER HENLE, ASSISTANT DIRECTOR OF RESEARCH, AFL–CIO

Senator FREAR. Mr. Henle.

Mr. HENLE. Thank you very much, Mr. Chairman, and members of the committee.

My name is Peter Henle; I am assistant director of research for the AFL–CIO.

I think perhaps the best way to proceed, if I may, is to read this relatively brief statement.

I appreciate very much this opportunity to present the views of the AFL–CIO regarding H.R. 10, the proposed "Self-Employed Individual's Retirement Act of 1959."

This proposed legislation which the committee is considering, has gained considerable support. Its sponsors were able to win approval by the House Ways and Means Committee without the holding of any public hearing in this Congress. The bill passed the House of Representatives by a voice vote after little debate. Many important professional associations of doctors, lawyers, accountants, and other self-employed persons, have indicated their support for this legislation.

Despite this showing of support, the AFL–CIO firmly believes that many individuals have not been fully informed about this legislation and have not realized its full implications. We welcome this public hearing as an opportunity for this committee to weigh carefully the arguments for and against this legislation.

We are here to oppose this bill in the most vigorous terms. We believe that H.R. 10 represents special interest legislation providing tax benefits for a relatively few in our population; that it does not correct any existing inequity in our tax laws, but rather helps to create new ones; and that it would deprive the U.S. Treasury of much-needed revenue in 1960 and future years. I would like to explain in more detail the basis on which we make this statement.

In essence, this legislation would provide a special tax deduction for self-employed individuals who would be allowed to deduct from their income amounts paid by them as "retirement deposits." Any self-employed individual would be allowed to include as such a deduction amounts up to 10 percent of his annual income to a maximum of $2,500.

The basic argument for this legislation was clearly stated by the House Ways and Means Committee in its report. Under the title, "Reason for the Bill," this report states:

> This bill is intended to achieve greater equality of tax treatment between self-employed individuals and employees. Under present law the employees of a business can achieve this postponement of tax on retirement income savings if the employer pays into a qualified pension, profit-sharing, or stock bonus plan what he might otherwise have paid directly to the employees.

Thus the case for this bill is based entirely on what is considered to be the inequitable operation of the current tax laws which allegedly provide special benefits for employees while discriminating against the self-employed.

Proponents of this legislation have tried to create the impression of a vast inequity in tax treatment: On the one hand are all the Nation's wage and salary workers enjoying special benefits under

private pension plans and on the other hand are all the self-employed deprived of any similar opportunity.

Unfortunately, this picture, we believe, does not correspond with reality. To begin with, most wage and salary workers are not at the present time enrolled under any private pension program. The number of such employees is limited to those whose unions have been able to develop such a program through collective bargaining or whose employers have unilaterally initiated such plans.

The AFL–CIO and its affiliated unions are proud of the achievements that they have been able to make in the field of private pension programs, but it must be remembered that union membership still remains approximately one-third of all wage and salary workers. It might well be that in certain industries the majority of workers have been able, with the help of their unions, to gain private pension plans, but in many other sections of the economy, such plans cover but a small proportion of the employees.

The Department of Health, Education, and Welfare has been studying private pension plans and has been able to prepare the most reliable estimates available regarding their coverage.[1] The Department estimates that the number of workers cover by such private plans as of December 31, 1957, was 17.7 million workers. The total number of private nonagricultural wage and salary workers that particular month was 43.8 million. Thus the total number of workers who are enjoying the benefits of any type of private pension plan constitute only 40.4 percent of the total.

The Department also estimates that the total employer contributions to these private pension plans during the year 1957 was $3.9 billion. According to the Department of Commerce, total wage and salary disbursements in the nonfarm private economy for that year amounted to $194.6 billion. Thus employer contributions were only 2 percent of these wage and salary disbursements. Incidentally, it should be noted that employee contributions to these pension plans, on which full income taxes were paid, amounted to $680 million.

Thus the prevalence of private pension plans, together with whatever tax arrangement they provide, is nowhere near as widespread as the proponents of this legislation might lead one to believe.

The second point we wish to make regarding this legislation is that the application of today's tax laws with respect to those workers covered by private pension plans is far more limited and restrictive than the application of H.R. 10 would be for the self-employed. In other words, the size of the typical employer contribution to pension plans is far more modest than the contribution which H.R. 10 would allow the self-employed individual to make in his own behalf and almost at his own discretion toward his retirement.

For confirmation of this statement, I would like to refer to the biennial study on the costs of fringe benefits made by the U.S. Chamber of Commerce. While we believe that this study considerably overstates employer contributions (largely because its sample of employers is too heavily weighted in favor of the larger firms), even these over-

[1] Source: "Growth in Employee-Benefit Plans, 1954–57," by Alfred M. Skolnik and Joseph Zisman, Social Security Bulletin, March 1959.

stated figures demonstrate the relatively modest nature of employer contributions.

The most recent chamber study for the year 1957 shows the cost of pensions in various industries to be as follows:

Industry's payments for employees' pensions,[1] 1957, for companies having pensions

Industry:	*Pension payments as percent of payroll*
Total, all industries	5.1
Manufacturing	3.9
Public utilities (electric, gas, water, telephone, etc.)	6.7
Trade (wholesale and retail)	2.6
Hotels	3.2
Banks, finance and trust companies	8.5
Insurance companies	7.9
Miscellaneous industries (coal mining, warehousing, and laundries)	3.2

[1] "Fringe Benefits, 1957." Chamber of Commerce of the United States, Washington 6, D.C.

From theses figures, it is clear that the typical employer contribution toward a pension plan is approximately 5 percent of payroll. If we consider that today's average hourly rate for the employee with a pension in manufacturing is approximately $2.20, it can be seen that the average employer contribution would amount to approximately 11 cents for each hour worked, or about $220 a year (assuming 2,000 hours worked a year).

By contrast H.R. 10 permits deductions of up to 10 percent of total earnings to a maximum of $2,500 a year, more than 11 times the total set aside by employers for the typical wage and salary worker. Under private pension plans H.R. 10 permits the deduction of up to $2,500 by any individual self-employed person in any 1 year. For an individual in the upper-income brackets, the tax benefits under this proposed legislation would be far in excess of any tax advantage accruing to any worker for whom a retirement fund had been established by his employer.

While the AFL-CIO takes pride in the pension agreements its affiliates have negotiated through collective bargaining, it must be recognized that the average pension yielded by these plans is still of very moderate size. However, the retirement programs that would be given preferential tax treatment under H.R. 10 involve quite substantial sums and are particularly geared to the tax status of the higher income individual. As Congressman John W. Byrnes, Republican of Wisconsin, stated on the floor of the House on July 29, 1958:

> The people who will get the real advantage and the real tax break under this proposal are those in the extremely high income tax bracket. It is this group that can avail itself of the program and it is this group that will benefit most by the postponement of the income-tax liability from a period of high surtax-bracket rates to a period of lower income and lower surtax-bracket rates.

There are two other aspects of this legislation to which I wish to call the committee's attention.

(1) *This bill would cost substantial sums of money from the Federal revenue.*—The Treasury Department has estimated that passage of this bill would mean a loss of approximately $365 million a year in tax revenue. While the proponents of this bill argue that it might

be a year or two before the lost revenue would reach this figure, this is nevertheless a poor time for Congress to pass legislation that would have such a crippling effect on the prospects for increased revenue in the years immediately ahead.

(2) *Self-employed individuals already receive many specific tax advantages.*—These are frequently overlooked by the proponents of this legislation. For example, their income is not subject to the withholding tax system as is the income of all employees. The withholding system has the effect of making certain that almost every single dollar of taxes levied on wages and salaries is fully paid to the Federal Government. On the other hand, the problem of assuring full payment of taxes by the self-employed individual is far more difficult. No withholding system can apply to his income. Official studies show that it is this group of taxpayers that is responsible for not reporting large sums of taxable income to the Federal Government. It has been estimated that approximately 30 percent of all self-employed income is not reported on income tax returns.[2]

I hope that this committee will nderstand the reasons behind our determined opposition to this legislation. We feel that our point of view has not received adequate consideration. We hope very much that this committee will consider very carefully the issues involved in H.R. 10 and will refuse to give its approval to this legislation.

Senator FREAR. Thank you, Mr. Henle. You said:

> On the other hand, the problem of assuring full payment of taxes by the self-employed individual is far more difficult.

Just what do you mean by that?

Mr. HENLE. Mr. Chairman, the Treasury Department, as I understand it, faces a far more difficult problem in auditing the tax returns of self-employed individuals who are, after all, their own boss and who keep their own set of books. Many of these people accrue income on a cash basis. Their records may be inadequate.

Senator FREAR. Are you saying that they may not fully report all their income?

Mr. HENLE. I am saying, Mr. Chairman, that official studies have shown that a larger proportion of self-employed income is not reported on the income tax returns than any other type of income. You understand that. Obviously, it is quite true there is as large a proportion of honest lawyers or honest doctors as there are honest bricklayers or steelworkers, but it so happens that perhaps, may I say, temptations are a little greater. So far as the individual worker or salaried person is concerned, he has no opportunity because of the withholding system to do anything except report his entire income.

Senator FREAR. Do I gather from what you are saying, if he had the opportunity he might forget some of his income and not report it?

Mr. HENLE. None of us like to pay taxes. I am certainly not trying to imply that any particular occupational group in the population is any more honest than any other.

Senator FREAR. I don't think you are, but I think it is a pretty well known fact, and it has been published in the papers, I believe, that

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[2] Holland, David M., and Kahn, C. Harry, "Comparison of Personal and Taxable Income," in Federal Tax Policy for Economic Growth and Stability, Joint Economic Committee 1955, p. 320.

the estimate—as a matter of fact, I think a member of this committee put something in the record not too long ago where if all the taxes were collected, on which taxes should be paid, it amounted to something over $3 billion. I don't want to embarrass you, and I am not attempting to, but do you agree with that, is it a fact?

Mr. HENLE. Yes, I do.

Senator FREAR. You are a research man and I think you have come in contact with some of these things. I think, as a matter of fact, you speak as an expert on it.

Mr. HENLE. Mr. Chairman, I would like to refer you to the source I mention here and I might simply quote, because of your particular interest, the figures concerning it. This is the tax volume that was prepared by a number of experts in the field for the Joint Economic Committee in November 1955. At that time, the Joint Economic Committee conducted extensive hearings on this issue. One of the papers that was submitted by particular experts in this field dealt with this particular problem. It indicated this: that taking the total individual tax returns, the percent of total income from various sources not reported on tax returns was as follows:

For wages and salaries, 5 percent of such income was not reported.

For dividends, 13 percent was not reported.

For interest payments, 61 percent was not reported.

And for entrepreneural income—in other words, income from self-employed persons—30 percent was not reported.

And in terms of billions of dollars the largest amount was the income from self-employed persons.

Senator FREAR. How much did that amount to?

Mr. HENLE. $10.4 billion.

Senator FREAR. $10 billion unreported income?

Mr. HENLE. Right.

Senator CURTIS. Was that 61 percent of the interest is not reported?

Mr. HENLE. That is right, Senator.

Senator CURTIS. Now, to whom is that interest paid? Is it paid to established business institutions many of whom are regulated, such as savings and loan associations, loan companies, banks? Can it be that 61 percent of the interest that is paid by our people is paid on loans that are made out of the pocket in cash?

Mr. HENLE. Senator, there is a little misunderstanding here, I think. This refers to only individual income tax returns. So this would not include payments to business enterprises or corporations or banks that would have to file a different type of return. This would be interest paid by savings institutions to savers or savings and loan institutions to their shareholders, or interest paid on Government or corporate bonds to individuals that should be reported on their individuals that should be reported on their individual income tax returns.

Senator CURTIS. It is still a rather astounding figure that more than half of the savers of the country, 61 percent, are not paying a tax.

Mr. HENLE. This is one of the reasons why the AFL-CIO for such a long time has favored a system of withholding on dividends and interest in order to obtain this additional tax revenue.

Actually, this is not necessarily a condition which applies only to one income group. It applies to low income people as well as high income people.

Senator CURTIS. I for one have been very disturbed for a long time over what big government and high taxes are doing to the morals of the country. I think it is wrecking it. But who is the authority for those figures?

Mr. HENLE. The paper is entitled "Comparison of Personal and Taxable Income," by two specialists at the National Bureau of Economic Research in New York.

Senator CURTIS. Who were the specialists?

Mr. HENLE. David M. Holland and C. Harry Kahn.

Senator FREAR. Would you also identify that report from which you are reading, Mr. Henle?

Mr. HENLE. It is entitled, "Federal Tax Policy for Economic Growth and Stability," papers submitted by panelists appearing before the Subcommittee on Tax Policy, Joint Committee on the Economic Report, 84th Congress, 1st session.

Senator CURTIS. Did the full committee make that a finding of fact?

Mr. HENLE. What I am reading from is a particular paper that was submitted. I do not have before me the report of the committee as a whole, if there was one.

Senator CURTIS. There was no such finding by the committee?

Mr. HENLE. Senator, I cannot say aye or nay; I am not familiar enough to know whether there was such a report.

Senator WILLIAMS. Were they reporting for themselves as individuals or were they reporting for some group?

Mr. HENLE. They were reporting for themselves. They were asked by the Joint Economic Committee to investigate this particular problem and submit the results of their findings.

Senator WILLIAMS. What is their background that would qualify them to make such a report? That is, with whom are they associated?

Mr. HENLE. Well, they were associated at this time with the National Bureau of Economic Research which is a very highly regarded independent, impartial, objective, economic research bureau in New York supported by funds from business, from labor, and from foundations.

Senator CURTIS. I have more questions, but that is all I want you to yield for at this time.

Senator FREAR. I would like further identification on that report.

Were those witnesses called by the Joint Economic Committee?

Mr. HENLE. The procedure, as I recall it, was this: that individuals were asked to contribute particular papers. Then in various panels the groups were called to Washington for hearings of the Joint Economic Committee.

Senator FREAR. Is that a committee document? I am just trying to get——

Mr. HENLE. This is a committee document.

Senator FREAR. Identify it by that, then, please.

Mr. HENLE. Well——

Senator FREAR. Number, date.

Mr. HENLE. The date is November 9, 1955. There is no other, there is no——

Senator FREAR. A Senate document?

Mr. HENLE. No, it is a joint committee print.

Senator CURTIS. Is it a report or hearings?

Mr. HENLE. It is neither; it is papers. There were hearings and there is a separate volume appearing but this particular document involves the papers that were submitted to the joint committee for hearings on tax policy.

Senator CURTIS. It is a statement of witnesses, you might say?

Mr. HENLE. That's right, except that under the committee procedure, the papers were submitted 2 months in advance and then printed so that all committee members would have the document available when the hearings were held.

Senator CURTIS. But it is neither findings nor report of the committee?

Mr. HENLE. That is true, Senator, but I feel fairly certain that the point I am making here has been included in congressional findings; I am sure not just by the Joint Economic Committee. I would be glad to check with that.

Senator WILLIAMS. How would the withholding tax on interest work in actual practice? An individual owes money to the bank. Would he withhold a portion of it when he paid it or would the bank withhold its own tax? I can understand the bank withholding interest it pays depositors, but a lot of money is owed by the individual. How would you work a withholding tax on the amount I owed the bank? How would that work in actual practice?

Mr. HENLE. Senator——

Senator WILLIAMS. I am very much interested in your proposal, but I am wondering about the mechanics.

Mr. HENLE. I wanted to say that there are far more competent people to discuss this issue than I, but let me explain to you how I see the thing working. So far as the interest which a bank would pay you, it would make some small deduction for tax. It would so notify the Treasury and would so notify you, the individual, and instead of forgetting that this interest has accumulated over the year, the taxpayer would have this reminder and would therefore include it in his income.

Senator WILLIAMS. I can understand that, but put that in reverse.

Mr. HENLE. If you owe interest to the bank, that is not the type of interest that would appear on an individual income-tax return.

Senator WILLIAMS. Yes; it would. It would appear as a deduction and it would appear on the return of the recipient and that is what I was wondering. When you speak of withholding on interest, do you mean only the withholding tax on interest that is paid by banks on saving deposits or do you mean withholding tax on interest in general? I am asking for information.

Mr. HENLE. As I understand it, it would apply to any interest that is paid to an individual, but if you borrowed money from a bank, such a withholding system would not apply.

Senator WILLIAMS. How would it apply on a bond that is bought, ordinary corporation bond, coupon bonds, and you clip those bonds every 6 months and there are millions and millions of dollars of those outstanding—even Government bonds, many of them, are coupon bonds, and how would the mechanics of withholding tax on coupon bonds work?

Mr. HENLE. It could not apply on currently outstanding coupon bonds. It could apply to serial bonds, for example. Arrangements could be made for it to apply in the future for corporate bonds.

Senator CURTIS. I might enlighten the Senator from Delaware on that point a bit.

Senator FREAR. The Senior Senator from Delaware?

Senator CURTIS. Either of you may receive it, if you wish.

The Ways and Means Committee some years ago approved a proposal for withholding of interest of tax on interest and dividends. Two or three days later the action was rescinded, but that bill that was before us put the burden only upon corporations to withhold. The transactions between individuals, the payer of interest, as an individual, was not required to withhold. Corporate entities and the Federal Government.

I think one of the reasons that the action was rescinded was because of the effect upon E-bonds. The Federal Government would be withholding the tax full amount of interest accumulated on E-bonds at the time of its payment. That wasn't enthusiastically supported by the Bond Division of the Treasury.

Mr. HENLE. Well, Senator, I don't mean to indicate that I have the answer to this problem. I think the fact that the House Ways and Means Committee is going to reopen the entire question of the tax structure this fall will give us a good opportunity to review this and many other issues, but I do think it is relevant to a discussion of the issues involved in H.R. 10.

Senator WILLIAMS. I merely raised the question because I was wondering about the mechanics of how it worked. It is easier to propose withholding on interest than it is to work out a formula; that is the catch.

Mr. HENLE. I would agree with you, Senator. I am sure that other people who have given this question greater study than I, would have a ready answer for you on some of the issues you raise.

Senator WILLIAMS. I can understand it would be very simple to work out a withholding on dividends, but I am not too sure how it will work on interest.

Senator FREAR. In that interest that you reported from the green-backed book before you, would that interest include accrued interest on Government bonds, like the E-bonds, that probably wouldn't pay their interest until the 10-year period had expired?

Mr. HENLE. I really don't know, but I don't think so, since the Government gives holders of E-bonds alternate ways of computing that interest.

Senator FREAR. Have you run across in your research and findings the number of self-employed people who have failed altogether to file a tax return——

Mr. HENLE. No, I have not, Senator.

Senator FREAR. Would that come within your scope of operation?

Mr. HENLE. I am not so sure how you could possibly get at that figure. It would have to be a rough estimate. I would have to look into it to see if there are any readily available figures.

Senator FREAR. Once in a while I think we read in the press, and of course they are always most accurate, that we would like to, I mean the Bureau of Internal Revenue, have caught up with people who have failed to file returns completely. So if you have not gone into that, any of the figures in your report would not include——

Mr. HENLE. That's right.

Senator FREAR. Deficits of the Treasury or taxable income that should have been paid to the Treasury.

Mr. HENLE. I am not sure. I think this over $10 billion would include not only underreporting but failure to report completely.

Senator FREAR. Failure to report. That would be included. So then they must have, there must be some who have failed to report altogether.

Mr. HENLE. Yes, but these figures were developed by studying total amounts of income.

Senator FREAR. You would have no way of knowing what percentage of those who failed to report entirely would be self-employed?

Mr. HENLE. That's right.

Senator FREAR. In the course of your operations or scope of operations, do you suppose there would be any estimate that could be made by you, or would that have to come from the Treasury Department?

Mr. HENLE. Probably have to come from the Treasury Department, but if you wish, I will be glad to check and see if I can find that information.

Senator FREAR. I am seeking information, if you can help, and I would appreciate it, although I don't want to put you to any great burden in securing it.

Senator HARTKE. Let me ask you: Do you think there is at the present time any tax discrimination in favor of the pension plan employees?

Mr. HENLE. Well, Senator——

Senator HARTKE. The Treasury Department indicates there is. The proponents of the bill claim that there is.

Mr. HENLE. I would say this: I am perfectly willing to agree that the self-employed person does not have the same tax treatment in legislation regarding retirement plans that the employed person has. However, so far as the existence of a genuine inequity at the present time, we feel that because only a minority of the employees have this particular tax advantage, and also because the self-employed person has other tax advantages not shared by the employee, that therefore this particular problem is not one that is of such a pressing nature that Congress should legislate at this time. Do I make myself clear?

Senator HARTKE. I think I understand.

Let me ask you this: Let's come back first, because we have to make a determination where you talk about self-employed individuals receiving many specific tax advantages: Are there other than what you call tax avoidance, and that is what you really have reference to——

Mr. HENLE. I don't know.

Senator HARTKE. Tax evasion, pardon me.

Mr. HENLE. I think there would be some others. In the normal course of business, a self-employed person's business, he has, I believe, opportunities to categorize certain expenses as a business expense that in another case might be considered personal expense.

There is the use of a car, the problems involved in having a car and using it both for business and personal use. There are a number of others.

Senator HARTKE. What you are still talking about is tax evasion?

Mr. HENLE. Not necessarily, because this can be perfectly legal. It is just that the rulings of the Treasury leave such a middle ground, a fuzzy area here, that the fellow may well be within the law, but it is simply the way the law has to operate in a case of this sort.

Senator HARTKE. Let me see if I understand what you are saying. What you are saying, in substance, is that because of the nature of this individual self employed person, under normal circumstances, particularly if he is engaged in some kind of business, his income is not so identified in one solid bulk that he has maybe a chance to either evade or avoid paying taxes which the salaried employee does not have; is that what you are saying?

Mr. HENLE. You put it very clearly.

Senator HARTKE. That is what I wanted to get at first. Those things are really criticisms directed at the present structure of the law. Are they enforcement or administration?

Mr. HENLE. To some extent, yes; but some of them are unavoidable. Some of them, not matter how many inspectors you hired or how carefully you went over the tax rulings, would still be there.

Senator HARTKE. Let's come back to one other thing.

In regard to your first statement, really, the question of loss of revenue, do you really believe, now, that loss of revenue is the overriding factor, as Mr. Lindsay stated, was the Treasury Department's position today?

Mr. HENLE. It is not, as far as I am concerned, the overriding factor.

Senator HARTKE. We couldn't live in a democracy where we are going to put a dollar value ahead of everything else, could we?

Mr. HENLE. That's true.

Senator HARTKE. In other words, we live in a country of law and justice; that is the idea. What is what you want---which is what you want, isn't it?

Mr. HENLE. That's right, Senator.

Senator HARTKE. Wouldn't make any difference if we didn't give one penny of taxation, if we were going to tax people on an unfair basis, an equitable basis, isn't that right?

Mr. HENKLE. The question is, is there equity here?

Senator HARTKE. That is the fallacy of putting a dollar value on any type of tax law, isn't it?

Mr. HENLE. I agree with the general point you are making. At the same time, it is not unreasonable to look at the loss in revenue that any particular tax proposal might involve.

Senator HARTKE. But we have to assume this, not if the law itself is unjust and inequitable. It wouldn't make any difference if it raised one penny or a hundred billion dollars, isn't that right?

Mr. HENLE. If it was a clear case of injustice, I agree.

Excuse me, but just let me add one point. When it is recognized that the Congress will be reviewing the entire tax structure next year, and that this committee will have an opportunity to review in much broader scope the whole gamut of problems, it seems to me a particularly poor time to single out one particular inequity.

We can come up here with lots of inequities. If you wanted to deal with inequities, we will produce a few.

Senator HARTKE. The fact of the matter is, you constantly are doing so; you are pointing them out, which I think is good. I don't want

to criticize that, but the point of it is that it is recognized that if you could rewrite the entire tax law and give it a complete study, that is the best way to do it, correct all the inequities that you can find; is that not right? That is your contention, isn't it?

Mr. HENLE. That's right. That is the opportunity that Congress is going to have.

Senator HARTKE. But the point of it that I am getting at is that you do—at least I gathered the impression that you do recognize, as does the Treasury Department and as the proponents contend, that there is a tax discrimination at the present time in favor of pensioned employees.

Now, my question is: Is it proper for us to do as Senator Gore suggested this morning, to eliminate all of the tax discrimination, or to extend it further than the proponents want it extended?

Mr. HENLE. I would certainly say this, that the more equitable proposal is either of the two alternatives you propose than H.R. 10.

In other words, everyone should have it or no one should have it, but not just some.

Senator HARTKE. Let me place this to you as a practical legislative problem. I am just assuming the position of the proponents for a moment.

If you had proposed to have it extended to the broader coverage and met with the opposition of the Treasury Department, that this was too broad, and then they contracted the thing in compliance with the Treasury's request, and they are before us now and are faced with the argument that they must either go one way or the other: Do we have to then assume one of two things, must vote against this and vote to eliminate the present tax discrimination; is that right?

Mr. HENLE. It is not for me to say what any committee member should do.

I do feel that to the extent that there is a problem involved in this legislation, to that extent this will be discussed, along with many other factors bearing on the same type of situation, many other types of inequities which are just as valid as this one here, in the coming months, although I recognize the difficulties of the proponents in meeting some of these Treasury Department arguments.

Nevertheless, at this stage of the game, the AFL-CIO would be terribly disappointed if this committee should decide to report this legislation.

Senator HARTKE. Let me ask you, though—I think you have to be consistent—this is a problem that concerns me that Mr. Ruttenberg, when he testified before the Committee on Ways and Means of the House of Representatives, 85th Congress, he states this in his question in the second paragraph—he was talking particularly there about the contributions to Government retired funds and railroads—he said:

> One very special tax problem of workers is the fact that the present law forces them to pay income taxes under contributions to various Government retired systems, old-age and survivors insurance, civil service retirement, and railroad retirement.

This is felt acutely, particularly by railroad workers who, under the railroad retirement program, contribute a larger portion of their pay for this purpose than other groups.

This inequity should be eliminated by excluding these contributions from income tax for income tax purposes and from wages for withholding purposes.

We believe, however, there should be an upper limit of $500 of the amount of contributions that could be thus excluded from income.

We further believe that if Congress should apply this principle not only to contributions made by workers to public pension plans, but also to contributions made by self-employed individuals to private pension plans, it is particularly important that the $500 limit be maintained.

Wasn't this a tacit recognition, at least, of the principle involved here?

Mr. HENLE. I am not so sure, Senator, that it was. It is true that many of our union people have been very concerned about a related aspect of this problem, and the railroad unions and the civil service unions, as representatives of workers in those areas of the economy, have been particularly concerned because the employee contribution under retirement plans for these workers is more than double the normal social security contribution.

In the railroad industry, for example, employees are helping to defray the cost of an unemployment compensation system which in all private industry outside of the railroads is defrayed completely by employers. This is one reason why these unions have raised questions about this problem, and it was to that problem that Mr. Ruttenberg was directing his testimony.

These unions have raised questions whether it would be possible to obtain an arrangement whereby employee contributions to these compulsory programs would not be considered as wages for income-tax purposes.

It seems to me the differences between this proposal and H.R. 10 are two:

One, we were discussing only Government-imposed programs. The self-employed would also benefit to the extent of their contribution.

Secondly, we suggested an upper limit for the amount of such a treatment of $500 a year.

You see, from our point of view, even if it is recognized that there are special problems for the self-employed, the treatment that H.R. 10 would allow, by allowing an upper limit of almost astronomical proportions, would grant the real benefits to those in the upper income brackets, and we don't think that is fair.

Senator HARTKE. In other words, what you are saying in substance is that it is not the principle so much as the actual way this particular bill is written; am I right?

Mr. HENLE. It is both. If we grant the principle, there are still serious objections to the bill in the way it is written.

Senator HARTKE. Those people are pensionless employees.

Mr. HENLE. Yes.

Senator HARTKE. And those who are on inadequate pension-employee systems, they have as much right to claim this tax differentiation as tax employees, do they not?

Mr. HENLE. They certainly do.

Senator HARTKE. And, really, don't the self-employed people have the same right to claim that as a matter of principle?

Mr. HENLE. Yes, indeed, and I go back to your original presentation of the two alternatives; if there is preferential tax treatment, either everyone should get it, or nobody. If we are going to extend this principle, it should be extended not just to the self-employed, but to pensionless employes and those with inadequate pensions as well.

Senator HARTKE. That's all I have, Mr. Chairman.

Senator FREAR. The Senator from Nebraska, Senator Curtis.

Senator CURTIS. You, of course, favor a continuation of the deduction as a business expense for employers of their contribution to private pension plans?

Mr. HENLE. Yes; we do.

Senator CURTIS. According to your statement, you say that the Department, meaning Health, Education, and Welfare, also estimates that the total employer contributions for these private pension plans during the year 1957 was $3.9 billion. It is probably a little more than that now, is it not?

Mr. HENLE. Perhaps so, although these are the latest figures available.

Senator CURTIS. Now, that $3.9 billion was not subject to the corporate income tax, was it?

Mr. HENLE. That's correct.

Senator CURTIS. Of course, it not being paid to stockholders, it would not be subject to any individual tax, would it?

Mr. HENLE. That's correct.

Senator CURTIS. Now, some of those companies paying those pensions might have been small companies, not in the 52 percent bracket, but by and large they were larger concerns; is that not correct?

Mr. HENLE. In general it is true that the pension programs are more frequently found in larger concerns.

Senator CURTIS. So if that was subject to the 52 percent tax, the Treasury lost 52 percent of it, and then, inasmuch as it was not paid out as earnings by the company, they lost again.

Roughly speaking, or estimating roughly, probably 70 percent of that would have been paid in taxes had it not been paid into these private pension funds, wouldn't it?

Mr. HENLE. Senator, I just wouldn't have the basis for——

Senator CURTIS. 52 percent of it would, wouldn't it?

Mr. HENLE. Perhaps so, although this includes, may I point out, not only contributions to pension plans that our unions have negotiated, but it includes contributions to stock bonus plans, profit-sharing plans, unilateral pension plans.

Senator CURTIS. You used the term "private pension plans."

Mr. HENLE. I did, indeed, and I should have made it clear that it is a broader term than that.

Senator CURTIS. In any event, it probably results in a tax benefit or a tax loss to the Treasury of upwards of $2 billion.

Mr. HENLE. Perhaps so. I am perfectly willing to accept your figure as an estimate.

Incidentally, may I correct for the record exactly what this figure covers, because I am now reading from the table in which it is included. It includes private pension and deferred profit-sharing plans.

Senator CURTIS. How do you define "deferred profit-sharing" plans?

Mr. HENLE. That is probably a fairly technical definition of the Internal Revenue Service.

Senator CURTIS. What is your understanding of how it works in layman's language?

Mr. HENLE. The corporation normally agrees to set aside a certain proportion of its profits, not for immediate distribution to the employees, but for deferred distribution upon their retirement.

Senator CURTIS. But it all includes payments to employees in retirement?

Mr. HENLE. Yes, from the lowest to the highest.

Senator CURTIS. My figure of 70 percent is not correct because if 52 percent of it is paid in corporate tax, then there would only be 48 percent paid in dividends before you would apply the individual tax.

Mr. HENLE. Not all that would be paid in dividends. I am perfectly willing the dividend portion may be 50 percent——

Senator CURTIS. So we will just talk about 52 percent. It would still mean that the Federal Government is losing $2 billion in corporate taxes a year because of private pension plans, would it not?

Mr. HENLE. Let's not forget it is going to get at least a good chunk of that money back when it is paid out.

Senator CURTIS. It would, under most of these?

Mr. HENLE. That's right.

Senator CURTIS. Including the proposal before us.

Now, in your suggestion a little bit ago that this deferring taxes for retirement plans should include everybody or no one, if it is not extended to everybody, you still would contend for retaining it for these existing plans?

Mr. HENLE. Senator, we have had some discussions with the Internal Revenue Service, I believe, over the tax status of pension plans and employer contributions.

I am not fully up to date regarding the status of this problem. I am sure I can say, however, that in the coming hearings we are perfectly willing to review this as well as any other aspect of the whole tax situation, and we are perfectly willing to try and work out an equitable arrangement.

Senator CURTIS. But you wouldn't want this repealed?

Mr. HENLE. Wouldn't want this repealed?

Senator CURTIS. Yes; the provision of law that employers can deduct contributions and deferred earnings and profit sharings and so on, that they can deduct that.

Mr. HENLE. I certainly don't want it repealed at this moment, no.

Senator CURTIS. Are you, and I do not want the figures because there is nothing personal about this, but are you under a pension plan as an employee of the AFL–CIO?

Mr. HENLE. Yes.

Senator CURTIS. Do a great many of the international unions and other union entities have retirement plans

Mr. HENLE. Many of them, yes. I don't know the exact number.

Senator CURTIS. Are they statutory plans?

Mr. HENLE. I am sorry. What do you mean by statutory plans?

Senator CURTIS. They do not meet the requirements of the Internal Revenue with respect to company plans, do they?

Mr. HENLE. I just don't know whether——

Senator CURTIS. The whole thing is paid out of the tax-exempt money, is it not?

Mr. HENLE. I was going to say I wasn't sure whether you mean had to have their plans cleared, but I remember some discussions on this point, and I believe that such plans are generally statutory plans, have to meet the requirements of the Internal Revenue Service, yes.

Senator CURTIS. Why?

Mr. HENLE. I will be happy to look into it.

Senator CURTIS. Who is your employer? What is the correct title of your employer?

Mr. HENLE. American Federation of Labor and Congress of Industrial Organizations.

Senator CURTIS. Is any of their income taxed?

Mr. HENLE. It is not.

Senator CURTIS. Why would they be meeting the requirements of the Internal Revenue Code in order to pay a pension?

Mr. HENLE. Senator, we are really getting involved in fairly detailed tax matters. I said I didn't know for certain. My impression was that they nevertheless had to meet certain Internal Revenue Service requirements. I would be happy to check on it and let you know, or let the committee know in any way.

Senator CURTIS. Now, in the retirement plans that you know of set up by unions, do the employees contribute to those?

Mr. HENLE. In some cases, yes; in most cases, I do not think so.

Senator CURTIS. In the case of the AFL–CIO, is there an employee contribution?

Mr. HENLE. No, there is not.

Senator CURTIS. Do you know of any unions where there is an employee contribution?

Mr. HENLE. I am sorry; I am just not familiar with the plans of our various international unions. I would be very happy to find out for you, if you wish.

Senator CURTIS. Now, if the tax loss in these private pension plans, as referred to in your statement, or the amount employers paid, is $3.94 billion, and if the loss in revenue is $2 billion, and I think that is a very conservative estimate, that is for the benefit of 17 million people?

Mr. HENLE. Yes.

Senator CURTIS. How many gainfully employed people do we have in the country, including self-employed?

Mr. HENLE. Including self-employed, it includes something around 66 million. That includes agricultural workers, domestic servants, all types of employees that are self-employed.

Senator CURTIS. In other words, roughly a fourth of gainfully employed people of the country share in a pension plan accumulated before or without taxes at a loss in revenue of upward of $2 billion?

Mr. HENLE. Let's not forget that these same employees do contribute close to $700 million in each year on which they do pay taxes.

Senator CURTIS. I am thinking of the losses of revenue to the Treasury.

That's all, Mr. Chairman.

Senator FREAR. Were there any figures requested of Mr. Henle that you want for the record?

Senator CURTIS. No.

Senator FREAR. Thank you very much, Mr. Henle.

Mr. HENLE. Thank you, Mr. Chairman.

Senator FREAR. Our next witness is Dr. Edward C. Mazique, president-elect of the National Medical Association.

Please proceed, Dr. Mazique.

STATEMENT OF DR. EDWARD C. MAZIQUE, PRESIDENT-ELECT OF THE NATIONAL MEDICAL ASSOCIATION

Dr. MAZIQUE. Thank you for the opportunity to appear before you today in the interest of advancing economic security for the self-employed in their declining years.

I am Dr. Edward C. Mazique, president-elect of the National Medical Association, an organization primarily of Negro physicians in the United States. In the absonce of federally backed social security protection, a tax-sheltered plan for self-employed persons, such as contained in H.R. 10, is of major interest to our medical society, for it vitally and directly affects the future well-being of our members and their families.

The long period of preparation necessary to qualify as a physician in this age of specialization limits the productive years, accordingly. Moreover, as is often the case for Negro physicians, the productive years are further reduced by postponed medical training due to limited educational funds. Added to this is the further postponement of professional activities by physicians generally compared to some other fields of endeavor and the consequent late arrival of their families. These facts, together with inflated living and high taxation during such a short span of his productive life, and coupled with the accepted fact that doctors are poor businessmen, often inflict a feeling of baffling insecurity and creeping futility.

A federally backed plan, such as the Keogh bill provides, would materially assure the self-employed person equal economic protection under the law and guarantee him against complete destitution in emergencies and advancing age, which fund he would himself establish while his earning capacity is at its maximum.

The issue of growing insecurity approaches reality, first, among those serving exclusively the Negro group where general economic uncertainties are detected often before they are felt elsewhere. Without adequate security plans and usually without supplementary capital investments, medical services represent the physician's sole means of survival and its termination can produce tragic destitution for himself and his family. Numerous cases of physician responsibilities are broadened by a system of extended family relationship which still persists in the lower socioeconomic groups.

Factors of advancing age, catastrophic illnesses and other unforeseen emergencies bear grave concern for the physicians in their years of decline. Today, insurance against these contingencies are on a voluntary basis and, as much as one desires, may be freely purchased after all income taxes are paid. However, the net derived from the practice of medicine after meeting the heavy overhead, taxable and nontaxable demands, set arbitrary limitations on this form of protection. Hence, caught between inflated high living cost and taxation, the area of maneuverability for those attempting long-range

security for themselves and families is thus curtailed, and physicians are increasingly becoming so anxious that community practice is beginning to suffer.

The accepted twin relationship of public agencies of health and welfare demonstrate the inextricable partnership of these two which govern every aspect of our lives. It is interesting to note here in passing that while physicians have taken the leadership in the eradication of diseases and the promotion of sound health standards that the American people might live longer, fuller lives, they have so neglected themselves. What we have so generously done for others, we ask that you provide for us that our years also may be long and happy, for in all probability the doctor too will become ill and, if he lives long enough, aged.

It is therefore, on behalf of the National Medical Association, that I urge favorable consideration and report be given the bill before you today, that physicians may have at least a measure of lasting security comparable to that now enjoyed by others in our society.

Senator FREAR. Are there any questions?

Thank you Dr. Mazique.

Our next witness is Mrs. Maurine Howard Abernathy, first vice president and president-elect of the National Association of Women Lawyers.

Please proceed, Mrs. Abernathy.

STATEMENT OF MRS. MAURINE HOWARD ABERNATHY, FIRST VICE PRESIDENT AND PRESIDENT-ELECT OF THE NATIONAL ASSOCIATION OF WOMEN LAWYERS

Mrs. ABERNATHY. Mr. Chairman and members of the committee, my name is Mrs. Maurine Howard Abernathy. I am a practicing lawyer in the District of Columbia, and I am presently first vice president and president-elect of the National Association of Women Lawyers. This organization is composed of approximately 900 women, who are practicing lawyers throughout the United States; it is the only woman's organization recognized by the American Bar Association, and it is represented by a delegate in the house of delegates of the American Bar Association.

At its midyear meeting in February 1957, the National Association of Women Lawyers voted for and went on record as favoring and supporting legislation which would entitle the self-employed to the same tax treatment of retirement savings as enjoyed by corporate employees under pension plans, that is, the right to set aside earnings during the peak years of a lawyer's practice, on which the tax would be deferred to a time when her earnings may be reduced because of age, disability, or other reasons caused by advancing years. We believe the Government should encourage self-employment rather than penalize it by not giving the self-employed the same privileges as big corporations.

The self-employed have gone about their business unorganized, and, therefore, occupy the place of the forgotten man, because they had no one to speak for them. We believe that it is time for this inequity to be corrected.

The National Association of Women Lawyers wishes to thank this committee for giving it the opportunity to testify in favor of H.R. 10 (S. 1979), and wishes to go on record as supporting in toto the recommendations presented here by the American Bar Association.

Senator FREAR. Are there any questions?

Thank you, Mrs. Abernathy.

Our next witness is the Honorable Joseph W. Barr, a Representative in Congress from the State of Indiana.

Proceed in your own way, Mr. Barr.

STATEMENT OF HON. JOSEPH W. BARR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Representative BARR. One of the few economic facts that are difficult to dispute today is that the United States of America faces a capital deficit in the next 10 to 15 years. This Nation will unquestionably have real difficulty saving the capital that it needs to provide for a rate of growth to employ the millions of youngsters now in school, who will soon be added to our labor force.

It is my personal opinion that H.R. 10 is one of the few bills I have seen in my short tenure here in this Congress that provides a real incentive to save. I believe that it does correct an inequity existing between professional and self-employed persons and my colleagues in business, who have deferred compensation, stock options, and other tax advantages.

It can be argued that passing H.R. 10 may constitute a temporary tax loss to the United States. I firmly believe that the advantages to the Nation that will accrue from this new source of savings will more than offset this tax loss.

I respectfully urge that your committee favorably report what I consider to be an excellent piece of legislation.

Senator FREAR. Are there any questions?

Thank you, Mr. Barr.

Representative BARR. Thank you, Mr. Chairman.

Senator FREAR. Our next witness is Mr. James M. Landis, general counsel, Association of Mutual Fund Plan Sponsors, Inc.

Mr. Landis.

STATEMENT OF JAMES M. LANDIS, GENERAL COUNSEL, ASSOCIATION OF MUTUAL FUND PLAN SPONSORS, INC.

Mr. LANDIS. My name is James M. Landis. I am general counsel to the Association of Mutual Fund Plan Sponsors, Inc.

The purpose of my appearance here is to suggest a clarifying amendment to clause (111) of paragraph (c)(3)(A) of section 4 of the bill before you, a section which amends section 405 of the Internal Revenue Code of 1954. (Lines 21 to 23 on page 26 of H.R. 10.)

I can best explain the purpose of this amendment by explaining the phase of the mutual fund industry that we represent, since that section already permits the investment of restricted retirement funds in stock in a regulated investment company meeting the requirements of section 851 of the Internal Revenue Code.

The contractual phase of the mutual fund industry differs from the normal operations of that industry in that instead of selling stock in an investment company, it offers for sale contracts calling for periodic payments, usually on a monthly basis, of from $10 a month up. The proceeds of these payments are invested either in the securities of a mutual fund at net asset value, that is, free from an additional selling commisison, or directly in a mutual fund. This contractual plan is, in essence, a plan for the acquisition through periodic payments—much in the manner of life insurance—of a growing stake in American enterprise. There are some 34 companies presently engaged in this industry. The net assets of the funds they merchandise as of December 31, 1958 were $2,678 million, and as of today probably top the $3 billion figure. The association I represent comprises 10 of these companies, the assets of the funds they merchandise totaling some $2 billion. As of March 31, 1959, out of 8 of these 10 companies, some $341,000 plans were in force.

All of the companies who are members of the association are registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and qualify under section 851 of the Internal Revenue Code. They are closely regulated by the SEC as to the commissions they can charge, the management fees that they can collect, the type of advertising that they can employ, the nature of their investment policies, and literally a hundred and one other matters. Their record to date has not only been good; it has been excellent. This does not mean that they can guarantee the future, since they represent like all mutual funds investments in a broad range of equity securities whose value a year or 10 years from now can be more or less than the acquisition cost. However, in that they represent a share in equities as contrasted with a claim for a fixed dollar amount, they can be regarded as a hedge against inflation—a possibility of which all of us must be aware.

One feature common to most of these contractual plans is that they combine a form of group insurance with the periodic payments. In other words, if the plan holder dies before the payments are completed, the insurance company steps in and immediately completes the payments under the plan, so that the plan holder's estate or his designated beneficiary receives the value of a fully completed plan. The insurance rates are low, very low in fact. The companies who are the insurers are well recognized, the John Hancock, the Connecticut General Life, the United States Life, to take the major companies in this business. The securities acquired as a result of the periodic payments are held by banks as custodians. Among these custodians, for example, are the Empire Trust Co., the Bank of New York, the Chemical Corn Exchange Bank, the National Shawmut Bank of Boston, and others of similar standing and similar integrity.

I think that you can see that as a result of a stock market decline, there can be a depreciation in the value of an investment of this type, but the possibility of bankruptcy is substantially negligible.

Indeed, to my mind, the mutual fund contractual plan is a new but most valuable instrument in estate planning. It does not supplant insurance or savings bank deposits or Government bonds but it adds the opportunity through periodic payments to acquire an increasing share in the future of American enterprise. It is not and never should

be regarded as a device for speculation. Instead, it is a medium for long-term investment.

It seems patent to me that there was no desire by the House to exclude the mutual fund contractual plans as a medium of investment for the restricted retirement funds provided for by this bill. The language of the bill should even now permit this form of investment and my own opinion and that of other lawyers is that it does. But admittedly there could be a difference of opinion on this point and because of that we of the association would like to be sure of that fact. We therefore submit as a clarifying amendment the substitution of the following language for the language now presently in clause (111) of paragraph (c) (3) (A) of section 4 of the bill, namely:

(iii) stock or a periodic payment plan (whether such plan be an insured plan or otherwise) registered under the Investment Company Act of 1940 for the purchase of stock or an equivalent interest in a regulated investment company meeting the requirements of section 841.

Senator FREAR. Thank you, Mr. Landis.

Are there any questions?

We will now hear from Mr. Robert A. Holloway, Chairman of the Realtor's Washington Committee of the National Association of Real Estate Boards.

Please proceed, Mr. Holloway.

STATEMENT OF ROBERT A. HOLLOWAY, CHAIRMAN, REALTORS' WASHINGTON COMMITTEE OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

Mr. HOLLOWAY. My name is Robert A. Holloway, and I am a realtor engaged in the real estate brokerage and home building business in Baton Rouge, La., as a partner in the firm of Bardwell and Holloway. As chairman of the Realtors' Washington Committee I am testifying in behalf of the National Association of Real Estate Boards. Our organization consists of about 65,000 licensed real estate brokers who are known as realtors. The overwhelming majority are self-employed and hence vitally concerned with this legislation.

H.R. 10, or S. 1979 introduced by Senator Smathers, a member of this committee, would permit a self-employed person to deduct up to 10 percent (but not to exceed $2,500 in any one year) which money would be invested in certain restricted type annuity funds, with the self-employed person paying the tax on the annuities during the year in which he receives them.

The realtors whom I have the honor to represent are essentially small businessmen engaged in performing a professional-type service to the public. Indeed, the existence of 47 State real estate licensing laws attests to the personal-type service which the realtor performs and which makes him essentially a self-employed person.

Whether it be real estate brokerage, management or appraising, the preferable form of doing business is the personal and unincorporated one. However, our tax laws by denying the self-employed person the right to participate in a qualified pension plan will inevitably force the more impersonal corporate form as the more prevalent vehicle for projecting the realtor's personal service to the public. There is serious question as to whether this is desirable. Yet the

Congress has inadvertently, we believe, taken affirmative action to force the corporate form on realtors as well as other self-employed persons performing a personal-type service. I will explain this in greater detail in a few moments.

We do not believe that there exists serious question as to the tax discrimination against self-employed persons which the Smathers-Keogh-Simpson bill seeks to correct. The committee is no doubt aware of the President's support of the principle of this legislation, as announced in his first state of the Union message in January 1953 and in a major campaign address the previous October.

The Treasury Department conceded in a report dated June 27, 1955, that under existing law employees of corporations covered by qualified pension plans enjoyed a "substantial potential tax advantage" over self-employed individuals.

The purpose and the details of this legislation are well known to the committee. We doubt that there has been for many years a measure which has enjoyed such widespread reporting and comment as this bill. I will therefore confine the remainder of my statement to specific objections which have been raised against the bill by Treasury officials and some Members of the Congress, objections which unfortunately have cast the measure as a controversial one.

There are two principal arguments advanced against favorable consideration of this legislation.

First, there is the question of loss in revenue and this statement assumes for the purpose of argument only that the Treasury's estimate of $365 million is correct. Other witnesses more competent than I in this field will, I am sure, successfully rebut this estimate.

We believe that removal of an admitted tax inequity should be of paramount consideration. This inequity should not be permitted to stand because its existence is an admission that the Congress desires that those who are self-employed should bear a greater tax burden than those who serve the corporation even though the latter may be a legal fiction created only for the tax consequences.

Secondly, it is said that approval of H.R. 10 would still leave pensionless the employees of corporations and self-employed persons who are not participants of a qualified pension plan. This has some validity, but these employees at least have the vehicle in existing law to participate in a plan created by their employers who have the incentive of a tax deduction to create such a plan. The self-employed person is completely excluded under existing law and in all fairness this inequity cries out for paramount consideration.

However, there are more compelling reasons why this argument does not stand up under critical analysis. The best evidence, in my opinion, of the fallacy underlying this argument is the action of the Senate Finance Committee and the Senate last year in approving a new subchapter S as part of the Internal Revenue Code.

This provision, one of the most far reaching in the code, singled out a portion only of the Nation's self-employed and in effect told them this:

You proprietors and partners cannot participate in your pension plans because you are not employees. Incorporate and then elect not to be taxed as a corporation. Presto, you are now an employee and you can participate in a pension plan.

However, you lawyers, accountants, doctors, architects and others who are forbidden by State law from doing business in the corporate form, well, you will have to sit this one out.

I as a real estate broker can incorporate and try to take advantage of subchapter S. But isn't it a strange perversion of our tax laws to require that I incorporate, go through the expense and the hazards of doing business in a form that is not the most desirable, in order to be able to participate in a pension plan?

Of course, I am not sure that the Internal Revenue Service will permit me to incorporate solely because of the tax advantages flowing from subchapter S. If this be so, then the Congress last year created a far greater inequity than this statement suggests.

I am submitting for the record a memorandum prepared by our counsel, appropriately entitled: "How the Congress in 1958, by Extending the Corporate Pension and Other Fringe Benefits to Some Self-Employed, Aggravated the Inequity Which H.R. 10 Seeks To Correct." I hope that you will all take the time to read it. I am confident that you will reach the same conclusion as I, that H.R. 10—the Smathers-Keogh-Simpson bill—provides the only remedy for the inequity which Congress made more pronounced in 1958 through the enactment of subchapter S.

I have here with me our counsel, John C. Williamson, who will assist me in answering any technical questions which this statement may prompt.

JUNE 9, 1959.

MEMORANDUM

Subject: How the Congress in 1958, by extending the corporate pension and other fringe benefits to some self-employed, aggravated the inequity which H.R. 10 seeks to correct.

H.R. 10, the Keogh-Simpson bill, passed the House of Representatives on March 16, 1959, by an almost unanimous vote. The bill would permit self-employed persons to defer taxes on a portion of their income (not more than 10 percent and not to exceed $2,500 in any one year) which deductible amounts must be invested in certain restricted retirement funds.

The bill thus seeks to equalize the tax treatment of such contributions, in the case of self-employed persons, with that of corporations which are now permitted tax deductions for pension funds and other deferred compensation plans for the benefit of employed persons.

Under present law a self-employed person may establish a pension or profit-sharing plan for his employees, but as a self-employed person, be he a partner or proprietor, he is not considered an employee and hence not eligible to participate in the pension plan. This is the essence of the inequity which H.R. 10 seeks to correct.

The Congress in the Technical Tax Amendments Act of 1958 added subchapter S to the Internal Revenue Code. Subchapter S provides that a closely held domestic corporation may elect not to be taxed as a corporation. The requirements for such election are that with respect to a domestic corporation—

(*a*) There be less than 11 stockholders.
(*b*) All stockholders be individuals or estates.
(*c*) No stockholder be a nonresident alien.
(*d*) Only one class of stock be outstanding.
(*e*) The corporation not be a member of an affiliated group of corporations tied to a common parent.
(*f*) All stockholders agree to the election not to be taxed as a corporation.

Thus a self-employed person who incorporates and makes the election not to be taxed as a corporation pays income tax as though he were a proprietor or partner; i. e., he pays taxes on his salary plus distributed and undistributed profits as of the close of the corporation's taxable year.

The basis for the provision is shrouded with uncertainty. If subchapter S were intended as a small business tax relief measure, then the word "small" referred only to "closely held" and not to income or capitalization.

Subchapter S could, therefore, be used to qualify a proprietor or partner as an employee and, therefore, make him eligible to participate in a qualified pension plan, as well as other fringe benefits such as a profit-sharing plan, stock-bonus plan, group life, health and accident insurance, wage continuation plans for sick employees, etc.

Thus technically a self-employed person having only one other employee (his secretary, for example) could incorporate, set up a pension plan for himself (as a corporate employee) and his secretary. By integrating the plan with social security, the corporation would be required to contribute only with respect to compensation in excess of the $4,800 social security base wage. Thus, conceivably, the self-employed person might find himself enjoying the benefits of a modified version of the Keogh-Simpson plan.

However, subchapter S is cloaked with so much uncertainty that tax lawyers and accountants are reluctant to touch it. But of greater significance than this uncertainty is the perversion of the tax code which underlies the proposal.

On the one hand, the Internal Revenue Service frowns on incorporation solely for the tax consequences. Yet the Congress in subchapter S, in substance, urges on proprietors and partners: "In your present business form you are not an employee and are therefore ineligible to participate in a pension plan. Incorporate and, presto, you are an employee. You will still be taxed as a partnership, but you can now participate in a pension plan."

Incorporation may be a desirable form of doing business for some self-employed persons but incorporation ought not to be dictated solely by tax considerations which could be accomplished by merely permitting the self-employed to participate in a plan without adopting the corporate form.

Remember that subchapter S may be used only by self-employed persons who are able to function as corporations.

The enactment of subchapter S further aggravated the situation with respect to self-employed persons who are prevented by State law from adopting the corporate form. These are the lawyers, doctors, accountants, architects, professional engineers, and perhaps others. These groups are unable to participate in the fiction which the Congress created in 1958 in subchapter S for other self-employed.

Thus we have a classical example of the result of an unsound approach to the curing of a tax inequity.

In conclusion:

A self-employed person, who may do business in a corporate form, should not be required to incorporate in order to participate in a pension plan.

A self-employed person, who is forbidden to do business in a corporate form does not even have the questionable haven of subchapter S.

The inescapable conclusion is that H.R. 10 (S. 1979), the Keogh-Simpson-Smathers bill provides the only remedy for the inequity which Congres made more pronounced in 1958 through the enactment of subchapter S.

Senator FREAR. Thank you Mr. Holloway.

Off the record.

(Discussion off the record.)

Senator FREAR. The committee will be in recess.

(By direction of the chairman, the following is made a part of the record:)

PHOENIX TITLE & TRUST CO.,
Phoenix, Ariz., April 20, 1959.

Senator CARL HAYDEN,
U.S. Senate Building,
Washington, D.C.

DEAR SENATOR HAYDEN: The Phoenix Title & Trust Co. is very much interested in the Keogh bill which has passed the House as H.R. 10, and is now before the Senate, covering equal rights for self-employed.

There is language in the bill to the effect that only a bank could be the trustee. This would act to exclude the Phoenix Title & Trust Co. from being trustee for self-employed persons. If this bill were passed with the present language, we feel it would be discriminatory against our institution, especially in view of the fact that we are currently handling in excess of 80 percent of the retirement

trusts in Arizona. We would like to see the language changed so that it would permit other corporations having trust powers to act as such trustees, provided such corporations are under the supervision of Federal or State regulatory bodies.

Our company and the undersigned would appreciate your efforts in getting this portion of the bill amended so that our company and other such corporate trust companies will not be excluded from handling this trust business. We would also appreciate being kept informed on this matter, as it is vital to our business and existence.

Thank you for your efforts in this matter.

Yours very truly,

R. H. CORNELIUS, *Executive Vice President.*

OKLAHOMA COUNTY DISTRICT DENTAL SOCIETY,
Oklahoma City, Okla., January 9, 1957.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington, D.C.

DEAR SENATOR BYRD: Enclosed is resolution unanimously adopted by this organization on January 8, 1957.

The members of this organization request a hearing on this proposal at the earliest time possible, and ask that this resolution be included in the printed record of the hearing.

Sincerely,

WILLIAM H. DOYLE, D.D.S.

RESOLUTION

Whereas self-employed persons, as those in the dental profession, are discriminated against in regard to tax legislation in the Internal Revenue Code, as opposed to those persons, such as corporate officers and employees who are allowed tax relief under private pension and retirement programs; and

Whereas a proposal known as the Jenkins-Keogh bill has been before the Congress of these United States for more than 6 years; and

Whereas both major political parties as well as the President of these United States have supported the principles of this proposal; and

Whereas this proposal is to be again brought before the 85th Congress for its consideration: Therefore be it

Resolved, That this Oklahoma County District Dental Society, composed of 162 members, ask that this Jenkins-Keogh proposal be given unlimited support and consideration by this 85th Congress toward the enactment of adequate legislation to eliminate this tax inequality; and be it further

Resolved, That a copy of this resolution be forwarded to Hon. Robert S. Kerr, Senator from Oklahoma; Hon. Mike Monroney, Senator from Oklahoma; Hon. John Jarman, Congressman from the Fifth District of Oklahoma; Hon. Jere Cooper, chairman of the House Committee on Ways and Means, and Hon. Harry F. Byrd, chairman of the Senate Finance Committee, urging them to support this timely proposal by these generous giving of their time and efforts to influence the enactment of this equalizing legislation.

Unanimously approved by membership January 8, 1957.

WILLIAM H. DOYLE, D.D.S., *President.*
WILLIAM C. BLACK, D.D.S., *President-elect.*
E. W. FOSTER, D.D.S., *Secretary.*

THE SOUTH CAROLINA NATIONAL BANK,
Charleston, S.C., April 13, 1959.

Hon. OLIN D. JOHNSTON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR JOHNSTON: There is presently before the Senate Finance Committee a bill entitled "Self-Employed Individuals Retirement Act of 1959" which is designated as H.R. 10. This bill was passed by the House by voice vote on March 16, 1959.

The investment restrictions contained in the bill in its present form should it become law, will present many problems to the banks in administering the accounts contemplated. We do not know what the prospects are that this bill will be enacted into law but our interest lies in being able to properly service the accounts of our customers who may wish to take advantage of the provisions of the bill in the event it is passed by the Senate and signed by the President.

It is obvious that the proper investment of small amounts contributed by a large number of individuals can only be on the basis of a pooling or collective investment of funds. Such collective investment of trust funds by a national bank is limited under section 17 and section 10–C of regulation F of the Board of Governors of the Federal Reserve System. The restrictions of the bill in its present form would probably prohibit collective investment under either of the provisions referred to.

Many banks including the South Carolina National are operating common trust funds at the present time under section 17 of the regulations referred to and if permitted might find its present common trust fund or one of them suitable for the investment of the accounts created under the terms of the bill. In any event, it would seem highly desirable that banks be permitted to invest under one or other of the sections referred to or relief might be had by amending the investment restrictions so that the accounts could be invested under the various State statutes relating to the investment of trust funds so that the retirement funds of an individual could be invested under the State statutes of the residence of the particular individual.

It is, of course, possible that the Board of Governors of the Federal Reserve System might amend the provisions of regulation F in the event that the bill became law so as to permit collective investment of accounts, but there is no assurance that they would do so and in our opinion it would be desirable to amend the provisions of the bill as indicated.

Your consideration of these recommendations will be greatly appreciated.

Sincerely,

R. P. EDMUNDS, Jr.,
Vice President and General Trust Officer.

CLEVELAND, OHIO, *February 6, 1957.*

Senator HARRY F. BYRD,
Chairman of the Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: The enclosed material is a copy of a resolution passed by the Cleveland Dental Society at its January 31 meeting. Will you please see that this proposal gets a timely hearing, and that this resolution is included in the printed record of that hearing?

Sincerely,

HARRY J. GEURINK,
Chairman, Legislative Committee of the Cleveland Dental Society.

RESOLUTION

Whereas a proposal known as the Jenkins-Keogh bill can give the professional man some of the tax benefits denied to him since the Internal Revenue Code was enacted; and

Whereas the principles of this bill have been before our national legislators for over 6 years in some form or other and have favorably impressed these lawmakers by their soundness and fairness; and

Whereas under this bill the self-employed individual would be able to set aside money for future retirement, tax free, such as corporations now set aside for their pension plans; and

Whereas such savings thus set aside would present a definite hedge against inflation: Therefore be it

Resolved, That the Cleveland Dental Society support the principles of the Jenkins-Keogh proposal and urge the 85th Congress to enact them into law; and be it further

Resolved, That the Cleveland Dental Society urge Senators John Bricker and Frank Lausche, Representatives Michael Feighan, Frances Bolton, Charles E. Vanik, and William E. Minshall, Senator Harry F. Byrd, chairman of the Senate

Finance Committee, and Representative Jere Cooper, chairman of the House Committee on Ways and Means to use their support and influence to secure an early enactment of this proposal.

Respectfully submitted.

JAMES M. GENTILLY,
W. J. STERLING,
HARRY J. GEURINK,
Chairman, Legislative Committee of the Cleveland Dental Society.

WEST COAST DISTRICT
DENTAL SOCIETY OF FLORIDA,
Tampa, Fla., February 12, 1957.

Senator HARRY F. BYRD,
Chairman of the Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: Enclosed is a copy of a resolution passed by the West Coast District Dental Society at its midwinter meeting held in Tampa, Fla., on January 25, 1957.

Our group is extremely interested in the Jenkins-Keogh proposal because of its importance and beneficial deferred tax payments for those of us that are self-employed.

The West Coast District Dental Society will appreciate your support of this proposal and your efforts to bring about a timely hearing on this proposal with the inclusion of our resolution in the printed record of the hearing.

Yours very truly,

JAMES HOLDSTOCK, D.D.S.

OUTLINE OF A RESOLUTION IN SUPPORT OF THE JENKINS-KEOGH PROPOSAL

Whereas the Jenkins-Keogh bill will again be before the Congress of the United States at its ensuing session, and the officers and members of the West Coast District Dental Society of Florida desired to express their great interest in the passage of said bill: Therefore be it

Resolved, That the West Coast District Dental Society of Florida supports the principles of the Jenkins-Keogh proposal and urges the 85th Congress to enact it into law; and be it further

Resolved, That the West Coast District Dental Society of Florida urge Senator Spessard L. Holland, Senator George Smathers and Representative William C. Cramer, Representative Jere Cooper, chairman of the House Committee on Ways and Means, and Senator Harry F. Byrd, chairman of the Senate Finance Committee to lend their efforts, influence, and support to the early enactment of this proposal.

This 25th day of January 1957.

WEST COAST DISTRICT DENTAL SOCIETY
OF FLORIDA,
By J. LEON SCHWARTZ, D.D.S., *President.*

Attest:

JAMES HOLDSTOCK, D.D.S., *Secretary.*

OREGON STATE DENTAL ASSOCIATION,
Portland, Oreg., February 4, 1957.

Hon. HARRY F. BYRD,
Chairman of the Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: It is the conviction of the dental profession that the Jenkins-Keogh proposal should be enacted into law during the 85th session of Congress. In accordance with that conviction, the Executive Council of the Oregon State Dental Association adopted the enclosed resolution on January 12, 1957, and directed the Secretary to distribute copies of the resolution to members of its congressional delegation and to the appropriate chairman of the Senate and House of Representatives.

Consequently, the Oregon State Dental Association respectfully requests that you earnestly strive for passage of bills H.R. 9 and H.R. 10 during the 85th session of Congress.

Furthermore, our membership requests that hearings be held on this proposal and that the attached resolution be placed in the record of these hearings.

Very truly yours,

THOMAS D. HOLDER, *Secretary.*

RESOLUTION

Whereas the Internal Revenue Code grants considerable income tax savings to certain individuals, such as corporate employees, by not subjecting to present taxation corporate contributions to their retirement or pension funds which have been established for their benefit; and

Whereas self-employed persons are not accorded a like privilege of income tax savings on amounts contributed by them to their own retirement programs; and

Whereas this income tax inequity could be corrected by passage of the Jenkins-Keogh proposal, H.R. 9 and H.R. 10, the principles of which have the approval of both major political parties and the President of the United States; therefore be it

Resolved, That the membership of the Oregon State Dental Association endorse the tenet of the Jenkins-Keogh proposal, H.R. 9 and H.R. 10, which would permit self-employed persons to obtain income tax savings on contributions to their pension or retirement programs similar to those now provided by law to corporate employees with respect to contributions made to their pension or retirement programs by their employers; and be it further

Resolved, That the membership of the Oregon State Dental Association urge the 85th Congress to enact the Jenkins-Keogh proposal quickly into law and requests the members of the Oregon congressional delegation to diligently strive for early passage of this desirable legislation; and be it further

Resolved, That the Oregon State Dental Association request its congressional delegation to place this resolution in the Congressional Record.

INDIANA STATE DENTAL ASSOCIATION,
Indianapolis, Ind., February 9, 1957.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR BYRD: At a recent meeting of the board of trustees of the Indiana State Dental Association, the members of that group, after due study and discussion of the burden of Federal taxes, approved a resolution strongly favoring the principles of the Jenkins-Keogh bills (H.R. 9 and H.R. 10) and the transmission of that resolution to the members of the Indiana delegation in the U.S. Congress and to two specific committee chairmen. The board of trustees also asked that the resolution be placed in the records of any hearings that may be held and also in the Congressional Record.

Consequently, at the request of the board, of Paul H. Asher, D.D.S., 3807 Washington Street, Gary, president of the Indiana State Dental Association, and of the other officers, I am transmitting to you this resolution:

"Whereas existing tax laws discriminate against the self-employed by granting to corporate officials and employees substantial income tax savings on certain amounts contributed to a corporate pension or retirement program for the benefit of these officials and employees, while similar tax savings are not granted to self-employed individuals in connection with amounts contributed by them to their private pension or retirement programs; and

"Whereas legislation, known as the Jenkins-Keogh bills (H.R. 9 and H.R. 10), has been before the Congress for the last 6 years; and

"Whereas during these 6 years the essential equity of the Jenkins-Keogh proposal has been proved by sound evidence and has gained the endorsement of the Republican and Democratic Parties, of the President of the United States, of tax authorities, and of countless individuals: Therefore be it

"*Resolved*, That the Indiana State Dental Association supports the principles of H.R. 9 and H.R. 10; and be it further

"*Resolved*, That the membership of the Indiana State Dental Association wishes the 85th Congress to be aware of the profession's conviction that the proposal should be enacted into law and asks every member of the Indiana delegation (Senators Capehart and Jenner, and Representatives Madden, Halleck, Nimtz, Adair, Beamer, Harden, Bray, Denton, Wilson, Harvey, and Brownson), together with the Honorable Jere Cooper, chairman of the House Committee on Ways

and Means, and the Honorable Harry F. Byrd, chairman of the Senate Finance Committee, to give his or her leadership and influence in the Congress to the achievement of this objective as soon as possible."

The Indiana State Dental Association will appreciate your interest and support.

With kind regards and best wishes,

Sincerely yours.

BRODERICK H. JOHNSON.

INDIANA STATE DENTAL ASSOCIATION,
Indianapolis, Ind., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, the Finance Committee,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR BYRD: On behalf of the members and officers of the Indiana State Dental Association, I wish to convey to you the strong endorsement by our association of the Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979)—the proposed Self-Employed Individuals' Retirement Act.

During the 101st annual session of the association, held May 18 through May 20, 1959, enthusiastic approval of the bill was expressed by the board of trustees and by the house of delegates, with the hope that the act would be reported favorably and that the endorsement would be noted in the written record of the hearings.

Consequently, the association respectfully requests your support.

Very truly yours,

BRODERICK H. JOHNSON.

WISCONSIN STATE DENTAL SOCIETY,
Milwaukee, Wis., January 3, 1957.

Hon. HARRY F. BYRD,
Chairman of the Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: Members of the dental profession in Wisconsin, in common with other self-employed individuals are vitally concerned with securing passage of legislation embracing the principles of the Jenkins-Keogh proposal.

Enclosed is a copy of a resolution adopted by the executive council of the Wisconsin State Dental Society, representing our membership of over 2,200, as of December 28, 1956.

We trust that we can count on your unqualified support to institute hearings relative to this measure and that our resolution can be incorporated in the record of these hearings.

Many thanks for your active cooperation in the past. You have our sincere wishes for a happy and successful year in 1957.

Sincerely yours,

J. D. KELLY, D.D.S., *President.*

Whereas under present regulations of the Internal Revenue Code officials and employees of corporations enjoy substantial savings in income taxes on moneys contributed toward retirement or pension programs instituted by corporations for their employees' benefit; and

Whereas self-employed individuals do not now participate in comparable tax savings on amounts which they contribute to their own private pension or retirement programs; and

Whereas during the last several years measures to correct this tax saving inequity have been before Congress in a form now generally known as the Jenkins-Keogh bills; and

Whereas under the aforementioned proposal the self-employed would be enabled and encouraged to develop sound programs under which they could put aside funds for retirement purposes; and

Whereas all evidence submitted in regard to the Jenkins-Keogh proposal has testified to the effect that it is a logical approach to correct the present inequities suffered by the self-employed, to the extent that both political parties and the President of the United States have given it their endorsement: Therefore be it

Resolved, That the Wisconsin State Dental Society through its membership heartily lends its support to the principle as advanced in the Jenkins-Keogh

proposal that would enable dentists and all self-employed persons to contribute specified amounts to voluntary retirement or pension programs under conditions which would assure them tax savings equal to those now conferred on corporation officials and employees in their similar programs; and be it further

Resolved, That the Wisconsin State Dental Society through its membership urges each member of the congressional delegation from Wisconsin to actively support and advance this proposal so that its objective can be achieved as soon as possible, and asks that the 85th Congress enact the measure into law.

The above resolution was adopted by the executive council of the Wisconsin State Dental Society on December 28, 1956.

WISCONSIN STATE DENTAL SOCIETY,
KENNETH F. CRANE, *Executive Secretary.*

OUTLINE OF A RESOLUTION IN SUPPORT OF THE JENKINS-KEOGH PROPOSAL

Whereas the Internal Revenue Code discriminates against those individuals who are employed by denying to them tax benefits similar to those granted to corporate officers and employees with respect to funds allocated to private pension or retirement programs; and

Whereas this discrimination against self-employed individuals cannot be justified by any acceptable standards of fairness or equality; and

Whereas a proposal, known as the Jenkins-Keogh bill, to rectify this inequity in the Internal Revenue Code has been before the Congress for some years, and in that period, the principles of this proposal have gained the full support of both major political parties, of the President of the United States, of leading tax authorities, of numerous private organizations, and of millions of self-employed individuals; and

Whereas the enactment of this proposal, in addition to correcting a gross tax inequity, would further substantially the anti-inflation policies of the Federal Government by stimulating sound and useful saving programs: Therefore be it

Resolved, That the Fox River Valley Dental Society supports the principles of the Jenkins-Keogh proposal and urges the 85th Congress to enact it into law: And be it further

Resolved, That the Fox River Valley Dental Society urge Senator Everett Dirksen, Senator Paul Douglas, Representative Russell Keeney, Representative Noah Mason, Representative Jere Cooper, chairman of the House Committee on Ways and Means, and Senator Harry F. Byrd, chairman of the Senate Finance Committee to lend their efforts, influence and support to the early enactment of this proposal.

THOMAS P. HOWLAND,
President, Fox River Valley Dental Society.
PAUL E. KEISER,
Secretary, Fox River Valley Dental Society.

MID-PENINSULA DENTAL SOCIETY,
February 8, 1957.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington, D.C.

SIR: I am enclosing a copy of a resolution recently passed by the Mid-Peninsula Dental Society composed of 124 members.

It is requested that an early hearing be given the Jenkins-Keogh proposal and that the resolution be included in the printed record of the hearing.

Sincerely yours,

JOHN S. LEDGERWOOD, D.D.S., *Secretary.*

RESOLUTION TO SUPPORT THE JENKINS-KEOGH PROPOSAL

Whereas self-employed persons due to the Internal Revenue Code are now unable to obtain tax benefits as do corporate officers and employees with their pension and retirement plans, and

Whereas there seems to be no relief for the self-employed individuals in the discrimination, and

Whereas the Jenkins-Keogh bill sets forth a means to correct this inequity in the Internal Revenue Code, and

Whereas the above-mentioned bill over a period of more than 6 years has gained the approval of both political parties, the President, prominent tax experts, a great many private organizations, and millions of the self-employed, and

Whereas a proposal closely allied to this one is proving to be a success in Great Britain, and

Whereas it would help greatly the Federal Government's anti-inflation program by encouraging retirement plans; Therefore be it

Resolved, That the Mid-Peninsula Dental Society does approve the Jenkins-Keogh proposal and asks the Congress to make it law at the earliest possible time; and be it further

Resolved, That the Mid-Peninsula Dental Society requests Senator William Knowland, Senator Thomas H. Kuchel, Representative J. Arthur Younger, Representative Charles S. Gubser, Representative Jere Cooper, chairman of the House Committee on Ways and Means, and Senator Harry F. Byrd, chairman of the Senate Finance Committee, to use their utmost effort to have this proposal enacted into law at an early date.

ALAN R. CASS, *President.*

U.S. SENATE,
Washington, D.C., April 20, 1959.

HON. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed is a letter I have received from one of my constituents, Mr. Sidney Leiwant, of Newark, N.J., concerning a provision of the Simpson-Keogh bill which, Mr. Leiwant states, would "prohibit an individual from using Canadian life insurance or annuities to self-fund an individual retirement program."

Mr. Leiwant's letter is forwarded for whatever consideration the committee may deem appropriate during its deliberations upon the bill. I would appreciate it, also, if Mr. Leiwant's letter could be made a part of the record before the committee.

Sincerely,

CLIFFORD P. CASE, *U.S. Senior.*

LIFE AGENCY OF NEW JERSEY, INC.,
Newark, N.J., April 10, 1959.

Re Self-Employed Individual's Retirement Act of 1959.

HON. CLIFFORD P. CASE,
U.S. Senate, Washington, D.C.

DEAR SENATOR CASE: I want to bring to your attention an adverse and discriminatory feature of the Simpson-Keogh bill, which will receive early consideration by the Senate Finance Committee. I refer to the stipulation which will prohibit an individual from using Canadian life insurance or annuities to self-fund an individual retirement program. As passed by the House, this legislation would permit certain individuals to use tax-exempt funds for retirement purposes, but would disallow the deduction if such funds were invested in Canadian insurance or annuities.

Canadian companies offer annuities and retirement plans which often are superior to similar plans sold by U.S. companies, and the selective U.S. taxpayer wants and deserves that plan which will best serve his needs. The man who will be harmed the most by this legislation is the individual who has already built his retirement program on a foundation of Canadian policies or annuities because the proposed legislation provides for the use of both new and old contracts, providing such contracts are otherwise qualified.

Legislation similar to Simpson-Keogh became law in Canada on January 1, 1958. I probably need not tell you that the Canadian counterpart of Simpson-Keogh discriminates in no way whatsoever against the many U.S. life insurance companies writing millions of dollars of life insurance annually within the boundaries of Canada. The discriminatory feature of Simpson-Keogh is patently a device of shortsighted private interests.

My own branch office employs 13 American citizens. We represent hundreds of New Jersey insurance agents, who, in turn, represent thousands of New Jersey policyholders. If this figure were multiplied by the number of Canadian branch offices in our country, you could readily see the irreparable harm that would be suffered by a large section of American citizens resulting from this contemplated discriminatory provision. Those who are discriminated against are American citizens essentially and not Canadian companies.

We look to you, our very able Senator, for your energetic efforts in removing this most discriminatory provision from what is otherwise an excellent piece of legislation.

Respectfully yours,

SIDNEY E. LEIWANT, C.L.U.

NORTH CAROLINA DENTAL SOCIETY,
Raleigh, N.C., January 30, 1957.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

MY DEAR SENATOR BYRD: Enclosed is a resolution passed by the executive committee on behalf of the members of the North Carolina Dental Society in support of the Jenkins-Keogh bills (H.R. 9 and 10).

We would like to request that hearings be held on the proposed legislation and that this resolution be placed in the record of these hearings.

Under present law, self-employed persons are practically foreclosed from establishing retirement savings programs because they are not permitted to enjoy the same tax advantages extended to employees under qualified plans established by their employer. We consider this a serious inequity.

We endorse the Jenkins-Keogh proposal as a means of correcting this situation and thereby encouraging more individuals to institute retirement savings programs of their own, with the obvious beneficial effect on the Nation's economy.

We strongly urge you, therefore, to lend your leadership and influence to enact these bills into law at the earliest possible date.

Sincerely yours,

OLIN W. OWEN, D.D.S.,
Chairman, Executive Committee.

RESOLUTION IN SUPPORT OF THE JENKINS-KEOGH PROPOSAL (H.R. 9 AND 10) SUBMITTED BY THE NORTH CAROLINA DENTAL SOCIETY

Whereas corporate employees covered by an approved pension plan are not required to pay income tax on the employer's contributions to the pension fund, under the present provisions of the Internal Revenue Code; and

Whereas self-employed individuals are not granted a similar privilege under the Internal Revenue Code in respect to amounts they might set aside in a retirement fund; and

Whereas the Jenkins-Keogh bills (H.R. 9 and 10) seek to correct this existing tax inequity: Therefore be it

Resolved, That the executive committee of the North Carolina Dental Society, on behalf of the membership of the society, endorses the Jenkins-Keogh bills (H.R. 9 and 10) in principle; firmly convinced that enactment of this legislation would not only correct existing tax inequities under the present Internal Revenue Code, but would strengthen the economy of the Nation by providing the proper incentive to sound savings practices on the part of self-employed individuals; and be it further

Resolved, That the 1,050 dentist-members of the North Carolina Dental Society strongly urge the 85th Congress to enact this proposal into law without delay and request the support of the North Carolina congressional delegation in the achievement of this objective.

January 30, 1957.

EXECUTIVE COMMITTEE,
NORTH CAROLINA DENTAL SOCIETY,
OLIN W. OWEN, D.D.S., *Chairman.*

NORTH CAROLINA DENTAL SOCIETY,
Raleigh, N.C., February 7, 1957.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SIR: I urge you to give your full support to the Jenkins-Keogh retirement bills (H.R. 9 and 10). The 1,050 dentists of the North Carolina Dental Society are vitally interested in the passage of this bill.

Yours truly,

HORACE K. THOMPSON, *President.*

THE NINTH DISTRICT DENTAL SOCIETY,
Tuckahoe, N.Y., February 23, 1957.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BYRD: Enclosed is a resolution unanimously adopted by the Board of Governors of the Ninth District Dental Society of the State of New York, at a regular meeting, February 6, 1957.

Our society has a paid active membership of 800, 90 percent of the practicing dentists in the countries of Westchester, Putnam, Dutchess, Rockland, and Orange.

We respectfully request that hearings be held on the Jenkins-Keogh bill and that our resolution be placed in the record of these hearings.

Sincerely,

THOMAS W. PALMER, D.D.S.,
Secretary-Treasurer.

THE NINTH DISTRICT DENTAL SOCIETY'S RESOLUTION RE JENKINS-KEOGH BILL

Whereas the Internal Revenue Code discriminates against self-employed individuals by denying to them tax benefits analagous to those granted to corporate officers and employees with respect to funds allocated to private pension or retirement programs; and

Whereas a proposal, known as the Jenkins-Keogh bill, to rectify this inequity in the Internal Revenue Code has been before the Congress for several years, and, in that period, has gained the support of millions of self-employed individuals as well as Government leaders; and

Whereas the enactment of this proposal, in addition to correcting a gross tax inequity, would contribute to the anti-inflation policies of the Federal Government by stimulating sound and useful saving programs: Therefore be it

Resolved, That the Ninth District Dental Society, a component of the Dental Society of the State of New York, supports the principles of the Jenkins-Keogh proposal and urges the 85th Congress to enact it into law; and be it further

Resolved, That the Ninth District Dental Society urges the enactment of this proposal through the efforts and support of Senator Harry F. Byrd, chairman of the Senate Finance Committee.

FORT MORGAN, COLO., *March 5, 1959.*

Senator GORDON ALLOTT,
U.S. Senate, Washington, D.C.

DEAR GORDON: I am writing you just a short line with reference to Senate bill 841.

Generally, I would say the bill is a step in the right direction considering the benefits that employees of large corporations are able to get compared to those of persons in my own position and others conducting their own businesses.

I am at a loss to understand, however, why it is designated at page 24 paragraph 7 of the bill that the trustee to be named must be a bank and it does not appear clear to me from the terms of the bill just who is going to say what investments are to be purchased unless they are set forth in the actual trust instrument in accordance with the act. Frankly, I think it needs reworking in its entirety with respect to this matter.

As you know Colorado and many other States have the uniform act covering the creation of trusts for minors relative to the ownership of stock and it seems to me that an act patterned after that uniform act would be much better than creating the complicated situation set up in the bill.

In the first place the small banks in northeastern Colorado do not have trust powers and I know you are also aware of the fact that State banks do not have trust powers and it seems to me that the bill throws a considerable amount of discretion to the bank relative to investments.

One other matter that strikes me as very unfair and inequitable particularly as a broker-dealer in stocks and bonds, is the provision relative to permissible investments.

As I read the act, permissible investments are only stocks and securities listed on a securities exchange. This could lead to all types of complications because stocks are often listed and delisted from exchanges in short periods of time. In addition, it is not fair to the over-the-counter market covering many very fine investments in securities.

I am so definitely opposed to the bill as it presently stands that I would be glad to spend a considerable amount of time with someone in an attempt to make it a more fair and equitable bill.

Kindly let me hear from you.

Yours very truly,

DICK PAYNTER.

BURBANK, CALIF., *April 2, 1959.*

Hon. THOMAS H. KUCHEL,
Senate Office Building, Washington, D.C.

SIR: As a self-employed person I am interested in the terms of the self-employed individuals retirement bill of 1959, H.R. 10, which has passed the House and will soon be before the Senate.

Section 4(a) of the bill requires that the trustee be a bank. Regulated investment companies (mutual funds) are able to set up trusts, including irrevocable trusts, at no charge to the investor. Banks are usually considered too conservative for the average businessman in their investments. With roughly 50 percent of their portfolios in bonds and preferreds, their trusts do not have the growth factor that the average person is after. The trustee fee would be quite high in the initial phase of the program.

In talking to various bank trust officers around the Los Angeles area, I find there is a general belief that the Bank of America has been a strong lobbyist for this bill and, of course, they would want the requirement of a bank trustee. The Bank of America has plans to set up a pool trust arrangement whereby all businessmen's contributions to the retirement trusts would go into their regular trust department. The other banks have not as yet made any such plans. This method pretty much alienates the businesman from his trust investments and leaves him without a voice as to the avenue of investment. He is asked to contribute blindly. This, I am sure, will deter many small businessmen from going into the retirement plan.

Under such an arrangement I would not be so willing to contribute a share of my earnings. However, if I could set up a trust with a regulated investment company I would have a degree of choice in that I could choose a company on the basis of the types of securities in which they are investing. It would be a trust which is personal to me and which I could watch and know what was going on. I also feel that the self-employed person should be free to set up more than one such trust and contribute to each as he wishes. I realize the trusts must be irrevocable in accordance with the present terms of the bill.

Your consideration will be appreciated.

Very truly yours,

CLEL A. SKIDMORE.

SOUTHERN CALIFORNIA STATE DENTAL ASSOCIATION,
Los Angeles, Calif., March 14, 1957.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

HONORABLE SIR: This association, numbering nearly 4,000 ethical dentists, respectfully submits the following resolution in unanimous support of the Jenkins-Keogh bills H.R. 9 and 10:

Whereas there are now pending before the Congress, H.R. 9 and 10, commonly referred to as the Jenkins-Keogh bills, which bills would grant to self-employed persons substantially the same tax benefits as are now available to employed persons participating in corporate pension plans, and

Whereas common justice demands that self-employed citizens of the United States have available to themselves the same tax benefits as are provided for employed persons,

Resolved, That the Southern California State Dental Association in annual session assembled, urges the 85th Congress to enact said proposal into law.

Resolved, further, That a copy of this resolution be sent to each Senator and Representative from California and to the Vice President of the United States.

We earnestly hope that hearings will be held on this proposal and that our resolution be placed in the record of such hearings.

We shall be very grateful to you, sir, for all that you may do to advance so wholesome and so worthy a cause.

Sincerely yours,

JOHN J. WHITE, D.D.S., *President.*

DELAWARE STATE DENTAL SOCIETY,
Wilmington, Del., January 24, 1957.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington, D.C.

DEAR SIR: The Delaware State Dental Society has unanimously approved the accompanying resolution in support of the Jenkins Keogh bill.

It is the wish of the Delaware State Dental Society that this resolution be read into the minutes of the Senate Finance Committee hearing, of this amendment to the Revenue Code.

Sincerely,

ALLEN G. SCHIEK, D.D.S., *Secretary.*

Whereas tax benefits are afforded corporate officers and employees through pension plans, and

Whereas self-employed individuals are denied such tax relief through any type of private retirement plan, and

Whereas legislation known as the Jenkins-Keogh proposal has been reported out of committee in previous sessions of Congress to provide a means of establishing private retirement plans with tax benefits, and

Whereas during the 6 years that the Jenkins-Keogh proposals have been before Congress, it has been reported favorably out of committee, has the endorsement of the two major political parties and the President of the United States: Therefore be it

Resolved, That the Delaware State Dental Society support the Jenkins-Keogh bill and its plan to provide tax savings on certain amounts paid into private retirement plans, and be it further

Resolved, That the Delaware State Dental Society urge enactment of the Jenkins-Keogh bill into law by the 85th Congress by so informing the Delaware delegation.

THE WYOMING STATE MEDICAL SOCIETY,
Cheyenne, Wyo., April 20, 1959.

Hon. GALE W. MCGEE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MCGEE: As chairman of the legislative committee of the Wyoming State Medical Society, I wish to indicate to you the society's interest in securing the passage of the Keogh-Simpson bill (H.R. 10). We feel that this bill, to encourage the establishment of voluntary pension plans by the self-employed, is worthy of your favorable consideration.

Yours very truly,

W. H. PENNOYER, M.D.,
Chairman, Legislative Committee.

PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS,
Philadelphia, Pa., May 8, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: I am enclosing a copy of a resolution which was approved by the unanimous vote of the Pennsylvania Institute's Council expressing support for the Keogh-Simpson bill, H.R. 10. Copies of this resolution have also been sent to the members of your committee as well as Senators Hugh Scott and Joseph S. Clark and Representative Richard M. Simpson for their information.

The Pennsylvania Institute of Certified Public Accountants, as well as the American Institute of Certified Public Accountants and the respective professional societies of the other States, have been active in urging passage of this legislation. As certified public accountants, our members consider that this legislation is necessary to correct the inequity which exists in the present tax structure with relation to all professional and self-employed persons.

We sincerely hope that you will give favorable consideration to this legislation and that you will have our resolution entered as a part of the record of hearings when hearings are held on this bill in the Finance Committee.

Respectfully yours,

F. WILLARD HEINTZELMAN, *Secretary.*

RESOLUTION BY THE COUNCIL OF THE PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING THE KEOGH-SIMPSON BILL, H.R. 10

Whereas H.R. 10 was introduced by Representative Eugene Keogh, of New York, on the opening day of the 86th Congress and H.R. 9, an identical bill, was introduced by Representative Richard M. Simpson, of Pennsylvania, on the same day; and

Whereas the proposed bills, known as the Keogh-Simpson bill, would permit self-employed persons to defer income tax each year on a proportion of their personal income to provide for their retirement, this portion of their income to be paid in voluntarily to a restricted retirement fund or as a premiums on insurance policies with retirement features; and

Whereas the Keogh-Simpson bill, H.R. 10, was passed by an overwhelming majority of the Members of the House of Representatives on March 16, 1959; and

Whereas the Pennsylvania Institute of Certified Public Accountants, as well as the American Institute of Certified Public Accountants and the professional societies of certified public accountants of the other States together with the associations of other professional and self-employed groups, consider that this legislation is necessary to correct the inequity in our present tax structure with relation to all professional and self-employed persons; and

Whereas the Pennsylvania Institute has joined with the American Institute of Certified Public Accountants and the other State societies and associations of professional and self-employed persons in expressing its support of the Keogh-Simpson bill: Therefore be it

Resolved, That the Council of the Pennsylvania Institute, by unanimous vote of the members present at its meeting on March 23, 1959, reaffirmed its support of this legislation and directed the secretary of the institute to transmit a

copy of this resolution to the members of the Finance Committee of the U.S. Senate requesting them to give favorable consideration to the Keogh-Simpson bill.

HARRY C. ZUG, *President.*
F. WILLARD HEINTZELMAN,
Secretary.

COMMITTEE ON EMPLOYEES TRUSTS,
TRUST DIVISION, AMERICAN BANKERS ASSOCIATION,
May 27, 1959.

THE FINANCE COMMITTEE,
U.S. Senate,
Washington, D.C.
(Attention Hon. Harry F. Byrd, chairman.)

SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959—RESTRICTED RETIREMENT FUNDS

The Self-Employed Individuals' Retirement Act of 1959 prescribes two means by which a qualified individual may set aside retirement funds pursuant to its provisions: (1) the purchase of a restricted retirement annuity policy through a life insurance company; and (2) the deposit and accumulation of funds in a restricted retirement trust of which the trustee must be a bank or trust company.

The banks and trust companies across the Nation are pleased to share with the insurance industry the opportunity to be of service to self-employed persons which the act will provide. In the course of the daily operations of the trust business, trustmen are constantly made aware of the comparative difficulties which self-employed persons have in making provision for their retirement years. As a result, trustmen understand, sympathize with, and endorse the desires of the self-employed to be placed on a par in this respect with employed persons who work under retirement funding programs financed by their employers.

As the act has taken shape over the years since its principles first came under consideration in 1945, its trust provisions have been refined to the point that only a few further modifications seem necessary to make it generally workable. Our purpose in this memorandum is to set forth four suggested further refinements which, in our opinion, will make it possible for banks and trust companies to best carry out the duties with which they will be charged as trustees, to the end that restricted retirement funds established pursuant to the act may be administered to the greatest advantage of those citizens it is intended to help.

FORMS OF RESTRICTED RETIREMENT TRUSTS

As trustmen and their legal counsel have given thought to how restricted retirement funds can best be operated, three basic patterns of trusts have begun to emerge. These are—

(1) A self-employed person may establish an individual inter vivos trust conforming to the requirements of the act, under which the trustee may invest directly in permitted assets or, if the act ultimately so permits, in a common trust fund operated by the trustee pursuant to regulations of the Federal Reserve Board;

(2) A professional or other association, or group of individuals acting together, may establish a trust conforming to the requirements of the act, under which separate accounts for each member will be maintained, but assets will be invested collectively; and

(3) A bank may declare a trust, stating its intention to qualify such trust as a restricted retirement fund and to accept deposits therein from qualified self-employment individuals for collective investment, with separate accounts to be maintained for each depositor.

It seems most likely that the bank-declared, collective form of trust (number (3) above) will be the most commonly used. Trusts of this form may reasonably be expected to attract many thousands of members, because of the investment advantages and administrative economies to be derived from the pooling by the members of their retirement resources.

LET THE INDIVIDUAL SELECT HIS OWN INVESTMENT MEDIUM

The greatest advantages will be available to members if the trust facilities are such that the members, individually, may select the types of investments they prefer for their own retirement funds. To one person, a portion in bonds and a portion in stocks will form a desirable arrangement; to another, a portion in insurance and a portion in stocks will seem appropriate; and others may conceivably prefer all insurance, or all bonds, or all stocks, or other combinations. Surveys made by banks among persons to be covered by the act have shown that the trusts to be established should permit this flexibility.

FOUR SUGGESTED REFINEMENTS IN THE ACT [1]

These are the four suggested further refinements in the bill's provisions which we hope may have the favorable consideration of the Congress:

(1) Provide that restricted retirement funds may be invested in assets which are permitted for the investment of trust funds by national banks under regulations of the Board of Governors of the Federal Reserve System issued pursuant to section 11(k) of the Federal Reserve Act;

(2) As is the case with common trust funds and collective trusts for employee retirement funds, provide that participations in restricted retirement trusts shall be exempt from issuance stamp taxes;

(3) Provide, with reference to prohibited transactions—

(*a*) that a restricted retirement fund shall not lose its tax exemption as the result of a prohibited transaction, if adjustment satisfactory to the Secretary of the Treasury is made within such reasonable time as the Secretary determines;

(*b*) that a member who knowingly engages in a prohibited transaction shall continue to be penalized by loss of his tax exemption; and

(*c*) that the definition of prohibited transactions in this act be made uniform in effect with the now existing definition in the Internal Revenue Code (sec. 503(c)), except that in this act the trustee shall be prohibited from lending corpus or income of the trust to a member; and

(4) Just as a member may have a restricted retirement policy purchased from funds in a restricted retirement trust, provide that he may, also, direct the transfer of the cash surrender value of a restricted retirement policy to a restricted retirement fund.

These four suggestions and the reasons for their advancement follow in specific detail. (The existing provisions of the bill proposed to be omitted are enclosed in black brackets, and new matter is italicized, and existing provisions in which no change is proposed are shown in ordinary type.)

ITEM 1. PERMISSIBLE INVESTMENT—SECTION 405(c)(3)

To set a fiduciary standard for funds investments, it is suggested that section 405(c)(3) be revised as follows:

"SEC. 405. RESTRICTED RETIREMENT FUNDS.

* * * * * * *

"(c) REQUIREMENTS FOR RETIREMENT PLAN.

* * * * * * *

"(3) PERMISSIBLE INVESTMENTS.—Under the trust instrument, the trustee may not invest or reinvest the corpus or income of the trust other than [in]—

"(A) [(i) stock or securities listed on a securities exchange which is registered with the Securities and Exchange Commission as a national securities exchange (not including stock and securities in a corporation if, immediately after the acquisition thereof, the aggregate ownership of voting stock in such corporation by the trust and by its members (including ownership attributed to such members under section 318) is more than 10 percent of such voting stock), (ii) bonds

[1] These suggestions are supplemental to and in lieu of those contained in our committee's memorandum of Dec. 29, 1958. Item 1, herein, is in lieu of item 1 of the 1958 memorandum. Item 2, in each memorandum, is the same. Items 3 and 4, herein, are additional suggestions.

or other evidences of indebtedness issued by the United States, any State or Territory, or the District of Columbia, or any political subdivision or instrumentality of any of the foregoing, and (iii) stock in a regulated investment company meeting the requirements of section 851, and] *in assets which are permitted for the investment of trust funds by national banks under regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System issued under section 11 (k) of the Federal Reserve Act; subject to the limitation that no investment or reinvestment for the trust shall be made in stocks, or bonds, or other obligations of any one person, firm, or corporation which would cause the total amount of investment in stocks, or bonds, or other obligations issued or guaranteed by such person, firm, or corporation to exceed the greater of $10,000 or 10 per cent of the fair market value of the trust, provided, however, that this limitation shall not apply to (i) obligations of the United States or obligations for the payment of the principal and interest of which the faith and credit of the United States shall be pledged; (ii) stock in a regulated investment company meeting the requirements of section 851; or (iii) participations in any common trust fund or other collective investment fund established and administered in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System; and*

"(B) *in* the purchase, for the account in the plan of a member thereof, of an annuity on the life of such member (or a face-amount certificate which meets the requirements of section 217(h) which provides only restricted retirement benefits (within the meaning of section 217(f)(2))."

THE "LEGAL LIST" OF THE PRESENT BILL

The bill now provides that under the trust instrument the trustee may not invest or reinvest the corpus or income of the trust other than in stock or securities listed on a securities exchange, bonds or other evidences of indebtedness issued by the United States, any State or Territory, or the District of Columbia, or any political subdivision or instrumentality thereof, stock in a regulated investment company, and in the purchase of an annuity on the life of the individual member. Provision for the purchase of stock or securities is further limited in that investments may not include stock and securities in a corporation if immediately after the acquisition thereof the aggregate ownership of voting stock in such corporation by the trust and its members (including attributed ownership under section 318) is more than 10 percent of such voting stock.

MAJOR DEFECTS OF THE PRESENT INVESTMENT PROVISION

This provision has these major defects:

(*a*) In the immediately preceding stage of the bill's development, it contained alternative provisions by which a person could deposit his retirement funds either in a trust or a custodian account. Because of the latter alternative, it was desirable to list specifically the investments which would be permissible. Now the bill provides that only trusts may be used—trusts which must have as trustee a bank or trust company—so that a less restrictive and more satisfactory approach to permissible investments is possible.

(*b*) The fact that stock or securities are listed on a securities exchange may be indicative but is not controlling as to investment merit of a stock or a security;

(*c*) Assets of trust investment quality, other than stock or securities listed on a securities exchange, are barred from use. One example: Mortgages. Another: Many bonds of high quality are not listed on a securities exchange and cannot be purchased through an exchange.

(*d*) To comply with the limitation in ownership of 10 percent of voting stock of a corporation by the fund and its members, the trustee would have to know the number of shares of such stock owned by each member (including attributed ownership) in any company whose stock was being considered for purchase. In a fund of many members, this would be impossibly cumbersome and unworkable.

PROPOSED PERMISSIBLE INVESTMENTS

In substitution for the "legal list" approach to permissible investments contained in the present bill, the suggested revision would set as a standard for investment those assets which are permitted for the investment of trust funds by national banks under Federal Reserve Board regulations issued pursuant to the Federal Reserve Act. What this means specifically is seen in these condensed quotations from the Federal Reserve Board's Regulation F:

"Funds received or held by a national bank as fiduciary shall * * * subject to the rules of law applicable to fiduciaries, be invested promptly and in strict accordance with the * * * instrument creating the trust. * * * When such instrument does not specify the character or class of investments to be made and does not expressly vest in the bank * * * a discretion in the matter, funds received or held in trust shall be invested * * *in any investments in which corporate or individual fiduciaries in the State in which the bank is acting may lawfully invest.[2] * * * Funds * * * shall not be invested collectively except that (i) such collective investments may be made in accordance with section 17 of this regulation.[3] * * * Funds * * * shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank."[4]

WHAT OF THE LIMITATION ON VOTING STOCK?

In the suggested revision, the limitation upon the investment in assets issued or guaranteed by any one entity to "the greater of $10,000 or 10 percent of the fair market value of the trust" is a workable substitute for the limitation on voting stock contained in the present bill. It should prove equally effective, as intended by the framers of the bill, to prevent the settlor of an individual trust from financing his business, through the trust's investments, on a tax-exempt basis. Under the suggested revision, this limitation will not apply (i) to obligations of the U.S. Government, (ii) stock in a regulated investment company, and (iii) to common trust funds or other collective investment funds operated under regulations of the Federal Reserve Board. Such assets inherently provide diversification of investment risk.

THE PRECEDENT FOR THE SUGGESTED INVESTMENT STANDARD

The suggested revision sets up an effective standard for trust investments which has been found suitable by Congress with reference to the trust business which is now conducted by national banks—a standard which is at least equivalent to the best investment practices required of State banks exercising fiduciary powers. The suggested revision will also permit the desired and necessary flexibility in investment provisions of restricted retirement funds—whereby a member may select the type of investments preferred for his own account—all within the framework of the rules of law applicable to fiduciaries.

ITEM 2. ISSUANCE STAMP TAXES—SEC. 4303

To eliminate issuance taxes, it is suggested that section 4303 be revised as follows:

"SEC. 4303. EXEMPTIONS.

"(a) COMMON TRUST FUNDS.—The tax imposed by section 4301 shall not apply to the issue of shares or certificates of a common trust fund, as defined in section 584.

"(b) POOLED INVESTMENT FUNDS.—The tax imposed by section 4301 shall not apply to the issue of shares or certificates of a fund maintained by a bank exclusively for the collective investment and reinvestment of assets of qualified trusts (within the meaning of sections 401 *and 405*, relating to qualified pension, profit-sharing, [and] stock bonus, *and restricted retirement* plans)."

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[2] Regulation F, sec. 10(a).
[3] Sec. 10(c). Sec. 17 covers the terms and conditions under which common trust funds may be and are operated. Representatives of the Federal Reserve Board have given informal assurances of the Board's intention to sanction the collective investment of restricted retirement funds established under the Self-Employed Individuals' Retirement Act of 1959, if the act becomes effective.
[4] Sec. 11(a).

Under section 4303(a), the Internal Revenue Code exempts "* * * the issue of shares or certificates of a common trust fund, as defined in section 584 * * *" from the Federal documentary stamp tax. In 1958, this exemption was extended to apply to "* * * the issue of shares or certificates of a fund maintained by a bank exclusively for the collective investment and reinvestment of assets of qualified trusts (within the meaning of section 401, relating to qualified pension, profit-sharing and stock bonus plans)."

SIMILAR EXEMPTION EQUITABLE

In view of these specific exemptions, it would seem that Congress, in affording self-employed persons the benefit of participation in collectively invested restricted retirement funds, would also intend that such participation interests be exempt from the issuance tax.

ITEM 3. PROHIBITED TRANSACTIONS—SECTION 78(A)(3) AND SECTION 405(D)

To set standards more nearly uniform with existing law, and to prevent penalties from falling upon the innocent, it is suggested that section 78(a)(3) and section 405(d) be revised as follows:

"SEC. 78. AMOUNTS RECEIVED FROM RESTRICTED RETIREMENT FUNDS OR POLICIES.

"(a) RESTRICTED RETIREMENT FUNDS.—

* * * * * * *

"(3) PROHIBITED TRANSACTIONS, ETC.—If the trustee, *or a member (or members)* of a restricted retirement fund knowingly engages in a prohibited transaction (within the meaning of section 405(d)(3)), the member (or members) in respect of whom such transaction occurred shall be treated as having received, in his taxable year in which such transaction occurred, his entire interest in the fund. The period for assessing a deficiency for any taxable year, to the extent attributable to the interest described in the preceding sentence, shall not expire before one year after the date on which the Secretary or his delegate is notified, in such manner as he shall by regulations prescribe, of such prohibited transaction."

"SEC. 405. RESTRICTED RETIREMENT FUNDS.

* * * * * * *

"(d) REQUIREMENTS FOR EXEMPTION FROM TAX.—

"(1) IN GENERAL.—A restricted retirement fund which has engaged in a prohibited transaction shall not be exempt from taxation under section 501(a).

"(2) TAXABLE YEARS AFFECTED.—*Pursuant to regulations which the Secretary or his delegate shall prescribe,* paragraph (1) shall apply *to the fund* only for taxable years after the taxable year during which the [fund] *trustee* is [notified] *given final notice* by the Secretary or his delegate that [it] *the fund* has engaged in a prohibited transaction *which has continued beyond, or of which adjustment has not been made to the satisfaction of the Secretary or his delegate within, a reasonable time after preliminary notice thereof shall have been given to the trustee by the Secretary or his delegate;* except that if the trustee, *or a member (or members)* knowingly engaged in a prohibited transaction, paragraph (1) shall apply with respect to the accounts in the fund of the member *(*or members*)* in respect of whom such transaction occurred for the taxable year in which such transaction occurred and all taxable years thereafter.

"(3) PROHIBITED TRANSACTION DEFINED.—For purposes of this subsection, the term 'prohibited transaction' means any transaction in which the trustee—

"(A) lends any part of the corpus or income of the fund to;

"(B) pays [any] *more than reasonable* compensation for personal services rendered to the fund to;

"(C) makes any part of its services available on a preferential basis to; or

"(D) acquires for the fund any stock, securities, or evidences of indebtedness *for more than an adequate consideration in money or money's worth,* from, or sells any stock, securities, or evidences of indebtedness of the fund *for less than an adequate consideration in money or money's worth, to,*

"any person described in section 503(c) (for this purpose treating each member of the plan as the grantor of the trust). The term also includes any transaction pursuant to which the fund ceases to meet any requirement of subsection (c) of this section, and any failure to comply with any provision of the trust instrument required by such subsection."

WHAT IS A PROHIBITED TRANSACTION?

The bill defines a prohibited transaction as any transaction in which—

(1) The trustee (a) lends, (b) pays compensation for personal services, (c) makes its services available preferentially, or (d) acquires from, or sells (i) the trust maker, (ii) a member, (iii) a member of the family of a member, or (iv) a corporation controlled directly or indirectly by a member;

(2) The fund ceases to meet in any respect the requirements for a retirement plan as set forth in the act; or

(3) The trustee or other interested persons fail to comply with any provision of the trust instrument required by the act.

SECTION 503(C) NOW SETS A REASONABLE STANDARD

Item (1), above, sets forth limitations which would prohibit any transaction whatsoever with a member, regardless of its reasonableness or the adequacy of consideration. These limitations may have been necessary when the bill provided for custodian accounts. However, since the bill now provides that funds must be deposited in trusts—with a bank as trustee—it would seem that the tests would be sufficient if they were made consistent with those in the existing provisions of section 503(c) of the Internal Revenue Code, with this exception: it seems entirely reasonable that the member and the trustee should be prohibited from defeating the purposes of the retirement trust through loans to a member of the funds he has deposited. If this were not the case, a member would be able to make a deposit, claim a tax deduction therefor, borrow back the money deposited, and have its use tax free. On the other hand, the only essential test for the trustee's purchase of assets, assuming their qualification as permissible investments, would seem to be that the purchase price should not exceed an adequate consideration and, in the case of sales, the sale price should not be less than an adequate consideration.

THE LABORER IS WORTHY OF HIS HIRE

A further apparently inadvertent result of the language in this section of the bill is that the trustee of the fund could not be paid any compensation whatsoever for its services, if the trust is of that form in which the trustee is the declarer and, therefore, technically, the maker of the trust. Also, no payment could be made for legal services rendered to the fund by an attorney who is a member of the fund. Further, no commissions could be paid for purchases or sales of securities if a partner of the brokerage firm handling the purchase or sale is a member of the fund.

The suggested revision would make it possible for the bank-trustee to receive reasonable compensation for its services, whether it is the declarer of the trust or the trust was established by others. And attorneys and brokers who serve the fund could be paid their reasonable fees and regular commissions even though they were members of the fund.

THE PENALTY

The penalty for engaging in a prohibited transaction is that the fund, ipso facto, loses its tax exemption. By the terms of the act, this could occur merely as a result of a member's misstatement of his age followed by the trustee's unknowing retention of his interest in the fund beyond the prescribed age.

If the trustee knowingly engages in a prohibited transaction with a member of the fund, the member is to be treated as having received his entire interest in the fund, with loss of his tax exemption effective as of the time of the transaction. To other members of the fund, the loss of exemption would be deferred until the taxable year following that in which the trustee is notified by the Secretary of the Treasury that the fund had engaged in the prohibited transaction. But, note, this is merely a deferral of the time as of which the penalty is invoked. The effect can only be the dissolution of the trust, as all members must

transfer their interests to other trusts to escape loss of the tax exemption for their own accounts.

If the trustee unknowingly engages in a prohibited transaction, the trust's loss of exemption becomes effective in the taxable year after that in which the trustee receives notification from the Secretary.

Therefore, whether the prohibited transaction is engaged in by the trustee knowingly or unknowingly, and whether the prohibited transaction be grave or trivial, the innocent members would have to suffer the dissolution of the fund and the transfer of their liquidated interests to another fund. Thousands of innocent members could be thus adversely affected.

THAT THE INNOCENTS MAY NOT SUFFER

Under the suggested revisions, a fund which had engaged in a prohibited transaction would still lose its tax exemption, if the transaction were continued beyond, or not adjusted to the satisfaction of the Secretary within, a reasonable time set by him. Subject to regulations of the Secretary as to the manner and time of correction, a breach—whether major or merely a trivial technicality—could be adjusted so that the innocent members would not suffer.

FOR THE GUILTY, THE PENALTY

However, if either the trustee or a member (or members) knowingly engaged in a prohibited transaction, the account of such member (or members) would lose tax exemption immediately as of the time of the transaction. This revision would invoke the penalty, if a member (or members) engaged knowingly in a prohibited transaction, whereas the present bill limits to the trustee only the knowledgeable factor which sets up the immediate penalty.

ITEM 4. TRANSFER OF CASH SURRENDER VALUE OF RESTRICTED RETIREMENT POLICY TO RESTRICTED RETIREMENT FUND

(Sec. 217(f)(3))

To permit a member to adjust his retirement program to possible changed conditions, it is suggested that Section 217(f)(3) be revised as follows:

"SEC. 217. AMOUNTS PAID AS RETIREMENT DEPOSITS.

* * * * * * *

"(f) RESTRICTED RETIREMENT POLICY DEFINED.—

* * * * *

"(3) RESTRICTED RETIREMENT POLICIES MUST BE NONASSIGNABLE, ETC.—

"(A) IN GENERAL.—To meet the requirements of this paragraph, a policy—

"(i) shall be nonassignable, and no person other than the insured shall have any of the incidents of ownership, and

"(ii) shall not provide for life insurance protection after age 70½.

"(B) SPECIAL RULES.—For the purposes of subparagraph (A)(i), there shall not be taken into account—

"(i) the right to make any designation described in paragraph (2),

"(ii) the right to designate one or more beneficiaries to receive the proceeds payable in the event of the death of the insured before he attains age 70½, [and]

"*(iii) the right to direct that all or any part of the cash surrender value of a restricted retirement policy shall be transferred to the account of the member in a restricted retirement fund designated by such member, and*

"[(iii)] *(iv)* any designation made pursuant to a right described in clause (i), [or] (ii), *or (iii)*."

LET THE MEMBER HAVE A TWO-WAY SELECTION

The bill now provides that a member's funds in a restricted retirement trust may be used to purchase for him a restricted retirement annuity policy. It is suggested that the opportunity should also be available to a member for the transfer of his cash surrender value in a restricted retirement policy to a

restricted retirement fund. Changing conditions—either personal to the member or general to the economy—could make such transfers desirable—either way—and a member should be in a flexible position to adjust his restricted retirement program to meet his changing conditions. This suggestion would provide such flexibility.

If we can explain further the points of this memorandum, or can be of any service in any way to the Senate Finance Committee, we shall welcome the opportunity.

Respectfully submitted.

Committee on Employees Trusts, Trust Division, American Bankers Association: Esmond B. Gardner, Vice President, the Chase Manhattan Bank, New York, N.Y.; Joseph R. Gathright, Vice President and Trust Officer, the Kentucky Trust Co., Louisville, Ky.; Hugh A. Logan, Vice President, St. Louis Union Trust Co., St. Louis, Mo.; B. Frank Patton, Vice President, Morgan Guaranty Trust Co. of New York, New York, N.Y.; Frank H. Schmidt, Senior Vice President, California Bank, Los Angeles, Calif.; Arthur V. Toupin, Trust Officer, Bank of America National Trust & Savings Association, San Francisco, Calif.; Cecil P. Bronston (Chairman), Vice President, Continental Illinois National Bank & Trust Co. of Chicago, Chicago, Ill.

PENSION ASSOCIATES, INC.,
St. Louis, May 20, 1959.

HON. THOMAS C. HENNINGS,
Senate Building,
Washington, D.C.

DEAR SENATOR HENNINGS: We have been talking over the possibilities of the Keogh-Simpson bill, H.R. 9 and H.R. 10, which would encourage self-employed people to set up retirement programs by making their contributions to such programs tax deductible.

It is understood that if a plan of this nature were adopted, the Government would receive substantial reductions in income taxes. Furthermore, we understand the Government has difficulty raising money these days as evidenced by the increased rate of interest at which they are forced to sell bonds.

Our suggestion, which we think has tremendous possibilities and implications, is as follows:

(1) At the time that a self-employed makes out his final income tax for the year and determines what his income tax will be, he will then be in a position to determine what type of tax deductions he will get by contributing to the self-employed retirement program.

(2) The result of this is that the Government will get less income tax.

(3) On the same form which he makes out his final income tax and takes a deduction for self-employed retirement, he will be permitted to contribute to the Government self-employed pension fund, which will guarantee a certain tax-free rate of return, possibly 3 percent, 3¼ percent, and so forth, interest, while the money is in the restricted fund.

(4) The result is that the Government will get less income tax money, but more overall income, since this restricted retirement fund is equivalent to selling Government bonds.

(5) It is certainly much easier to pay a smaller amount of income tax and at the same time contribute money into the Government self-employed pension fund than it is to pay less income tax and use some other method of funding the self-employed retirement.

(6) The Keogh-Simpson bill could provide for investments other than the restricted Government retirement fund, but we think that by combining income tax and pension fund in one operation a little higher rate of interest might be given to those investing in the Government retirement fund. Many people would definitely want the bond-type investment for the safety involved. Even those who might wish to have the possibilities of a higher yield through equity investments might be willing to put a portion of their self-employed retirement contribution in the Government self-employed retirement fund.

We sincerely believe that the above way of raising money by the Government is far superior to selling E-bonds and other type Government investments and that by making it easy for the self-employed to purchase this type of investment,

the Government will raise far more money than through any other method. This would more than make up for the loss in income taxes.

This, of course, means that the Government would have to keep some kind of records as to the amount of investments plus interest earned by each self-employed. We do not think that this is much of a problem, since some form of certificate, similar to that issued when E-bonds are purchased, could be sent to the self-employed sometime after he made his contribution each year.

If you think there is any merit in this idea, we would be interested in your comment.

Sincerely yours,

ROBERT L. ROSENHEIM, *Vice President.*

NEW YORK, N.Y., *June 8, 1959.*

Re H.R. 10.

Hon. HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I learned through the newspapers that you are planning to hold extensive hearings on the Keogh bill which permits self-employed persons to deduct a portion of their income, tax free, for investment in restricted annuity funds. As a self-employed, I see no necessity for such a bill, and, therefore, wish to be registered in opposition thereto.

Those of us who are fortunate enough to provide employment for others should need none of the so-called benefits of this bill. It is true that the confiscatory rates of tax on personal income are so high today that it is difficult for anyone to accumulate a competence for his family. Nevertheless, all of us who are in the category of self-employed have been forced to come under the social "insanity" bill and, theoretically, at least, the monthly payments should at least provide the necessities of life. If we are able to provide employment for others we should not ask for such special legislation as is provided in H.R. 10.

I am still hoping that the Democratic Party will have sense enough to nominate you for the Presidency next year so that a tory Republican like myself will have a chance to vote for a conservative before shuffling off this mortal coil.

Sincerely yours,

WM. E. RUSSELL.

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., June 12, 1959.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: It has come to my attention that hearings are now being, or soon will be, held on H.R. 10, Retirement Act for Self-Employed, before the Senate Committee on Finance, and I am taking the liberty of enclosing herewith a resolution recently adopted by the Ohio Bankers Association relative to this bill.

It is possible that a copy of this resolution is already in your hands, but, if not, it may be helpful to you in your considerations of this legislation.

Very truly yours,

BEN C. CORLETT, *Senior Vice President.*

STATEMENT OF POLICY OF THE ANNUAL TRUST CONFERENCE OF THE OHIO BANKERS ASSOCIATION, IN REGARD TO H.R. 10—RETIREMENT ACT FOR SELF-EMPLOYED

Whereas national policy should encourage individual savings in order to increase personal security, and in order to reduce the threat of inflation; and

Whereas national policy should encourage the self-employed, both because their independence is a valuable element in our society, and because they occupy a position of special risk in our economy;

But whereas the Federal tax laws contradict both policies by discriminating against saving for retirement by the self-employed: Now, therefore, be it

Resolved, That the trust conference of the Ohio Bankers Association hereby approves and recommends the passage by the U.S. Senate of a bill such as H.R. 10, in order to encourage establishment of retirement plans by the self-employed;

provided the present technical provisions of H.R. 10 which deal with permissible investments, prohibited transactions, and penalties for errors be revised to take into account the practical problems of the administration of retirement trusts thereunder; and be it further

Resolved, That a copy of this resolution be sent to the chairman of the Senate Finance Committee and Senator Frank J. Lausche and Senator Stephen M. Young.

Adopted May 7, 1959.

BELFORD P. ATKINSON,
Executive Manager, Ohio Bankers Association.

RESOLUTION ADOPTED AT THE MIDDLE ATLANTIC STATES ACCOUNTING CONFERENCE, WASHINGTON, D.C., JUNE 10, 1959, SUBMITTED BY D. L. MITCHELL, PRESIDENT

Whereas the present Internal Revenue Code provides tax incentives to stimulate the creation of retirement plans for employee groups; and

Whereas small retailers, farmers, professional men and women, and other self-employed people are not extended a comparable opportunity; and

Whereas specific legislation has been introduced—namely, the bipartisan Keogh-Simpson bill, or H.R. 10—which would correct this discrimination; and

Whereas the House of Representatives has overwhelmingly passed this legislation on two occasions, with the result that the bill is before the Senate Finance Committee; Now, therefore, be it

Resolved, That the Middle Atlantic States Accounting Conference, representing the District of Columbia and the States of Delaware, Maryland, North Carolina, South Carolina, West Virginia, and Virginia, strongly urges the prompt adoption of H.R. 10; and be it further

Resolved, That a copy of the foregoing resolution be submitted to all Senators who represent the States enumerated in this resolution, and that a copy of this resolution be also sent to the chairman of the Senate Finance Committee, with the request that it be made a part of the record of hearings on this legislation.

S. M. WEDEBERG, *Secretary.*

AMERICAN WOMAN'S SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS,
803 Devon Place, Alexandria, Va., June 16, 1959.

HON. HARRY FLOOD BYRD,
U.S. Senate, Washington, D.C.

DEAR SIR: The American Woman's Society of Certified Public Accountants, the national professional organization of women C.P.A.'s urges prompt action on H.R. 10 to the end that it may become law during this session of Congress.

Because the present Internal Revenue Code provides tax relief to permit the creation of pension funds for certain groups; and

Because many small businessmen, farmers, professional men and women, other self-employed persons, and certain employee groups are not accorded similar treatment and must seek financial security in retirement out of earned income already seriously depleted by extremely high tax rates; and

Because H.R. 10 would alleviate this tax discrimination by permitting a self-employed person to deduct from gross income each year a limited amount of earned income contributed by him to a restricted retirement fund, or paid in as premiums to purchase a restricted retirement annuity contract, the American Woman's Society of Certified Public Accountants believes that its prompt enactment is an urgently needed measure of tax justice.

Because equality before the law is a cornerstone of the American concept of right government for all citizens, the self-employed deserve equal treatment in this important phase of his financial program as he plans to be as self-reliant after retirement as he has been throughout his working career.

The society commends H.R. 10 for early, favorable action, and requests that the foregoing be read into the records of the hearings on this measure to be held June 17 and 18, 1959.

Yours very truly,

MARY F. HALL,
Chairman, Legislative Committee.

STATEMENT BY WATSON ROGERS, PRESIDENT, NATIONAL FOOD BROKERS ASSOCIATION, WASHINGTON, D.C. IN BEHALF OF H.R. 10

Mr. Chairman and gentlemen of the Senate Finance Committee, we greatly appreciate this opportunity to present our views on H.R. 10, the proposed legislation to encourage the establishment of voluntary pension plans by self-employed individuals.

The members of the National Food Brokers Association are small-business people located in every market area in the Nation. The great majority of them come under the category of self-employed business people. To them the present discrimination in our tax laws represents an inequity which requires correction.

The problem of providing for adequate retirement in one's old age is a serious one. Under the present tax law situation, however, self-employed proprietors or partners such as our members cannot adequately make such provision. Many of them do not have the opportunity to participate in pension plans other than Federal social security, the way the situation now stands. As you can understand, they are very anxious to participate in such plans so as to make adequate income provision for their retiring years. This is impossible to do as so many are faced with the almost insurmontable problem of laying aside funds for such retirement purposes after paying great overhead costs and heavy taxes.

The inequity in the situation exists because self-employed individuals such as our members are at a tremendous disadvantage as compared with the officials and executives who work for corporations. As you know, many, if not most corporation officials, have such protection through the privilege of corporate pension plans to take care of them in their retirement. They are in a position to step down in their later years when they are no longer qualified to take the great pressures of the present-day tempo of our business world. On the other hand, self-employed proprietors cannot do so without great financial sacrifice.

Retirement programs are desirable as they encourage individuals to set aside reasonable amounts of their current income to provide income in their old age. Such thrift should be encouraged. The present tax situation makes this practically impossible for many of our people. H.R. 10, by mitigating the burdensome effect of present tax laws on proprietor and partner individuals, would represent a measure of improvement of small business opportunity and incentive. It would give those people who desire to do so tax savings inducement to set up a retirement program.

Congress has given small business firms an election to be taxed as corporations so as to help small business. However, the old provisions still remain as regards pension trusts. A corporation, no matter how small, can adopt such a plan, but individual proprietorships or partnerships can only adopt pension plans covering employees but not the proprietors or partners. Inasmuch as the Congress is properly concerned with eliminating tax disadvantages and tax discriminations, it would follow that such policy should be included to carry over to pension trust plans.

Small-business firms should not be forced to incorporate to obtain these advantages. Many of our members find it impractical or undesirable to change from partnership or individual proprietorship to a corporate structure merely to obtain the advantages of being able to set aside, under a tax deferment plan, income to be used for retirement purposes.

For the above reasons, we and our members plead with you gentlemen on the Senate Finance Committee to report this bill out favorably without delay. This equitable correction of a serious burden is sorely needed and should be provided.

STATEMENT OF CONGRESSMAN TOM STEED, DEMOCRAT OF OKLAHOMA, BEFORE THE SENATE FINANCE COMMITTEE, IN BEHALF OF H.R. 10

Mr. Chairman, I appreciate the opportunity of appearing before the committee today as a cosponsor of H.R. 10. I have been honored to join in both the 85th and 86th Congresses in sponsoring this bipartisan measure with two senior members of the House Ways and Means Committee, my distinguished colleagues, the gentleman from New York, Mr. Keogh, and the gentleman from Pennsylvania, Mr. Simpson.

I will not take the time of the committee today to dwell on the detailed provisions of the bill, which would permit the self-employed person to defer income tax annually on a part of his income set aside for his own retirement.

The maximum deferable per year would be $2,500 or 10 percent of total income, whichever is the lesser. Related deferments are, of course, already applicable to qualified plans established by corporations and other organizations.

This bill would affect some 7,500,000 persons, including an estimated 13,000 in my own Fourth Congressional District of Oklahoma alone. Small independent businessmen make up the huge majority of this number. These people are typical of those whose initiative and enterprise help to build up the basic strength of our economy.

Letters of support for the bill have come to me from people in many walks of life. Among them are druggists, realtors, plumbers, savings and loan men, attorneys, owners of furniture stores and other small businesses, and certified public accountants.

During the period of my service in the House, now more than 10 years, no measure with which I have been closely associated previously has brought such a flood of favorable response. Expressions of approval from invidduals, both written and verbal, have cascaded in to me in great volume, and they continue to arrive now, almost 3 months after the passage of the bill by the House.

I believe that the strength and breadth of this reaction indicate that the bill has touched a responsive chord in our citizenry. I urge its adoption as a step of simple justice.

STATEMENT OF THE NATIONAL FUNERAL DIRECTORS ASSOCIATION IN SUPPORT OF THE SMATHERS-KEOGH-SIMPSON BILL

The National Funeral Directors Association has 13,953 members. Their funeral homes are located in every State including Alaska and Hawaii and in the District of Columbia.

According to the most recent statistics of our organization 18 percent of the funeral homes in the United States are operated as corporations. The remaining 82 percent are not. Their owners, unlike those who are part of a corporate setup, are not eligible to participate in qualified pension and profit sharing plans and have the premiums paid deductible for income tax purposes.

The National Funeral Directors Association feels this discrimination should not exist and that the Internal Revenue Code be amended. We respectfully request that a tax incentive be established so that thousands of funeral directors will set up their own retirement programs. Unless this is done the tax law will continue to favor funeral directors who are part of a corporate structure against those who are self-employed.

HOWARD C. RAETHER,
Executive Secretary.

STATEMENT OF MR. J. D. HENDERSON, NATIONAL MANAGING DIRECTOR, AMERICAN ASSOCIATION OF SMALL BUSINESS, INC., NEW ORLEANS, LA.

We have membership in our association in every State in the country, representing some 120 different trades and professions. Small business is having a more difficult time operating today than in any time in the past, because of the high National, State, and local tax structure. In many cases, a small businessman in preparing a payroll will find that he has no pay envelopes to take home for himself. In some instances the withhholding tax, social security, and unemployment tax, which are to be turned over to the various agencies of the Government, are deposited to their account. When it comes time to pay the agencies, he doesn't have enough money. It then becomes necessary to borrow money from a lending agency in order to satisfy tax demands.

The small business and professional self-employed in the United States should be given some opportunity and incentive to accumulate a reserve for their retirement and independence in their declining years. H.R. 10 offers this reward for initiative, energy, and ability. The small busines and professional people are not asking for charity, they merely want to be afforded an opportunity to put aside a certain sum of money each year without having to pay taxes on it at the present time. We are not asking for any special favor, because in later years, when these funds are used by the small business and professional people, they will be required to pay taxes, but possibly in a lower bracket.

It seems to me that the voice of 10 million independent small business and professional self-employed should be recognized by the Congress. All of these

small business and professional people are tax collectors for the Federal, State, and municipalities for which service they receive no compensation. They are forced to be tax collectors or suffer the penalty provided in the various laws.

By a favorable report on the Smathers-Keogh-Simpson bill, the members of the Senate Finance Committee would create a better understanding between the Treasury Department and the general public; alleviate the current plight of the self-employed small businessman of today; and pave the way for Senate approval of this much needed legislation.

STATEMENT OF ARTHUR J. PACKARD, PRESIDENT, PACKARD HOTELS CO., MOUNT VERNON, OHIO

Mr. Chairman and gentlemen of the committee, I am Arthur J. Packard, operating eight small hotels in the State of Ohio. I am also chairman of the Governmental Affairs Committee of the American Hotel Association.

Many leaders in our industry have watched closely this legislation, since it was first introduced about 3 years ago. The fact that it has twice passed the House would seem to indicate that the measure has much merit.

The 1954 Census of Business reports that as of that date there were 24,778 hotels. Of this number, 21,806 were unincorporated. This is indicative of the fact that the great majority of hotel operators over the country are sole proprietors, or operate as partners. It would be my estimate that less than 10 percent of this total are organized as partnerships. Accordingly, the benefits of the Self-Employed Individuals' Retirement Act of 1959 would be widespread in our industry.

The last 13 or 14 years have been difficult years for our business. Occupancy levels, according to Horwath & Horwath, a well-known hotel accounting firm, have dropped from 93.8 percent in 1946 to 66.5 percent at the end of 1958. There has been no single interruption to this downward trend. Thus earnings generally have dropped dangerously, and it is indeed an unusual property, among the smaller hotels of the country, which is able to maintain its solvency. Under this set of circumstances, I am very sure that the average proprietor of a hotel, or the average partnership, has had little, if any, opportunity to set up a retirement program for himself and his family.

So long as the revenue code permits corporations to deduct, for income tax purposes, wages and salaries paid to employees for pension and retirement plans, I think it no more than fair that a similar opportunity should be accorded those businessmen and women who operate the unincorporated business places of America.

We respectfully hope that your committee will give favorable consideration to this measure.

STATEMENT OF G. KEITH FUNSTON, PRESIDENT, NEW YORK STOCK EXCHANGE

My name is G. Keith Funston. I am president of the New York Stock Exchange. I appreciate this opportunity to express our support of H.R. 10.

For years the exchange has been among the many organizations supporting legislation to encourage self-employed individuals to establish voluntary pension plans. The original legislative proposals have been revised substantially in light of information developed in hearings and through the work of interested groups during the past 10 years. The bill in its present form represents a modest but worthwhile first step toward elimination of the inequitable tax treatment of self-employed persons.

It has been estimated that some $7 billion is being set aside each year by employed individuals under corporate old age retirement programs, and that the total amount already accumulated exceeds $80 billion. Yet some 10 million citizens—farmers, doctors, lawyers, dentists, businessmen—are denied the tax treatment on which such programs rest merely because they are self-employed. H.R. 10 would eliminate this wholly illogical dual standard by permitting a self-employed person to defer his tax payment if he sets aside, for his own future retirement, the lesser of $2,500 or 10 percent of his earned net income per year, up to a total of $50,000. The amount set aside would be contributed to a "restricted retirement fund" with a bank under a trust agreement, or to a "restricted retirement policy" with a life insurance company.

Members of the New York Stock Exchange and their partners would be among the groups directly affected by this legislation. Although stock exchange partnerships can set up pension plans for their employees, the partners themselves are excluded from participating. When it is considered that Congress has long permitted corporations to deduct payments into employees' pension plans, it seems only reasonable that Congress should also permit the self-employed to make similar deductions of funds properly segregated to provide retirement benefits. We believe the time has come for Congress to provide those who work for themselves with the same tax treatment it provides for others.

H.R. 10 has been opposed on the ground that it would postpone current tax revenues in the first few years. While we recognize the Treasury's present need for revenue, we can sympathize with those who hear this argument every year and who must begin to doubt if next year will ever come. Equally important, the anti-inflationary impact of the legislation should counterbalance the relatively small loss of revenue. Increased individual savings would flow to banks and insurance companies, making funds available for investment in productive enterprises. Moreover, as in the case of corporate pension funds, some part would undoubtedly be invested in long-term Government bonds at a time when one of our most pressing needs is to lengthen the debt and moderate the pressure on interest rates.

We think the enactment of H.R. 10 at this time, regardless of the short-range loss in revenue, would be in the long-range best interest of the economy and some 10 million self-employed individuals.

STATEMENT OF EDWARD ROTAN, PRESIDENT, ASSOCIATION OF STOCK EXCHANGE FIRMS

The association is a voluntary nonprofit trade body of a major proportion of the member organizations of the New York Stock Exchange. Of the 657 member organizations of this exchange, over 600 conduct their business as partnerships with an aggregate of over 5,000 partners. In addition, there are over 300 individual members of this exchange who conduct their business on the floor of the exchange as sole proprietors in the capacity of traders and specialists. Our members are located in almost every State in the Union and yet only represent a portion of the great number of individuals and partners in the securities industry.

Each partner in our business is a self-employed person, the same as a doctor, lawyer, or other professional, farmer, store owner or other sole proprietor. Each of them is profoundly interested in the general principles embodied in the Keogh bill, and other similar legislation, to encourage the establishment of voluntary pension plans by self-employed individuals. There is a tremendous need for legislation of this nature to afford the millions of self-employed an opportunity to build their own retirement security on a deferred-tax basis similar to that accorded to employees covered by qualified employer-financed pension plans.

For the past several years our association has sought some form of relief from the tax inequities suffered by partners and other self-employed persons in our industry. It is eminently unfair that employees of corporations be permitted to provide for their old age on a tax-deferred basis without granting a similar opportunity to the self-employed. Of course, it has been argued that legislation of this nature would substantially reduce Government revenues in the coming years. The Treasury Department has estimated that it would involve a revenue loss of some $365 million in the first year of operation. However, there have been effective countervailing estimates that the revenue loss would be less than $100 million. The far more important issue before Congress is whether the 7 million or more self-employed persons should continue to bear the brunt of this widely admitted tax inequity. Under presently existing employer-financed pension plans, employers are permitted to deduct from taxes over $4 billion in contributions to some 45,000 employee pension plans. In effect, these deductions cost the Government approximately $1.8 billion in revenues.

The Honorable Richard M. Simpson, Pennsylvania Representative to Congress offered incisive evidence early this year that the disparity in tax treatment between pension-covered employees and the forgotten army of the self-employed increases each year that this legislation remains unpassed. Representative

Simpson pointed out that the specter of possible revenue loss acting as a bar to the enactment of this measure was hardly supportable when it is realized that the Treasury approves thousands of newly qualified pension plans every year with little consideration as to [illegible] tax loss involved. It does not seem appropriate that the possible diminuti[illegible] in Government revenues attributable to the enactment of this bill should be a valid excuse for the continuation of this basic injustice.

President Eisenhower, along with many responsible legislators and Government officials, has also been outspoken on behalf of the self-employed in asking for remedial legislation which would provide these valuable citizens with a vehicle to save for their old age and retirement.

Your colleagues in the House of Representatives on March 16 of this year overwhelmingly approved the principles of the Keogh bill and passed it on for your consideration. Now, you, the members of the Finance Committee, have the opportunity to remedy the unfortunate plight of the self-employed with respect to tax-deferred retirement income. With all the recent legislation adopted to assist small business, certainly this beneficial proposal extending tax parity to the self-employed should not be overlooked. This legislation has been considered for a great many years, and as each year passes the demand for enactment is stronger and more insistent until it can no longer be denied.

The Association of Stock Exchange Firms, on behalf of all its members, wholeheartedly endorses the Keogh bill and respectfully urges this committee to add their unqualified endorsement by favorably reporting this measure to the Senate floor.

NORMAN, INGELHARDT & ZIMMERMAN,
Chicago, Ill., June 16, 1959.

Re H.R. 10.

Senator HARRY F. BYRD,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: Mr. Colin F. Stam has informed me that the Senate Finance Committee has scheduled hearings on H.R. 10 for June 17, 1959. He has suggested that I submit to you a statement on the serious problem created by the present wording of section 405(c)(2) of said bill.

This serious problem can be solved by the simple insertion of two words in said section, as indicated in my detailed statement attached hereto.

Thanking you for your consideration, I remain,

Sincerely yours,

CHRISTIAN M. LAURITZEN II.

STATEMENT IN CONNECTION WITH "SELF-EMPLOYED INDIVIDUAL RETIREMENT BILL" (H.R. 10)

I would like to call the attention of the committee to a provision in the proposed bill (H.R. 10) which will make it impossible for any self-employed individual to create a trust which will qualify under the law. This situation, I am sure, is unintentional. Fortunately, it can be easily corrected.

FIRST: PROBLEM

1. Section 405(c) states that a trust instrument "shall be treated as a retirement plan only if the requirements of paragraphs 1, 2, and 3 of this subsection are met."

2. Paragraph 405(c)(2)(A) states, "A member may not assign (or agree to assign) any portion of his interest in a fund."

3. Thus any trust will fail to qualify under H.R. 10 if the creator of the trust can assign his interest therein.

4. It is a fundamental rule of law that the grantor of a trust cannot legally place the trust beyond the reach of his creditors. Any self-employed person who makes a deposit with a bank as trustee as provided by the proposed bill would necessarily be the grantor of his retirement trust.

5. Therefore, as a matter of law, the individual could "assign" his interest in the trust and, consequently his trust could not meet the requirement of paragraph 405(c)(2)(A).

Thus, it will be impossible for any self-employed individual to create a retirement trust which will meet the requirements of H.R. 10 as presently worded.

SECOND: THE SOLUTION

Fortunately, this problem can be easily solved. I submit that the objectives of the committee can be met by a very simple change in the wording of the proposed bill.

Section 405(c)(2) in the present draft reads as follows: "Under the trust instrument."

This wording makes the requirement of 405(c)(2)(A) depend upon local trust law and in turn raises the barrier previously pointed out.

This barrier could be very easily surmounted by a simple change in the wording of 405(c)(2) as follows: "Under the terms of the trust instrument."

In this way, a self-employed individual's retirement trust agreement would qualify under section 405 if by "the terms of the trust instrument," the individual grantor "may not assign" his interest in the trust.

I respectfully urge the committee to make this change in the wording of the trust bill. A failure to make such a change in the wording will have the unfortunate result of Congress passing a self-employed individual's retirement bill under which no self-employed person could create the type of retirement trust called for in this bill.

STATEMENT OF JOHN H. WALKER, EXECUTIVE SECRETARY, SOCIETY OF AMERICAN FLORISTS AND ORNAMENTAL HORTICULTURISTS

My name is John H. Walker, executive secretary of the Society of American Florists and Ornamental Horticulturists, Washington, D.C.

The Society of American Florists was organized in 1884 and was incorporated by act of Congress on March 4, 1901, as a nonprofit organization. As the national trade association of floriculture and ornamental horticulture, the society represents retailers, growers, wholesalers, and allied tradesmen. The society has 140 affiliate organizations, National, regional, State and local in character, in its membership.

In behalf of our membership, who are for the most part self-employed small businessmen, we urge you to extend retirement benefits for those who are self-employed. We feel our members should be permitted to set up their own tax deductible pension plans, thus affording them many of the same privileges as those now covered by corporate pension plans.

We favor the Smathers bill (S. 1979) which, if passed and enacted into law, would circumvent this preferential tax treatment. The discrimination in our tax laws has been working a hardship on our small, self-employed florists throughout America. The Smathers bill would adjust this inequality.

We are pleased to note that the Treasury Department itself realizes that "present law does not give self-employed people tax treatment for their retirement savings comparable to that now accorded to employees covered by employer-financed pension plans."

Senator Smathers' bill, which would become effective for the taxable years beginning with the 1961 budget year, allows a year for our Government to make the necessary adjustments in its overall budget. This bill definitely will provide our florists with additional income for retirement and survivorship purposes to complement the present old age and survivorship benefits. With the steadily increasing cost of living, the minimum benefits provided for by the present social security program are inadequate.

Over 90 percent of the floral industry—growers, wholesalers, and retailers—are, according to the Government's definition, small businessmen. The businesses of many of our members are of the family type and they urgently need the protection afforded by the Smathers bill.

We wish to urge the Senate Committee on Finance to act favorably on this important legislative matter.

PETERSBURG, VA., *June 12, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR: At the annual meeting of the Petersburg Bar Association, held tonight, the Keogh-Simpson (H.R. 10) legislation was discussed.

The majority of the members of our association who attended this meeting endorsed the principle of the legislation to allow self-employed persons a tax deferment for a limited amount of income put into voluntary pension plans.

Acting under instructions given me at this meeting of our association tonight I am conveying this information to you to be inserted in the record and we hope you can see your way clear to support this legislation.

Our warm personal regards accompany this letter to you.

Sincerely yours,

T. TAYLOR CRALLE,
Secretary, Petersburg Bar Association.

VIRGINIA STATE DENTAL ASSOCIATION,
Roanoke, Va., June 15, 1959.

HON. HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: The members of the Virginia State Dental Association respectfully request that you support the passing of the Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979), and we urge that it be favorably reported.

We further request that our association's endorsement of this legislation be noted in the written report of the hearings in your committee.

Sincerely yours,

MYRON E. HENDERSON,
Secretary-Treasurer.

ROANOKE, VA., *June 15, 1959.*

HON. HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: The Piedmont Dental Society would like you to know that their society endorses legislation H.R. 10 and S. 1979 (Smathers-Keogh-Simpson bill). We request that our society's endorsement of this legislation be noted in the written record of the hearings.

Sincerely,

DR. B. M. JOHN,
Secretary-Treasurer of the Piedmont Dental Society.

THE VIRGINIA STATE BAR ASSOCIATION,
Richmond, Va., June 16, 1959.

HON. HARRY F. BYRD,
U.S. Senator,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: I know that you have about all the arguments to be made in connection with the Keogh-Simpson bill and I shall not add to them. I merely wanted to let you know the interest of the Virginia State Bar Association and we do seek your help in behalf of its passage.

Sincerely yours,

D. J. MAYS.

THE VIRGINIA STATE BAR ASSOCIATION—RESOLUTION ENDORSING JENKINS-KEOGH BILL

Whereas there is pending in the Congress of the United States proposed legislation known as the Jenkins-Keogh bill (H.R. 9 and 10) which would place society endorses legislation H.R. 10 and S. 1979 (Smathers-Keogh-Simpson bill). self-employed persons (such as small businessmen, farmers, and professional men) on generally the same basis as employed persons with respect to the right to set aside a limited part of their current earnings for retirement or future needs, with deferment of income taxes on earnings so set aside until they are used as retirement income; and

Whereas employed persons (through pension plans and other qualified income deferral programs) have enjoyed this privilege for a number of years, and thereby have been enabled to provide some income for their old age, disability or other subsequent need, whereas no similar opportunity has been afforded self-employed persons under Federal tax laws; and

Whereas the Jenkins-Keogh bill would remove this long-standing inequity and tax discrimination against self-employed persons; and

Whereas it is also believed that this legislation would aid in combating inflation in that long-term savings would be promoted: Now, therefore, be it

Resolved by the Executive Committee of the Virginia State Bar Association, That:

(I) Legislation embodying the principles of the Jenkins-Keogh bill is endorsed and approved.

(II) The Senators and Congressmen from Virginia are urged to support this legislation actively and vigorously.

(III) Copies of this resolution shall be mailed to the Honorable Harry F. Byrd and to the Honorable A. Willis Robertson and to all Members of the House of Representatives from Virginia; and that copies hereof shall also be mailed to the Honorable Sam Rayburn, Speaker of the House of Representatives, and the Honorable Jere Cooper, chairman of the Ways and Means Committee of the House of Representatives.

I, William T. Muse, secretary of the Virginia State Bar Association, a voluntary organization of lawyers having approximately 2,000 members, hereby certify that the foregoing preambles and resolutions were duly adopted by the executive committee of such association on March 16, 1957, and that such resolutions remain in full force and effect.

WILLIAM T. MUSE, *Secretary.*

JULY 8, 1957.

SPRINGFIELD, ILL., *June 17, 1959.*

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.:

This telegram presents the position of the Illinois State Bar Association concerning H.R. 10, 86th Congress, currently being considered by your committee. We request that the following statements be made a part of the printed hearing:

We endorse the bill and earnestly request your committee to recommend that the bill do pass in 1959. Our members voted overwhelmingly in favor of the principles embodied in H.R. 10 and since that time our association has actively supported this type of legislation.

On February 6, 1959, our board of governors directed the appointment of a representative of the association to appear and testify in support such legislation, but in order to conserve the time of your committee this letter is being submitted in lieu of personal appearance.

The legal profession in Illinois is on record as preferring a mechanism which will encourage establishment of voluntary pension plans in preference to a compulsory federally controlled system of social insurance. We are also keenly aware of and concerned about the serious inequities which exist under present Federal tax laws between lawyers and other self-employed persons and those persons who are employed by others. Under existing laws employees may purchase pensions and other annuities for employees and treat the cost as a business expense. Under this arrangement an employee pays no income tax on such retirement contributions made on his behalf by his employer, and he is thus able to defer tax payments on this part of his income until his retirement. The self-employed lawyer enjoys no such advantage, but has the disadvantage during his years of greatest earnings of paying the highest income tax rate on all the money which he is able to set aside for his old age and retirement.

The sole proprietors and members of partnerships in nonprofessional organizations can readily change their status by incorporating and obtaining the status of employees. Even though they may be controlling shareholders or corporate officers, they can participate in qualified pension or profit-sharing retirement plans along with other employees. Professional persons are unable to do this because they are prevented by law from incorporating for the purpose of practicing their professions.

We submit that the enactment of H.R. 10 would tend to equalize this unfair situation by allowing lawyers and other self-employed persons to put aside proportionate sum for retirement purposes up to $2,500 of their income each year with the income taxpayments deferred until retirement benefits are received.

It is our opinion that it is in the best interest of this country for the Congress to eliminate inequities of this type. We submit that the enactment of the Smathers-Keogh-Simpson bills would lessen inflationary pressures through the encouragement of increased savings.

On behalf of the more than 10,000 members the Illinois State Bar Association I wish to express our appreciation for the opportunity of presenting our views on this extremely important legislation.

TIMOTHY W. SWAIN,
President, Illinois State Bar Association,
912 Central National Bank Building, Peoria, Ill.

ILLINOIS STATE BAR ASSOCIATION,
May 19, 1959.

Hon. GEORGE A. SMATHERS,
Senate Office Building,
Washington, D.C.:

For more than 10,000 members of the Illinois State Bar Association I express our sincere appreciation of your leadership upon behalf of individual retirement legislation which will assure to the self-employed persons of the Nation an equal opportunity to provide for their own retirement. Your sponsorship of S. 1979 assures us of the ultimate passage in the Senate of the Keogh-Simpson bills, the principles of which cannot be questioned. Besides eliminating the patent inequities in the present laws affecting pension plans, the passage of this legislation will encourage our youth to consider the professions or other self-employed occupations rather than to exclude them in favor of the security benefits of corporate employment. Your action has given us new hope and renewed determination in our efforts on behalf of all self-employed persons.

TIMOTHY W. SWAIN,
President, Illinois State Bar Association.

SUGGESTED AMENDMENT SUBMITTED BY MR. WILLIAM F. WALLACE, JR., ROBERT DRISCOLL BUILDING, CORPUS CHRISTI, TEX.

SAVINGS AND LOAN INVESTMENT OF SELF-EMPLOYED RETIREMENT FUNDS

The present bill enables the self-employed to establish an individual pension trust account or purchase an annuity type insurance policy. It is suggested that the bill be amended to provide that these funds may be invested in term savings and loan investment certificates. There are very considerable advantages to the self-employed from this procedure.

The disadvantages of an insurance annuity type policy would be: Inflexibility of amount of investment, low interest rate, removal of funds from the locality and nonguarantee of funds.

The disadvantages of trust fund procedure lie in a very high expense to earnings ratio, that these funds would be placed in a common investment pool with little individual attention, and that they would not be guaranteed.

In contrast, savings and loan associations could well afford to issue term certificates, payable in a stated number of years, providing that interest will be paid at one-half to 1 percent in excess of their current rate (excess interest to be refunded if purchaser died and certificate cashed prior to maturity). The investor could synchronize his investments with fluxuating income and by limiting his account in any one association to $10,000. All funds invested would be insured by an instrumentality of the Federal Government. This would not be true of either of the other modes presently provided. An amendment which authorized this and allowed Federal savings and loan associations to issue premium interest rates on term certificates would, in most States, automatically authorize State associations to follow this procedure.

RESOLUTION OF THE ROANOKE BAR ASSOCIATION, ADOPTED JUNE 9, 1959

Whereas there is pending before the Committee on Finance of the Senate of the United States the Keogh-Simpson bill (H.R. 10) and the Smathers bill (S. 1979) which would permit self-employed persons to put a limited part of their current earnings into a retirement fund and defer paying taxes on those earnings so set aside until used as retirement income; and

Whereas such legislation, which has passed the House of Representatives by a substantial majority, would also encourage self-employed persons to save voluntarily for their own retirement long-term savings which in turn would be a deterrent to inflation and would provide a steady growth of capital for industrial expansion; and

Whereas such legislation would also alleviate a long standing tax discrimination which favors employed persons over self-employed: Now, therefore, be it

Resolved by the Roanoke Bar Association at its regular meeting held on the 9th day of June, 1959, That it approves the passage of legislation embodying the principles of the Keogh-Simpson and Smathers bills.

That it urges its representatives in the Senate of the United States to give this legislation their active and affirmative support, and

That a copy of this resolution be forwarded forthwith to the Senators from Virginia.

A true copy, teste:

[SEAL] D. L. KINCANNON, *Secretary.*

NATIONAL RETAIL FURNITURE ASSOCIATION,
Washington, D.C., June 12, 1959.

Hon. HARRY FLOOD BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: The National Retail Furniture Association appreciates very much having been given the opportunity to present its views on H.R. 10, a bill to encourage the establishment of voluntary pension plans by self-employed individuals, while your committee is holding public hearings on June 10 and 17.

The position of the National Retail Furniture Association on this legislation is as follows:

At their meeting in April 1956, directors of NRFA voted to support measures which enable owners of small businesses, and professional and other self-employed persons, and employees of firms which do not have qualified retirement plans, to set up their own pension plans with similar tax deduction privileges.

NRFA is an association of the owners of almost 8,000 mostly family-owned retail home furnishings stores throughout the United States.

This legislation is of great importance to many NRFA members because, as your committee knows, employer-proprietors and employer-partners are not able to participate in a qualified pension plan even though they may establish such a plan for their employees.

Enactment of this legislation would enable NRFA to offer a qualified pension plan to these small business owners who are members of NRFA.

Furthermore, we believe that H.R. 10 should also be amended to cover employees of firms which do not have qualified pension plans.

This amendment is very important to retail employees because the retail trade generally is not as far advanced as the manufacturing industry in the adoption of qualified pension plans for employees' retirement.

Therefore, to avoid any question whatsoever of discrimination, we believe H.R. 10 should be amended while before your committee so that it covers not only the self-employed but also those employed persons whose employers have not instituted pension plans that have qualified under the Internal Revenue Code.

This amendment can be made, in our opinion, without in any way altering the principles which the bill seeks to establish, by defining an individual in the same terms as in the section 217(a) of S. 3194, 85th Congress, 2d session, (p. 12, lines 24 and 25; p. 15, lines 7 to 19.)

If the principle of tax deferment for retirement plan premiums is generally accepted, it seems to us that the only nondiscriminatory approach is to make it available not only to self-employed persons but to employees who for reasons beyond their control are not covered by an employer's qualified pension plan and who, therefore, like self-employed individuals, have to institute some form of voluntary retirement plan.

We are taking the liberty of sending a copy of this letter to each member of the Senate Finance Committee.

We solicit your earnest and careful consideration of our recommendations.

Yours sincerely,

J. M. MERO,
Vice President and Comptroller, Sachs Quality Stores, Inc., New York, N.Y., Cochairman, NRFA Tax Committee.

P.S.—We would be most grateful if you would give your consent to making this letter a part of the record of the hearings on this legislation.

HENDREN & ANDRAE,
Jefferson City, Mo., June 12, 1959.

Senator STUART SYMINGTON,
Senate Office Building, Washington, D.C.

DEAR STUART: As you know, I am cochairman for the State of Missouri with Aloys Kaufman of St. Louis, representing the lawyers of Missouri urging the passage of the Smathers-Keogh-Simpson bill, H.R. 10, which is scheduled for hearings before the Senate Finance Committee on June 17 and 18. I realize that you are not a member of that committee but wanted you to know that the lawyers of Missouri are strongly in favor of this legislation and it would be a personal favor to me if you would contact members of the Finance Committee of the Senate and advise them that the lawyers in your State are extremely interested in favorable action on this legislation.

With best personal regards, I am,

Sincerely,

JOHN H. HENDREN.

HOUSE OF REPRESENTATIVES,
Washington, D.C., June 18, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR BYRD: I submit this statement in support of H.R. 10 which is generally referred to as the Keogh-Simpson bill. As you are well aware, this legislation seeks equal tax treatment for the 10 million self-employed citizens of our country who would like to provide for their own retirement rather than become public charges.

A brief history of this legislation shows that it was first introduced in 1951 by Mr. Keogh, of New York, and the late Mr. Dan Reed, of New York. Mr. Reed was succeeded by Mr. Jenkins, of Ohio, who retired and was succeeded by the present Republican cosponsor, Mr. Simpson, of Pennsylvania. This is good sound bipartisan legislation; in fact, of the 28 bills on this subject which were introduced in the House of Representatives this year, 16 were initiated by Democrats and 12 by Republicans.

In 1952, the President called for legislation along these lines. The House of Representatives in the closing days of the 85th Congress and again this year passed this bill almost unanimously. It is important that we keep in mind that the Treasury Department, while opposing H.R. 10, does admit that present law does not give self-employed people tax treatment for their retirement savings comparable to that now accorded to employees covered by employer-financed pension plans.

The self-employed of this country are depending on the 86th Congress to enact H.R. 10 and thus remedy a defect in our tax structure which has been present for too long.

Any consideration given will be truly appreciated.

Sincerely yours,

TOBY MORRIS, M.C.

RESOLUTION BY KANSAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS, LAWRENCE, KANS., JUNE 15, 1959

Whereas there is a need for equity in the 1954 Internal Revenue Code between employees participating in approved retirement plans and self-employed individuals who are not allowed a tax deferment for contributions to a personal retirement plan; and

Whereas this group of individuals comprises an important segment of the taxpaying public, specifically farmers, doctors, lawyers, accountants, small independent entrepreneurs, and others; Now, therefore, be it

Resolved by the Board of Directors of the Kansas Society of Certified Public Accountants, That the Congress of the United States be urged to enact the Smathers-Keogh-Simpson bill in order that self-employed citizens may receive similar tax treatment afforded employees under retirement plans.

NATIONAL GRANGE,
Washington, D.C., June 17, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: By action of the delegate body at Colorado Springs, Colo., in November 1957, the National Grange is in favor of Federal legislation which would implement tax changes which would make it possible, through a Federal income tax savings, for farmers to voluntarily set aside certain amounts for a retirement program.

The exact wording of the resolution enacted by our delegate body is as follows:

"Whereas the Internal Revenue Code grants to corporate officials and employees substantial income tax savings on certain amounts contributed to corporate pensions, or retirement programs, for the benefit of these officials and employees; and

"Whereas similar tax savings are not granted under the law to a retirement program for farmers who have the same problems upon retirement as other business people—with or without old-age and survivors insurance coverage: Therefore be it

"*Resolved*, That the National Grange go on record as favoring legislation that will permit farmers to voluntarily set aside certain amounts for a retirement program."

In the case of your current hearings having to do with the consideration of this proposal, it would be appreciated if you would make our viewpoints a part of the hearing.

We would hope that you and the members of your committee would find it possible to support legislation of this type, and that the Senate and the Congress would see fit to approve it.

Respectfully yours,

HERSCHEL D. NEWSOM, *Master.*

HACKENSACK, N.J., *June 15, 1959.*

Re Keogh-Simpson bill, H.R. 10.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: On behalf of the committee of the New Jersey State Bar Association concerned with the above legislation, and on behalf of the association itself, I should like the statement to go on record before the Senate Finance Committee that the New Jersey State Bar Association in annual meeting assembled and the general council of the association have annually for the past several years endorsed the above legislation in principle and urged its enactment. In prior years, appropriate resolutions of the New Jersey State Bar Association and the general council have been furnished representatives in Congress from New Jersey and our Senate.

I appreciate that your committee will receive considerable and extensive communications, as well as testimony with respect to this legislation. I shall, therefore, attempt only a concise statement of some of the reasons inducing the New Jersey Bar Association to support this legislation.

1. It will tend to correct the present gross inequality. At the present time some 18 million persons in the United States in private industries, as well as millions more in public employment, receive the benefit of contributions to a pension plan which are tax deductible by the employer, as they should be, and are not taxable to the beneficiary until actually received when beneficiary payments begin. I believe that you and others as Members of the Senate have some

benefit of a similar nature. The self-employed, whether farmer, mechanic, professional man, or whatever, has no such opportunity to provide for his future on any tax benefit basis. Simple justice in the disposition of the tax burden supports the legislation.

2. The present social philosophy is that the latter years of nonproductivity should not see the individual dependent financially, either on public charity or on relatives. This legislation will aid that general social objective, which none will deny is a desirable one.

3. In the field of economics, there is a widely held opinion that one of the essentials for the healthy growth of our economy under the free enterprise system is adequate savings and reinvestments. The funds that would be invested in consequence of this legislation certainly would be substantial and constitute a further stimulus to economic growth.

4. The bill would contribute something toward economic stability, since the nonproductive years of the self-employed would not see such change in their purchasing power and consumption of goods.

From what I have read, the present contention in opposition to the legislation is that it will reduce Treasury receipts some $365 million. Every thinking person in this country will consider, I believe, that the maintenance of Government expenditure within the limitations of Government receipts, of which you have been such an outstanding and persuasive advocate, may be the most critical internal problem within this country, since it bears so directly on the question of inflation. However, in view of the stupendous sums annually being appropriated, including proposed appropriations recently increasing support of agricultural commodities, the proposed legislation is of minor consequence. At any rate, the inequality presently existing cannot justly be defended on the ground that it should be continued because of some reduction in Treasury receipts. If that is critical, the tax burden should be justly and not unjustly imposed.

If it is appropriate and practical to do so, it is requested that this letter be made a part of the proceedings before your committee.

Very truly yours,

WARREN DIXON, Jr.,
Chairman, New Jersey State Bar Association Committee for Keogh-Simpson Bill.

MOBILE, ALA., *June 15, 1959.*

Hon. LISTER HILL,
U.S. Senate, Washington, D.C.

DEAR SENATOR HILL: The Medical Association of Alabama strongly endorses the Smathers-Keogh-Simpson bill. Hearings will be held on June 17. We hope you will lend your influence and support of this extremely important bill.

M. VAUN ADAMS, M.D.,
Chairman, Committee on Legislation, Medical Association of Alabama.

SALT LAKE DISTRICT DENTAL SOCIETY,
Salt Lake City, Utah, June 15, 1959.

Hon. WALLACE F. BENNETT,
Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BENNETT: The Salt Lake District Dental Society, which comprises 250 members, wishes to again advise you of our endorsement of the Smathers-Keogh-Simpson bill (S. 1979) and urges that it be favorably reported. We respectfully request to have our endorsement of this legislation be inserted in the written record of the hearings.

We are aware of your influential position on the Finance Committee and of your keen sense of responsibility to our Government and to our community.

It is with this knowledge that we strongly urge your favorable approval of this important matter.

Respectfully yours,

WENDELL E. TAYLOR, D.D.S.,
Secretary.

ROBERT & FAVALORO,
New Orleans, La., June 12, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: Enclosed is a resolution adopted at the Southern States Conference of Certified Public Accountants in Oklahoma City, Okla., on June 9, 1959, unanimously passed by the executive committee representing 6,802 certified public accountants in the 10 Southern States.

We strongly urge that your committee give favorable consideration to the Keogh-Simpson bill.

Sincerely yours,

JOHN L. FAVALORO,
Chairman, Resolutions Committee, Southern States Conference of Certified Public Accountants.

RESOLUTION ADOPTED AT THE SOUTHERN STATES CONFERENCE OF CERTIFIED PUBLIC ACCOUNTANTS, OKLAHOMA CITY, OKLA., JUNE 9, 1959

Whereas current Federal laws provide, through the diversion of funds which would otherwise be channeled into the Treasury, specific tax incentives to encourage the establishment of retirement plans for employee groups; and

Whereas many farmers, small businessmen, professionals, and other self-employed persons are not accorded similar treatment and must seek their security in retirement out of earned income already depleted by high tax rates; and

Whereas there is a disturbing tendency of the youth of the Nation to avoid the condition of self-employment, in order to take advantage of the special situation which applies to the employee; and

Whereas the easing of this unequal tax burden will have the effect of encouraging the production of more taxable income by the self-employed which will offset any reduction in tax revenue to the Government; and

Whereas legislation before the Senate, having twice passed the House of Representatives, would alleviate this discrimination against the self-employed; and

Whereas this legislation is H.R. 10 of the 86th Congress; and

Whereas this assembly represents certified public accountants from the States of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas; and

Whereas it is the sense of this assembly that this legislation should be promptly enacted; Now, therefore, be it

Resolved, That the Southern States Conference of Certified Public Accountants affirms its approval of H.R. 10, the Keogh-Simpson bill, and urges that the Senate take action now to enact this long-delayed measure of tax justice; and be it further

Resolved, That a copy of the foregoing resolution be respectfully submitted to each Senator representing the States enumerated in this resolution, and to the chairman of the Senate Finance Committee for inclusion in its record of hearings on this legislation.

SOUTHEAST DISTRICT BAR ASSOCIATION,
Huntington Park, Calif., June 12, 1959.

Re H.R. 10.

Hon. HARRY F. BYRD,
U.S. Senator, State of Virginia,
Senate Building, Washington, D.C.

SIR: Concerning the above entitled House resolution, which you recently introduced in the Senate Finance Committee, we wish to express our support of the passage of this proposed legislation through committee.

Due to a recent changeover of the officers of our organization, this letter may arrive too late, however, we still wish to go on record as supporting legislation of this type.

Very truly yours,

WILLIAM M. BRANDON, *Secretary.*

INDIANA SOCIETY OF PROFESSIONAL ENGINEERS, INC.,
West Lafayette, Ind., June 13, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: It is with sincere regret that the Indiana Society of Professional Engineers will be unable to present oral testimony at your committee hearings on H.R. 10. However, we do strongly support and endorse the testimony of the National Society of Professional Engineers with respect to H.R. 10, and in addition, request that the following statement be made a part of the permanent record of your hearings.

"The Indiana Society of Professional Engineers has a membership of approximately 1,100 professional engineers and speaks for the entire engineering profession in Indiana on professional and legislative matters.

"Our society has followed H.R. 10 closely and is highly in favor of this bill. The professional engineer employed in industry has, almost without exception, a company retirement program to which his employer contributes, depending upon the plan, up to 15 percent of the employee's base salary. The self-employed professional engineer, on the other hand, must arrange his own retirement program. Because the work of consulting engineers is so closely tied to swings in business cycles, it is a hazardous matter for an individual to set up a long range personal retirement program.

"Congressmen Keogh and Simpson have solved this problem in an admirable fashion by permitting a self-employed professional engineer to deduct 10 percent of his income for a retirement plan.

"Our society strongly urges your committee to render a favorable report to the Senate on this bill."

Respectfully,

FREDERICK B. MORSE, P.E., *President.*

MANDAN, N. DAK., *June 17, 1959.*

Hon. WILLIAM LANGER,
Senate Office Building, Washington, D.C.:

Please be advised that all Morton County lawyers favor passage of H.R. 10, Smathers, Keogh, Simpson, and your support will be much appreciated.

LELAND G. ULMER,
President, Morton County Bar Association.

MINOT, N. DAK., *June 17, 1959.*

Senator WILLIAM LANGER,
Washington, D.C.:

Ward County Bar Association urges a favorable Senate committee report and passage by Senate of H.R. 10, Smathers-Keogh-Simpson bill for tax relief on retirement savings of self-employed persons.

THE WARD COUNTY BAR ASSOCIATION,
EUGENE COYNE, *President.*

BISMARCK, N. DAK., *June 17, 1959.*

Hon. WILLIAM LANGER,
U.S. Senate, Washington, D.C.:

We urge your most serious consideration for the support of Smathers-Keogh-Simpson bill (H.R. 10) and hope that you will recommend this bill to your colleagues on the Senate Finance Committee which presently has the bill under consideration.

GORDON V. COX,
WILLIAM R. PEARCE,
E. F. ENGEBRETSON,
MYRON H. ATKINSON, Jr.,
E. J. ROSE,
JOHN C. GUNNESS.

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THE SAN ANTONIO DISTRICT DENTAL SOCIETY,
June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The 220 members of the San Antonio District Dental Society have endorsed for over a year the provisions of the Self-Employed Individual's Retirement Act. We urge that your committee report this bill favorably and make our endorsement a matter of written record of the hearings.

Sincerely,

J. BYRON SMITH, D.D.S.

WACHUSETT DISTRICT DENTAL SOCIETY,
June 17, 1959.

Senator HARRY F. BYRD,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: On the occasion of the regular meeting of the Wachusett District Dental Society which was held April 14, 1959, it was unanimously voted by the members present that I, as secretary, be ordered to write you of our support for the Self-Employed Individual's Retirement Act (S. 1979).

Only by such an act as this can the individually employed successfully provide for his future security. Without such a bill the professional man or self-employed businessman is penalized for his industriousness, and it is my firm belief and that of my colleagues that this bill represents a relief that is long overdue.

I would appreciate it if the Wachusett district's endorsement of this legislation be noted in the record.

Yours very truly,

PHILIP F. M. GILLEY, Jr., D.D.S.,
Secretary.

THE INDIANAPOLIS DISTRICT DENTAL SOCIETY,
Indianapolis, Ind., June 13, 1959.

Senator HARRY F. BYRD,
Finance Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR BYRD: If you will recall, I wrote you a letter on January 22, 1957, stating the position of the Indianapolis District Dental Society in regard to the proposed Self-employed Individuals' Retirement Act, the so-called Smathers-Keogh-Simpson bill.

I should like to advise you that the Indianapolis District Dental Society has not changed its position in regard to this bill. We heartily support it and feel that it would be an injustice if the Senate would not consider it favorably, especially in view of the fact that it has already passed the House.

I should also like to request that the society's endorsement of this legislation be noted in the written record of the hearing scheduled for June 7, 1959.

Your assistance will be deeply appreciated.

Sincerely yours,

WILLARD C. STAMPER, D.D.S., *Secretary.*

ALLEGANY-GARRETT COUNTY DENTAL SOCIETY,
Cumberland, Md., June 19, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Washington, D.C.

DEAR SENATOR BYRD: This will advise that this dental society with a membership of 36 dentists fully endorses the legislation contained in H.R. 10 and S. 1979 and urge that it be favorably reported.

In addition, we request that this endorsement of the legislation be noted in the written record of the hearings.

We hope this request will receive your favorable attention.

Sincerely yours,

KARL W. KOLB, D.D.S., *Secretary.*

SAN GABRIEL VALLEY DENTAL SOCIETY,
Pasadena, Calif., June 17, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The San Gabriel Valley Dental Society heartily endorses the legislation (H.R. 10 and S. 1979) and urges that it be favorably reported.

The San Gabriel Valley Dental Society also wishes to have its endorsement of the above legislation noted in the written record of the hearings.

Sincerely,

DR. HARRY BINFORD, *Secretary.*

EMERY, WHITTEMORE, SANDOE & GRAHAM,
New York, N.Y., June 18, 1959.

Re hearing on bill H.R. 10.

MRS. ELIZABETH B. SPRINGER,
Chief Clerk, Senate Committee on Finance,
Washington, D.C.

DEAR MRS. SPRINGER: Since it is not possible for me to be present for the hearings on bill H.R. 10 I submit the following for the record.

I favor passage of H.R. 10 because opportunity for the individual has long been a tradition of our country and the present income tax laws discriminate against the self-employed individual and tend to force him into the employment of a corporation in order to gain security when too old to work.

There is a principle involved in this situattion; equal treatment of its citizens by the Government. The Treasury opposition to the bill is one of expediency. I urge your committee to have the courage to put principle ahead of expediency and report the bill favorably to the Senate.

Very truly yours,

CHARLES W. NEILL.

THE GERMANTOWN DISPENSARY AND HOSPITAL,
Germantown, Philadelphia, Pa., June 11, 1959.

Hon. HARRY BYRD,
Finance Committee of the Senate,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: As I told you in a recent communication, the oft-quoted $350 million loss estimated by the possible passage of the Keogh-Simpson bill is one of those repetitious statments, the origin of which is not too well known. It seems that everybody quotes the same figure, doesn't seem to know who quoted it, but on and on it goes. I took a good deal of time in studying the hearings before the Committee on Ways and Means, House of Representatives, part 2. A statement was made on page 1770 which deals with the basis for the Treasury's estimate. The Tax Foundation and others feel the estimated loss will be less than $100 million per year, which is almost one-quarter of the aforementioned estimated loss, and at that time the Keogh-Simpson bill was asking for a $5,000 annual deduction rather than the present passed H.R. 10 of $2,500. This would bring the estimated loss of possibly $50 million—a little more than one-eighth of the misquoted $350 million.

There is also in the Congressional Record an article by the Honorable Eugene J. Keogh, dealing with the Canadian experience with self-pensions. This demonstrates that the Canadian Government's original estimated loss of $40 million was corrected after 1 year's experience to $7 million, or about one-sixth of their estimated loss.

To indemnify all the self-employed people represented by the American Thrift Assembly, of which AMA is a participant, is probably the smallest, most insignificant Government support asked by any one group in this country today, and of all the people that deserve it, I think the American medical profession, which today enjoys leadership throughout the globe, is entitled to this consideration. I hope you will present this argument at the hearings of the Finance Committee.

Sincerely yours,

IRVIN M. GERSON, M.D.,
Chairman, Committee on Legislation, Staff of Germantown Hospital.

THE MANUFACTURERS LIFE INSURANCE CO.,
Boise, Idaho, May 26, 1959.

Senator FRANK CHURCH,
Senate Office Building, Washington, D.C.

DEAR SENATOR CHURCH: As you know, the Senate is presently considering the Keogh-Simpson bill (H.R. 10) to encourage the establishment of voluntary pension plans by self-employed individuals.

In reading over the bill that has passed the House, we find that it excludes the foreign (Canadian) companies from issuing retirement contracts to these people. I feel that this is a great injustice to the companies, such as ourselves, who have been operating in the United States for over 50 years and have offices in many of the major cities in the United States.

Our National Association of Life Underwriters made the statement that "They feel that one important amendment should be made to admit foreign (Canadian) as well as domestic companies to issue restricted retirement policies."

I would appreciate it very much if you would consider the possibility of getting the Senate bill amendment to include the admission of foreign companies, such as ourselves, to be permitted to issue such retirement contracts.

Your cooperation in this matter will be greatly appreciated.

Cordially yours,

CHARLES B. DAIGER.

STATEMENT OF UNITED STATES SAVINGS & LOAN LEAGUE RE S. 1979, SMATHERS BILL, AND H.R. 10, KEOGH BILL

The United States Savings & Loan League[1] and its 4,600 member savings and loan associations support the objectives of the Smathers-Keogh bill, and recommend an amendment to make insured savings accounts and deposits eligible depositories for the retirement funds contemplated under the bill. Such an amendment was recommended by Representative Keogh when he testified before the Senate Finance Committee on June 17, 1959. Language to accomplish this suggestion appears at the end of this statement.

In their present form, S. 1979 and H.R. 10 would permit these special retirement funds to be invested in (*a*) listed securities, (*b*) Government bonds, (*c*) stock in regulated investment companies, and (*d*) life annuity plans. This very broad list, ranging from U.S. Government bonds to speculative common stock, would indicate that it is not the intent of the bill to confine or circumscribe the media of investment. The bill is only concerned with making certain that the sums set aside for retirement are, in fact, bona fide retirement funds available to the participant and his beneficiaries only under specific conditions. Thus an amendment to make additional investment media eligible would in no way alter the basic philosophy of the bill.

The purpose of the amendment is to broaden the eligible investment media to include accounts in insured banks, insured savings banks, and insured savings and loan associations. These financial institutions currently hold nearly $150 billion of American savings, an indication that they are the dominant savings choice of millions of Americans. While some of this savings is of a short-term nature, a large proportion of it, running to many billions of dollars, represents provision for retirement of the type envisioned in the Smathers-Keogh bill. Those people who prefer the safety and liquidity of insured savings institutions should not be required to shift to other investment media which might offer a less attractive combination of safety, liquidity, and earnings.

It is a fundamental principle of long-range investment that a balance should be achieved between dollar stability and inflation hedges. Thus a good long-range investment program, such as a retirement fund, should include investments such as common stock that will substantially increase in value during a period

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[1] The United States savings & Loan League, founded in 1892, is the nationwide trade association for the savings and loan business. The league membership consists of over 4,600 savings and loan associations (also known as building and loan associations, cooperative banks, and homestead associations), with total assets amounting to over 90 percent of all savings and loan assets of the country. The league headquarters office is at 221 North La Salle Street, Chicago, Ill., and its Washington office is at 425 13th Street NW., Washington, D.C. Principal officers are: C. R. Mitchell, president, Kansas City, Mo.; W. O. DuVall, vice president, Atlanta, Ga.; Henry A. Bubb, legislative chairman, Topeka, Kans.; Norman Strunk, executive vice president, Chicago, Ill.; and Stephen Slipher, legislative director, Washington, D.C.

of relative inflation, and should also include fixed value securities such as an insured savings account which will be redeemable at face value should there be a period of relative depression or deflation. In that way the investor is assured that the real value of his investment will be available regardless of economic conditions. For these reasons, many self-employed persons will want to put part, if not all, of their retirement funds in an insured savings account where the dollar safety is insured by an instrumentality of the Federal Government.

Enactment of the Smathers-Keogh bill without the above-described amendment would result in a diversion of substantial sums of savings capital away from the home-mortgage field. Savings and loan association, for instance, invest 85 percent of their assets in home mortgages and are the largest single source of home financing in the country, accounting for 38 percent of all home loans. It would obviously be undesirable to lessen their ability to finance home ownership. To do so would retard the economic activity stimulated by home building, and to create pressures for increased Federal expenditures in this field. Further, the balance between the local money market and the central money market would be unduly disturbed, since all of the money that would be placed in such retirement funds would go into the central money market. In short, if all of the specially set-aside retirement funds were placed in insurance companies or in New York banks, a substantial amount of the local savings, such as savings accounts in local banks and in savings and loans, would be drained away. It is entirely proper for a man to want to place his savings in a local institution for the benefit of the local community. Accordingly, it is in the best interest of the economy, of the participants in such retirement plans, and of the financial industry, to amend the Smathers-Keogh bill to permit investment in insured savings accounts.

The following is the language to accomplish the suggested amendment:

Page 26, line 21, strike out the word "and".

Page 26, line 23, add the following: "(iv) savings accounts in institutions in which accounts are insured by Federal Savings and Loan Insurance Corporation or by Federal Deposit Insurance Corporation or by Cooperative Bank Share Insurance Fund of Massachusetts or by Ohio Guarantee Deposit Fund, or by Savings Banks Deposit Guaranty Fund of Conn., Inc. or by Mutual Savings Central Fund, Inc. of Mass., and"

OHIO STATE LATHING & PLASTERING CONTRACTORS ASSOCIATION, INC.,
Columbus, Ohio, June 18, 1959.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
U.S. Capitol, Washington, D.C.

DEAR SENATOR BYRD: The Ohio State Lathing & Plastering Contractors Association, an association of businessmen in the lathing and plastering industry in Ohio, officially supports S. 1979.

Meeting in convention in the city of Cincinnati on the 16th of June 1959, this association by unanimous vote passed a resolution declaring the association in favor of the passage of this bill.

I hasten to call the passage of the resolution to the attention of the Senate Finance Committee and should consider it a favor if this letter could be published in the official record of the hearings on S. 1979.

Thank you in advance for your help in bringing this bill to passage..

Sincerely yours,

A. EUGENE ERWIN, *Executive Secretary.*

NATIONAL ASSOCIATION OF INSURANCE AGENTS, INC.
New York, N.Y., June 18, 1959.

Re H.R. 10, "Self-Employed Individual Retirement Act of 1959."

Hon. HARRY F. BYRD,
Chairman, U.S. Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This representation is made on behalf of the National Association of Insurance Agents, a voluntary membership association numbering in excess of 34,000 insurance agency members. Included in this membership are more than 100,000 individuals, duly licensed by their respective States,

who are proprietors, partners, or corporate principals in the firms and corporations which comprise said insurance agency members.

The membership of this association is an important segment of the national economy. It has the practical and legal obligation of obtaining and maintaining insurance protection for the majority of all individuals and business firms in the United States. Those who make up this organization specialize in the production and servicing of policies of fire, casualty, surety, marine, and all other lines of general insurance for clients who range in size from the smallest householder or automobile owner to the largest industrial corporation.

The membership of this association does not include agents who are salaried employees of the companies. The membership is comprised solely of those agencies which operate within what is known in the insurance industry as the American Agency System. This system is defined in the constitution of the National Association of Insurance Agents to be:

"The production of insurance premiums and the servicing of insurance contracts by insurance agents operating solely on a commission basis on their own account as independent contractors, who maintain their own offices, separate and apart from any production office maintained by an insurance company."

The agent's relationship with the companies which he represents was accurately stated in *F. B. Miller Agency* v. *Home Insurance Company*, 276 Ill. App. 418, where the court declared:

"The agent may represent several companies engaged in writing the same kind of insurance. The agent solicits the business for the agency rather than for any particular company. He divides the risks among the companies in such manner as he may choose."

The overwhelming majority of the membership of this association conducts business as sole proprietorships or partnerships.

As a result, this association's membership is extremely concerned with fair tax legislation which will give the self-employed an opportunity to save a small part of their income to help maintain them in their old age and for the welfare of their families before taxes take a substantial portion of what they earn during their productive years.

We feel that the present tax law is unfair and inconsistent because employees, including corporate principals, are given preferential treatment in making available pretax dollars to set aside for the purpose of their eventual retirement. We believe that self-employed individuals who are not corporate principals but operate proprietorships and partnerships are subjected, under the present law, to an unfair tax burden.

The members of this association who would receive, under the provisions of H.R. 10, a partial benefit from putting part of their earnings before taxes into a restricted retirement fund are generally individuals with moderate income. The immediate tax effect on the Treasury's receipts would be negligible and the income from the approved retirement plan would, of course, be subject to tax when taken after retirement age.

The tax advantage which employed persons now enjoy over self-employed individuals in the matter of retirement savings is now substantial and cannot be ignored. It is an inequity which should be corrected by this Congress.

We urge the Senate Finance Committee to act favorably upon the current Self-Employed Individuals Retirement Act of 1959 in the interest of fairness to all self-employed taxpayers.

Respectfully submitted.

ARCHIE M. SLAWSBY, *President.*

P.S.—I respectfully request that this letter be incorporated in the record of the hearings by the Senate Finance Committee on the subject of H.R. 10.

NATIONAL ASSOCIATION OF HOME BUILDERS,
NATIONAL HOUSING CENTER,
Washington, D.C., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: I am writing you to express support of H.R. 10, the Simpson-Keogh bill, by the National Association of Home Builders.

As president of this organization, I would like to point out that NAHB is composed of some 40,000 members in 326 local associations across the country.

The great majority of our builders are small independent businessmen with a real interest in the aims and objectives of this bill. The bill by giving them a chance to invest a portion of their income in restricted retirement funds and to deduct the specified amounts in determining their Federal income taxes, offers a real spur and incentive to these independent businessmen.

It is my understanding that the Senate Finance Committee will hold hearings on June 17 and 18 on this measure and I would appreciate it very much if this letter could be introduced into the record of the hearings. I am pleased to be able to pass along our association's views to you and would like to express my appreciation for the committee's consideration.

Sincerely,

CARL T. MITNICK, *President.*

INVESTMENT BANKERS ASSOCIATION OF AMERICA,
New York, N.Y., June 16, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The purpose of this letter is to outline to you the basic reasons why the Keogh bill (H.R. 10) has the full and enthusiastic support of the Investment Bankers Association.

The association feels that in a high-tax economy fairness is essential, and the present situation, in which self-employed persons cannot set aside for themselves reserves for their old age on a tax-deferred basis comparable to those which may be set up by employees of corporations, in our view constitutes a basic unfairness.

Our association is composed in the main of small businesses, and a large proportion of these businesses are organized as partnerships which are naturally sufferers from the present situation. Moreover, it is a characteristic of the securities business that income varies widely from year to year. Thus, present steeply progressive rates of taxation bear with especial severity on us, and this makes it all the more important that unfair discriminations in the tax area be lessened.

For these reasons, on behalf of the Investment Bankers Association, the approval by the Senate Finance Committee of H.R. 10 is respectfully urged, and it is requested that this letter be made a part of the record of the hearings to be held on this bill before your committee on June 17 and 18.

Sincerely yours,

WALTER MAYNARD,
Chairman, Federal Taxation Committee.

VANCOUVER, WASH., *June 16, 1959.*

Senator GEORGE SMATHERS,
U.S. Senate, Washington, D.C.:

We endorse legislation H.R. 10 and S. 1979. Request endorsement be noted in written records of hearings.

CLARK COUNTY DENTAL SOCIETY.

FORT COLLINS, COLO., *June 17, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Larimer County Dental Society endorses legislation H.R. 10 and S. 1979 and urges that it be favorably reported. It is requested this endorsement be noted in the hearing record.

K. E. CARSON, D.D.S.,
Secretary-Treasury, Larimer County Dental Society.

SACRAMENTO DISTRICT DENTAL SOCIETY,
Sacramento, Calif., June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The members of the Sacramento District Dental Society are unanimously in favor of the passage of the Smathers-Keogh-Simpson bill and hereby urge that it be favorable reported. We should also like to request that our society's endorsement of this legislation (H.R. 10 and S. 1979) be noted in the written record of these hearings. We feel very strongly that this is the American way to help people help themselves by making it possible for them to care for themselves in their old age. We shall all very much appreciate your favorable action.

Sincerely yours,

WILLIAM S. PARKER, D.M.D., *Secretary.*

GENESEE COUNTY DISTRICT DENTAL SOCIETY,
Flint, Mich., June 15, 1959.

SENATOR HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The Genesee County District Dental Society strongly endorses the legislation H.R. 10 and S. 1979. We would like to ask that you give this matter deep personal consideration.

May I request that our society's endorsement of this legislation be included in the written record of the hearings.

Sincerely,

DR. H. I. MILLER, *Executive Secretary.*

ALBUQUERQUE, N. MEX., *June 17, 1959.*

SENATOR HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The New Mexico Dental Association requests and urges your support of the Smathers-Keogh-Simpson bill. We request also that this endorsement be noted in the written record of your hearings.

NEW MEXICO DENTAL ASSOCIATION,
WILLIAM A. BLUEHER, *Secretary.*

FOURTH DISTRICT DENTAL SOCIETY,
Winchester, Tenn., June 15, 1959.

SENATOR HARRY F. BYRD,
Chairman, Finance Committee,
Senate Building, Washington, D.C.

DEAR SENATOR BYRD: The Fourth District Dental Society, of the Tennessee Dental Association, wholeheartedly endorses the legislation of bill H.R. 10 and S. 1979 (Smathers-Keogh-Simpson bill).

The society urges that you will please give a favorable report on the bill before your next Senate Finance Committee meeting.

The society would like to request that their endorsement of the legislation be noted in the written record of the hearing of the meeting.

Your assistance will be deeply appreciated.

Sincerely yours,

HENRY A. ATKINSON, D.D.S., *Secretary-Treasurer.*

NEW ORLEANS, LA., *June 17, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.:

Please record our sponsorship of H.R. 10 and S. 1979 in the records of the committee hearings being held this date.

PLUMBING, HEATING, AND MECHANICAL CONTRACTORS ASSOCIATION OF NEW ORLEANS, INC.

SANTA ROSA, CALIF., *June 17, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.:

Eighth District California State Dental Association heartily endorses enactment of S. 1979, Smathers-Keogh-Simpson bill. Request this telegram be entered in committee hearing record.

DUDLEY S. MOORE, D.D.S., *Secretary.*

NEW ORLEANS, LA., *June 16, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.:

The Louisiana Organization for the Self-Employed respectfully urges passage of H.R. 10 and S. 1979 and requests that its endorsement be written into the record of the committee's hearings.

LOUIS H. PILIE,
State Coordinator.

REDDING, CALIF., *June 16, 1959.*

Senator HARRY BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Request that our society's endorsement of the Smathers-Keogh-Simpson bill be placed in the record of your committee.

KELLY V. PIERCE,
Secretary, Northern California District Dental Society.

KALISPELL, MONT., *June 16, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: Concerning your forthcoming Smathers and Keogh-Simpson bill. On behalf of the First District Dental Society of Montana I urge your support. Please have our endorsement of the bill placed in the written record of the hearing.

Sincerely,

DAVID W. DOWNEY,
Secretary, First District Dental Society of Montana.

NEW ORLEANS, LA., *June 16, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.:

Our society feels strongly that equity in tax retirement will prevail if H.R. 10 and S. 1979 are enacted. In endorsing these measures we respectfully ask that our position be noted in the record of your committee's hearings.

SOCIETY OF LOUISIANA CERTIFIED PUBLIC ACCOUNTANTS,
By ABNER E. HUGHES, *President.*

NEW ORLEANS, LA., *June 16, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.:

Our organization strongly endorses bills H.R. 10 and S. 1979 being considered by your committee. We respectfully request these bills be favorably reported and also ask that our endorsement of this legislation to assist the self-employed in securing equity in tax treatment be noted in written record your committee's hearings.

NEW ORLEANS CHAPTER, AMERICAN INSTITUTE OF ARCHITECTS,
SOLIS SEIFERTH, *President.*

MELROSE, MASS., *June 17, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

East Middlesex District Dental Society endorses H.R. 10 and S. 1979 and urges that it be favorably reported. We request that our endorsement be noted in the written record of the hearing.

Sincerely yours,

PHILIP J. SOLOMON, D.M.D.,
Secretary, East Middlesex District Dental Society.

TAMPA, FLA., *June 17, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Urge you and committee to adopt Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979) and request this endorsement be noted in the written record of today's hearings.

LEGISLATIVE COMMITTEE, FLORIDA
STATE DENTAL SOCIETY.
Doctors: C. P. CLEVELAND.
A. W. KELLNER.
B. R. KENDRICK.
R. B. HUGHLETT, *Chairman.*

TOLUCA, ILL., *June 17, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The La Salle County Dental Society urges you to act favorably on H.R. 10 and S. 1979 and requests your endorsement of legislation to be voted in the written record of the hearings.

N. J. VESPA,
Secretary, La Salle County Dental Society.

NEW ORLEANS, LA., *June 17, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.:

Our association strongly endorses bills H.R. 10 and S. 1979 before your committee. Urgently request on behalf of membership that this legislation be favorably reported. Further ask that our endorsement of this legislation and our members' desire for equity in tax retirement provisions be noted in the written record of the committee hearings.

E. P. BURVANT, D.D.S.,
President, New Orleans Dental Association.

PHILADELPHIA, PA., *June 16, 1959.*

Senator HARRY F. BYRD,
U.S. Senate, Washington, D.C.:

Philadelphia County Dental Society's 1,500 members endorse Smathers-Keogh-Simpson bill and ask that you record our request for favorable consideration.

ROBERT W. GICK, Jr., *President.*

BUTTE, MONT., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Third District Dental Society urges favorable report H.R. 10 and S. 1979 and requests this endorsement be noted in written record of hearings.

MITCHELL F. HUBLOU, D.D.S.,
Secretary, Third District Dental Society.

JACKSON, MISS., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Central Dental Society of Mississippi endorses bill S. 1979 and urges it be favorably reported. Request endorsement be noted in written record of hearings.

JACK B. FOWLER,
Secretary and Treasurer, Central Dental Society.

CORINTH, MISS., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Northeast Mississippi Dental Society unanimously indorses the Smathers-Keogh-Simpson bill and urge that it be favorably reported. Request indorsement be recorded in hearings.

Sincerely,

WILLIAM V. DIXON,
Secretary, Northeast Mississippi Dental Society.

POCATELLO, IDAHO, *June 17, 1959.*

Senator HARRY F. BYRD,
U.S. Senate, Washington D.C.:

The Upper Snake River Dental Society comprising one-fourth of Idaho State Dental Association endorses H.R. 10 and S. 1979 and requests that our endorsement be noted in the written record of the hearings.

Sincerely yours,

DR. B. A. HARTVIGSEN, *Secretary.*

MISSOULA, MONT., *June 17, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: Missoula County Dental Society of Montana endorses H.R. 10 and S. 1979 wholeheartedly and urge that it be favorably in report. Please note our endorsement in the written record of the hearings.

Sincerely yours,

HARLEY A. RAYKOWSKI, D.D.S.,
Secretary-Treasurer, Missoula County Dental Society.

ITHACA, N.Y., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Sixth District Dental Society of the State of New York endorses legislation H.R. 10 and S. 1979 and respectfully request that it be favorably reported; also we respectfully request that this society's endorsement of the legislation be noted in the written record of the hearings.

Sincerely yours,

RALPH P. BALDINI, D.D.S.
Secretary-Treasurer.

SEATTLE, WASH., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Washington State Dental Association wishes the Finance Committee of the Senate to be informed that, as self-employed individuals, the members of our dental association heartily endorse H.R. 10 and S. 1979 and urge the support of these measures by your committee. We do request that our endorsement shall be noted in the written record of the hearings to be held on these measures.

GEORGE D. DORE, Jr., D.D.S.,
Secretary, Washington State Dental Association.

LEWISTON, IDAHO, *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

North Idaho District Dental Society heartily endorses H.R. 10 and S. 1979 and urges that it be favorably reported. Please note our endorsement in the written records of your hearing.

R. D. WILSON, D.D.S.,
Secretary-Treasurer, North Idaho District Dental Society.

DETROIT, MICH., *June 16, 1959.*

HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

The officers and 1,900 members of the Detroit District Dental Society join me in endorsing H.R. 10 and S. 1979 and in requesting that our endorsement be noted in the written record of the hearing. We sincerely urge favorable consideration of this proposed individuals' retirement act when American Dental Association representatives testify before the Senate Finance Committee June 17.

PAUL S. BUTCHER, D.D.S.,
President, Detroit District Dental Society.

ELKINS, W. VA., *June 16, 1959.*

HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

The Monongahela Valley Dental Society, a component of the American Dental Society and having a membership of 125 dentists, urges that you please support and vote for legislation (H.R. 10 and S. 1979) with the request that our endorsement be noted in the written record of the hearing.

CARL J. ANTOLINI, D.D.S.,
Secretary-Treasurer.

SAVANNAH, GA., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

Urgently request your committee favorably report on legislation H.R. 10 and S. 1979. Would like to request that our society's endorsement of this legislation be noted in the written record of the hearing.

W. D. STILLWELL, Jr., D.D.S.
Secretary, Southeastern District, Dental Society of Georgia.

KANSAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS,
Lawrence, Kans., June 15, 1959.

Hon. HARRY F. BYRD,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The board of directors of the Kansas Society of Certified Public Accountants recently adopted the enclosed resolution. The members of the Kansas Society represent many taxpayers, who, we believe, are entitled to equitable treatment regarding the deferment of taxes for contributions to an individual retirement plan.

We respectfully request you to consider our resolution and to make it a part of the record of hearings.

Sincerely yours,

W. KEITH WELTMER, *Executive Secretary.*

RESOLUTION

Whereas there is a need for equity in the 1954 Internal Revenue Code between employees participating in approved retirement plans and self-employed individuals who are not allowed a tax deferment for contributions to a personal retirement plan; and

Whereas this group of individuals comprises an important segment of the taxpaying public: specifically, farmers, doctors, lawyers, accountants, small independent entrepreneurs, and others, now, therefore, be it

Resolved, by the board of directors of the Kansas Society of Certified Public Accountants, That the Congress of the United States be urged to enact the Smathers-Keogh-Simpson bill in order that self-employed citizens may receive similar tax treatment afforded employees under retirement plans.

NORTH CAROLINA DENTAL SOCIETY,
Raleigh, N.C., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR BYRD: The North Carolina Dental Society is strongly in favor of the proposed Self-Employed Individual's Retirement Act now being considered by the Senate Finance Committee. We urge that it be favorably reported.

We respectfully request that it be noted in the written record of the hearings that this Society endorses the above legislation (H.R. 10 and S. 1979).

Sincerely yours,

ANDREW M. CUNNINGHAM, *Executive Secretary.*

NEW JERSEY STATE DENTAL SOCIETY,
Camden, N.J., June 15, 1959.

Hon. HARRY F. BYRD,
U.S. Senator,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

MY DEAR SENATOR BYRD: The New Jersey State Dental Society has endorsed H.R. 10 and S. 1979 and urges a favorable report by the Finance Committee.

It is requested that this society's endorsement of the legislation be noted in the written record of the hearings.

Respectfully,

JOHN G. CARR, D.D.S., *Secretary.*

GEORGIA DENTAL ASSOCIATION,
Macon, Ga., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: We understand that the proposed Self-Employed Individuals' Retirement Act, the so-called Smathers-Keogh-Simpson bill, will be up for hearing in your committee on June 17.

The Georgia Dental Association which is composed of 880 members heartily endorses this legislation (H.R. 10 and S. 1979) and urges that it be favorably reported out of committee. We also would like to request that the Georgia Dental Association's endorsement of this legislation be noted in the written record of the hearing.

Thanking you for all past favors, I am,

Sincerely yours,

F. M. BUTLER, JR., D.D.S.,
Secretary-Treasurer.

ASSOCIATION OF CONSULTING CHEMISTS AND CHEMICAL ENGINEERS, INC.,
New York, N.Y., June 15, 1959.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SIR: The president of this association has instructed us to notify you that this association wishes to go on record in favor of the passage of the Smathers-Keogh-Simpson bill, hearings to be held June 17 and 18.

Respectfully yours,

A. B. BOWERS, AES.

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, INC.,
Boston, Mass., June 12, 1959.

Hon. HARRY FLOOD BYRD,
Chairman, Senate Finance Committee,
New Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The Smaller Business Association of New England wishes at this time to go on record as being in favor of the so-called Self-Employed Individuals' Retirement Act of 1959, which we believe is scheduled to begin hearings before the Senate Finance Committee on June 17.

We feel that this bill will give self-employed persons an opportunity to set up a plan for retirement benefits, which are now denied them, and we respectfully request favorable action by the Finance Committee. The extension of rights to set up such retirement plans will, we hope, eliminate many of the present incentives for the merging of small firms into larger, correcting at the same time the unfair situation in which many professional men now find themselves.

We hope that this request may be spread on the records of the hearing.

Sincerely yours,

LAURENCE F. BROOKS.

KANSAS GOLDEN BELT DISTRICT DENTAL SOCIETY,
Herington, Kans., June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The Golden Belt District Dental Society of Kansas endorses the legislation (H.R. 10 and S. 1979) and we urge that it be favorably reported. We further request that our society's endorsement be noted in the written record of the hearings.

Sincerely,

DR. R. F. PIERCE,
Secretary-Treasurer.
DR. RICHARD MOSIER,
President.

NEVADA STATE DENTAL SOCIETY,
Reno, Nev., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: May I take this opportunity to inform you that the Nevada State Dental Society fully endorses the Smathers-Keogh-Simpson bill (H.R. and S. 1979).

We certainly urge that this legislation be favorably reported during the Senate Finance Committee hearing. We also wish to request that our Society's endorsement of this legislation be noted in the written record of the hearings.

Sincerely yours,

OMAR H. SEIFERT, D.D.S., *Secretary.*

WISCONSIN STATE DENTAL SOCIETY,
Milwaukee, Wis., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The Wisconsin State Dental Society, through its legislative committee, and the expressed reactions of its membership, has heartily supported the proposed Self-Employed Individuals' Retirement Act as outlined in H.R. 10 and S. 1979.

We do trust that the matter will be favorably reported and would appreciate our organization's endorsement being noted in the written record of the hearings.

Anything that you can do to assure a favorable reporting will be gratefully appreciated by the 2,200 dentists comprising the Wisconsin State Dental Society.

Sincerely yours,

A. E. KOPP, D.D.S., *President.*

BERKELEY DENTAL SOCIETY,
Berkeley, Calif., June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: Please be advised that the Berkeley District Dental Society endorses the Smathers-Keogh-Simpson bill and favors the enactment of legislation bills H.R. 10 and S. 1979. Please have this endorsement noted in the written records of your hearings. Thank you.

Sincerely,

ROBERT J. SCHARRACH, *Secretary.*

ARKANSAS STATE DENTAL ASSOCIATION,
Clarksville, Ark., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: The Arkansas State Dental Association endorses proposed legislation referred to as the Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979) which would establish the Self-Employed Individuals' Retirement Act.

We respectfully urge that this legislation be favorably reported. We shall also appreciate it if our endorsement of this legislation is noted in the written record of the hearings scheduled for June 17, 1959.

Sincerely yours,

DON M. HAMM, D.D.S., *Secretary-Treasurer.*

MIDDLESEX DISTRICT DENTAL SOCIETY,
Cambridge, Mass., June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The Middlesex District Dental Society endorses the legislation (H.R. 10 and S. 1979) and wishes it to be favorably reported.

The Middlesex District wishes that our endorsement of the legislation be noted in the written record of the hearings.

Very truly yours,

FRANCIS P. KIRWIN, D.M.D., *Secretary.*

THE PASSAIC COUNTY DENTAL SOCIETY,
Passaic, N.J., June 15, 1959.

Hon. HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR MR. SENATOR: The Passaic County Dental Society has gone on record as approving the proposed Self-Employed Individual's Retirement Act.

The members of my profession are desirous of seeing enacted, legislation that will enable them to prepare for their retirement in dignity, while they are capable of doing so as professional men, somewhat in a manner done by executives in industry and business, which is not possible under present laws.

I would appreciate your inclusion of our views in the written record of the hearings and also a copy of the printed hearings when it is available.

Sincerely yours,

REUBEN FELTMAN, D.D.S., *Secretary.*

MASSACHUSETTS DENTAL SOCIETY,
Boston, Mass., June 16, 1959.

Hon. HARRY F. BYRD,
U.S. Senator,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: The Massachusetts Dental Society, representing over 3,000 dentists in the Commonwealth of Massachusetts, endorses the Smathers-Keogh-Simpson bill—the Self-Employed Individuals' Retirement Act—and urges the Senate Finance Committee to report favorably on this legislation.

May we also request that the Massachusetts Dental Society's endorsement of the legislation be noted in the written record of the hearings.

Your cooperation in the past on legislative matters is greatly appreciated by this society, and please accept our thanks for your support of the Smathers-Keogh-Simpson legislation.

Faithfully yours,

HAROLD E. TINGLEY, D.M.D., *Secretary.*

JUNE 16, 1959.

Hon. HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Massachusetts Dental Society representing over 3,000 dentists in the Commonwealth endorses the Smathers-Keogh-Simpson bill and urges your committee to report favorably on H.R. 10 and S. 1979.

HAROLD E. TINGLEY, D.M.D.,
Secretary, Massachusetts Dental Society.

CALIFORNIA STATE DENTAL ASSOCIATION,
San Francisco, Calif., June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The California State Dental Association, by action of its board of directors and its house of delegates, fully endorses and supports the proposed Self-Employed Individuals' Retirement Act (H.R. 10 and S. 1979).

We strongly urge you and other members of the Senate Finance Committee to report the measures favorably. We should also appreciate having the endorsement of this association noted in the written record of the hearings.

Any consideration you can give our request shall be appreciated.

Very truly yours,

G. THOMAS QUIGG, D.D.S., *President.*

ST. LOUIS DENTAL SOCIETY,
St. Louis, Mo., June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The 975 members of the St. Louis Dental Society urge approval of the Smathers-Keogh-Simpson bill (S. 1979 and H.R. 10) so that it may be presented to the Senate for final action.

The self-employed person is entitled to some means of saving a portion of his income with tax relief, so we heartily endorse the Smathers-Keogh-Simpson bill. We trust this letter will be included in the written record of the hearings.

With all good wishes, I am,

Sincerely yours,

PHILIP G. VIERHELLER, D.D.S., *President.*

BLUE GRASS DENTAL SOCIETY,
Lexington, Ky., June 15, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The Blue Grass Dental Society is vitally interested in the proposed Self-Employed Individuals' Retirement Act, the so-called Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979), and urges that it be favorably reported by your committee.

In addition we request that the endorsement of this legislation by our society be noted in the written record of the hearings.

Thank you for your consideration of this request.

Sincerely,

PAUL H. WEBB,
Secretary and Treasurer.

CHICAGO, ILL., *June 15, 1959.*

Senator HARRY F. BYRD,
Senate Office Building, Washington, D.C.:

The Chicago Dental Society strongly endorses H.R. 10 and S. 1979 and urge that it be reported favorably. We would like to have our endorsement of this legislation noted in the written record of the hearings before the Senate Finance Committee.

PAUL KANCHIER,
Secretary.

LOUISVILLE, KY., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

The Kentucky Dental Association endorses the legislation of H.R. 10 and S. 1979 and urges that it be favorably reported. We request that this association's endorsement be noted in the written record. Joint wire Senators Smathers, Morton, Cooper, and Byrd.

Dr. A. B. COXWELL,
Secretary-Treasurer, Kentucky Dental Association.

PAWTUCKET, R.I., *June 15, 1959.*

Senator HARRY F. BYRD,
Senate Office Building, Washington, D.C.:

Pawtucket Dental Society endorses legislation (H.R. 10 and S. 1979) also request endorsement be noted in written record of hearings.

Dr. EDWARD A. DIMUCCIO,
Secretary, Pawtucket Dental Society.

NEW YORK, N.Y., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

The First District Dental Society of New York, representing 4,000 members, is strongly in favor of the legislation (H.R. 10 and S. 1979) and most respectfully requests that it be favorably reported. Will you please note this society's endorsement of this legislation in the written record of the hearings.

ISIDORE TEICH, D.D.S., *Secretary.*

CHILLICOTHE, OHIO, *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

The 76 members of Rehwinkel Dental Society endorses the legislation H.R. 10 and S. 1979 and requests that their endorsement of the legislation be noted in the written record of the hearings.

THOMAS E. MARY, *Secretary.*

PHOENIX, ARIZ., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

DEAR SENATOR: As secretary of the Central Arizona Dental Society, I want to urge the passage of the Smathers-Keogh-Simpson bill on behalf of all our members (230). We request also that our endorsement become part of the written record of the hearings.

Sincerely,

SECRETARY, CENTRAL ARIZONA DENTAL SOCIETY.

SANTA PAULA, CALIF., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

The Santa Barbara, Ventura County, Dental Society would like to go on record endorsing H.R. 10 and S. 1979. Urges that it be favorably reported. Request endorsement be noted in written record.

CHARLES PIERCE, Jr., *Secretary-Treasurer.*

HUNTINGTON, W. VA., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

The Huntington Dental Society endorses the legislation, H.R. 10 and S. 1979, and urges that it be favorably reported. Request that this endorsement be noted in the written record of the hearings.

DR. FRED LESTER, *Secretary.*

SEATTLE, WASH., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Seattle District Dental Society endorses H.R. 10 and S. 1979 and urges that it be favorably reported. Our society requests that endorsement of the legislation be noted in the written records of the hearings.

SEATTLE DISTRICT DENTAL SOCIETY,
R. P. DOW, *Secretary.*

ATLANTA, GA., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Northern District Dental Society, comprising more than 400 members in 18 counties of the State, Georgia, unanimously endorses Smathers-Keogh-Simpson bils H.R. 10 and S. 1979 and urge that they be favorably reported. Request our endorsement be noted in the written record of the hearings.

ROBERT JORDAN, D.D.S., *President.*

PITTSBURGH, PA., *June 15, 1599.*

Hon. HARRY F. BYRD,
U.S. Senate, Washington, D.C.:

The Odontological Society of Western Pennsylvania, comprising 1,200 dentists, has consistently endorsed the legislation H.R. 10 and S. 1979 and urges that it be favorably reported. In addition, we respectfully request that this endorsement of said legislation be noted in the written record of the hearings.

Respectfully yours,

HOMER D. BUTTS, Jr., D.D.S.,
Secretary, Odontological Society of Western Pennsylvania.

ANDALUSIA, ALA., *June 15, 1959.*

HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

We, the 3d District Dental Society of the Alabama Dental Association, unanimously endorse and urge approval of self-employed individuals retirement act (H.R. 10 and S. 1979) request endorsement be noted in written record of hearing.

THIRD DISTRICT DENTAL SOCIETY,
W. W. WADSWORTH, *Secretary.*

COLUSA, CALIF., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Butte Sierra Dental Society endorse H.R. 10 and S. 1979 and urges that it be favorably reported. This society requests that this endorsement be noted in the written records of the hearings on these bills.

Sincerely yours,

DONALD E. ORR,
Secretary, Butte Sierra Dental Society.

KNOXVILLE, TENN., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.:

Our Second District Dental Society of Tennessee endorses and urges support of H.R. 10 and S. 1979. Please add this endorsement to written records of committee hearings. Tennessee dentists are vitally interested in this legislation. We will appreciate your support and assistance.

DR. EDWIN T. COLEMAN,
Secretary, District Dental Society.

ROCK ISLAND, ILL., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Rock Island District Dental Society, Rock Island, Ill., with a membership of 72 ethical dentists, wishes to inform you that all members endorse the legislation H.R. 10 and S. 1979 and urges that it be favorably reported.

It is further requested that the society's endorsement be noted in the written record of the hearings.

Sincerely yours,

WAYNE V. GILLIAM,
Doctor of Dental Surgery, Secretary, Rock Island District Dental Society.

GREELEY, COLO., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The members of the Weld County Dental Society of Colorado unanimously endorse the Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979). We urge that it be favorably reported and request our societies endorsement be noted in the written record of the hearings.

WELD COUNTY DENTAL SOCIETY,
E. I. VARBEL, Jr., *Secretary.*

ROCKVILLE CENTRE, N.Y., *June 15, 1959.*

Senator HARRY BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Tenth District Dental Society endorses legislation H.R. 10 and S. 1979 urge that it be favorable reported. Also request that our endorsement of this legislation be noted in the written record of the hearings.

TENTH DISTRICT SOCIETY,
DR. MICHAEL L. GUERRA, *Secretary.*

QUINCY, MASS., *June 15, 1959.*

Senator HARRY F. BYRD,
Finance Committee,
U.S. Senate, Washington, D.C.:

South Shore Dental Society endorses the legislation (H.R. 10 and S. 1979) and urges that it be favorably reported. We request that the society's endorsement be noted in the written record of the hearings.

DR. EDMOND L. DEMSKI.

PROVIDENCE, R.I., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Providence District Dental Society endorses the legislation H.R. 10 and S. 1979 and urges that it be favorably reported. Request our endorsement of legislation be noted in written record of hearings.

DAVID L. FIELD,
Secretary, Providence District Dental Society.

MUSCATINE, IOWA, *June 15, 1959.*

Senator HARRY BYRD,
Chairman of Finance Committee,
U.S. Senate, Washington, D.C.:

The Davenport District Dental Society endorses the legislation H.R. 10 and S. 1979 and urges that it be favorably reported. We request that this society endorsement of the bill be noted in the written record of the hearing.

THE DAVENPORT DISTRICT DENTAL SOCIETY,
JOHN W. POTTER, *Secretary.*

HARTVILLE, OHIO, *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Stark County Dental Society, Canton, Ohio, endorses the legislation of H.R. 10 and S. 1979 and urges that it be favorably reported also request that this endorsement be noted in written record of the hearings.

J. W. POTZ, D.D.S., *Secretary.*

NEW ORLEANS, LA., *June 15, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.:

Our association strongly endorses bills H.R. 10 and S. 1979 before your committee. Urgently request for and on behalf of membership that this legislation be favorably reported. Further respectfully ask that our endorsement of this legislation and our members' sincere desire for equity in tax retirement provisions be noted in the written record of the committee's hearings.

STANLEY S. LEVY, D.D.S.,
President, Louisiana Dental Association.

PEORIA, ILL., *June 15, 1959.*

Hon. HARRY F. BYRD,
U.S. Senate, Washington, D.C.:

The Illinois State Dental Society with more than 5,000 members unanimously endorses S. 9179 and urges the bill be favorably reported out of committee. Request this telegram be made a matter of record in committee hearing.

PAUL W. CLOPPER, *Secretary.*

OWENSBORO, KY., *June 16, 1959.*

Senator HARRY F. BYRD,
U.S. Senate, Washington, D.C.

DEAR SIR: Green River District Dental Society 100 percent endorses the legislation H.R. 10 and S. 1979 and requests that it be favorably reported. They request that their endorsement be recorded in the records of the hearings.

Sincerely,

C. E. COLE,
Secretary, Green River District.

BLOOMINGTON, ILL., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

As secretary of the McLean County Dental Society of Bloomington, Ill., I wish to inform you that our society heartily endorses the proposed self-employed individuals retirement act, H.R. 10 and S. 1979. We strongly urge that it be favorably reported. Please note our society's endorsement of the legislation in the written record of the hearings.

DR. MARTIN J. WEILAND,
Secretary, McLean County Dental Society.

OMAHA, NEBR., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Omaha District Dental Society urges you to support H.R. 10 and S. 1979 and requests that this be written in the record of the hearings.

Dr. ARLO M. DUNN, *Secretary.*

GREAT BEND, KANS., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

The Central District Dental Society, a constituent society with the Kansas State Dental Society, endorse legislation H.R. 10 and S. 1979 and urges that it be favorably reported. We request that these societies' endorsement of the legislation be noted in the written record of the hearing.

JOHN J. MINGENBACK, D.D.S.,
Secretary-Treasurer, Central District Dental Society of Kansas.

ROSWELL, N. MEX., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

This is to report endorsement of the Smathers-Keogh-Simpson bill, H.R. 10 and S. 1979 by the Eastern New Mexico Dental Society. We urge favorable reporting of this legislation. We also request that this endorsement be noted in the written record of the hearings.

Dr. WILLIAM I. SCHMIDT, *Secretary.*

SKOWHEGAN, MAINE, *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Maine Dental Society endorses legislation H.R. 10 and S. 1979 and urges that it be favorably reported. We would further request that our endorsement of this legislation be noted in the written record of the hearing.

MAINE DENTAL SOCIETY,
By Dr. S. M. GOWER, *Secretary.*

KLAMATH FALLS, OREG., *June 16, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Washington, D.C.:

Klamath County District Dental Society favors H.R. 10 and S. 1979. Urges favorable report. Include our endorsement in written record of hearings.

KLAMATH COUNTY DISTRICT DENTAL SOCIETY,
DR. DONALD P. NOEL, *President.*

AURORA, ILL., *June 15, 1959.*

Senator HARRY F. BYRD,
Chairman, Finance Committee,
U. S. Senate, Washington, D.C.

DEAR SENATOR: In fairness to the self-employed small businessman and as a contribution to the Nation's security and the common good by encouraging men to enter into the professions of the healing arts we ask that you favorably consider H.R. 10 and S. 1979, the Smathers-Keogh-Simpson bill. This only grants to us the same tax advantages that big business now gives to its employees in the form of retirement pay. We also request that this society's membership of 180 members' endorsement of this legislation be included in the written record of the hearings on June 17, 1959.

Very truly yours,

FOX RIVER VALLEY DENTAL SOCIETY, COMPONENT OF THE AMERICAN DENTAL ASSOCIATION,
ROBERT E. BARNES, *Secretary.*

NASHVILLE, TENN., *June 16, 1959.*

Hon. Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D. C.:

The Tennessee State Dental Association, representing over 1,100 dentists in Tennessee, endorses the legislation H.R. 10 and S. 1979 and urges that it be favorably reported out of the finance committee. We request that our association's endorsement of this legislation be noted in the written record of the hearing.

The following resolution was adopted May 15, 1957, by the general assembly of the association and was reaffirmed at our annual session in May 1959,

Whereas there has been introduced in the Congress of the United States of America proposed legislation known as H.R. 10 (S. 1979), to amend the tax laws so that the self-employed might achieve a measure of equality to establish individual retirement program similar to the tax plan that grant tax deferment and retirement benefits to employees; and

Whereas it is the consensus of opinion of the Tennessee State Dental Association that such principles of equal tax rights for the self-employed are right and just and that there is a great and definite need for such proposed legislation: Now, therefore, be it

Resolved by the Tennessee State Dental Association, in convention assembled at Gatlinburg, Tenn., That we actively endorse and support the proposed legislation embodied in bill H.R. 10 and S. 1979, and that we earnestly recommend and solicit the active support for said legislation from the two U.S. Senators from Tennessee and the Members of Congress from the State of Tennessee.

Respectfully,

JAMES J. VAUGHAN, Jr., D.D.S.,
Chairman, Council on Legislation, Tennessee State Dental Association.

STATEMENT OF GEORGE H. FRATES, WASHINGTON REPRESENTATIVES OF THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS

Mr. Chairman and gentlemen of the committee, my name is George H. Frates. I am the Washington representative of the National Association of Retail Druggists, an organization composed of 36,000 small, independent, retail pharmacists practicing their profession in every State of the Union and the District of

Columbia. These thousands of retailers own and operate the NARD. Dr. John W. Dargavel is administrative supervisor. He is general manager and executive secretary of the association, with headquarters at 205 West Wacker Drive, Chicago, Ill. My office is at 1163 National Press Building, Washington, D.C.

Our statement, submitted today, is patterned along the lines of those who plead with the Congress for tax equalization for independent, self-employed persons. The independent retail pharmacists of our Nation do not ask for Government subsidies in order to operate their pharmacies, to the end that their professional services may be available to the public during the day and far into the night.

Why should a corporation or an individual conducting some other form of a business who hires people, be permitted to defer a portion of taxable income from taxation by setting it up in a retirement fund, when the small, independent, retail pharmacist cannot do likewise? We have been told many, many times by the honorable Members of Congress that small business is the backbone of the Nation. If this is be true, the Congress should overwhelmingly enact H.R. 9 and H.R. 10 into law. These are days of challenge for small business—for the small self-employed person.

H.R. 9 and H.R. 10 would correct a discrimination that has unfairly penalized those who choose to work for themselves rather than for others. This proposed legislation would permit the individual operator to deduct from his total income a fixed percentage or dollar amount on which he would pay no income tax. He would be allowed to invest this money in a pension retirement fund. Only when he used this fund in later years would he pay income taxes on the money.

For further purposes of the record, we would like to cite two characters, Jones and Smith, identified as practicing pharmacists.

"KEEPING UP WITH THE JONESES"

The old saw about "keeping up with the Joneses" has a new twist: Just about the time you catch up with them, they refinance. Actually, it can be well-nigh impossible to catch up with the Joneses at all—if Jones is a typical employee and you are one of the 10 million individuals in America who works for himself.

Let's take an example: Two neighbors, one named Jones, one named Smith. Each is 45 years old. Each has a wife and two children. Each is a pharmacist. Jones is employed by a well-known pharmaceutical company. Smith owns and operates his own corner drugstore. Each makes $6,000 a year before taxes. Each pays the same amount of taxes. Yet Jones winds up with the equivalent of $1,404 more each year than Smith because what isn't showing in Jones' tax return is the legally "hidden" compensation from his company that will provide him with $150 a month beginning at 65, for the rest of his life.

The law allows Jones' employer to set up this retirement plan for him with tax deductible dollars. The law does not require Jones to declare this compensation as part of his taxable income, but that same law bars Smith from setting up a tax-deductible pension plan. Why? Because Smith runs his own business and the law does not permit the self-employed to deduct anything for his old age.

Let's see how just one item—the pension plan—in what is popularly called the "fringe benefit package" can provide Jones with nearly a 25 percent tax advantage over neighbor Smith plus the assurance of a guaranteed retirement income over and above social security.

	Jones	Smith
Gross annual income	$6,000.00	$6,000
Exemptions and standard deductions	3,000.00	3,000
Taxable income	3,000.00	3,000
Income tax	600.00	600
Net spendable dollars	5,400.00	5,400
Untaxed additional compensation employer-paid contribution to pension plan to provide $150 a month for life beginning at 65	1 146.03	
Net actual annual compensation, spendable and deferred	6,546.03	5,400

If Smith, in order to keep up with the Joneses, were to buy an annuity to provide himself a $150 a month income for life, beginning at 65, Jones and Smith would each have the actual spendable income shown below:

	Jones	Smith
Net spendable dollars	$5,400	$5,400.00
Gross 1st year premium on annual premium retirement annuity		1,146.03
Net spendable dollars after taxes and after providing for $150 a month retirement income plan	5,400	4,253.97

In other words, Smith either will have to be satisfied with a net spendable income of $4,253.97 (while Jones has $5,400) or he will have to somehow increase his yearly income from his drugstore by an additional $1,404.03 before taxes in order to keep up with Jones.

	Jones	Smith
Gross annual income	$6,000	$7,404.03
Taxable income	3,000	4,263.62
Income tax	600	858.00
Net spendable dollars	5,400	6,546.03
Gross 1st year premium on annual premium retirement annuity	0	1,146.03
Net after taxes and after having provided for $150 a month on which to retire	5,400	5,400.00

Actually, if you are self-employed, it is considerably harder than even these figures indicate to keep up with the Joneses. If Jones' relationship with his company is fairly typical, he will pick up in addition to his salary and in addition to his pension benefits one or all of the following security provisions. Contributions by Jones' company for each of these benefits are tax deductible by the corporation and although additional compensation, nontheless tax free to Jones: Paid vacations, sick leave without loss of income, group life insurance, group hospitalization, group medical protection, and long-term salary continuance in case of disability.

It is obvious that the self-employed Smiths cannot begin to catch up with the Joneses. The reason is not hard to find.

The income tax law allows, it encourages, Jones to defer or escape altogether the tax on his fringe compensation, but Smith, the law says, must pay tax on all of his compensation. And with the steeply graduated rates of taxation, the higher Smith's income climbs, the greater the tax advantage enjoyed by Jones.

The National Association of Retail Druggists joins in supporting H.R. 9 and H.R. 10, with its two other teammates in the medical arts profession; namely, the American Medical Association and the American Dental Association.

SHARP & BOGAN,
Washington, D.C., June 24, 1959.

In re H.R. 10—Hearings of June 17 and 18—Material for the record.

MRS. ELIZABETH SPRINGER,
Chief Clerk, Senate Committee on Finance,
New Senate Office Building, Washington, D.C.

DEAR MRS. SPRINGER: In accordance with our conversation I am enclosing for inclusion in the record of the hearings on H.R. 10 the following excellent and very pertinent articles:

"Self-Retirement Plans," by Charles M. Bliss, executive vice president, the Bank of New York, printed in the June 1959 issue of "Trusts and Estates."

"Lessons From Canadian Experience With Self-Employment Plans," by Glenn Garbutt, management consultant, New York, N.Y., printed in the December 1958 issue of "Trusts and Estates."

The committee's courtesy in arranging the inclusion of this material in the hearing record is much appreciated.

Sincerely,

EUGENE F. BOGAN.

[From Trusts and Estates, June 1959]

MARKET RESEARCH REVEALS DEMAND FOR SELF-RETIREMENT PLANS

(By Charles M. Bliss, executive vice president, the Bank of New York)

On May 19, Senator George Smathers (Democrat, Florida) introduced a bill to permit self-employed individuals to take a current tax deduction of 10 percent of their net earnings, with a maximum limitation of $2,500 a year or $50,000 in a lifetime, provided the self-employed individual makes an investment in certain types of retirement annuity or a specific type of retirement trust. The bill, identified as S. 1979, is now pending before the Finance Committee of which the Senator is a member.

This bill, with one exception, is identical to H.R. 10, commonly referred to as the Keogh-Simpson bill, which passed the House on March 16 and would become effective January 1, 1959. It differs from the House-passed measure in that it would become effective for taxable years beginning in 1961 and thereafter. This change, Senator Smathers explained, was made to meet opposition to the pending proposal predicated primarily on revenue loss. The Senator hopes that by 1961 the budget will be in a more healthy state than it is today. Meanwhile, he said, "I have chosen this course of procedure to give impetus to what I believe is rather slow progress in removing a glaring tax inequity toward 10 million self-employed citizens."

FINDINGS OF SURVEY DISCLOSED

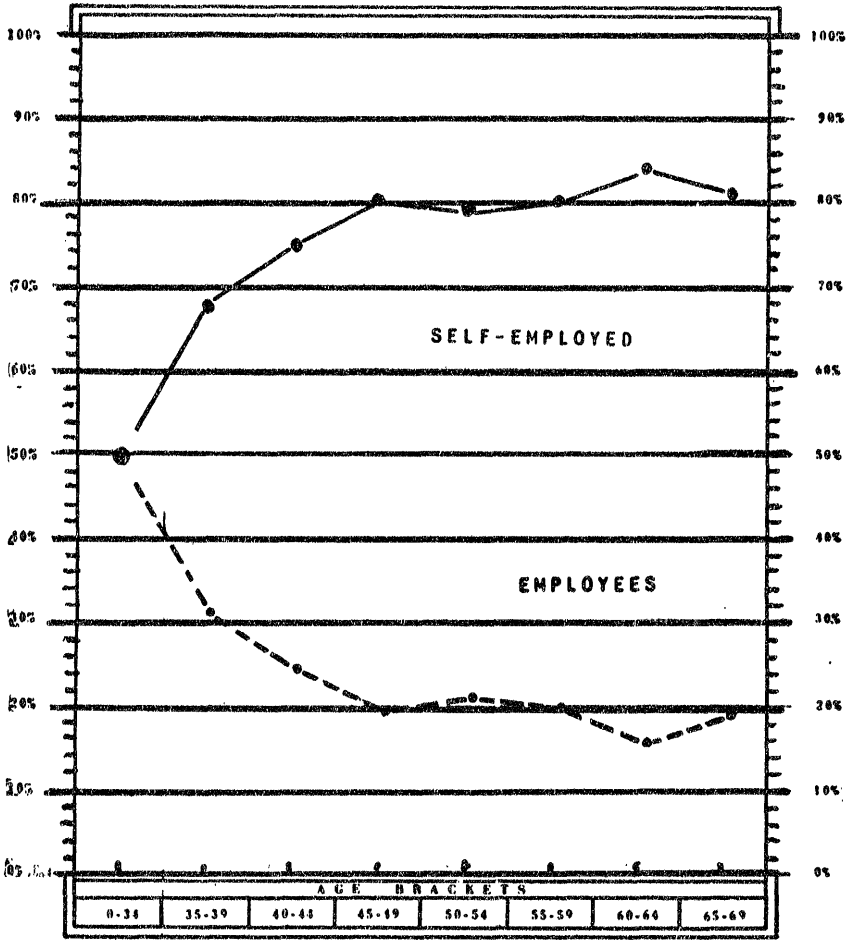
By coincidence, on the same day the Smathers bill was introduced, the findings of a research questionnaire sent to more than 30,000 professional men and women on the general subject of pensions for the self-employed were disclosed for the first time at a seminar arranged by the Bank of New York, for the benefit of its correspondent banks. Some 128 representatives of 101 banks from 28 States were in attendance at the full-day session.

The survey was planned in the fall of 1957. Legislation to provide a solution to the tax plight of the self-employed had been enacted in Great Britain in 1956 and in Canada early in 1957. The Bank of New York, after weighing the evidence at home and abroad, decided there would be adequate time and a favorable climate in which to conduct a market research survey and to build a program around the self-retirement prospect in this country. The bank could thus give professional men and women both information and encouragement on a new and useful development affecting them and, at the same time, measure the size and quality of the market for self-pensions.

First, a test was made by mailing the questionnaire to a selected list of 660 physicians and dentists in mid-Manhattan. About one-third were the bank's customers and two-thirds were prospects. Altogether some 35.5 percent responded: 43 percent of the customers and 32 percent of the prospects.

The test mailing not only caused much favorable comment but the questionnaire gained the attention of key officials of large and important professional groups who, in turn, requested that their full membership lists receive the bank's informative material in order to gain a better understanding of the promising new self-retirement development.

Chart I: Trend to Self-Employment in Relation to Age.



In the spring of 1958, the questionnaire was mailed to some 20,000 professional persons in the New York area. The identical questionnaire went to an additional 13,000 in the Boston area through mailings of the Old Colony Trust Co. Of the professional men and women who received the questionnaire approximately—

One out of four asked to be put on the "special list" to receive further informative releases on the subject of pensions for the self-employed.

One out of five indicated their age and profession, whether they had any sort of retirement plan, whether they expect to set up a plan under new legislation, the amount they would set aside each year, how they wanted their retirement savings invested, whether they preferred life insurance or bank trustee management, and whether they would use an individual or an association plan.

THE COMPOSITE PROFESSIONAL MAN

In general, a professional person starts his career with low pay for the years of specialized training. Therefore, one important purpose of the survey was to develop a composite picture of the professional man who would become eligible for self-retirement upon the enactment of permissive legislation.

The survey disclosed that the composite professional man in a metropolitan community arrives at the crossroads of his career at about age 35, when apparently there is an equal division between the professional men (and women) who are in employment and those who have established themselves as self-employed. Ten years later, and continuing through the balance of the professional career, 8 out of 10 become self-employed. This trend to self-employment in relation to age is illustrated in chart I.

On the question of financial planning for old age, the survey disclosed another significant pattern. Professional persons in employment and those who are self-employed are in the same relative position at age 35—2 out of 10 have made some provision for retirement. Ten years later, however, 5 out of 10 of those who are employees are members of a qualified plan, although many of them feel their particular provisions for retirement are inadequate. But, as for those who are self-employed, 7 out of 10 still—by their own admission—have no planned retirement program of any kind. The incidence of retirement planning in relation to age is shown in chart II.

The survey's findings, based on 6,200 responses from lawyers, physicians, dentists, and accountants, indicates that within a random group of professional persons in the community—

7 out of 10 are fully self-employed

1 out of 10 is a full-time employee

2 out of 10 are both employed and self-employed—one mostly employed, the other mostly self-employed.

On average, only 3 out of 10 have some sort of planned individual old-age retirement program.

Responses to particular questions were as follows—

19 out of 20 expect to set up a retirement savings plan if permitted to use tax-deferred dollars under new law

Would you in general elect to have your program with a bank trustee or with a life insurance company?

	Percent
Bank trustee	63
Life insurance	12
Both	3
No election	22

How much would you expect to put aside into such savings?

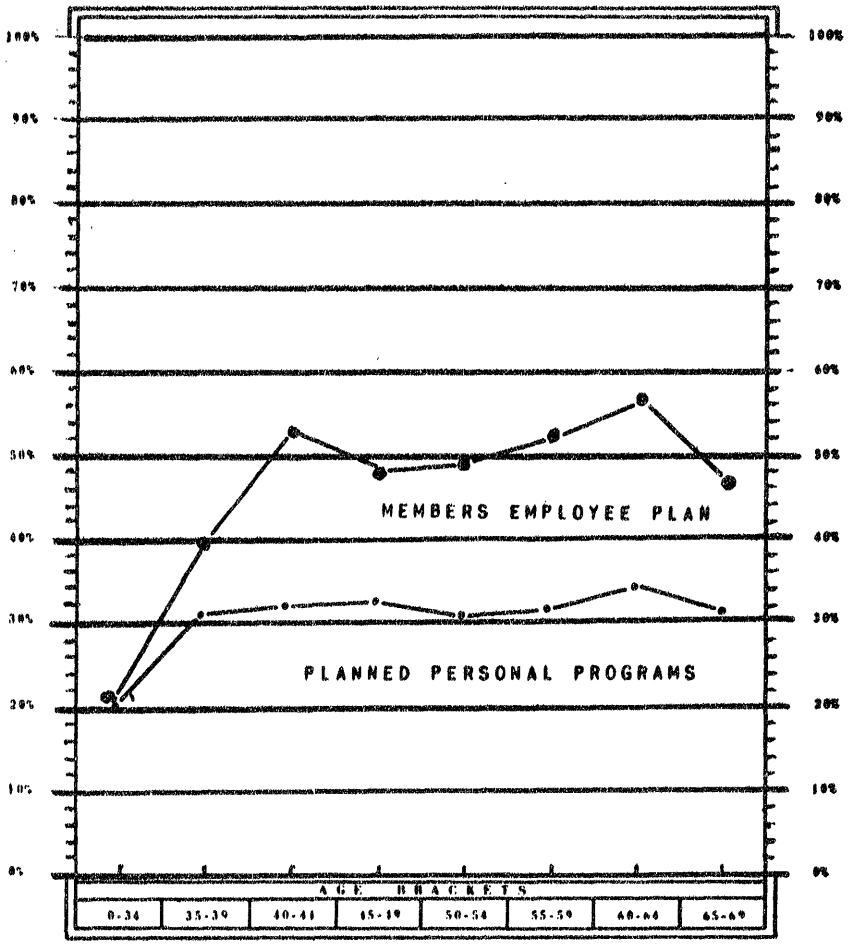
$2,500 per year, on average (but the questionnaire then indicated a $5,000 ceiling and, in many cases amounts shown appeared to be wishful thinking).

Would you in general prefer to establish your own individual plan or to participate as a member of an association plan?

Response inconclusive, but a slightly larger number—though not a clear majority—would consider an association plan, if it could be demonstrated to have administrative advantages or economies.

In the matter of investment: Only 5 percent said they would not want to use any common stocks; and only a little more than 10 percent said they would want all their retirement savings invested in common stocks.

Chart II: Incidence of Retirement Planning in Relation to Age.



Indicated by the responses was the need for two collective funds: one invested largely in common stocks; the other invested in fixed-income securities. The indicated divisions of investment in these two funds, on the whole, were on the fairly conservative side.

WIDESPREAD NEED OF INFORMATION

The survey established the existence of broad interest in self-pensions and the present lack of financial planning among professional persons in general. In particular, it disclosed the widespread need for information on retirement planning based on Keogh-type legislation.

With the questionnaire a return reply card was sent which enabled respondents to request a booklet entitled "Pensions for the Self-Employed," written as an educational piece.

In the summer, the bank mailed to the special list a second booklet which commented on similarities in the positions of professional practitioners and

small business proprietors in the matter of retirement, and discussed Keogh-type legislation being proposed by the Senate Small Business Committee. The mailing was timed to coincide with the agreement in executive session of the House Ways and Means Committee to report the Keogh bill to the House for the first time since the bill's introducttion by Representative Keogh (Democrat, New York) in 1951.

In the fall, following passage of the bill in the House, a third booklet highlighted benefits that would accrue to the individual self-pensioner under the proposed legislation. And, because Keogh-type legislation would create a new form of savings, the bank offered a special account for the accumulation of individual retirement savings. Experience in Canada has disclosed that there had not been sufficient prior planning by those who were entitled to benefits.

With passage of the Keogh-Simpson bill in the House in mid-March, the bank decided to intensify its educational program. First, a new informative booklet was published consolidating and updating the earlier series of three. Now, the new booklet is being mailed to additional self-employed groups and is being offered by radio spot announcements and by advertising in metropolitan newspapers.

Altogether the survey has aroused considerable interest and clearly the educational program has created good public relations among professional men and women and others in the community who are self-employed, regardless of the fate of the Keogh-Simpson bill in the Senate.

PROSPECT FOR FURTHER PROGRAMS

The question of educational programs built around the self-retirement prospect came up at the bank's seminar on May 19, and it was indicated that although about one-half of the representatives present said their institutions had decided to handle Keogh-type business, only about one-tenth said they had presented any sort of information or publicity program pointing out the benefits of this important new development. Therefore, Senator Smathers' postponement of the effective date of the proposed legislation is significant for it indicates there may well be time for further educational effort by banks over the country.

Meantime if Congress can be induced to limit the bill to the basic point of correcting the inequity so as to make it possible under the law for all employed and self-employed persons to be entitled to tax-deferral privileges on funds set aside for retirement benefits, self-interest and competition will provide the stimulus to greater use of the privilege. But if the legislation attempts to force broader coverage, the cost in terms of immediate lost revenue can become so staggering that the measure will lack the necessary support. Organizations representing self-employed persons will have an opportunity to be heard by the Senate Finance Committee and much will depend upon the effectiveness of their presentation.

The Bank of New York feels that the House-passed proposal now pending before the Senate Finance Committee points ahead to promising new developments in the trust and banking field.

[From Trusts and Estates, December 1958]

LESSONS FROM CANADIAN EXPERIENCE WITH SELF-PENSIONS

(By Glenn Garbutt,[1] management counsel, New York)

[EDITOR'S NOTE.—Under the encouragement of special tax provisions, retirement programs for employed persons have become widespread. But self-employed individuals cannot be their own employees, hence they cannot qualify for favored tax treatment.

The inequity in the position of the self-employed was put to an end through legislative action in Great Britain in 1956, and in Canada and New Zealand in 1957.

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[1] Glenn Garbutt is an independent consultant and an experienced observer in the collective investment and fiduciary fields. He is a former associate editor of Trusts and Estates. His article is based on a marketing study conducted for the Bank of New York, through whose courtesy it is being published.

In 1958, the Keogh proposal to permit self-employed individuals in this country to set aside tax-deferred dollars into restricted retirement savings was reported favorably by the House Ways and Means Committee—for the first time since its original introduction in 1951. Late in July the bill passed the House by an overwhelming vote, but, in the Senate the bill was stalled in the Finance Committee for lack of time to schedule hearings and finally, on August 12, after debate on the floor of the Senate, was sidetracked by parliamentary maneuver when offered as an amendment to another tax bill.

Nevertheless, the resulting vote on the amendment brought forth a strong show of strength for individual self-pensions, with 32 Senators going on record as in favor—despite the fact that the Senate policy position of both parties at the time opposed such legislation. The opposition, in general, was based on the prospective loss of tax revenue and, in particular, on inadequate time to study the measure.

Inasmuch as persons close to the legislative process expect the Keogh bill to be reintroduced substantially in its present form when the 86th Congress convenes in January, the following authoritative report on the Canadian experience with self-pensions is both timely and revealing.]

Taxpayers in Canada, under the terms of legislation enacted on April 12, 1957, are allowed a deduction of amounts up to 10 percent of earned income set aside for the purchase of retirement annuities commencing any time before age 71. The dollar amounts so set aside may not exceed $2,500 a year for self-employed persons, or $1,500 in the case of an employee under a pension plan, including his own contributions to both employer-sponsored and individual plans.

The new legislation represents something more than is implied in the phrase "removal of discrimination against the self-employed," explained Dr. A. K. Eaton, Canada's then Assistant Deputy Finance Minister: "The new legislation opens up income spreading as a new positive policy of general application. It is available to everybody."

This significant tax change was introduced by the Honorable Walter Harris, Minister of Finance, with these observations in his budget speech on March 14, 1957:

"The cash effects on our revenue in the coming year will be negligible, partly because it will take some time for insurance companies and others to design policies and organize plans, and partly because taxpayers will in many instances derive their benefit from a tax refund at the end of the year.

"In subsequent years, if widespread use is made of the plan, it is possible that the annual yield of the income tax may in future be reduced by as much as $40 million. Whatever the subsequent loss in revenue may be it can, however, be regarded as an indication of the volume of provision being made by Canadians toward freedom from financial work at a time when their earning power has lessened.

"To me this policy makes good sense. Moreover, the broad effect of this policy will be anti-inflationary since it will be an encouragement to increased immediate saving which will be productively employed. Encouragement such as that now proposed is, I think, ample justified and will, I believe, be well received on all sides."

The step taken by the Minister of Finance was in recognition of agitation by taxpayer groups over a 10-year period—primarily on the plea of inequity—rather than of views expressed by financial institutions or the life insurance companies.

The Ministry of Finance had an equally strong record of opposition over the 10-year period. Principal reasons: The expected decrease in tax revenue and the prospective increase in administrative detail, not the question of principle. However, with permissive self-pension an accomplished fact and the first year of experience behind them, Finance Ministry officals have disclosed that (1) the changeover was far simpler than anticipated, and (2) the loss of revenue in the first year—unofficially estimated at $7 million—was considerably less than the long-term projection of $40 million made by the Minister of Finance.

PATTERN OF ACCEPTANCE

The Canadian taxpayer has a wide range of choice for the investment administration of his accumulated retirement savings. Commenting upon the freedom of investment, Assistant Deputy Minister Eaton, said:

"I mention this aspect of the law in relation to two matters which in current Canadian thought are frequently referred to on public platforms or in the press:

The first of these relates to the degree of Canadian ownership in Canadian industry. The second is the question of the future stability of the purchasing power of the Canadian dollar, whether gradual inflation can be avoided or whether prudence dictates a form of investment providing some hedge against a gradual decline of the value of the dollar. * * * This policy is in line with the removal last year of the restrictions on trustees investing pension funds."

The four general types of investment administration are (1) life insurance companies' contracts; (2) Dominion Government annuities; (3) trust companies' plans; (4) mutual funds and negotiated investment contracts.

Although discussions leading to the tax amendment continued over several years, passage of the legislation found both the Government and financial agencies unprepared. Thus the Canadian development is revealing, because in the administration of individual retirement savings new mehods and procedures had to be evolved.

Life insurance actuaries and officials, for example, were cool to the early proposals for permissive individual retirement plans. Reasons: Restricted policies with a "locked up" savings side might—

(1) Upset the traditional relationship between the insurer and the insured;

(2) Encourage the cancellation of existing life insurance policies unless both old and new contracts could qualify for registration;

(3) Call for new types of policies with variable premium problems; and

(4) Bring forth agitation for variable annuities.

With the insurance fraternity divided in general as to the desirability of the new legislation, some companies started out with a negative approach, tending to point out problems rather than opportunities to their agents and fieldmen. Consequently, they took a relatively minor part in the early marketing development of this new method of saving.

Companies with a positive approach, on the other hand, received a ready response from the field and a satisfactory experience resulted. Sales results, in fact, indicate that interest in retirement savings among individuals is communitywide and about evenly divided as concerns professional people versus proprietors and management people. A representative sample of over 800 contracts registered through 2 large insurance underwriters indicates that some two-thirds of registered policies were new contracts issued in 1957, the remaining one-third being old contracts from earlier years. Policies being registered in 1958 are mostly with new people.

Insurance officials in general have found that the new legislation created a considerable educational problem for salesmen and savers alike. While some officials feel that the market opened to the insurance companies is not impressive, other sales-minded officials find the tax-deferment privilege has served as good reason to review present individual insurance programs with satisfactory results, and they assess the possibilities presented as most favorable.

Trust companies, unlike the life insurance companies, had neither the products nor the sales power ready to seek individual tax savers. It was late in 1957 before most of the trust companies completed their plans for handling registered retirement savings.

In general, the trust companies' plans are designed for the use of collective investment, in order to achieve economy of administration and adequate diversification for the pooled accounts of individuals with annual contributions of $2,500 or less. The plans range from a single fund to a combination of funds with different investment objectives.

Some of these plans provide special savings accounts to facilitate the accumulation of allowable contributions. A contributor thus might know his exact income before determining the final amount to be registered, inasmuch as transfers to a registered plan may be deferred to the end of February and still apply to the preceding tax year.

Lacking a field force the trust companies employed direct mail and newspaper advertising to call attention to their registered plans, and particularly to point out the advantage of equity investment in the event of further inflation. Now, with retirement savings funds in operation, trustmen feel they have broadened their range of services and that—while the educational problem is formidable indeed—it opens to them a mass market not heretofore available on a practical basis. In future years, they feel, a large portion of the moneys set aside in retirement savings will be administered by corporate trustees.

Mutual funds worked out two types of retirement savings plans: One similar to the trust companies' type of plan, with a corporate trustee acting as custodian

and the mutual funds providing the investment medium and management; the other similar to annuity contracts of the insurance company, with a face amount certificate payable over a period of years.

Canadian Government annuities drew the largest single group of the registrations of retirement savers. There is no comparable investment medium in this country to these annuities, which are administered by the Department of Labor and may be purchased by Canadian taxpayers in amounts between $10 and $1,200 a year. The annuities system is provided at cost—the Government pays all administration expenses and guarantees the fixed yearly income. Premiums may be paid to the Receiver General at any accounting post office.

Director Charles R. McCord, who heads the Government annuity program in Ottawa, commented: "A review of first-year results indicates (1) a stimulation of interest in general in Government annuities, (2) a revival of interest in many old and dormant contracts, and (3) the attraction of interest in new contracts among men and women under 40 years of age in particular."

Altogether some 60,000 contracts were found to be eligible under the amended tax legislation, and these annuitants were advised during 1957. Director McCord revealed that about 15,000 plans were registered—two-thirds of them old contracts, one-third of them new.

Association plans were worked out by professional groups to enable members to take advantage of the tax exemption privilege through contributions to a professionwide program. The Canadian Medical Association, for example, registered a plan with (1) an insured annuity segment—guaranteeing fixed dollar income—administered by a life insurance company, and (2) a common stock investment fund administered by a trust company. The program was designed in the belief that the split-fund type of savings plan would go a long way toward answering the problem of how to put aside for retirement and yet protect savings against the inroads of inflation. Contributing members may decide for themselves how much they wish to invest to each segment of the plan.

The pattern of acceptance of the CMA plan was described by Dr. A. D. Kelly, general secretary of the association, as follows:

"Late in September we mailed information on the plan to 16,000 members and received in return roundly 2,000 registrations, most of them within the tax year 1957. The split-funded allocations approximated two-thirds to the trusteed common stock fund, one-third to the insured group annuity. In dollars of contributions, this amounted to approximately 60 percent in common stocks and 40 percent in group annuities."

This indicates early acceptance of the plan by one of every eight members of the association. However, an equal number of medical men were found to have chosen other channels of registration. Here again, therefore, one out of four is believed to be a proper proportion to use as the early pattern of acceptance by physicians.

Other association plans have been formed but have not been as successful in general as the CMA plan. Some, however, were formed too late for full consideration in the tax year 1957.

OVERALL PICTURE

Taxpayers in Canada have until April 30 to file their income tax returns. Registrations for the retirement savings privilege must be made by December 30 of the tax year, with an additional 2 months allowed for making the contribution commitment.

Within the tax year 1957, following enactment of the law in April, a total of 32,000 individual registrations were filed with the Department of National Revenue. An estimated breakdown of the different types of investment administration used follows:

Investment administration	*Number of plans*
Government annuities plans	15,000
Life insurance contracts (regular cases of annuities and life insurance with savings side registered)	9,000
Trust companies' own plans (excluding association plans)	3,750
Association plans (funded through group annuities and trust companies)	2,250
Mutual funds plans	2,000
Total of registered plans (estimated)	32,000

Of particular interest is the finding that almost one of every four taxpayers who registered through the trust companies failed in the foreshorted first year to make a contribution to their plan within the allowable time limit. Principal reason: lack of immediate savings ready for long-term commitment.

In summary, then, the study of Canadian experience with self-pensions during the first year indicates that—

Individual interest in tax deferment is widespread but a relatively small proportion of taxpayers have immediate savings ready to commit under permissive self-pension legislation.

Government and investment administrative officials alike find that 2 to 3 years or more will be required for the pattern of acceptance of individual retirement savings to become fully formed.

The tax revenue loss for the first year—estimated at $7 million—was substantially less than the $40 million projected loss estimate of the Finance Minister.

The educational problem posed by this new form of saving for investment administrators and savers alike is formidable.

These findings lend support to the statement made by Dr. Roger F. Murray[1] at the hearing of the House Ways and Means Committee last January 24, when he said with reference to the proposed Keogh bill:

"This kind of provision takes a long time to become fully effective. The bill is only enabling legislation, in a sense; it does not automatically make available the arrangements for a single individual to make his retirement deposit. The needed facilities require time and effort for their development. Even a widespread understanding of the bill's provisions would require months of educational work. We are probably talking about 1960 before really large numbers of the self-employed would know how or where to make a retirement deposit."

Therefore, Mr. Murray concluded, "The loss in current tax revenues represented by the tax deferral would be very modest for several years."

COLORADO SPRINGS, COLO.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The Colorado Springs Dental Society favors passage of H.R. 10 and S. 1979, and urges that it be favorably reported.

Please enter our endorsement in the written record of the hearings.

Thank you very much for your assistance.

Sincerely yours,

VERGIL R. JOHNSON,
Secretary, Colorado Springs Dental Society.

ARIZONA STATE DENTAL ASSOCIATION,
Phoenix, Ariz., June 22, 1959.

Senator HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: On behalf of the 348 members of the Arizona State Dental Association, please be advised that our association strongly endorses the Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979), and we certainly encourage your endorsement of the bill.

If possible, we would like to request that our association's endorsement of this legislation be noted in the written record of the hearings.

Yours very truly,

WILLIAM G. BURKE, *Secretary.*

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[1] S. Sloan Colt, professor of banking and finance, Columbia University Graduate School of Banking.

COMMERCE AND INDUSTRY ASSOCIATION OF NEW YORK, INC.,
New York, N.Y., May 5, 1959.

Re H.R. 10 (Keogh)

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: H.R. 10, approved by the House of Representatives and now pending in the Finance Committee of the Senate, would permit a self-employed individual to deduct for income tax purposes not in excess of the lesser of $2,500 or 10 percent of net self-employment income contributed to a qualified plan for his retirement, and to account for the benefits when received upon retirement.

Enactment of the bill would equalize, to a modest extent, the tax treatment of persons engaged in businesses and professions who, either because of legal prohibitions or from choice, do not operate as corporations, with that accorded corporate employees (including officers). The present tax structure unfairly discriminates against the self-employed business or professional man in this respect. Enactment of H.R. 10 would remove this discrimination to some extent.

Restricted retirement funds already established for the benefit of corporate employees with the aid of existing beneficial provisions of the Internal Revenue Code provide retirement income for covered employees and thus contribute to the economic stability of our country and the economic security of a large segment of its working force. The additional funds fostered by enactment of H.R. 10 would extend these worthy objectives.

For these reasons, Commerce and Industry Association urges your prompt and favorable action on H.R. 10. The long-awaited equity in tax treatment which the bill accords to self-employed persons merits earliest possible favorable consideration by the Finance Committee and the Senate. We would appreciate you advising us when such action might be taken.

Sincerely,

THOMAS JEFFERSON MILEY,
Executive Vice President.

ST. CLAIR DISTRICT DENTAL SOCIETY,
East St. Louis, Ill., June 23, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: The St. Clair District Dental Society, component of the Illinois Dental Society, unanimously endorses the proposed Smathers-Keogh-Simpson bill (H.R. 10 and S. 1979) and urges that it be favorably reported.

Our society also requests that this endorsement of this legislation be noted in the written record of the hearings.

Sincerely yours,

W. J. BLOEMER, D.D.S.,
Secretary.

NATIONAL MILK PRODUCERS FEDERATION,
Washington, D.C. June 23, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: We shall greatly appreciate it if you will include in the hearing record on H.R. 10 this statement supporting the bill.

The National Milk Producers Federation is a national farm organization. It represents approximately half a million dairy farmers and some 800 dairy cooperative associations which they own and operate and through which they act together to process and market at cost the milk and butterfat produced on their farms.

The lack of adequate provisions for the retirement income of dairy farmers is a matter about which we are deeply concerned.

Very important advances have been made in removing the fear of old age, and we have come a long way from the time when many of our older people were dependent on relatives or relief for their very existence in their declining years.

Social security is a basic step in providing for old age. Pension plans for employees supplement social security in a large part of the employment field.

Now we need to go further and set up a program which will encourage the self-employed to supplement social security with their own retirement programs. H.R. 10 is designed to provide such incentive.

We have given a great deal of thought to what might be done for dairy farmers in this field. The more we work on it, the more convinced we are that the first step should be legislation such as H.R. 10.

H.R. 10 would permit self-employed individuals to set aside a portion of income in productive years for use after retirement age, with a corresponding deferment of tax liability. We are hopeful that its enactment would focus attention on individual retirement plans and create a spark which would result in many people providing more adequately for their old age.

We are not unmindful of the opposition of the Secretary of the Treasury. But we believe the loss in current tax revenue would be far outweighed by the social and economic strength that would result from increased retirement savings and a more enlightened approach toward old age.

We hope you will bear in mind, in your deliberations on this bill, the need of dairy farmers for a base on which they can build more adequately for their own retirement.

Sincerely,

E. M. NORTON, *Secretary.*

TOWERS, PERRIN, FORSTER & CROSBY, INC.,
Philadelphia, Pa., June 26, 1959.

Re H.R. 10, individual retirement funds.

Hon. HARRY F. BYRD,
Chairman, Senate Committee on Finance,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: As a consultant on pensions and other employee benefits I have long been interested in the basic principle embodied in H.R. 10 and related bills, the principle of extending to self-employed individuals and others not covered under employer-sponsored pension plans at least a part of the tax advantages enjoyed by employees who are so covered. I believe that such legislation is inherently desirable and equitable, and that in due course the United States will inevitably follow the precedents established in Canada and the United Kingdom in enacting such legislation.

At the same time I am sympathetic toward the objections that have been raised by various parties to the pending legislation. These objections have been based on both the immediate potential effect on revenue, and on certain implications and inequities involved. I have given considerable study to the subject and have a suggested compromise arrangement which I hope that you and your committee may consider. I feel that my suggestion avoids some of the more important objections to the pending legislation, and at the same time gives a considerable measure of tax relief in the areas where it is most needed.

Briefly, my suggestion is to allow tax deduction for payments into qualified individual retirement funds to the extent of 50 percent of such payments; rather than allowing 100 percent deductibility as contemplated by all of the legislation thus far proposed. The deductions would, of course, still be subject to annual and cumulative dollar limitations, corresponding to those provided by the pending legislation.

The advantages I see in the suggested arrangement are principally the following:

(*a*) It would avoid giving any encouragement to those who would use this legislation as an argument for permitting tax deductibility of employee contributions under the Railroad Retirement Act or the Social Security Act. Under both of these programs one-half of the total contribution (the employer's half) is in effect tax deductible, but the other half (the employee's half) is paid out of taxed income.

(*b*) Similarly, the question of deductibility of employee contributions under private retirement plans is to a considerable extent avoided. While private plans under which the employer pays all or the great bulk of the cost will still

be in a generally more favorable tax position, there are many contributory plans under which the employees' share of the cost is inthe neighborhood of 50 percent of the total. The suggested individual retirement fund legislation would place the self-employed in a position comparable with employees covered under the latter type of contributory plan.

(*c*) There is a certain consistency in my proposal with the treatment of self-employed individuals under social security. These pay 150 percent of the contributions they would pay as employees. This may be looked upon as equivalent to the regular employee rate of contribution, plus half of what the employer, if there were one, would pay. In other words, the self-employed's position under social security corresponds to what it would be if he were an employee with a 50 percent top tax bracket.

(*d*) The fact that under my proposal each dollar of tax deductible money paid into an individual retirement fund will have to be matched by a dollar of after-tax money should be an important deterrent to the indiscriminant use of this facility, particularly by self-employed individuals who are in the high tax brackets. Thus the loss in revenue would be minimized.

(*e*) In view of this deterrent, it may well be feasible to extend the individual retirement fund privilege to all individuals, whether self-employed or employed, even including those who are covered under employer-sponsored pension plans (as provided by H.R. 4463). This would eliminate the discriminations against certain groups of individuals which have been pointed out in the recent hearings.

Looking at the practical aspects of the matter, it is my impression that the administration of this type of legislation would not involve any serious difficulties or inequities. It should be provided, of course, that benefits paid out at retirement would be subject to full income tax in respect of 50 percent of the amount, and taxed as an annuity purchased by the individual in respect of the other 50 percent. It should also be provided in case of any withdrawal of funds, 50 percent of the amount withdrawn would be taxed in full, and the other 50 percent taxed only as to any interest or capital gain included therein. Perhaps restrictions as to withdrawals need not be as strict as in the pending legislation, in view of the built-in deterrents.

I respectfully request that you and your committee give careful consideration to offering legislation embodying the modified principles described in the foregoing. If I can be of any assistance in the development of the principle in greater detail I should be glad to work with your staff on the project.

Yours very truly,

J. K. DYER, JR.,
Vice President and Actuary.

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
June 22, 1959.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: I feel it necessary at this time to express to you and the members of the Senate Finance Committee my wholehearted support for H.R. 10. Several months ago, I had the privilege of introducing my own bill (S. 944) which is identical in every respect to the bill presently under consideration.

Prior to introducing S. 944, I reviewed the history of legislation on this subject. One point above all else impressed me and that was the fact that the President of the United States, the U.S. Treasury Department, and the U.S. House of Representatives all agreed that present law does not give self-employed people tax treatment for their retirement savings comparable to that now accorded the employees covered by the employer-financed pension plans.

Keep in mind that the 10 million self-employed of this country are not asking for favoritism but rather for equality.

I sincerely hope the members of the Senate Finance Committee will give this bill favorable consideration so that the Members of the Senate will have an opportunity to vote on the merits of this proposal.

With kind regards,

Sincerely,

ESTES KEFAUVER, *U.S. Senator.*

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
June 22, 1959.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR: There is presently pending before your committee H.R. 10, the Self-Employed Individual's Retirement Act. As you know, legislation similar to this passed the House the last Congress during the closing months of the session and thus enactment of the bill into law was not possible. I urge that favorable consideration be given to H.R. 10 at this time in order that congressional action on it might be completed for signature by the President into law in time enough for its application to the upcoming tax year.

H.R. 10 provides for pension plans for self-employed individuals. The establishment of a true security for their later years, considering tax rates, is a very real and important problem for them and their families. The self-employed and the professional people have no opportunities for retirement funds and pension plans such as union and other employed workers often attain. This is a problem to which the Congress must address itself.

Sincerely,

JACOB K. JAVITS.

CHARLOTTESVILLE, VA., *June 26, 1959.*

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: I believe my father may have written you in support of the Keogh bill. I would like to add some of my thoughts to his views. In the last few years I have become familiar with the personal finances of quite a number of individuals. Despite the large incomes which many of them enjoy, their investments and savings for retirement are relatively small. I would hope that the Keogh bill would provide an incentive for self-employed individuals to do a better estate planning job.

Opposition to this bill on the grounds that it would immediately deprive the Treasury of substantial revenues is not supported by experience in Canada where individuals have been quite slow to take advantage of similar legislation.

I hope that your committee will give consideration to other than institutional trustees for these trusts. While there is a decided advantage to the use of institutional trustees when a trust contemplates spanning the lives of several generations, in this case it seems to me that the family lawyer, for instance, might be just as satisfactory. I would also hope that the bill will be flexible enough to permit an individual to direct the trustee to retain an independent investment counselor for the actual investment management of these funds. There will probably not be many cases where the size of these trust programs would be large enough to interest a competent investment counselor, but I believe that legislation should provide for this possibility. Many investment counselors including myself already provide investment management for corporate pension and profit-sharing plans where banks and individuals are trustees.

As you may be aware most banks have done a very mediocre job of investment management over the years in their capacity as trustees, while insurance companies have had little experience with equities. For this reason my clients and associates would not find the tax advantages of the Keogh bill legislation attractive if they are forced to combine these features with mediocre bank investment management.

In this regard I think you will find the enclosed remarks entitled "High Cost of Conservatism in Pension Fund Investing" [1] by Paul Howell, research director, Twentieth Century Fund's pension fund survey, extremely helpful and revealing. He comments pages 3–4 on the benefits of independent professional investment counsel in contrast to management by bank trust officers, stock brokers, etc. I would appreciate your bringing my ideas and Mr. Howell's article to the attention of your committee.

Kindest personal regards,

Sincerely yours,

DERWOOD S. CHASE, Jr.

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[1] This article was incorporated in the committee records.

STATEMENT FILED BY JOHN Z. SCHNEIDER, OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

My name is John Z. Schneider, and I am chairman of the Committee on Federal Law and Legislation of the National Association of Life Underwriters as well as a member of the association's board of trustees. My organization is a trade association representing a membership of over 77,000 life insurance agents, general agents and managers located in all 50 States, the District of Columbia, and Puerto Rico.

The purpose of this statement is to give your committee a brief summary of the position of my association with respect to H.R. 10, popularly known as the Keogh bill, which your committee now has under study.

The Keogh bill would encourage self-employed individuals to provide for their retirement by permitting them to deduct from gross income each year limited amounts of earned net income set aside for retirement purposes. To be deductible, such amounts would have to be invested in bank-trusteed "restricted retirement funds" or in certain "face amount certificates," as defined in section 2(a)(15) of the Investment Company Act of 1940, or paid as premiums for "restricted retirement policies" issued by domestic life insurance companies. The amounts so accumulated, together with any earnings thereon, would be taxed to participating taxpayers upon distribution and would be subject to a tax penalty where such distributions were made prior to age 64½.

In short, as we understand the Keogh bill, it is basically intended to remove an existing tax discrimination against the self-employed by extending to contributions made by them toward their retirement somewhat the same favorable Federal income tax treatment now enjoyed by employees under qualified pension plans with respect to employer contributions made on their behalf to such plans.

We have long favored this basic principle which underlies the Keogh bill, although on several occasions prior to 1957 we found ourselves obliged to object to the bill itself. Principally this was because of the fact that the various versions of the bill introduced in the Congress from time to time before 1957 made either no provision or, at best, only inadequate provision for the use of life insurance and annuity contracts as a permissible funding media for the contemplated retirement plans. On these prior occasions we quite properly and understandably took the position that since many types of life insurance and annuity contracts are used to fund qualified employee pension plans, such contracts should also be given an appropirate place in the somewhat comparable scheme of things under the Keogh bill. To put it another way, just as the self-employed asked that they be given some measure of tax equality with employees under qualified pension plans, so we simply asked that the life insurance industry be given a fair chance under the bill to serve along with the banks and trust companies in helping the self-employed to plan for their retirement.

Although experience in operating under the Keogh bill might well demonstrate the need for further amendments from the standpoint of the life insurance business, we now feel that with one exception, the current bill, in its definition and treatment of so-called "restricted retirement policies" and as it might otherwise affect our busines, meets all of the principal objections that we voiced to earlier versions of the bill. The one objection that we wish to make known at this time arises from the fact that under proopsed new section 217(e)(2) and (f)(1)(A), which the bill would add to the Internal Revenue Code, only domestic life insurance companies would be permited to issue "restricted policies." We see absolutely no reason for this discrimination against foreign (e.g., Canadian) life insurance companies doing business in this country, and judging from the information that we have obtained from several individuals who worked on the bill in the House of Representatives, including Mr. Keogh himself, we think that it is accurate to say that this restriction was included in the bill in error. Indeed, you will recall that in his testimony before your commitee on June 17, 1959, Mr. Keogh recommended the elimination of the restriction. We wholeheartedly concur in his recommendation.

Subject to the foregoing amendment being made, the Keogh bill has the approval of my association.

If your committee would like any further information regarding my association's views with respect to the bill, we shall be happy to provide such information at your convenience. In the meantime, we request that this statement be incorporated in the record of the hearings held by your comimttee on the bill.

JUNE 22, 1959.

Senator HARRY F. BYRD,
Chairman, Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: This is to inform you that the Lower Columbia Dental Society endorses the legislation H.R. 10 and S. 1979 and urges that it be favorably reported. In addition, we would like to request that our society's endorsement of the legislation be noted in the written record of the hearings.

Thank you very much.

Sincerely yours,

C. J. MCCRUM., D.M.D.,
Secretary, Lower Columbia Dental Society.

STATEMENT OF DR. J. L. MCCASKILL, EXECUTIVE SECRETARY, NATIONAL EDUCATION ASSOCIATION

The National Education Association's 667,000 members are, for the most part, professional educators employed in the public schools and colleges of the country. A few of its members who are self-employed educators might benefit from enactment of H.R. 10. Nevertheless, the NEA is opposed to H.R. 10 and regards it as an undesirable proposal; thus, the NEA is not asking the committee to amend this bill so as to include NEA members who are employed. Our opposition is not based on a "me too" attitude.

Proponents of H.R. 10 allege a discrimination against the self-employed, saying that under current law the self-employed cannot enjoy tax advantages privileged to the employed. The shoe is on the other foot. The only real comparison is between successfully self-employed and high-paid executives of big corporations. It is common knowledge that many corporations have found methods of compensating their executives to their tax advantage. It would seem that the best legislation would be to close some of these loopholes rather than to open up another class of tax-free income.

Even in the middle- and low-income brackets the self-employed now enjoy several tax advantages denied the employed, invalidating the contention that H.R. 10 would cure a discrimination. The self-employed would have Congress grant them an additional tax advantage contained in this bill that would throw the tax burden disproportionately on lower paid employees. Most teachers are relatively low-paid employees.

The bill would not remove a discrimination; it would perpetrate a new discrimination in favor of the self-employed and against the majority of taxpayers of the country.

THE PENSIONLESS

Frequent mention has been made of the 32 million employees who do not have retirement or pension expectancies, except for OASI benefits. Some members of the NEA are in this group. For example, the State of South Dakota abandoned its teacher retirement system in 1950 to put its teachers under social security. They would be discriminated against if H.R. 10 were enacted. Even if an amendment were included, as has been suggested, to force employers to provide a retirement plan for their employees before becoming eligible for the tax advantages of H.R. 10, such an amendment would not help the South Dakota teachers, and other public employees who are pensionless, because the Congress cannot mandate any State to such an extent; and, of course, as to public employees the amendment would be meaningless because their employers are public entities having no reason to be interested in H.R. 10 as employers.

Arguments against the bill based on the 32 million pensionless apply to the South Dakota teachers and certain school employees in other States who are not eligible for membership in the retirement systems for teachers.

NONCONTRIBUTORY PENSIONS

It is true that the trend in union-negotiated pension plans is toward noncontributory plans.[1] However, the opposite has been true in public employment. Noncontributory pension plans, prevalent several decades ago, have almost disappeared today. Delaware is now the only State that operates a pension plan for its teachers. In all other States teachers contribute to their retirement systems. The average rate is 5 percent of salary on which income taxes are paid concurrently. Why should the self-employed be permitted 10 percent of their larger incomes tax free merely because they use the money to provide for their retirement?

The self-employed presently have the opportunity of providing for their retirement by purchase of annuities. They, like teachers, could set aside 5 or 10 percent or more of their incomes, if they wish, pay taxes thereon as do teachers, and, like other taxpayers, recover the cost tax free by using schedule E of the income tax return after retirement. In this respect, there is no discrimination under current law against the self-employed. H.R. 10 would create a discrimination in their favor because they would have 10 percent of their incomes tax free at high brackets and pay the tax after retirement on substantially lower rates.

Employees, however, do not have such a differential between earnings and retirement income. Even if the employee's retirement benefit is half pay, his tax rate normally would be lessened by 25 percent at the most. During employment, the typical teacher pays taxes at the surtax rate of 26 percent; after retirement his surtax rate is normally 20 percent. A self-employed, however, is likely to reduce his surtax rate by half after retirement. A self-employed could deduct $2,500 annually from income on which he otherwise might pay taxes at a surtax rate of 59 percent or more, deferring his taxes on these amounts until he can pay on a surtax rate of 30 percent or less.

EMPLOYERS' CONTRIBUTIONS

Proponents of H.R. 10 cannot logically base their charge of discrimination on any other fact than that part of the retirement allowance of employees is paid for by their employers, and that part is not subject to taxes until received in the form of retirement income. However, even this premise is faulty.

Some employees never receive the portion they might expect from their employers. First, when OASI benefits are offset there frequently is no balance except the amount purchased by the employee. Second, the employer's "contribution" to the retirement system is not available to the employee until he actually retires. If he resigns at any time before becoming eligible for a benefit he is not entitled to it; his own contributions are refunded to him. That portion of a teacher's retirement benefit based on public money is not his in any sense until he retires. Rarely is the contribution of the employer to the retirement fund in advance of retirement even credited to an employee's account. Many systems do not make contributions of public funds on behalf of employees before their retirement; these systems either set aside at time of retirement a lump sum deemed sufficient to pay the employer's share of the cost of the employee's benefit based on his life expectancy, or appropriate biennially the amount needed to pay benefits to all on the retirement roll during those 2 years.

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[1] The U.S. Department of Labor has reported in "Digest of One-Hundred Selected Pension Plans Under Collective Bargaining, Winter 1957–58" (bulletin No. 1232, May 1958), that all but 14 of these 100 retirement plans are noncontributory. Three companies have a supplementary contributory retirement plan and two companies give their employees an option of joining either a contributory plan that pays higher benefits or the noncontributory pension plan.

The median benefit payable in these 100 noncontributory pension plans, after 35 years of service, is about $200 a month and varies only slightly according to salary.

Also it might be pointed out that some companies offset social security benefits. For example, one company pays a retirement benefit of $100 a month for 30 years of service reduced proportionately for service between 20 and 30 years, less social security. In other words, this plan is a paper plan only for those whose salaries are such that the social security benefit would amount to $100 a month.

When an employee does remain in service for the 30 or 35 years required to qualify him for retirement, the portion of his benefit paid by the employer is usually only one-half the total since he himself has paid for the other half by his own contributions. Also when he does receive retirement income based in part on his employer's money, he pays income taxes thereon.

RETIREMENT INCOME CREDIT

Proponents of H.R. 10 point to section 5 of the bill as a concession meeting previous opposition to similar proposals. This section excludes from retirement income subject to credit any amount received from a restricted retirement fund or under a restricted retirement policy.

Incidentally, it might be mentioned that policing this exclusion would be most difficult. Even giving taxpayers retired from self-employment all due credit for an honest attempt to report income taxes correctly, many would be uninformed and hence would take full advantage of this credit unaware that the portion of their retirement income derived from enactment of H.R. 10 did not qualify.

Furthermore, exclusion of that portion of the retirement income of successfully self-employed persons would not reduce their credit; actually they are not conceding a penny. Since the credit is applicable to $1,200 only and since their retirement income is likely to be much higher, they can apply the credit against dividends, rental income, and other sources of unearned income other than the annuities purchased tax free under H.R. 10, and still have advantage of the total allowable credit. Since H.R. 10 sets a limit on the amount that can be used for a restricted retirement plan or policy, well-established self-employed persons will use other means of adding to their reserves for retirement. Hence they will have other sources on which to apply the retirement income credit so that excluding the amounts received from their restricted retirement plans or policies is a hollow gesture. Thus the self-employed would be able to deduct contributions to their retirement plans during their high-income years and have retirement income credit on other sources after retirement. On the other hand, income of most retired employees over and above their retirement benefits is negligible.

It might be added that for employees and for self-employed alike, OASI benefits are now consuming most or all of the basis for retirement income credit. Therefore, relinquishing the right to apply the retirement-income credit on amounts derived from plans set up under H.R. 10 would have no effect whatsoever.

PAGE 1 DEDUCTIONS

Finally, the self-employed now have the advantage of reporting on page 1 of their income-tax returns net income after deduction of all business expenses in schedule C. They may deduct even the cost of fresh flowers kept in their offices. Page 1 deductions for employees are narrowly limited; only transportation and cost of meals and lodging while away from home on business are deductible in arriving at adjusted gross income. The employed who have other business expenses must deduct them on page 2 as part of their itemized expenses if these, together with other itemized deductions, amount to more than 10 percent of adjusted gross income.

Thus, a self-employed teacher can deduct instructional materials, professional books and periodicals, convention expenses, etc., before arriving at adjusted gross income and take the standard deduction instead of itemizing page 2 deductions; an employed teacher includes these items with such deductions as for charitable contributions on page 2 of the tax return, provided the total itemized exceeds 10 percent of adjusted gross income. If his page 2 deductions do not total 10 percent he loses his deduction for business expenses. Therefore, the employed cannot deduct their business expenses and still take the standard deduction of 10 percent as can the self-employed. The self-employed have this head start under current law.

On top of that, H.R. 10 proposes to allow the self-employed an additional deduction on page 1 of 10 percent of income up to $2,500. This means that a self-employed person may deduct expenses of conducting his business on schedule C before entering his net income on page 1 of form 1040, take 10 percent off for contributions to a restricted retirement plan or policy, and then take the standard deduction of 10 percent. As a result, a self-employed would pay half as much tax as an employee having the same gross income and the same number of personal exemptions.

For example, take two young men just leaving professional school and having only one personal exemption each. One opens his own office; the other enters employment by a firm. Each earns a gross of $5,000 the first year. The self-employed has expenses of maintaining his office that could cut his $5,000 gross to $3,000 net. He could contribute $300 to a restricted retirement plan and pay $308 taxes on the balance of $2,700. The employed also uses the standard deduction but his tax would be $818. H.R. 10 would give this self-employed person a tax break of $59 the first year and this figure would increase as he becomes established in his profession.

As an example, we may take two established professional men with typical families. Each has a gross income of $25,000 and files a joint return, claiming four personal exemptions. The self-employed would pay $5,500 in taxes under current law, the employed $8,616. But with the 10 percent or $2,500 deduction on page 1 for the self-employed's contribution to a restricted retirement plan, he would reduce his tax to $4,307, a saving of $1,193. Furthermore, these self-employed could contribute toward a restricted retirement plan or policy in years of high income so that they could deduct those contributions and then withdraw in their lean years.

PROPOSALS TO PERMIT EMPLOYEES TO DEDUCT CONTRIBUTION TO RETIREMENT SYSTEMS

Some members of the committee have expressed the fear that if H.R. 10 were enacted pressures would be brought by employees to obtain the right to deduct contributions to their retirement systems. This is undoubtedly true. The committee is certainly aware that already in Congress are a number of bills proposing such deductions. For example, H.R. 1898 and H.R. 3973 would exclude contributions to the old-age and survivors disability insurance program, the railroad-retirement system, and the civil service retirement system. A number of other bills would extend this privilege to members of the civil service retirement system only, but it is naive to believe that such legislation could be enacted without regard for employees in industry and State and local governments. Numerous bills would increase the base on which the retirement-income credit is applicable. We believe these proposals have more merit than H.R. 10 because they would apply to all retired taxpayers.

The economic plight of most retired persons cannot be denied. Some tax relief is essential. It appears to the National Education Association that the Congress might better devote itself to finding some means of helping persons who are attempting to live in old age on meager incomes than to providing a tax bonanza for the self-employed during their high income years.

TOLEDO, OHIO, *June 29, 1959.*

HON. FRANK J. LAUSCHE,
United States Senate, Washington, D.C.

DEAR SENATOR: H.R. 10, to encourage establishment of voluntary pension plans by self-employed individuals, promoted by the American Bar Association, has passed the House and no doubt has been referred to the Senate Finance Committee. It is primarily for the benefit of professional men, although persons engaged in individual enterprise are apparently included.

As you are aware, for a number of years employees of a business have had the benefit of the postponement of the payment of income tax on retirement income savings paid by an employer into a qualified pension, profit-sharing, or stock bonus plan what the employer might otherwise have paid directly to the employee as salary or wages. Such amounts may be placed in a tax-exempt pension trust or paid as premiums on an annuity policy with a life insurance company. In either case, the employer gets immediate deductions for amounts contributed and the employee is not taxable until after he draws down his benefits under the plan and is thus enabled to defer payment of income tax upon the employer's contributions.

I note in the press that the administration is opposed to H.R. 10 because of the loss of immediate revenue. I can envision a sound basis for this objection and also objection as a further trend toward allowing deductions to an additional class of the favored few. This trend is well illustrated by the proposal I am taking the liberty to suggest by way of an amendment.

If corporate executives, members of professions, and entrepreneurs are to be afforded relief by way of deductions from income tax, why should not State employees, most of whom are required by law to contribute a percentage of their salaries to State retirement funds, have like relief? Federal employees, including Senators and Congressmen, fall into the same category. I assume that social security benefits are not taxable.

Like all taxpayers, I am getting awfully tired of paying so much to Uncle Sam. The present general assembly is about to increase my salary from $13,500 to $18,000 per annum for which I am grateful, but instead of realizing $1,500 per month, it will amount to but $900 or $1,000, after the Federal Government takes its bite. On the other hand, of course, I am indeed fortunate to have a position that enables me to live in comfort.

May I take this opportunity to compliment you upon the display of your traditional courage and independence in your votes upon the problems presented. I apprehend that a mossback Republican such as myself will finally break down and once in his life vote for a Democrat for Senator.

With kindest personal regards,

Sincerely,

LEHR FESS.

(Whereupon, at 4:45 p.m., the committee recessed, to reconvene at 10:25 a.m., Thursday, June 18, 1959.)

SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959

THURSDAY, JUNE 18, 1959

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:25 a.m., in room 2227 New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Frear, Smathers, Douglas, Gore, Talmadge, Williams, Carlson, and Curtis.

Also present: Elizabeth B. Springer, chief clerk, and Russell Oram, Joint Committee on Internal Revenue Taxation.

The CHAIRMAN. The committee will please be in order.

Our first witness this morning will be Dr. Roger F. Murray.

Senator CARLSON. Before Dr. Murray testifies, I would like to offer for the record a statement by the Kansas Engineering Society, a resolution in regard to H.R. 10, signed by Mr. Doubrava, the president.

(The document referred to is as follows:)

STATEMENT OF J. A. DOUBRAVA, PRESIDENT, KANSAS ENGINEERING SOCIETY, GARDEN CITY, KANS.

The Kansas Engineering Society, an organization representing the licensed professional engineers of the State of Kansas, duly organized in 1909 with a membership of over 1,200 members, has taken notice of the Keogh-Simpson legislation, H.R. 10, which would permit the self-employed professional engineers within Kansas, as well as other self-employed persons, to set aside a portion of their income on a tax-deferred basis for retirement purposes. The Kansas Engineering Society has as some of its members, self-employed consulting engineers and many others who are considering entering the field of the private practice of engineering. It is on behalf of this group the society desires to express its approval of H.R. 10 and the plan outlined in the legislation.

The Society has taken notice that there is a contention by some that it will cost the U.S. Treasury $365 million annually if the bill is made general in application. To this the society takes exception in that it strongly believes that the timelag following the adoption of the program and when it is put into its full effect will be such a long period that the anticipated revenues lost to the Treasury would not be nearly that which is considered as a maximum annual loss in the first years of the program. In addition, the program is one of a deferred tax to the Treasury and should not be considered entirely as a loss of revenue, except in regard to what tax category and payments the individual is involved when he enters into his retirement period. It is strongly felt with this legislation designed for the self-employed, the professional engineer will be given encouragement to work a longer life period and hence furnish additional revenues to the Treasury.

The society is particularly concerned about the attitude of Congress in giving an additional tax break to small closely held corporations in the last session of Congress where a tax option is given the corporations to be taxed as a partnership. (See tax-option corporations, subchapter S, section 1371–1377). This gave

additional benefits to corporate officers who already have the benefit of pension plans for themselves, but some members of Congress, when considering the welfare of the learned professions and the self-employed, have the attitude that these persons must provide for their own retirement plan without any tax relief while trying to accumulate income during a period of high taxes and high cost of living. The Kansas laws forbid the incorporation of the learned professions, hence there can be no engineering firms practicing professional engineering in Kansas as corporations. Therefore, legislation giving a tax break to closely held corporations could not benefit the Kansas engineers. The prior legislation is looked on as giving the corporate officers of these corporations additional benefits over their already comfortable position. The society believes that if such a program is good for these corporate officers then a program giving a deferred tax break as being considered, is good for the society's members who are in the private practice of engineering. Congress, by encouraging the enactment of the Keogh-Simpson legislation, will be holding down the need for further social security for the professional engineers of the future and give them a much needed tax break in conducting their private businesses in the practice of professional engineering.

The CHAIRMAN. Dr. Murray, you may proceed.

STATEMENT OF DR. ROGER F. MURRAY, S. SLOAN COLT PROFESSOR OF BANKING AND FINANCE, GRADUATE SCHOOL OF BUSINESS, COLUMBIA UNIVERSITY

Dr. MURRAY. Mr. Chairman and gentlemen, I appreciate this opportunity to testify for the American Thrift Assembly representing 10 million self-employed in favor of passage of the Self-Employed Individuals' Retirement Act of 1959. I am S. Sloan Colt professor of banking and finance in the Graduate School of Business of Columbia University. Currently, I am on leave from the university to direct the pension research project at the National Bureau of Economic Research. My testimony, reflecting my study of this proposed legislation over a period of several years, is given as that of an expert on savings and savings institutions and not on behalf of any organization with which I am connected.

The Treasury Department, the chief opponent of this legislation, concedes "that present law does not give self-employed persons tax treatment for their retirement savings comparable to that now accorded to employees covered by employer-financed pension plans." (Testimony of David A. Lindsay, Assistant to the Secretary, June 17, 1959.) The inequity to the self-employed contained in the present Internal Revenue Code, then, is not really in dispute. It seems most useful, therefore, for me to devote the brief time at may disposal to an examination of the Treasury Department's main arguments against adoption of this particular proposal at this particular time.

Senator CARLSON. I think Dr. Murray should identify himself for the record. We should know, I believe, that he is in charge of the Business School of Columbia University.

Dr. MURRAY. I should be happy to do so. I am S. Sloan Colt professor of banking and finance, Graduate School of Business of Columbia University.

Currently, I am on leave from the university to direct the pension research project at the National Bureau of Economic Research. My testimony, reflecting my study of this proposed legislation over a period, is given as that of an expert on savings and savings institutions and not on behalf of any organization—and not, of course, on behalf of either Columbia University or the National Bureau.

The Treasury Department, the chief opponent of this legislation, has conceded "that present law does not give self-employed persons tax treatment for their retirement savings comparable to that now accorded to employees covered by employer-financed pension plans." My quotation is from Mr. Lindsay's testimony of yesterday.

The inequity to the self-employed contained in the present Internal Revenue Code, then, is not really in dispute. It seems most useful, therefore, for me to devote the brief time at my disposal to an examination of the Treasury Department's main arguments against adoption of this particular proposal at this particular time.

At various times, Treasury Department spokesmen have advanced five principal arguments against hte bill. One objection is that the bill does not cover the employees of the self-employed. This is obviously true for the simple reason that such employees already stand to benefit under existing legislation providing for the deferment of taxes on their employers' contributions to qualified pension plans. This encouragement for coverage of the employees of the self-employed is already provided under the Internal Revenue Code. In any event, it is difficult to imagine anything more encouraging to the establishment of such benefits for the employees of the self-employed than to permit the self-employed to have their own retirement programs.

That existing legislation is effective in encouraging the coverage of employees cannot be disputed. In each recent year, coverage under private pension and deferred profit-sharing plans has increased by more than 1 million employees, until now around 19 million are covered compared with less than half this number a decade ago. More than 4 million employees of State and local governments are having tax-free contributions made on their behalf, in addition to the large numbers participating in the civil service, armed services, and railroad retirement systems.

If the Treasury Department is sincerely concerned about the people not now covered by programs other than the OASDI program, it would seem that the extension of the tax-deferment benefit to the self-employed should be welcomed as a plan to encourage supplemental old-age protection to the largest single group not now being reached in increasing numbers. Is it not reasonable to rely upon competition in the terms of employment and existing legislation to assure the continued spread of coverage to the employed?

In the second place, the Treasury has argued that the passage of this bill "might well constitute a precedent for more widespread relief." Specifically, the possibility of a $3 billion revenue loss has been mentioned. Such a figure could be reached by the extension of similar opportunities to employees generally. Is this a real possibility? Should we take it seriously? Or is this no more than a very large "red herring" designed to throw us off the track?

Realistically, as we have seen, employees are negotiating, individually and collectively, the provision of retirement benefits by their employers whenever the situation permits. The problem, of course, is to obtain contributions to a plan, not tax deferment provisions, because they already exist. Why employees should suddenly wish to make their employers' contributions for them is not at all clear to me. Giving employees this privilege, that is, the privilege of making the employer's contribution, is giving them very little indeed. In

reality, the only precedent created by this proposal is the principle that employees of themselves as well as employees of others should benefit from tax deferment on contributions to properly drawn retirement plans, as contemplated in this bill.

In its anxiety to protect the budgetary position of the Federal Government, it seems clear that the Treasury Department has overreached the bounds of logic and reason in order to present a "scare" headline. This same tactic is employed in references to the possibility of employee pension contributions generally being made deductible. But this is clearly not the issue raised by the current proposal. It may be raised and considered separately at some time in the future, but it is in no way involved in the consideration of this bill. The issue in this instance is solely whether the employer's contribution should be granted a tax deferment. In the case of the self-employed individual, it is inevitable that he is both employer and principal employee, but no one is contending that contributions made in the role of employee should receive any tax deferment whatever.

A third comment by the Treasury Department is to the effect that a 10 percent contribution rate represents a relatively high employer contribution. (Incidentally, this is a clear admission that we are talking only about an employer contribution.) Taken by itself, there seems to be something to be said for this point. It is true that only a minority of private pension plans require employer contributions of 10 percent or more of current compensation. But on second glance, the 10 percent may seem to be low.

As a matter of equity, we should be considering here the size of the tax deferment on the employer's outlays for the whole range of supplementary benefits. Thus, we should properly include employer contributions to pension plans plus the cost of group life insurance, savings plans, profit-sharing arrangements, accident and health protection, or any of the other so-called fringe benefits. A ratio of 15 percent or even more for the total tax deferment enjoyed by employed individuals is not at all unusual. Thus, the 10 percent ceiling seems reasonable and appropriate.

Argument No. 4, made by the Treasury Department and other opponents of this legislation, is that this represents "class" legislation; that is, the principal beneficiaries are said to be prosperous lawyers and other professional people in the upper income brackets. This contention deserves careful analysis. With a highly progressive personal income tax structure, it is, of course, self-evident that the application of any uniform pattern of tax deferment will provide greater dollar and proportionate benefits to those in the higher income brackets. But is this a relevant argument? Is not the correct comparison between the successful self-employed individual and the successful employed individual? This bill is designed to place them on approximately the same footing, except, of course, for the limitations in the case of the self-employed. It is designed to remove the economic pressure which is being exerted against working for one's self.

The Treasury estimates purport to show that over 50 percent of the annual tax deferral is received by individuals having adjusted gross incomes of $20,000 a year or more. A year ago, when the proposed dollar limitation on contributions was $5,000, instead of the present $2,500, the revenue loss was estimated at $430 million. But

cutting the dollar limitation in half, the result was to decrease the estimated loss by only $65 million. In other words, only 15 percent of the benefit went to those with incomes above $25,000 and 85 percent to those with lesser earnings. I submit that this fact contradicts the statement that on any basis this is "class" legislation. Furthermore, that top 15 percent has, of course, been eliminated by the reduction in the dollar ceiling to $2,500.

I think that we need to be very careful in interpreting any of these figures on income distribution. The individual who might qualify for the full $2,500 deduction this year may have spent 20 or 30 years of his life earning substantially less than $25,000 a year. His lifetime benefit can hardly be appraised on the basis of his peak earning capacity. The groups classified by income are by no means static, particularly among the self-employed. We are in danger of misreading the facts if we do not recognize this to be true. Furthermore, the breadth of support for this legislation suggests that numerically we are discussing a proposal predominantly for the benefit of middle-income groups.

The fifth and major argument of the Treasury Department is that the proposal should be postponed until "the budgetary situation is more favorable for tax reduction." This argument is based on the assumption that the first-year impact on Federal revenues would be $365 million. I believe that I can demonstrate that this estimate is unrealistic, based on faulty assumptions, and completely lacking in objective evidence of its credibility.

It was stated yesterday that this reduction in revenues would take place in the first year following enactment of the bill. It was not pointed out, however, what this implied in terms of the aggregate amount of funds deposited by the self-employed in restricted retirement plans. We are being asked to consider this bill on the assumption that in the next year or two, self-employed individuals will make payments to restricted retirement plans in amounts of $1 billion a year.

What about this as an assumption of a billion dollars a year? It seems totally unrealistic. Experience shows that it takes many years of aggressive promotion to develop anything like this flow of funds. Because saving habits are slow to change and because new plans require education and personal solicitation, it is a conservative statement to say that this level of deposits under restricted retirement plans for the self-employed is not likely to be reached for 5 years or more. After 5 years of active promotion, the New York Stock Exchange's monthly investment plan for acquiring common stocks shows a total investment of only $112 million, of which some $32 million was accumulated in the fifth year of the plan.

Net sales of mutual fund shares did not top $1 billion in 1 year until 1956, despite many years of aggressive promotion. It took 100 years and wartime inflation to produce a peacetime growth rate of $1 billion a year in mutual savings bank deposits. Despite tax incentives and aggressive promotion, it would undoubtedly take a number of years to generate this volume of restricted retirement plan deposits. A billion dollars in average deposits of, say, $1,000 means that a million self-employed will have to be educated and sold on this new savings plan.

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In the first place, then, it seems clear that the Treasury Department's assumption on the timing of participation is unrealistic. What about the projected extent of participation? I understand that the Treasury Department has made its assumptions without attempting to obtain any information from the self-employed regarding the extent of their interest. However, I can partly remedy this deficiency in the information available to this committee.

Last October we included the following question in a survey of savings habits, and I quote the question: "If you were permitted an income tax deduction on any contributions that you made into a retirement program (up to 5 percent of your annual income), and if these funds could not be withdrawn until retirement to what extent would you take advantage of this opportunity?" The answers from those whose main source of income came from their own business or profession were as follows:

	Percent
None at all	12
Some, but less than 5 percent	9
Full 5 percent	49
Don't know or no answer	29

We can only guess about how many of the 49 percent would have indicated that they would go as high as 10 percent of income in contributions, but we might surmise that it would be well under 40 percent.

Since those in the middle- and upper-income groups are naturally best situated to make restricted retirement plan deposits and since they are also likely to be more conscious of tax benefits without further explanation, we found, as you would expect, an increasing proportion of affirmative intentions as we ranked the respondents in income groups. Among those whose incomes were between $5,000 and $7,500, for example, some 35 percent indicated an intention to use the full 5 percent deduction. This fraction rose to 55 percent for those in the $10,000 to $15,000 bracket and to almost 64 percent for those whose incomes exceeded $15,000. Such were the responses from a group of comparatively thoughtful and well-informed family units. These represent their statements of intention to make use of a 5 percent deduction. How far below the intentions actual deposits might run is hard to say. All we know is that a substantial discount factor should be applied, especially in the absence of a highly efficient selling and collection organization.

The Treasury Department's assumption, you will recall, is that actual deductions will range from 15 percent of the maximum for taxpayers with less than $3,000 of income up to as high as 66⅔ percent of the maximum for those with more than $20,000 of income. Our survey suggests that the Treasury has assumed as actual deductions somewhat more than what people say they intend to deposit. If we allow for the substantial discount to be applied to intentions in order to translate them into actualities, a fair conclusion might be that the Treasury assumptions represent a reasonable projection of the potential participation a number of years hence, after the impact of an aggressive program of education and promotion by institutions seeking to perform this service for the self-employed.

For the first year following adoption of this plan, I would estimate the tax deferral at $75 to $100 million as a reasonable upper limit of

estimate. This would imply savings deposits of $250 to $300 million. In other words, two or three times the aggregate amounts that the monthly investment plan of the New York Stock Exchange has accumulated in 5 years. In the light of the record of experience with savings plans, the time required to make the necessary arrangements to receive deposits, and the results of our survey on the subject, it seems clear that the Treasury Department's estimate of a $365 million tax deferral is unrealistic and inadequately supported by objective evidence. Actual experience is likely to be similar to that in Great Britain where the tax deferral in the second year of a similar plan turned out to be one-sixth of the Inland Revenue's advance estimate. I should add that my estimate is supported by leading economists who have studied the question.

I have devoted my time to a rebuttal of the Treasury Department's arguments because I believe that they have obscured the issues at stake and that they have greatly exaggerated the fiscal consequences of this proposal. I trust that I have established to your satisfaction three major points:

1. This bill does not, in any way, set a precedent for any other form of tax deferral.

2. This bill will remove an inequity to the broad mass of self-employed individuals in their efforts to provide for retirement.

3. The estimates of tax deferral presented by the Treasury Department greatly exceed any probable consequences in the next several years.

I trust that I have succeeded in demonstrating that the Treasury Department's position is not sustainable under close analysis; that there is no reason to be scared of the fiscal consequences of the bill; and that the measure can be considered by your committee on its merits as a method of removing a penalty against working for one's self. In view of the very small impact on the near term budgetary position of relinquishing less than $100 million of tax revenues to which the Federal Government is not equitably entitled, it seems to me that now is the time to act on this long debated proposal.

I appreciate your courtesy, and in view of the fact that I have made a number of positive assertions, I shall be very happy to answer any questions regarding my testimony.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Are there any questions?

Senator SMATHERS. Mr. Chairman, I would like to ask a question.

Dr. Murray, you spoke of the survey which you have made. Was this survey made among the group of professional men, as oral dentists and doctors? What kind of a group did you survey?

Dr. MURRAY. We were surveying a panel of 20,000 members of Consumers Union who were willing to fill out some rather lengthy questionnaires for us on their savings habits. The selection of persons to be surveyed was not ours. It was the membership roll of Consumers Union. Included in that group, as you know, I am sure, are a great many self-employed and professional people as well as a large number of employed individuals. Our sample of self-employed is a random sample. I would say this about our survey: I will confess that it probably had a bias, probably more people responded affirmatively to this qusetion than would be typical of all people in the United

States because almost by definition subscribers to Consumers Union are thoughtful people; they are the kind of people who plan ahead, who budget their funds, who are likely to be systematic savers for retirement or for other purposes.

I would say that in this particular instance, I would concede a bias in the survey. I would say that this bias is in the direction of giving us a higher response rate to our question about whether they would intend to set aside retirement savings than would be true of all self-employed people in the United States.

So, for this purpose, I believe that this is a very conservative statement that I have made as to the degree of response on the part of the self-employed.

Senator SMATHERS. Dr. Murray, yesterday, Mr. Lindsay, representing the Treasury, stated that self-employed people were not so accustomed to retiring at a specific age as were the employed. Apparently, it was his conclusion that the self-employed continued to work for long periods of time after they had passed, we will say, ordinary retirement age. What is your view on it?

Dr. MURRAY. I think that statement is probably true as a generalization—that is, where a man's health is adequate, he may continue in running his own store or running his own particular service activity or perhaps engaging in his profession, perhaps at a slower pace, past age 65, but that there is a tendency for the men to work longer.

I would point out, however, that what Mr. Lindsay did not say is that if this generalization is valid, this of course means that the amount of the tax deferral is bound to be less than his estimate. That is, that when the retirement savings are paid back to the self-employed individual, and when they become taxable to him, they are going to be taxed at higher brackets if he is deriving other income from his activities. So that this phenomenon about which he commented and which I believe is a correct observation, means that over the whole span of this program the amount of so-called loss to the Treasury will be significantly reduced.

The retirement income received by the participant is going to be taxed at higher brackets by reason of the fact that he is earning other income.

Senator SMATHERS. Dr. Murray, yesterday, in answering some questions I directed to Mr. Lindsay, we established the fact that the number of employees who were moving under retirement programs, improved retirement programs, was increasing at the rate of about a million a year. He countered with the statement, however, that the labor force of those eligible to come under pension programs was increasing, I think, at a rate of 2 or 3 million a year. Therefore, rather than there being any increase of employees under pension programs, I guess you could conclude from his statements that there was a decrease. What is your comment on that?

Dr. MURRAY. Well, I don't have at the tip of my tongue the number of additions to the labor force, but my recollection is that it has been running below a million.

Senator DOUGLAS. That's right.

Dr. MURRAY. Senator Douglas nods his head. I am sure then that I am on solid ground.

Senator DOUGLAS. That's correct.

Dr. MURRAY. So that actually, you must be gaining.

One other supplemental point on this: This figure that he mentioned, and I guess he mentioned it again or I mentioned it again, was the increase in coverage under private pension programs. That is the plans of industry in private business corporations.

In looking at total coverage, we should take into account also what is happening in, let's say, Government employment where now typically every new Government employee, whether at the Federal, State or local level government is covered as soon as he satisfies the eligibility requirements, becomes entitled to a pension coverage.

So actually, this function is growing very rapidly. But I think this is difficult. It is difficult for us to deal with this fraction because we are looking at the total labor force as of a moment in time. This counts the young girl who stepped out of high school yesterday and joined the labor force today and went to work.

Now, we know that among the young ladies in all areas of employment there is a very high turnover. In many cases, they are working pending the happy day when they will get married. They do not intend to make a career.

In many pension plans, for this reason, there has been established an eligibility, a waiting period of 2 or 3 years which is commonsense in a way. What is the point of taking time and doing paperwork and putting people on the rolls who are going to be on and then they leave employment and you have simply turned over some paperwork. They have no plan of a career in the organization looking toward a retirement program.

We have a great many workers in the labor force, some of them, of course I feel, very unfortunately situated. I don't know how you would devise a plan for migrant workers. I wish there were lots of things we could do for migrant workers but what I would like to do is do some of the basic things before I start worrying about their retirement coverage.

Senator SMATHERS. Then is it your view that the number of these 32 million pensionless employees would be decreased and that there is substantial progress being made in extending private pension programs to the now pensionless.

Dr. MURRAY. That is correct. Existing legislation provides an orderly systematic way for increasin the coverage of this group. I do not look for that utopian day when everyone will be covered because, for a lot of different reasons, there are a lot of people who will probably not ever be in a situation where they will be covered, but of the people you might say were broadly eligible, this group is increasing, is being increasingly covered, and it is being covered by reason of the competition on terms of employment and existing legislation.

Senator SMATHERS. Do you think there is any validity in the suggestion which was made yesterday to a question that we should require any self-employed who takes advantage of the pending proposal that before doing so that a condition precedent be that he set up a private pension program for his employees? Is there any validity in tying those two together?

Dr. MURRAY. I suppose there is some validity. There appears to be a certain element of equity in it. This, of course, would be intro-

ducing an element of compulsion about it that is not characteristic of most of the legislation in this area which is either permissive or encouraging to the idea. I think one of the—there are problems in an individual developing a retirement program for his employees when, let's say, he has one employee, or he has two or three. This does not fit into the formal framework of the detailed regulations that apply to qualified retirement plans.

I believe the solution for this will come when group plans are established. That is, let's say the plumbers decide that they want to have coverage themselves and they want their helpers to be covered. They would organize a uniform plan. They might well do it through their union, a standard plan under which they could cover every plumber's helper. There, I think, is the kind of development which will occur because otherwise the plumber, when he goes to hire that new helper, the helper says to him, "Well now, what do you provide for me in the way of retirement benefits? I would rather work for the XYZ Plumbing Corp. because they have a plan."

So I believe that the individual plumber is going to say, "I have to meet this competition in the terms of employment. I am going to get my other plumber friends and we are going to devise a program that we can apply across the board." I believe that one of the very strong stimuli to this development would be the passage of H.R. 10.

In the first place, if the plumber is able to devise his own plan to take care of himself, he has not got this resistance that he has had up to the present time. "Why should I do this for my helper when I cannot do it for myself?"

Second, look at the different position that the helper is in, in his own bargaining with his boss. "Boss, you have got a plan; how about me?"

I think that if you want to foster flexibly constructive coverage for the employees of the self-employed, that when you have got the statute on the books here that provides for regular Treasury approved pension programs, and that this step in permitting the self-employed individual to do his own program will provide more stimulus to this development than anything you could possibly think.

Senator SMATHERS. Doctor, let me just ask you one further question and I will be through.

Doctor, are you of the opinion that this present inequity which exists with respect to self-employed is of such magnitude that we should eliminate it even if, in adopting the present proposal, it would mean the difference between a balanced and unbalanced budget?

Dr. MURRAY. I do; I do. I feel on this quite sincerely; I am not a self-employed myself; I have always in my 27 years of business and academic life, I have always been employed by someone else. I have no direct or indirect interest of a personal character in this. I don't get paid for testifying for the American Thrift Assembly. I do this as a voluntary effort and I would say that if you came to me and you said, "Now, Dr. Murray, we propose to do this, but what we want you to do is contribute in your own, on your own tax return, the amount that is required." I would say, "Sir, I am entirely willing as one of the employed group to chip in my share to bring the budget back into balance in accordance with your objective." And the reason why I feel this way, and why I think so many people feel this way is

that we do not like to see economic pressure applied to the individual to go to work for somebody else and on this I suppose I am extra sensitive because I am working with young men in our graduate school of business who are thinking about future business careers and I watch these young men, about half of them are already married when they come to business school, they have family responsibilities—they look at this job over here and that job over there. They like to do what is interesting. They like to do what is exciting. They are not lazy; they are not afraid to take chances. But, they look at their family responsibilities and they say, "Yes, I might like to indulge myself in the adventure of going off on my own but is it fair to my family? I can go and work for the large corporation and I can have all of these economic advantages and protection for my family.

"If I strike out on my own, I cannot do this; I cannot provide that same degree of protection."

I like to think that individual enterprise, that good spirit of adventuresomeness of going out on our own, is not inhibited by this kind of a pressure.

I would like to feel that going out for one's self is just as attractive to these young men as going to work for the large corporation.

This is the reason why I, and I am sure many other people who have thought about this have been concerned about the dynamics of growth and enterprise in our country, are concerned whenever we see pressures build up against that willingness to strike out on your own.

Senator SMATHERS. So that you would then recommend this legislation even though it should result in a further unbalancing of the budget?

Dr. MURRAY. Yes, sir, I positively would. I would believe that your committee could and would deal effectively with any problems such created. I honestly feel, you see, that we have been benefited, I say we, the employed population have been benefiting from self-employed that we are just plain not entitled to.

Senator DOUGLAS. Would the Senator yield?

Any loss on this bill would be made up by plugging some of the loopholes in the tax structure, such as oil and gas depletion allowances, and certain other gross inequities in the tax system.

Dr. MURRAY. Yes indeed, sir.

Senator SMATHERS. In the light of what Senator Douglas says, you would be for it even if the budget were unbalanced? You would naturally prefer that we not unbalance it by bringing in revenue from other sources?

Senator LONG. Will you yield at this point?

Might we not make up the revenue to pay for this in about 10 other proposals, by reversing this high interest rate advocated around here by some Democrats and some Republicans?

Senator DOUGLAS. I am off that team.

The CHAIRMAN. Any further questions?

Senator LONG. How would you feel toward an amendment that would broaden this coverage on this basis: Here are two people, self-employed; one of them has a child going to school, let's say a boy or a girl in college. He cannot afford to set aside money for retirement. He needs it to give his child a chance in life. Why not just broaden

it out so everybody can have the benefit of this reduction rather than just the fellow who can afford to buy the retirement policy?

Dr. MURRAY. I think what you are raising, Senator, is another question.

Senator LONG. You are from the university and I imagine you have some sympathy for people who put their children through school.

Dr. MURRAY. Indeed I have; indeed I have.

I think, however, this is essentially a separate question.

Senator LONG. Let me ask you this: What would take preference in your mind, one man who cannot afford to buy himself a retirement policy because he is trying to give his child a chance in life, or the other man who can?

Dr. MURRAY. Sir, I think the answer is that at different stages in his career he is doing different things with his savings.

I, myself, am facing up to the period of 8 or 10 rough years in educational bills and of course I am very happy that my university contributes 10 percent of my salary for a retirement benefit and I have this. But if I were self-employed——

Senator LONG. If you had a child that needed a chance in life, wouldn't you prefer to take that 10 percent and give your child an education rather than lay it aside for your retirement in the hope that perhaps when your later years came that your child may be able to help you?

Dr. MURRAY. If necessary—well sir, I would prize independence from my child very highly. But I would say this, that for the last 5 or 10 years, hopefully, I would have been making my retirement provision. I would come into this hiatus when, No. 1 priority was my educational outlay. After that young man, in my case, has completed college, I would then hope the opportunity would go back, the opportunity would be to go back and add to my retirement fund because there are two things I want to give the young man. One is, you say, naturally, I prize in my profession above all giving him a good education. The other thing I wanted to do is, I do not want to be a dependent on him.

Senator LONG. Doctor, I think you are ducking the issue. My question is this: Why discriminate against the father or mother who sacrifices to give their children a chance in life? Why discriminate against them?

Dr. MURRAY. Sir, I do not believe this proposal discriminates against him.

Senator LONG. I have a proposal in here to give some tax relief to people who wanted to give their children a college education, give them a little break taxwise. As between the two, why leave them out and take your man who can well afford it to buy the retirement policy—perhaps has no children, doesn't want any?

Dr. MURRAY. Sir, I think that what we are doing is trying to correct an inequity in the area of retirement savings. We are not introducing a new proposal essentially.

Senator LONG. Why create one inequity, why try to meet one inequity by creating a bigger one?

Dr. MURRAY. Sir, I do not feel that this creates a bigger inequity. When you make your proposal on allowing a deduction for income tax purposes for educational expenses, I would be more than happy to serve as one of your most avid and eager supporters.

Senator LONG. Sir, there it is. I don't say you are testifying for it. I have introduced such a proposal. There have been a number of others introduced. You could be testifying for them in supporting them, too. Would you?

Dr. MURRAY. Sir, I think our unfortunate problem is that we have a real tough budgetary situation and we have to take these problems one at a time.

My own feeling is that when we have this tough a problem, what we want to do is to have the tax impact as equitable as possible.

In your case, there is no individual who will get the tax benefit for educational outlay but there are people who get a tax benefit for retirement savings.

Senator LONG. You know that most of the people who are not going to benefit from this thing, self-employed, are people who cannot afford to lay money aside to begin with. They need to support themselves and their families. Why would you want to discriminate against them? Why not give them the tax break that you are going to give the fellow who can afford to buy the retirement policy?

Dr. MURRAY. Sir, I think the person who cannot afford to set aside retirement savings is, as we all know, a very important person and a person in whom we have a great interest.

My suggestion is, though——

Senator LONG. He outnumbers the one you would take care of, you know that.

Dr. MURRAY. Yes, sir. If you count the heads, that is absolutely true.

Now, what he needs and what we are trying to give him in a whole wide range of programs is the kind of training where whatever will help him in enlarging his earning power. He doesn't need tax deductions. He needs earning power, right?

These are the problems.

Senator LONG. He also needs some tax deductions. He needs money any way he can lay his hands on it.

Dr. MURRAY. Sir, the individual—perhaps we are not talking about the same one—but the man who is unhappily earning $200 a month and trying to support a family on it is not a taxpayer. His exemptions exclude him.

Senator LONG. You don't think the ordinary workingman is paying taxes, a man earning $300 and $400 and $500 a month? Don't you think he is paying taxes?

Dr. MURRAY. He is paying certainly indirect taxes. I am talking about Federal income taxes.

Senator LONG. The man making $200 a month? you don't think he is paying income tax?

Dr. MURRAY. It depends on the size of the family, number of dependents, of course. He has got a family of five, he is paying practically no tax if he is paying $5 a year. I have not figured it out.

Senator LONG. Suppose he has a family of two, just himself and one dependent, would he be paying a tax?

Dr. MURRAY. He would be paying a tax, a modest tax. But my point, sir, is that what this man needs, to the extent that we can help him, any of us as citizens and legislators, we want to help him expand his earning power.

Senator LONG. Here is one other point that occurred to me. Let's say here you have got a lawyer—and I happen to be a lawyer myself of a sort, I don't practice now because I am in another business—but let's take the situation of a lawyer. He has got a secretary working for him. Do you think he ought to be privileged to set up this retirement plan and get a 10 percent tax reduction without doing the same thing for that little girl sitting out there typing in the office, or the janitor that is running the elevator and sweeping out the hall?

Dr. MURRAY. I think, as I said before, that there is some equity in saying that this must be done, although I am not sure this is what the secretary wants.

Senator LONG. I am not talking about what she wants, I am talking about the kind of a thing I would recommend. If you are going to do this sort of thing and give a tax break to the lawyer, why not give it to his secretary, and if you insist that he is going to get it, insist that she is going to get it too?

Dr. MURRAY. I am a little reluctant to apply this much compulsion, because we have seen this happen many times.

Senator LONG. And of course that gets you around to the second question. Why make those poor people buy the insurance to begin with if they need the money for more bread, why not let them buy bread with it?

Dr. MURRAY. This is my point. You ask the secretary, do you want a retirement plan or do you want a raise in pay? And a very large number will say—particularly among the young ladies—"Retirement? What are you talking about? I want something to buy a new hat. Give me $3 a week more and I will be happy; don't talk to me about retirement at age 65."

Senator LONG. What I want to know is, if you want a program in here for tax relief, why don't you bring in something which would also benefit the man in the middle income tax bracket and the man in the lower income tax bracket, instead of just the man in the upper income tax bracket? Why discriminate against the rank and file of people?

Dr. MURRAY. How would you define middle income, Senator? Would you say $5,000 to $7,500?

Senator LONG. Did you see Dan Throop Smith's letter about this thing last year?

Dr. MURRAY. Yes, sir.

Senator LONG. His estimate was that less than a third of what he would call the middle income bracket would benefit from it, and of those in what he would call the lower income bracket, which would be the majority, there would be only about 15 percent of them that could take advantage of it; they couldn't afford to; they need the money too much to support their families.

Dr. MURRAY. That is correct, sir. But I would go back——

Senator LONG. Why leave them out? Why not give them the same tax break as this fellow who can afford a retirement program?

Dr. MURRAY. This is only a permissive law; it doesn't provide one single dollar for any individual to put in a retirement savings plan. That is clear. Now, when you talk about—I would say on your question about favoring only the upper income groups, I would say that this law has been, this bill has been amended several times, actually,

to lower the ceiling on the upper income group participation. But in our survey—if you will say, for example, that $5,000 to $7,500 is the middle income group—and certainly we can show many wage earners in that bracket as well as professional and other people—our survey showed, as I mentioned earlier, quite a high response rate, 35 and 40 percent, at least in terms of intentions, expressed a real interest in making use of this. And if you look at the associations that are supporting this bill in large numbers they come from this group.

Senator LONG. I imagine some of the associations are going to change their minds if you take out this requirement that they have got to buy an insurance policy with their tax savings; won't they? This law requires you to buy an insurance policy for retirement, doesn't it? if you are going to get this reduction?

Dr. MURRAY. Either an insurance policy or a restricted retirement trust fund.

Senator LONG. That is the type of thing that an insurance company handles, isn't it? If you are going to take out this requirement and let them buy bread with it, food, meat to put on the table, I imagine that that is going to reduce the incentive of some of these associations to support this thing, isn't it?

Dr. MURRAY. I am not sure I follow your question, sir. The only way you can get the reduction is to put it in the restricted retirement fund.

Senator LONG. But suppose we put this in here, instead of a reduction, if you are not getting enough protein in your diet, you can buy meat with it and get the deduction and put that on the table for the family to eat? If we do that, do you think these associations are going to be as enthusiastic about this thing as they were to begin with, when you make it a requirement that you have got to buy the insurance policy?

Dr. MURRAY. What you are proposing is a general tax reduction.

Senator LONG. Why not?

Dr. MURRAY. I certainly would be happy if it were possible, and I hope it will be possible in the next year or two.

Senator LONG. This proposal is based on the capitalized Treasury analysis that most folks in the lower and middle income brackets won't join in and won't benefit from it, and most of those in the upper income brackets will. My question to you is, if you want to benefit people that are paying taxes, why not start from the bottom and work up rather than from the top and work down?

Dr. MURRAY. Sir, I think that basically my position is that the people in all income brackets who are employed are receiving their benefit already. And we are now talking about giving the same treatment to the self-employed.

Senator LONG. You say all employed people are receiving this benefit?

Dr. MURRAY. Who are covered under pension programs.

Senator LONG. That is just the point. What makes you think that all employers are putting their employees under pension programs?

Dr. MURRAY. Sir, the record shows that they are doing it at the rate of about a million and a quarter people a year, year after year, and have been doing it for 5, 6, 7 years now. And it is still continu-

ing at a very vigorous pace. And this is because the competition in the terms of employment is applying this pressure.

May I make one further comment, sir, on this upper versus lower income question——

Senator LONG. Suppose we amend this thing to say that when an employer has shown that he has put all of his employees under a voluntary retirement program, when he has done it and only then he may include himself under it, would that meet with your approval?

Dr. MURRAY. I think literally including himself under the same plan would create a great many administrative difficulties. Perhaps you would be willing to say that he might establish his own under the terms of this bill provided he has provided coverage for his employees. Would that be a fair statement, sir?

Senator LONG. At a comparable rate?

Dr. MURRAY. At a comparable rate, that is right.

I see no particular objection to that, sir. I am not sure that it is the best way to get on with the job. It may actually delay rather than accelerate coverage of the employees of the self-employed, because you are setting up a whole network of administrative and technical problems. I would guess that it would take the Treasury the better part of a year to prepare the regulations to implement this kind of a proposal.

Senator LONG. Here is one thing that I can't quite get through my mind about this whole proposal, and it occurs to me that we are moving in the wrong direction, maybe we ought to go back and take away the retirement rights that exist for these corporate executives now. But even in a program such as public welfare, when you give money to the people you don't tell them what they shall spend their money for, you recognize that they are privileged to spend it based on their needs. And there is no reward for them spending it for what they need it for, they can buy anything with it, they can buy liquor if they want to, and spend it improvidently, but you recognize what their needs are, and you give them an adjustment according to their needs.

Now, why shouldn't that principle apply here, that if a man pays so much taxes, based upon his situation in life, how much he is making and what his needs are, how many children he has, for example, and based on where he stands in life, measuring against that standard he pays his income tax. Now, why do we want to start setting a standard so that we are going to tell him what he shall do with his income? Where we are going to set conditions on what he does with his income if he is going to get certain tax relief that is generally available?

Dr. MURRAY. Well, of course, sir, we do this now. We say that if a man gives money to charity he may deduct this on his tax return. Or if he buys—if he goes out for a drive in his car and he pays State gasoline taxes, then that is deductible. We have identified in our tax structure a large number of items that are recognized as being deductible for the computation of the net income on which the tax is based. Now, I of course would have to agree with you that in a sense we are saying, "Well, now, in order to get a deduction you must do one of several things, that is, you must give it to charity, you must spend it on a tax transaction, or you must do one of a variety of things." But I think in each case we have some rationale, at least,

or we say as a matter of public policy, I suppose, that we are willing to encourage people to give to charitable causes.

Senator LONG. But the kind of thing you are describing is where a man gives away his money for some worthy purpose, gives away money that he can afford to give to charity, and things like that. But in this instance you are giving a tax reduction to a man for keeping it to himself, which is entirely a different matter. If he is paying a tax to the Government he gets a deduction, sure. In paying a business expense he gets a deduction. In giving something to charity he gets a deduction, naturally. But why give him a deduction for keeping the money for his own benefit?

Dr. MURRAY. It is not a final deduction, as I am sure you appreciate, it is only a deferment. When he gets his own money back it is fully taxable. This is just plain, ordinary taxable income as though it were wages and salaries. All he receives is a postponement of the impact of the taxes on this part of his money that he has taken out of his business and set aside.

Senator LONG. Suppose he dies prior to that time, does he ever pay any income tax on that money?

Dr. MURRAY. Sir, there is a provision—I would hesitate to answer that. I think that someone better qualified than I should answer that question. I believe that the tax is collected.

Senator LONG. It would be just the ordinary inheritance tax, would it not? I would be curious to know what happens if he dies prior to that time. Does he pay any income tax on that money if he dies prior to that time? He wouldn't pay anything but the same inheritance tax that we would pay on the same income to begin with, would he?

Dr. MURRAY. Presumably not.

I wonder whether that was not in Mr. Keogh's statement yesterday.

The CHAIRMAN. The staff advises it is included in his estate, but he does not pay an income tax on it.

Senator LONG. Well, the fact that he has got more money means that he has got more to be taxed in his estate, but he never has to pay an income tax on the money. And of course if he happens to fall in the position of where he doesn't pay any estate tax, he would declare that, too, wouldn't he?

Dr. MURRAY. Sir, perhaps I could answer this from Mr. Keogh's statement:

> If amounts paid on the death of an individual under a restricted retirement policy, the amount not exceeding cash surrender value immediately before death is treated as income co the beneficiaries.

In other words, suppose he buys a retirement annuity with a survivorship benefit for his wife.

The CHAIRMAN. Would you explain that, Mr. Oram?

Mr. ORAM. On page 17 of the bill, subparagraph (D) provides:

> If the individual dies before he attains age 70½ the entire cash surrender value of a restricted retirement policy shall be treated for the purpose of paragraph (1) as amount received under the policy, except to the extent that such value is applied to provide an immediate annuity for his surviving spouse which will be payable for her life (or for a term certain not extending beyond her life expectancy).

Senator LONG. I suggest that the staff prepare a memorandum showing how that would work out in dollars and cents.

Senator DOUGLAS. What is the answer to the question of the Senator from Louisiana? Does he or does he not pay tax?

Senator LONG. Yes and no.

Senator CARLSON. I would submit that the insurance policy is not exempt from taxation based on our present laws.

The CHAIRMAN. I would suggest that the staff submit a memorandum on it.

(The following was subsequently received for the record:)

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, D.C., June 22, 1959.

HON. HARRY F. BYRD,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: During the hearings on H.R. 10 on June 18 the question was raised whether income not taxed because a self-employed person paid the income into a restricted retirement fund or purchased annuity life insurance would completely escape income tax if the self-employed person died. You asked our staff to prepare a memorandum on this point.

Briefly, the bill provides that self-employment income not taxed when it is earned will ultimately be taxable income to someone, when the equivalent amounts are received from a restricted retirement fund or received as the proceeds of an annuity or life insurance contract, whether such receipts occur before or after the death of the self-employed person.

Specifically, with respect to restricted retirement funds, subparagraph (c)(2)(B)(ii) of section 405 (to be added to the code by the bill) provides that the trust instrument must require that if the self-employed member dies before reaching age 70½ the amount of his share of the fund will be distributed within 5 years, or used to purchase an annuity for his surviving spouse. If the self-employed person dies after he is 70½ years old he will either have received (and included in gross income) all the fund, or he will be receiving installment payments from the fund, or be receiving the proceeds of an annuity. Unpaid installments will go to his estate or beneficiary, and in most cases the annuity will be a joint and survivor annuity.

New section 78 provides that money or property received from a restricted retirement fund shall be included in the gross income of the recipient, (unless, under special circumstances, they are otherwise taxed). It also provides that in applying section 72 with respect to the recipient of an annuity no amount allowed as a deduction with respect to amounts placed in the retirement fund shall be viewed as consideration paid for the annuity. Thus, whether amounts are received by the spouse or estate of the deceased person directly from the retirement fund or indirectly through an annuity purchased by the fund, the recipient must include the receipts in gross income, to the extent of contributions to the fund deducted by the self-employed individual and the income thereon during the intervening years. A proper adjustment for any estate tax paid is made, as in the case of any other income received in respect of a decedent.

If the self-employed individual bought a life insurance policy to be converted into an annuity before he became 70½ years old, new section 78(b)(3)(D) provides that the cash surrender value of the policy just before the death of the self-employed person must be included as gross income to the beneficiary, unless the policy proceeds are used to buy an annuity for the surviving spouse. The cash surrender value is what would have been converted into an annuity for the self-employed person had he lived. In substance, it is the sum of the savings element in each premium paid by him, plus interest on those amounts. Only that part of each premium which represents the savings element to be converted into an annuity is deductible by the self-employed person. Thus, by including the cash surrender value in the gross income of the beneficiary all the income not taxed to the self-employed person is taxable income to the beneficiary. If the surviving spouse takes an annuity, only that part of the aggregate premiums which was not deductible (because it paid for the life insurance features) will be viewed as the consideration for the annuity, so there also all previously untaxed income will be taxed to the surviving spouse as the annuities are received.

Sincerely yours,

COLIN F. STAM, *Chief of Staff.*

The Chair will further state that this witness has taken over an hour. We want to have full hearings, but we have 23 witnesses, and at this rate we will be here until 12 o'clock tomorrow.

Senator CARLSON. Will you give me a minute or two?

Dr. Murray, you have been very generous in your responses to the questions. Those responses to the questions of the Senators from Florida and Louisiana recall to my attention some letters I have received on this, because you were discussing the employee-employer relationships and the problems that arise from them. I received a letter from a personal friend of mine, an attorney in Kansas, saying that he supports this legislation, stating that it is fair and equitable, and he hopes to have my support. In the same mail, I got a letter from the stenographer that wrote that letter, and she, too, wrote and hoped that I would support the boss' position, she thought it was fair, it was meritorious legislation. But she reminded me that she is paying $40 a month for retirement, and she hoped this bill would apply to her. Now, how should I write her?

Dr. MURRAY. I would write her in this vein—this may sound facetious, but I am really being serious—"Dear Miss So and So: I was glad to receive your letter in support of the boss' position. I believe that if the boss receives the benefit of this option, you will be in an excellent and strategic position to negotiate with him on a retirement program. I would suggest that you inquire of the boss from time to time whether in fact the bar association has not developed a plan to cover all of you employees of lawyers, and keep after him about your membership until you get it, which will be soon."

Senator DOUGLAS. What do you think the response of her employer would be?

Senator CARLSON. That is the question I was coming to next.

I want to assure you, Doctor, I am not going to write him that because I will get a letter back quick.

Dr. MURRAY. I think that you may have a little friction with the employer. But, you know, looking at it realistically, most employers are learning in their interviews with prospective employees that one of the very first questions that is asked of them is, "What do you provide for me in terms of retirement benefits?" And when the lawyer says, "Sorry, we do nothing," the young lady, if she is good, says "Well, why should I work for him? I can go just down the street and work for the XYZ Bank that has a retirement plan and I don't have to argue or debate about it."

When enough girls go down the street and work for the bank instead of the individual lawyer, he finally comes to the point and says, "Gee, I had just better get something done about this if I am to compete for good staff people."

Senator CARLSON. Doctor, in this case this person is already contributing and paying about $500 a year.

Dr. MURRAY. She is undoubtedly buying an individual and unit policy, which is a very expensive way to save.

Senator CURTIS. Will the Senator yield?

Senator CARLSON. That is all.

Senator CURTIS. Doctor Murray, did you ever live in a small town?

Dr. MURRAY. Yes, I have, part of my life.

Senator CURTIS. I live in a small town of about 2,200 people. Now, about the only way that the employees in that town are going to find themselves in a situation to share in a retirement plan provided by their employer is when one of those independent businesses give up the ghost and is overtaken by a chain. And I am very much committed in my beliefs to the principle that there ought to be a tax incentive for all of our citizens to save money for their own old age. I think it is anti-inflationary, and I think it relieves the pressure which we have in every session of Congress for increasing the costs and benefits of public assistance. But when I go home this fall I know where to find my friends. Along about midmorning they will be in the coffee shop. There is apt to be a schoolteacher there, a bank clerk—and we have no chain banking in my State, they are all local institutions, and many of the villages have banks, they don't have any retirement system—and there will also be a grocery clerk; and the city electrician is apt to be there; and a county official; and an insurance salesman, who has been defined as an employee; the garage mechanic is apt to be there; and the lawyer drops in; and the rest of them turn to me and they say, "Here—why did you vote for a bill that gave to our attorney friend a tax incentive to provide for his old age, and didn't do it for us?"

Now, I commend your position that we should discourage people from wanting to become corporate employees rather than going it alone, but it is equally important that we retard the trend of little businesses. And I do not accept the bureaucrats' definition of a little business as one of 200 employees; I am talking about businesses that provide employment for two or three or maybe up to a dozen people. I think we should do all we can to stop the trend of their selling out to somebody large, because then they can all get retirement programs.

And I think this is one of the real problems that has been posed by your testimony. There was much in your testimony that I could commend you for, but I do not want to take any further time.

Dr. MURRAY. Sir, may I just make this one brief comment. I think that in the case of these small employers—and I am talking about the same group you are, I think—and that is that there are opportunities under existing legislation that are being increasingly taken care of through the use of association-designed plans.

Let me illustrate this from an area that I know particularly well, namely, banking in New York State. New York State has its full share of small communities and small banks with two or three or four or five employees. Now, the New York State Bankers Association some years ago formed a plan. Any employee of any individual bank regardless of size may be covered under this plan. And the membership has grown, and this plan has thrived. Now, there are other opportunities of working through associations. It could be the hardware merchants' association, where you have got a trade association. Wherever you might have participation in group buying which will help bring in many retailers and others, you have the opportunity—and this is under existing legislation—to establish these association-wide qualified pension plans that do offer the facility of covering people one by one in the small organization and in the small firm. It may seem that the addition of a million or a million and a quarter people each year in private employment to the rolls of the covered

employees is a slow pace and it takes a long while to reach out into the smaller towns and the smaller cities. But in my observation, as I have watched over the last decade very, very closely, this pension movement has grown and developed. And the thing that seems clear to me is that the total penetration, the total coverage, is continually spreading, it is reaching more and more of these individuals. And I would say that your response to the group should be, "Gentlemen, years ago the Congress provided the enabling legislation for coverage of employed people. What I did in this last session was to extend this to the self-employed. Now, where we go from here is up to you. It is up to you as individuals in negotiating your terms of employment and in bargaining with your bosses."

Senator CURTIS. Well, I do not want to take further time. I think that that has one thing in it that I can't go along with, and that is this. I believe more strongly in individual responsibility than you do. The welfare corporation is not quite as bad as the welfare state. But it is making it tough on small independent businesses in our economy generally. I think there is quite an area of individual responsibility for one's old age over and above that basic minimum that the public supported systems, such as social security, provide. And what you have suggested as an answer to this situation would not move in the direction of individuals having a favorable business climate to provide for their own old age as individuals.

Mr. Chairman, that is all, I don't want to take any more time.

The CHAIRMAN. Thank you very much, Dr. Murray.

The next witness is Dr. George M. Fister, of the American Medical Association.

Senator CURTIS. Mr. Chairman, may I, at this point, offer a telegram from the Nebraska Dental Association for the record?

The CHAIRMAN. Without objection, the insertion will be made.

(The telegram referred to follows:)

LINCOLN, NEBR., *June 16, 1959.*

HON. HARRY F. BYRD,
Chairman, Finance Committee,
U.S. Senate, Senate Office Building, Washington, D.C.:

Members of Nebraska Dental Association feel Senate bill 1979 would remove some inequities now existing against self-employed individuals and urge favorable action by your committee.

F. A. PIERSON,
Secretary, Nebraska Dental Association.

The CHAIRMAN. Our next witness is Dr. George M. Fister, member of the board of trustees and chairman of the Council of Legislative Activities, American Medical Association.

You may proceed.

STATEMENT OF DR. GEORGE M. FISTER, M.D., ACCOMPANIED BY DR. VINCENT W. ARCHER, M.D., AMERICAN MEDICAL ASSOCIATION

Dr. FISTER. Mr. Chairman and members of the committee, I am Dr. George M. Fister of Ogden, Utah, where I am engaged in the private practice of medicine. I am a member of the board of trustees and the chairman of the Council on Legislative Activities of the American Medical Association. With me is Dr. Vincent W. Archer

of Charlottesville, Va., a member of the American Medical Association's house of delegates and a member of our committee on Federal medical services.

We are here today as representatives of the American Medical Association to express the wholehearted support of the medical profession for H.R. 10, 86th Congress, a bill which, if enacted, would provide a measure of tax equity for the self-employed, including physicians in private practice.

I shall not review or attempt to summarize the provisions of the pending bill since I am sure that you are all completely familiar with the measure. I would like to restate very briefly, however, the history of the support of legislation of this type by the American Medical Association.

In 1948 our board of trustees was apprised of a movement to encourage the enactment of Federal legislation which would enable self-employed persons, including physicians, to provide for their own retirement benefits through the payment of amounts annually from their taxable income to finance retirement plans. The board approved this movement, suggesting that there be a reasonable limitation on such retirement benefits. This action was endorsed by our house of delegates, the governing body of the association, at its meeting in June 1948.

In June 1951, at the annual session of the American Medical Association, three resolutions emphasizing our endorsement of this principle were adopted by the house of delegates. On numerous occasions since that time the house has reiterated this endorsement and has recommended that each member of the association give the matter his careful study and active support.

In the 82d, 83d, 84th, and 85th Congresses, the association, through its representatives, expressed support of this type of legislation before the Ways and Means Committee of the House of Representatives. A similar expression of support was communicated by letter to that committee earlier this year. We have also collaborated closely with representatives of the American Bar Association, the original sponsors of this measure, and other national organizations of self-employed taxpayers who would be covered by the provisions of the bill.

It is the belief of the American Medical Association that physicians, dentists, farmers, lawyers, architects, veterinarians, merchants, and the many others who comprise the Nation's self-employed have long been neglected in Federal tax legislation relating to pensions. Under existing law, corporations are entitled to set aside tax-free money to purchase pensions and annuities for their employees, and millions of employees are benefiting from that arrangement. With high taxes and inflated living costs, it is difficult for the self-employed person to set aside adequate funds for retirement without a tax deferment similar to that available to corporate employees. The purpose of this bill is to eliminate this discrimination and inequity. By extending the tax deferment privilege to the country's 11 million self-employed, this legislation will give them an opportunity during their best earning years to save for their old age.

Unless something is done to make self-employment as financially attractive as employee status, we believe that there is a real danger that many professional men will bypass the private practice of their

profession. A shift away from individual enterprise has become noticeable in the past few years. A continuation of this situation may not only limit individual initiative but may also create a shortage of medical services in certain areas. For example, it could contribute to a maldistribution of physicians since it makes the large city more attractive to the young professional man by providing more opportunities for him to become employed. I am convinced that the enactment of this legislation would make the smaller communities of America better able to compete with the big cities for the services of physicians.

May I add in addition here, the medical educators are beginning to worry about the number and quality of applicants for medical schools.

On the basis of my own observations over many years of practice in medicine, I am convinced that this is one of the factors contributing to the pronounced migration of professional people into urban areas. So, quite apart from the objective of obtaining tax equality with our employed counterparts, we urge you to approve legislation of this type, because it is in the public interest.

This legislation will be of particular benefit to physicians and other professional men who go through a long and costly period of training, and whose earnings are received in a comparatively short period of years when they are subject to high income tax rates.

Under the program proposed in the pending bill, the amount of each person's pension would be determined by his own contributions, without any funds being added by the Government. In addition, the program would have the advantage of not forcing an individual into idle retirement in order to draw upon his pension fund. Most important, it presents an opportunity for the self-employed to provide for their own retirement without undue discrimination.

Because such a law will remove the existent discrimination against the self-employed citizen, the American Medical Association strongly urges its favorable consideration by your committee.

Mr. Chairman, let me take this opportunity to thank you and the committee for allowing us to express the views of the American Medical Association on this important measure. Dr. Archer and I will be happy to answer any questions the committee may have.

The CHAIRMAN. Doctor, I think the Treasury stated that we have seven million self-employed. I notice you say 11 million.

Dr. FISTER. Self-employed? Well, as stated here the number is apparently going up a million a year.

The CHAIRMAN. Are there any questions?

Senator DOUGLAS. Dr. Fister, I have received something like 40,000 communications from citizens of Illinois, asking that we balance a budget. And in checking over the names of those who made this request, I find a very large percentage of them are doctors. Do you join in this desire to balance the budget?

Dr. FISTER. Yes, sir.

Senator DOUGLAS. Now, the loss of revenue which would come from this measure which you advocate would be very considerable, and if there is going to be a deficit it would increase the deficit; and, if the budget is to be balanced, it would probably turn the balance into a deficit. Would you still favor the measure if it threw the budget into a deficit?

Dr. FISTER. Well, sir, I would favor that this bill be considered as providing for equality between the citizens.

Senator DOUGLAS. That isn't quite the question, Doctor. We have to face up to the question of the effect on revenues and on the general financial situation of the Government. Now, suppose this does add to the deficit or create a deficit, if you were sitting in our place would you still favor the bill?

Dr. FISTER. Well, if you are just asking for an unqualified answer, I would say yes.

Senator DOUGLAS. You would say "Yes"?

Dr. FISTER. Yes.

Maybe Dr. Archer would like to answer that.

Senator DOUGLAS. May I ask a further question. If we could, however, pass your bill and give you relief, but at the same time pass a series of bills such as the Senator from Minnesota and I have introduced, closing some of these loopholes and adding perhaps $2.5 billion of revenue, would you favor those?

Dr. FISTER. I would favor, sir, equality in the distribution of this.

Senator DOUGLAS. And you would favor bills which would raise revenues permitting you to get these deductions?

Dr. FISTER. I am not acquainted with the bill; I am not acquainted with the bill. I am not qualified to answer that.

Senator DOUGLAS. Very briefly, we have a series of four bills, one a bill reducing the depletion allowance of oil and gas on a sliding-scale basis, which would raise $410 million. Then we have a proposal to eliminate the dividend tax credit of 1954, which would raise another $410 million. Then we have a proviso that the payment of dividends would be subject to a withholding tax instead of as now being merely reported by the recipient, which we think would save at least $800 million. And then we have a bill to define business expenses more closely, so that you would not be able to get tax credit for a trip to see "My Fair Lady" or a yacht trip or a trip to Utah, and we think that this would save $800 million. Now, if these were passed, we could then pass your bill and also reduce other taxes, and provide certain welfare grants that I am rather interested in, and reduce the national debt. Now, wouldn't you favor that?

Dr. FISTER. I should state that I am perhaps not qualified to answer that question because I am not entirely acquainted with these bills. But I have a great deal of confidence——

Senator DOUGLAS. You are asking us to make a tax sacrifice without providing an alternative. And I would like to have a constructive program which might permit us to do this, if we could only get your support, the support of the great American Medical Association and the American Bar Association.

Dr. FISTER. May I state that I have a great deal of confidence in this committee to make such decision.

Senator DOUGLAS. We are helpless unless we have the support of the public. And if we could have the support of the great American Medical Association and the American Bar Association we might be able to get something.

Dr. FISTER. May I ask Dr. Archer to qualify that.

Dr. ARCHER. First of all, will you pardon my voice, it isn't the Washington weather, it is because I lost a vocal cord 5 years ago on account of a little growth there. So I hope you gentlemen can hear.

First of all, I want to subscribe to what Dr. Fister has already said, that our main objective is righting this inequity, as we regard it. That is a rather deep-seated feeling, and the effects are rather far-reaching, as was pointed out by Dr. Fister. And I have got to go a little deeper in answering the Senator's question in stating my viewpoint on this.

I am, of course, interested primarily in medical education. I have been with the State of Virginia 35 years doing business from the same old stand in a teaching institution. During this time, unfortunately, we have seen the quality of the applicant for medical school slipping. This is true, not only in our own institution, I am glad to say, but also in other institutions, Senator Byrd, so we aren't the only ones that are having this trouble. The dean of Northwestern made that statement.

Why? This business of inequity all along the line is hurting the young man in applying for medical school. It is a long, hard period, as you know, 4 years of college, 4 years of medical school, and up to 5 years of training before they go out and make a nickel. In addition, they are liable for 2 years of military service. Now, we have got to compete in getting the medical students with industry, with science, in all of its branches, which is able to offer these company-sponsored pension plans and so on.

So, in a round-about way I am getting around to answering your question. Yes, sir, I think we should go along with this, even though it means temporarily upsetting the budget.

Senator DOUGLAS. Wouldn't you favor, then, raising supplementary sources of revenue, so that we could give you both your bill and a budget which is balanced?

Dr. ARCHER. Now, Senator, you are out of my domain. I am a physician and an educator, not an economist.

Senator DOUGLAS. Now, Mr. Chairman, may I say this. The response of these two witnesses reminds me of one of the fables of Leo Tolstoy in which he pointed out that an elephant once became sick—and I think elephants sometimes do become sick—and they gathered a group of doctors in to find out what was wrong with the elephant. One man was a specialist on ears and treated the ears of the elephant. Another man was a specialist on feet and worked on the feet of the elephant. I will not go into all of the portions of the anatomy that they had assembled specialists to work on. But one doctor was asked about the nostrils, and he said, "I treat only the left nostril."

Now, you can discuss your particular bill, but we have to consider the whole elephant and the whole country. And if we grant you this concession, and throw the budget out of balance, we are immediately attacked by the medical profession and the bar association for not balancing the budget. And, then, when we search for supplementary sources of revenue, so that we can help you and do other beneficent things, you decline to enter the lists, all you say is "we want ours." Won't you broaden your sense of social responsibility and help us to do some of these beneficent things?

Dr. ARCHER. Well, Senator, I will speak for myself as an individual. I personally would be in favor of some authority other than that vested within the group of the medical association to work out ways and means for accomplishing this end, and present those to the

American Medical Association, and I am certain that the American Medical Association will keep an open mind on all these propositions.

On this tax inequity, and reducing the income and thus possibly throwing the budget out of valance, I feel somewhat in the position of the folks that were having a hard time with the local town budget, and they wanted to reduce the police force even though there was a mild crime wave going on. They needed that additional protection even though it unbalanced the budget.

Senator DOUGLAS. Do you think that this is comparable to providing needed police protection?

Senator MCCARTHY. Will the Senator yield to me?

Senator DOUGLAS. Yes.

Senator MCCARTHY. I would ask the witness whether, recalling the statement the President made about 3 weeks ago urging the medical profession to reduce fees in order to control inflation, the American Medical Association has given any formal recognition to that message, or does it contemplate any answer?

Dr. FISTER. May I answer that, sir?

The American Medical Association in December last year, about 6 months ago, at a meeting in Minneapolis went on record, sir, as favoring reduced fee schedules for aged persons with reduced incomes who are unable to meet medical fees.

Senator MCCARTHY. What has been the consequence of that resolution? Do you have any reports?

Dr. FISTER. What is happening to that, sir?

Senator MCCARTHY. As a result of the passage of the resolution.

Dr. FISTER. I can't give you the exact percentage, but the Blue Shield, which provides insurance of that type in something like 48 States, I think, I can't give you the exact number, has an additional policy which is now available to persons of that group that they may purchase at a reduced premium cost over what has been available. And we have agreed to take care of it.

Senator MCCARTHY. In other words, this would be reflected in the rate which you charge the people?

Dr. FISTER. Yes.

Senator MCCARTHY. This is by agreement with Blue, Cross, Blue Shield?

Dr. FISTER. Yes. I think other insurance companies are also reducing their rates, too.

Senator MCCARTHY. Does this mean that the other fees which you charge are likely to compensate for the special reduced fees which are charged these older persons?

Dr. FISTER. Yes, sir.

Senator MCCARTHY. So that the fact that you have reduced it for those in the older aged bracket doesn't necessarily mean that the overall fees have been reduced?

Dr. FISTER. No, sir.

Senator MCCARTHY. It might very well be that this has been compensated for by an increase to the people in the lower age brackets?

Dr. FISTER. No, I don't see any contemplation of increasing the lower aged brackets.

Senator MCCARTHY. Well, general reports indicate that medical and hospital fees have gone up, and if you have reduced them for

those in the older age brackets, and the other fees have gone up, maybe they have gone up for the lower aged brackets.

Dr. FISTER. Dr. Archer is with the university medical school and hospital. Let him answer that question.

Dr. ARCHER. Our fees at the university hospital have not gone up anything like the cost of hospitalization. I think that there is perhaps one field in which the facts have not been quite clear. The Department of Labor, as was brought out in the reference committee, of which I was a member, does break down the cost of medical care as regards hospitalization, medicine, medical service. And the medical service—I am sorry I didn't bring the figures with me, I have to trust to my memory on that—but the cost of medical service has gone up only about the same as the cost of living, the index of the cost of living, whereas hospitalization and medicines have skyrocketed.

I think hospitalization has gone up about 200 percent, hasn't it, Dr. Fister, in the past decade?

So, medical service, the service of physicians, has not gone up any more than the index of the cost of living.

Senator DOUGLAS. Dr. Archer, I would be very glad if you would submit a memorandum on this point. I know the overall figures but I am not expert on the figures which you have broken down. The overall figures are approximately these, that since 1947–49 the general increase of the cost of living has been approximately 23 percent, but the increase in all of the items of medical care has averaged 49 percent.

Dr. ARCHER. That is right.

(The following was subsequently received for the record:)

CHARLOTTESVILLE, VA., *July 16, 1959.*

MRS. ELIZABETH SPRINGER,
Clerk, Senate Finance Committee,
Washington, D.C.

DEAR MRS. SPRINGER: Several weeks ago, when I testified before the Senate Finance Committee on the Keogh bill, I promised to furnish certain information for the record for Senator Douglas. I was representing the American Medical Association when I testified.

Senator Douglas asked if I would submit a memorandum regarding the cost of medical service in relation to the cost of living index. I knew I had some material at home which I have now been able to locate. The total cost of medical care is up about 50 percent over the base figures established in the index for the period 1947–49. As for physician and dental fees, the Labor Department's consumer price index experts noted that they moved up at a slow rate during the 1938–48 period and since then have climbed at about the same speed as the cost of haircuts, auto repairs, and laundry. The index is up about 24 percent over the 1947–49 period. Physicians' fees are higher than that figure, but the biggest factor in the 50 percent increase has been a 105 percent increase in hospital rates.

I am sorry to have taken this much time to locate the information that I knew I had somewhere in my files.

Sincerely,

VINCENT W. ARCHER, M.D.

Senator DOUGLAS. Excuse me, Senator.

Senator MCCARTHY. I would just add one other point, since the question of inflation was raised.

You are not satisfied that an increase in these costs which correspond to the general increase in the cost of living and the general inflationary rise is a desirable thing?

Dr. ARCHER. I didn't quite get that.

Senator McCarthy. Generally, the doctors are against inflation, so when you say the inflationary rise in your charges corresponds with the general increase in the cost of living, this in itself is not a good thing.

Dr. Archer. We felt as though we had to ride with the times, and that if it costs us more to live, costs more to operate our offices, and so on, that we, in turn, had to increase our charges. But, as was shown by the figures, they are not out of proportion with the general increase.

Senator McCarthy. I raise this point only to support Senator Douglas' position, that we need the help of all the people if we are going to stop inflation and balance the budget.

This is the same argument that the steelworkers are making in their negotiations, why should we make the sacrifice? The steel industry is saying the same thing on their part, why should we make the sacrifice? In other words, all of us move along together.

I have one other question.

In the course of my campaign last fall, there was only one issue raised against me by the medical association out home, and that is that I hadn't supported H.R. 9 and H.R. 10 as enthusiastically as I should have. Was this the only issue in which the medical association was interested last fall or not?

Dr. Fister. The only issue being H.R. 9 and H.R. 10, sir?

Senator McCarthy. Yes.

Dr. Fister. Well, I can't particularly speak for your State, we have other legislative problems, but I think this was the principal one.

Senator McCarthy. I have a record of 10 years in the House, and the only issue that was raised against me was H.R. 9 and H.R. 10, and nothing negative on anything else. And I was very much surprised. And I would have thought the medical interests might have been somewhat broader if they were going to get involved in the political elections of last November.

Dr. Fister. I might say that I think it is broader.

Senator McCarthy. What are some of the other issues in which they are interested?

Dr. Fister. We might state that we are roughly interested in all legislative problems, and have been, that pertain to the practice of medicine or that pertain to any aspects of the dispensing of medical care.

Senator McCarthy. I say, having made a record in support of medical research, and Hill-Burton, and all the other issues that have been raised in 10 years, this one issue was singled out, and it was the only one that was given any attention by the medical association in the State of Minnesota.

Dr. Fister. We recently testified, sir, very strongly in support of international research for all people.

Senator Douglas. May I ask the Senator from Minnesota a question?

Senator McCarthy. I don't say that you haven't shown any other interest, my question goes to the interest you showed in the course of the campaign.

I yield.

Senator DOUGLAS. I was going to ask the Senator from Minnesota, Did the Minnesota Medical Association ever give you during the campaign any praise for your support of research and Hill-Burton?

Senator MCCARTHY. As far as I know, nothing.

Senator DOUGLAS. Because you voted against the Keogh bill?

Senator MCCARTHY. I hadn't quite voted against it, was what disturbed me mostly.

Senator DOUGLAS. You mean you had not been as enthusiastic in support of it as the American Medical Association had desired?

Senator MCCARTHY. That is right.

Senator DOUGLAS. And did the Minnesota Medical Association carry on a campaign against you?

Senator MCCARTHY. I don't know whether I could quite say it was a campaign, but at least the information was out. There was some relatively formal action by the organization.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Dr. Archer, I just wanted to ask one or two questions, because I am vitally interested in the Kansas University Medical Center in Kansas City, which is one of the finest in the State. When Franklin Murphy, who is now a chancellor at the university, was in charge, I hoped that we were going to get some buildings, and I followed it with interest. As I listened to you, I thought I understood you to infer that this legislation would be helpful in the future in securing students for the medical profession. Now, are you able to take care of all the students that apply to go to the medical school of the University of Virginia?

Dr. ARCHER. Well, sir, we are admitting full classes, but—and I hate to say this—but the standard, as shown by the aptitude tests and college tests of various kinds, has gone down, so that we are not getting on the average as high a type of medical student in the lower echelons as we would like to get to fill the entire class.

I know what is in your mind about the enlargement of existing medical schools, the building of new medical schools. I think I read between the lines there. And I, for one, in medical education feel that you are perfectly correct in expecting that there is, and will be, with our increase in the aging population, need for more medical care and a need for an increasing doctor population.

How this is to be done, by expansion of existing schools, the building of new schools, or how, I don't know. But it is something all of us who are in medical education are thinking about.

Of course, one problem right now, as Dr. Fister is perhaps more aware than I am, is the maldistribution of doctors. Doctors tend to congregate in the urban areas such as Kansas City. They don't tend, so many of them, to go out into the rural areas because it is hard to make a living out there, and they lack the opportunity of frequent charging of their mental batteries at the medical school. So, I don't know what the final answer is going to be. But I, as an individual who has been tremendously interested in medical education, feel that we must educate more doctors. But how that is to be done is in the lap of the gods.

Senator CARLSON. May I inquire again, are you able to take all of the students that want to attend your school, that want to enter the medical school of the University of Virginia?

Dr. ARCHER. All of the qualified ones, or the unqualified ones.

Senator CARLSON. Where do you draw the line as to qualifications? Have you got some standard by which you reject about 25 or 50 percent of the boys who want to attend medical school?

Dr. ARCHER. It is hard to say, because so many of them make multiple application. We are, according to the admissions committee, able to take all of those we feel will go through the 4 years without falling by the wayside, yes, sir.

Senator CARLSON. I am very happy to hear that. Hardly a week goes by that I don't get a letter from someone in Kansas urging me to write Dr. Murphy and hoping that their boy can attend school. And we have a real serious problem in that situation. So I can assure you there is no shortage of students, and I think they are very outstanding, we are proud of that school. And I don't need this legislation to encourage boys to go to school at the present time.

I am not saying that this has nothing to do with it, but I don't think you should make the point, at least as far as your institution is concerned, that you need it to get students to attend medical school, because we just can't take care of them, that is all there is to it.

Dr. ARCHER. May I answer that, Mr. Chairman?

I have been around the University of Virginia as man and boy since 1914, and I have taken occasion to fiddle around—I used to be in athletics, and since I was, some of the boys came around and talked to me as kind of a counselor, and they asked me how about the future, do you think they ought to go into medicine and so on. And there was doubt in their minds, at least, the ones in our institution. And, of course, science, for instance, the American Association for the Advancement of Science, they are engaged in a definite recruitment campaign, and it is hard to compete against that. We, in medicine, are thinking about putting on the same type of campaign, and I am certain, sir, that it does enter into it. How much I can't say.

Senator CARLSON. Doctor, this is one field that I have been greatly interested in, and that is why I got into this little discussion with you. And I trust you are familiar with the rural health program that we passed in Kansas when I was Governor. And we have some very outstanding rural areas out there now—we had 26 to 30 counties in our State that didn't have a doctor, and we have practically eliminated that situation by the cooperation of the medical center, and we are very happy about it. And if you have some problems along that line—and I am sure you are familiar with it—I would be glad to have you look into it.

Dr. ARCHER. I have talked to Frank Murphy about that thing not so long ago. We have done the same thing with our placement program in Virginia, but the fact still remains that in certain localities there is a shortage.

Senator CARLSON. That is all.

The CHAIRMAN. The Chair would like to say that Dr. Archer has done some very wonderful work in the State of Virginia, and he is one of the most highly respected men in the State. Thank you, gentlemen.

The next witness is Mr. Frank G. Dickinson.

STATEMENT OF FRANK G. DICKINSON, CONFERENCE OF ACTUARIES IN PUBLIC PRACTICE, BRONXVILLE, N.Y.

Senator DOUGLAS. May I say, Mr. Chairman, that for many years Dr. Dickinson was a citizen of Illinois but we lost him to New York. He is a very able economist, and I am sure we are glad to have him.

Mr. DICKINSON. Thank you, Senator. I am Frank G. Dickinson, 1225 Midland Avenue, Bronxville, N.Y., representing the Conference of Actuaries in Public Practice (suite 1300, 10 South La Salle Street, Chicago, Ill.), I am a member of its committee on legislation. You may have noticed in the hearings of the House Committee on Ways and Means on the predecessors of H.R. 10 (starting with the hearings on the Reed-Keogh bills—H.R. 4371 and H.R. 4373—held on May 13, 1952) that I have presented more pages of testimony than any other person. I wish to stress, however, that I do not speak today for the American Medical Association; and obviously I do not speak today for my present employer, the National Bureau of Economic Research (261 Madison Avenue, New York 16, N.Y.).

Members of our small conference are engaged in pension consulting work for private and public pension plans of many types. Probably as many as 10 million executives and employees are covered by those plans. Our conference urges the approval of the Keogh-Simpson bill now before you but would like to suggest some changes in the dollar limits of H.R. 10. Our alternative limits may be called the 1 percent or a dollar-a-day limits.

Others have presented during these hearings today the basic reasons for eliminating the existing pension tax discrimination against the self-employed who, like their employed counterparts, grow old and feeble. In an era of fringe benefits it should not be an economic sin to be self-employed as are most of the members of our small conference. My task today, however, is to present an alternate set of limits for H.R. 10 rather than the basic arguments for pension tax equality for the self-employed. We do support H.R. 10 if the committee sees fit, after careful study, to reject our substitute proposal on the limits.

The limits in the bill—10 percent of self-employment earnings but not more than $2,500 in a taxable year, and $50,000 in a lifetime—can be improved. These limits grew like Topsy. In the 1952 version, the limits were copied from other sections of the Federal Revenue Code. Subsequent reductions in the limits should not obscure the obvious fact that the limits in H.R. 10 are a hodgepodge to students of pension plans. I, myself, contributed to this patchwork quilt effect in 1952 when I urged the House Committee on Ways and Means to adopt a lifetime limit of $150,000 (20 times the annual limit of $7,500). (Unfortunately, a reduced lifetime limit is still in the bill although the reduction in the annual dollar limit from $7,500 to $2,500 provides the restraint originally obtained by the lifetime limit of $150,000.) My excuse then was that a true pension approach would require a complete overhaul of the limits.

The CHAIRMAN. I am sorry to interrupt you, Mr. Dickinson, but the Senate is voting on an appropriation bill and we are going to have to recess until 2:30.

(Whereupon, at 12:20 p.m. the committee recessed to reconvene at 2:30 p.m.)

AFTERNOON SESSION

Senator FREAR (presiding). The committee will come to order.

Mr. Dickinson, will you continue with your statement where you left off when we recessed?

STATEMENT OF FRANK G. DICKINSON—Resumed

Mr. DICKINSON. Mr. Chairman, I was in the process of describing how the limits in H.R. 10 are developed over the years, and had used the phrase "hodgepodge," and had admitted that I was partially responsible, because I suggested the original lifetime limit.

My excuse was that a true pension approach would require a complete overhaul of the limits. At the hearings before the House Ways and Means Committee on June 27, 1955 (Jenkins-Keogh bills, H.R. 9 and H.R. 10) I submitted the "Ninth Decile" limits for committee study as a substitute set of limits. So the limits in the bill before you are still a conglomerate result of the interaction of many minds.

What is wrong with the limits? (1) They suggest to those who do not know that the employer's annual contribution on behalf of one employee may exceed $25,000, that H.R. 10 is a rich man's bill, which it most certainly is not. (2) The limit is on the annual amount upon which the tax will be deferred until retirement, whereas current practice in pension planning would place an annual limit on the amount of the pension (starting at age 65, 68, or 70) which could be purchased in the taxable year with tax deferred income. (3) The limits in H.R. 10 are not like those in most pension plans and suffer from easy comparability with popular private and public pension plans. (4) The fourth major defect of the limits in H.R. 10 is that they are unfair to self-employed women whose pensions cost more because they live longer than men.

Now, as to the limits, which I am proposing here today.

Our proposed substitute limits, Mr. Chairman, would eliminate these four major defects in the limits of H.R. 10 and decrease slightly the potential, temporary revenue loss; but without changing any other parts of the bill. Under our substitute limits a self-employed man or woman could set aside in one taxable year the amount required to purchase in one sum an annual pension starting at age 65 (or later if he or she is past age 65) equal to 1 percent of that taxable year's self-employment earnings. You may think of it as one pension layer. At age 45 a man who had self-employment earnings of $5,000 could defer pension taxes on $350 which my tables indicate will completely finance a pension of $50 a year—not a month—starting at age 65. The self-employed woman at age 45 could set aside $4,100 of her $5,000 of self-employment earnings as that amount is required by my tables to completely finance a pension of $50 a year for her starting at age 65.

So much for the "1 percent" in our proposed limits. What about the "$1 a day" part? The pension layer starting at age 65 (or higher age for a person already past 65) financed in one taxable year could not exceed $365 a year or $1-a-day. Since 1 percent of $36,500 is $365 our proposed limits would make annual self-employment earnings in

excess of $36,500 beyond the scope of the 1 percent limit. We do not propose a lifetime limit.

What about the special rule in H.R. 10 for persons who have attained age 50 before the effective date of this proposed legislation? For those at age 51 our proposed limit would be raised from 1 to 1.1 percent; at age 55, from 1 to 1.5 percent; at age 60 or higher age, from 1 to 2 percent, the absolute maximum. But the limit of $1 a day would not be increased for those who have already attained age 50.

In summary, our proposed substitute limits of "1 percent or $1 a day" does not sound like a rich man's bill, the limits are properly placed on the amount of the pension benefit, they read and sound like many pension plans, and they will appeal to self-employed women. In general, these proposed limits would increase somewhat the annual amounts on which pension taxes could be deferred by women, by older men and women, and decrease the amounts for younger men and women. I estimate that the overall result would be a slightly lower loss of revenue than H.R. 10, I would expect the revenue loss to be about $50 million the first year, $75 million the second year, and then rising to a higher level.

Mr. Chairman, may I be a little sharper. Our proposed limits resemble those of the civil service pension plan covering members of the Senate and the House. Yours is a good plan—2½ percent as compared with our proposed 1 percent. Moreover, no self-employed person under our proposed limits could come close to your absolute limit of a pension of $18,000 a year.

Now, I have some additional materials here.

My testimony here today includes so many figures and details that I hesitate to read the seven pages and three schedules prepared by two of our officers, Edward D. Brown Jr. and Donald F. Campbell, with my collaboration. The seven pages set forth changes in the language of H.R. 10 required to substitute our proposed limits of "1 percent or $1 a day" for the 10 percent, $2,500 and $50,000 in H.R. 10. The three pages of tables provide numerical comparisons of the limits in H.R. 10 with our proposed substitute limits. Mr. Chairman, I prefer to file these 10 pages which are physically attached to your copy for publication in the hearings. May I do so?

Senator FREAR. Without objection, it is so ordered.

(The material referred to follow:)

PROPOSED ALTERNATIVE PROVISIONS TO THE LIMITATIONS OF H.R. 10 (THE KEOGH BILL) THE 1 PERCENT OF EARNINGS OR A DOLLAR A DAY PLAN

The limitations contained in the Keogh bill as passed by the House July 29, 1958, provide a maximum allowable deduction expressed as a percentage of earnings from self-employment, and additional limits, expressed in dollars, on the maximum allowable deduction in any taxable year with aggregate lifetime deductions. These limitations are imposed on the amount of contribution, and have no relation to the retirement income resulting from such contributions upon reaching retirement age. Sound retirement planning requires a definite relationship between contributions and benefits.

This proposal relates the amount of contribution to the amount of income which may be provided at retirement. It may be termed the 1 percent of earnings or a dollar a day plan. It is a simple and easily understandable plan. The basic objectives of the plan can be stated as follows:

First objective: To provide for an annual retirement income at age 65 equal to 1 percent of average net annual earnings for the entire period of self-employment multiplied by the total number of years as self-employed for an individual

who sets aside the maximum allowable deduction for each year during the entire period of self-employment.

Second objective: To provide a retirement income formula that parallels the retirement income formulas used in the vast majority of qualified pension plans.

Third objective: To provide an increased deduction for individuals over age 50 on the date the law becomes effective in order to compensate to some extent for the period during which they were not entitled to such deduction.

Fourth objective: To provide somewhat greater retirement incomes for individuals who continue in active self-employment after age 65, but not beyond age 70.

Fifth objective: To provide a maximum amount of retirement income that an individual could provide for himself.

Sixth objective: To set up an easily understood retirement plan based on information contained in the individual's annual income tax return for easy income tax reporting in the normal manner and for ready verification by the Treasury Department.

Most pension plans for industry and public employees provide for the accumulation of retirement income credits which are generally related to the income of the persons participating in the plan. Where pension credits are related to current earnings the normal range of the amount of the credit each year is from 1 to 2½ percent of earnings in the current year. Many plans provide a formula based on earnings over the last 5 years of employment or the 5-year period when compensation was highest. Such plans generally provide pension credits ranging from 1 to 1½ percent of the average annual income for the 5-year period multiplied by the number of years of service.

The 1 percent of earnings or a dollar a day plan provides for an allowable deduction equal to the amount required for the purchase of deferred retirement income in any year up to a maximum amount required to purchase an annuity to begin at age 65 equal to 1 percent of the net earnings from self-employment during the taxable year.

There are two limitations under this proposed plan, as follows:

1. The first limitation limits the maximum amount deductible in any taxable year to the amount required to purchase a life annuity beginning at age 65, or at the attained age of the individual during the taxable year if greater than 65, in an annual amount equal to 1 percent of the earned net income from self-employment. The cost of the annuity would be based on the assumption that interest would be earned on the amount set aside at 2½ percent per annum, and that the annuity would be purchased at net rates on the basis of the 1937 standard annuity table with 2½ percent interest. This table is the mortality standard used by the Treasury Department in computing the expected returns for annuities. It is also used by many life insurance companies for computing the cost of annuities.

2. The second limitation provides that the maximum amount deductible in any year shall not exceed the amount required to purchase an annuity of a dollar a day or $365 per year beginning at age 65, or at the attained age during the taxable year if greater than 65.

It is customary in corporate pension plans to provide a more rapid rate of accumulation of pension credits for those of advanced years when the plan is initiated in order that a reasonable adequate retirement allowance can be attained when the employee reaches retirement age. 217(b)(2) in H.R. 10 recognizes this practice.

Under the 1 percent of earnings plan a self-employed individual could make retirement deposits in an amount sufficient to purchase a life annuity equal to 1 percent of net earnings beginning at age 65, or at the attained age in each year, if greater than 65, and in the case of an individual over 50 years of age at the effective date the amount deductable would be increased by 1/10 for each year of age in excess of 50 years, but not more than twice such amount.

For example, an individual age 55 at the effective date could deduct an amount equal to the cost of an annuity of 1½ percent of net earnings, to begin at age 65, in each of the first 10 years after the effective date. If he continued to work after age 65, he could deduct an amount equal to the cost of a life annuity to begin immediately 1½ percent of net earnings for each year worked after age 65 up to and including the taxable year in which he reached age 70. An individual 60 or over at the effective date could deduct the amount required to purchase an annuity equal to 2 percent of net earnings in each year.

In order to illustrate the 1 percent of earnings plan three schedules are attached hereto.

Schedule I gives in table form the maximum percentages allowed in any one year for individuals under age 50 on January 1, 1959. The percentages represent the percent of a self-employed individual's net earnings which if set aside as a retirement deposit at the age stated would provide for him upon his attainment of age 65, or immediately if over age 65, an annual life annuity equal to 1 percent of his net earnings with the costs computed as proposed herein.

It will be noted that for male persons the maximum percentages range from 4.27 percent at age 25, 7 percent at age 45, 8.96 percentage at age 55 to a maximum of 11.47 percent at age 65. These can be compared to the 10 percent limit contained in H.R. 10.

Schedule I shows an increase in the percentage cost of the life annuity to begin at age 65, for each year of increase in the taxpayer's age up to age 65. Such increase is necessary in order to provide the same accumulated sum at age 65 resulting from payments made at the older ages as the smaller payments made at the earlier ages would accumulate to by reason of interest earnings over longer periods of time.

Payments made in the years during which the individual is over age 65 would be in decreasing amounts because of the individual's decreasing life expectancy and the assumption that the annuity would be entered upon immediately.

Different limitations for male and female lives are necessitated by the use of the 1937 standard annuity table.

Schedule 2 illustrates the maximum possible deductions in dollar amounts for certain specimen ages for individuals under age 50 at January 1, 1959. The amounts shown in schedule 2 are the amounts required to purchase a life annuity of $365 per year beginning at age 65 or at the attained age if greater than 65. For comparison, we have also included the maximum deductions under H.R. 10.

The maximum amount shown in the schedule would be available only to an individual with self-employment income of $36,500 per year or more.

Schedule 3 shows the maximum deductions possible under 217(b)(2) for selected persons over age 50 at January 1, 1959, including for comparison the corresponding maximum deductions under the corresponding section in H.R. 10.

In order to put the 1 percent of earnings plan into effect the provisions of H.R. 10 could be modified by substituting the following material to replace section 217(b).

"(b) LIMITATIONS.—

"(1) ANNUAL LIMIT.—Except as provided in paragraph (2), the amount allowable under subsection (a) to any self-employed individual for any taxable year shall not exceed whichever of the following is the lesser:

"(A) The net amount required to provide a life annuity in the amount of $365 a year with such annual life annuity to begin upon the self-employed individual's attainment of age 65, or at the attained age if older than 65 in the taxable year, with the cost of such annual life annuity computed in the same manner as provided in (B) immediately following.

"(B) A percent of his net earnings from self-employment (as defined in subsection (d)) which amount if accumulated with interest at the rate of 2½ percent per annum compounded annually from the age in the taxable year in which the deduction is to be made to the age when the annuity is to begin, shall be equal to the amount required to provide an annual life annuity, payable monthly, beginning at age 65, or at his attained age during the taxable year if older than age 65 during such year, of an amount equal to 1 percent of his net earnings, with such annual life annuity computed on the basis of the 1937 standard annuity table with interest at the rate of 2½ percent per annum.

"(2) ANNUAL LIMIT FOR INDIVIDUALS ATTAINING AGE 50 BEFORE 1959.—In the case of any individual who attained age 50 before January 1, 1959, the annual limit for the taxable year provided by paragraph (1) shall be increased by one-tenth for each full year of his age in excess of 50, determined as of January 1, 1959, but not to exceed twice the annual limit provided by paragraph (1)."

Delete paragraphs (3) and (4) of 217(b).

It should be made clear that the amounts of annuity as defined in the proposed amendment to 217(b) do not necessarily represent the actual amount of annuity which would be received by the individual claiming the deduction. The inclusion of this procedure is for the purpose of establishing the amount which may be claimed as a deduction in any taxable year. The cost of administering

the restricted funds will reduce the amounts available for retirement income so that a smaller annuity than that assumed under 217(b) might result. If, however, retirement was postponed beyond age 65, the amounts so deposited would have a longer period of accumulation and might purchase a greater amount of annuity than the amount determined under 217(b).

A schedule of the maximum amounts deductible under 217(b) and under the special rule could be included in the regulations and in the instructions for filing the income tax return, which would greatly simplify computation of the amount deductible and determining whether the return had been filed correctly under the proposed limitations.

It is our belief that this proposal meets the basic objectives of the Keogh bill, that it tends to eliminate the existing discrimination against the self-employed in providing retirement benefits for their old age, and provides a means whereby the self-employed may at their own expense provide a reasonable retirement income for themselves comparable to the minimum benefits available under the vast majority of approved pension plans, thereby adding strength and stability to the whole pension fund movement.

SCHEDULE 1.—*Maximum percentages allowed individuals under age 50 on January 1, 1959*

Percentage of a self-employed individual's net earnings which if set aside as a retirement deposit at the age stated would provide, upon attainment of age 65, or immediately if older than age 65 in the taxable year, an annual life annuity equal to 1 percent of his net earnings.

Age in taxable year	Male	Female	Age in taxable year	Male	Female	Age in taxable year	Male	Female
	Percent	*Percent*		*Percent*	*Percent*		*Percent*	*Percent*
25	4.27	5.02	41	6.34	7.45	57	9.42	11.06
26	4.38	5.14	42	6.50	7.64	58	9.65	11.34
27	4.45	5.27	43	6.66	7.83	59	9.89	11.62
28	4.60	5.40	44	6.83	8.02	60	10.14	11.91
29	4.72	5.54	45	7.00	8.22	61	10.39	12.21
30	4.83	5.68	46	7.18	8.43	62	10.65	12.51
31	4.96	5.82	47	7.36	8.64	63	10.92	12.83
32	5.08	5.97	48	7.54	8.86	64	11.19	13.15
33	5.21	6.11	49	7.73	9.08	65	11.47	13.47
34	5.34	6.27	50	7.92	9.30	66	11.08	13.07
35	5.47	6.42	51	8.12	9.54	67	10.70	12.67
36	5.61	6.58	52	8.32	9.77	68	10.31	12.26
37	5.75	6.75	53	8.53	10.02	69	9.94	11.87
38	5.89	6.92	54	8.74	10.27	70	9.56	11.47
39	6.04	7.09	55	8.96	10.53			
40	6.19	7.27	56	9.19	10.79			

Example: If a male individual's net earnings were $6,000 in a taxable year in which he was age 50, he could set aside a maximum of 7.92 percent of $6,000 or $475.20 in that year. This amount would provide for him a life annuity of $60 (1 percent of $6,000) to begin upon his attainment of age 65.

SCHEDULE 2.—*Maximum dollar amount of deductions under 217(b) (1) (A) in year for individuals under age 50 at January 1, 1959*

Age in taxable year	Under proposed amendment		Under H.R. 10
	Men	Women	
25	$1,559.28	$1,831.57	$2,500
30	1,764.41	2,072.47	2,500
35	1,996.19	2,344.76	2,500
40	2,258.62	2,652.82	2,500
45	2,555.37	3,001.40	2,500
50	2,891.17	3,395.60	2,500
55	3,271.13	3,841.99	2,500
60	3,700.74	4,346.79	2,500
65	4,187.28	4,918.01	2,500
70	3,489.77	4,187.28	2,500

The above amounts represent the cost of an annuity of $365 per year to begin at age 65 or the age in the taxable year if greater than 65. These amounts of deduction would be available only to persons with net earnings of $36,500 or more in the taxable year. If net earnings in the taxable year are $25,000 or less, the comparative amounts deductible under the proposed plan and under H.R. 10 would be in the same proportion as the percentage in schedule I for the age in the taxable year bears to 10 percent.

SCHEDULE 3.—*Maximum dollar amount of deductions in year under sec. 217(b)(2) for individuals over age 50 at Jan. 1, 1959*

Male lives

Age in taxable year	Age at Jan. 1, 1959 55		Age in taxable year	Age at Jan. 1, 1959 65	
	Proposed	H.R. 10		Proposed	H.R. 10
55	$4,906.70	$3,750.00	65	$8,374.56	$6,250.00
56	5,020.34	3,750.00	66	8,089.13	6,250.00
57	5,154.71	3,750.00	67	7,808.08	6,250.00
58	5,283.92	3,750.00	68	7,528.49	6,250.00
59	5,415.87	3,750.00	69	7,254.01	6,250.00
60	5,551.10	3,750.00	70	6,979.53	6,250.00
61	5,690.17	3,750.00			
62	5,832.52	3,750.00			
63	5,978.15	3,750.00			
64	6,127.62	3,750.00			
65	6,280.92	3,750.00			
70	6,234.65	3,750.00			
	Age at Jan. 1, 1959 60			Age at Jan. 1, 1959 70	
60	$7,401.47	$5,000.00	70	$6,979.53	$7,500.00
61	7,586.89	5,000.00			
62	7,770.69	5,000.00			
63	7,970.87	5,000.00			
64	8,170.16	5,000.00			
65	8,374.56	5,000.00			
70	6,979.53	5,000.00			

The above amounts represent the cost of an annuity of $365 per year, increased by the applicable percentage in 217(b)(2), to begin at age 65, or at the age in the taxable year if greater than 65. These amounts of deduction would be available only to persons with net earnings of $36,500 or more in the taxable year. If net earnings are $25,000 or less in the taxable year, the comparative amounts deductible under the proposed plan and under H.R. 10 would be in the same proportion as the percentages in schedule I for the age in the taxable year bears to 10 percent, for persons aged 60 or less at the effective date. For persons over age 60 at the effective date the amounts deductible under the proposed plan would be twice the percentages in schedule I while under H.R. 10 the amount deductible would be 20 percent plus 1 percent for each year of age in excess of 60 at the effective date, increasing to a maximum of 30 percent at age 70.

Mr. DICKINSON. Finally, Mr. Chairman, I offer for publication in the hearings two sets of large tables. The first set—tables 1, 3, 5, 7 for men and tables 2, 4, 6, 8 for women—present for each age, for self-employment earnings of $1,000 to $36,500, the maximum amount on which pension taxes could be deferred in a taxable year if that maximum amount is higher under our proposed substitute limits than our H.R. 10. The second set—tables 1A, 2A, 3A, 4A, 5A, and 7A, and 6A and 8A—present the corresponding lower amounts under our

proposed limits and the actual dollar differences under the two versions of the Special Rule.[1] These 14 tables provide the members of the committee with a complete set of maximum amounts upon which taxes can be deferred under the limits of H.R. 10 and under our proposed substitute limits by sex, by age, and by amount of self-employment earnings. The tables are large but simple. Mr. Chairman, I

[1] The term "Special Rule" was used in earlier versions of H.R. 10; the present term (p. 3) is "Annual Limit for Individuals Attaining Age 50 Before 1959." So my reference to the Special Rule should be understood as referring to the present wording of H.R. 10.

I had intended to file with the committee 16 large tables instead of the 14. The two extra large tables—one for men and one for women—were intended to explain how the Special Rule would operate under our substitute limits of 1 percent or a dollar a day for persons in the age group 51–59 on Jan. 1, 1959. One difficulty for the staff of the committee and the Treasury Department arises from the fact that under H.R. 10 the extra allowance of one-tenth of the annual limits for those who had attained 50 years of age before 1959 for each year of age in excess of age 50 continues to attained age 70, whereas under our proposed limits it continues only to age 60. Our maximum pension is 2 percent of annual self-employment earnings. Hence the entries in these 14 large tables which refer to the Special Rule have a tendency, unless carefully interpreted, to overestimate the maximum amounts that can be set aside by persons in the age group 51–59 on Jan. 1, 1959. I refer in particular to the last column of the "Special Rule" tables, 5, 6 (7 and 8), 5A and 7A (one table), and 6A and 8A (one table). The same difficulty, however, applies in interpreting the other columns for persons with annual earnings of less than $36,500 who were in the age group 51 to 59 on Jan. 1, 1950.

The difficulty arises from the fact that the limit—a pension of 1 percent, 1.1 percent, 1.2 percent, etc.—for a person who has attained 51, 52, 53, etc., up to age 59, is fixed once and for all of his future taxable years. (But for ages 60–70 the percentage is 2; it does not change.) This means that one cannot obtain the maximum amount that can be set aside under the Special Rule starting with age 51, with age 52, with age 53, * * * with age 59, by going on down the column to age 70 and expecting to find the amount that can be set aside in subsequent taxable years for these persons who had attained these ages prior to 1959. The reason is that the pension percentage is fixed according to the attained age on Jan. 1, 1959, and is graduated by 0.1 percent for each year of ages 51–60. On the other hand, the successively lower entries in the column refer to the first taxable year of a person at that attained age and not to the successive taxable years of that person as he passes through time.

Hence, a complete presentation of our proposal would have required two more large tables, one for men and one for women. They would have shown the case for a man or woman at age 51 on Jan. 1, 1959, with each of the annual self-employment earnings given in the column headings of each one of the 14 tables but the stubs or rows would be for the subsequent taxable years. For example, the portion of the extra table for males who had attained age 51 on Jan. 1, 1959, would have entries for the appropriate taxable years, 1–20 (or ages 51 to 70) equal to 1.1 times the amounts entered in the corresponding columns of tables 1 and 1A. Consider only the last column. In his first taxable year he could set aside 1.1 times $2,963; in his second taxable year, when he would be 52 years of age, he could set aside 1.1 times $3,038; in his third taxable year, when he would be 53 years of age, he could set aside 1.1 times $3,113; and finally at age 70 this man who had attained age 51 on Jan. 1, 1959, could set aside 1.1 times $4,490—an event which would occur 19 taxable years after the effective date of the bill. These amounts (obtained by multiplying by 1.1) are successively $3,260 for the first taxable year, $3,342 for the second taxable year, $3,424 for the third taxable year, and $3,839 for the 19th taxable year. They may be readily compared with the amounts in the last column of table 5 which gives the maximum amount that can be set aside in the first taxable year under the Special Rule by a man who had attained age 51, or 52, or 53, * * * or 59 prior to 1959; the amounts are: At age 51, $3,260, the same amount; $3,645 at age 52 versus only $3,342; $4,047 at age 53 versus only $3,424; and finally $6,080 at age 70 versus only $3,839. So one cannot read down the columns of table 5 to determine for persons who had attained ages 51 through 59 prior to 1959 the maximum amount that can be set aside in each successive taxable year. That is a correct procedure, however, for a person who was 60 to 70 years of age on Jan. 1, 1959, because the Special Rule under our proposed alternate limits of 1 percent or a dollar a day fixes the maximum pension at 2 percent of self-employed earnings for persons who were age 60, 61, 62, * * * and 70 on Jan. 1, 1959.

The second part of the extra table for men would start with age 52; the third part with age 53, and the last part with age 59. The extra table for women would be divided into the same parts.

I have presented this long footnote because in estimating the maximum amount of benefits and the potential revenue loss an overestimate would result from a failure to recognize the incompleteness of these large tables for men and women aged 51–59 on Jan. 1, 1959. The over estimates for this age group would be greatest for the next few fiscal years. But instead of furnishing the two extra large tables the point that is being made here is illustrated well and clearly in schedule 3 of the statement by Brown-Campbell-Dickinson which is a part of my testimony. Refer to the first illustration in schedule 3 of a man who had attained age 55 on Jan. 1, 1959, and follow him through his subsequent taxable years. The maximum that this man could set aside in his 15th taxable year, that is during the 70th year of his life, would be $5,234.65, which is considerably less than the $6,080 shown in the last column of the last row for age 70 in table 5 for a person (not at present in the age group 51–59) who enjoyed $36,500 or more of self-employment earnings during his 70th year of life.

If requested to do so by the committee, I will be glad to prepare copies of these two additional large tables which I did not present during the hearings.

do not propose to read these large tables but respectfully request that they be included in the published hearings.

Senator FREAR. Without objection, they may be so included.

(The tables referred to follow:)

EIGHT LARGE TABLES: H.R. 10 VERSUS 1-PERCENT OR $1-A-DAY LIMITS

These eight tables, or chart tables, are presented for two purposes: (1) to indicate the ages and the annual earnings for which the new limits of 1 percent or $1 a day are lower or higher than the limits under H.R. 10 (10 percent, $2,500, and a lifetime limit of $50,000) which passed the House but not the Senate in 1958; and (2) to demonstrate clearly that the revenue loss under the new limits of 1 percent or $1 a day will probably be considerably less than under the old limits of H.R. 10.

Tables 1, 3, 5, and 7 are for men; the even-numbered tables are for women. Higher amounts must be set aside for women to achieve the same annuities simply because they live longer than men. Lacking the annuity approach, H.R. 10 fails to allow women to set aside more than men.

Please note the "stair steps" in each table. The area of the table above or below the stair steps has not been filled in, except for the two border columns and the border rows. These open areas indicate the ages (25–70 or 51–70) and the annual earnings ($1,000 to $36,500 and over) for which the maximum amounts that can be set aside under the new limits are lower than under the old limits of H.R. 10; the minimum amount is, of course, nothing.

The open areas of table 1 (men) are larger than for table 2 (women) simply because annuity rates are higher for women. In tables 1 and 2 the maximum dollar amounts that can be set aside are entered. In tables 3 (men) and 4 (women) the excess in dollars in the annual maximum set-aside under the new limits is indicated by a plus sign; the minus sign before the difference indicates that the annual maximum set-aside amount under the new limits is lower than under the old limits; all open areas would involve the minus sign.

Tables 5 to 8 consider only ages 51 to 70 as the special rule applies only to (self-employed) persons who had attained 50 years of age prior to the enactment of H.R. 10. The increase for each year of attained age in excess of age 50 stops at age 60 under the proposed special rule in the new limits as contrasted to age 70 in H.R. 10. The special rule under the new limits would allow a maximum of 2 percent instead of 1 percent and a maximum pension of $2 a day instead of $1 a day for those who had attained age 60 or a higher age prior to the enactment of the proposed law.

Table 5 (men) and table 6 (women) show (within the stairsteps) the maximum dollar amounts that can be set aside under the special rule in the new limits for those ages and earnings for which the dollar amounts are greater than could be set aside under the special rule of H.R. 10. Again the vacant area in tables 5 and 6 indicate the ages and the earnings for which the special rule under the new limits would permit lower amounts to be set aside than under the special rule of H.R. 10.

Tables 7 (men) and 8 (women)—like tables 3 and 5—present the difference in dollars rather than the amounts of the annual maximum set-aside. For those ages and earnings for which the maximum amount that can be set aside under the special rule under the new limits exceeds the corresponding amount under H.R. 10, the plus sign is used.

It is hoped that these large tables will merely serve to clarify and lucidate the three small tables. As a matter of fact, the computations have been completed for every box in every one of these eight large tables and could be presented in a series of eight "A" tables, 1A–8A. We thought it would be more helpful, however, to leave a large section of each table completely blank.

I wish to extend the data presented in my eight large tables (December 11, 1958) which are attached as a special exhibit to the Brown-Campbell memorandum of December 1, 1958, entitled: "Proposed Alternative Provisions to the Limitations of H.R. 10 (the Keogh Bill) the 1 Percent of Earnings or a Dollar a Day Plan." In these eight large tables the bank rows and columns indicate the ages and the earnings, by sex, for which the maximum annual set-aside would be less under the new limits than under H.R. 10. In my 2-page memorandum (December 11, 1958)—carrying page numbers 11 and 12—attached to each set

of eight large tables, I offered in the last paragraph to prepare a series of eight "A" tables, 1–A to 8–A.

I found it possible to reduce the number of "A" tables from eight to six and still provide the information. The purpose of these six "A" tables (attached) is to provide the entries missing from the eight large tables referred to above. For example, table 1A provides the entries for the vacant rows and columns of table 1 (for men); table 2A does the same thing for table 2 (for women). Table 3 and 4 show the differences in dollars in the annual limits under the new proposal and under H.R. 10; tables 3A and 4A show, therefore, the missing entries.

It seemed best to present one "A" table, table 5A and 7A (large, square), to complement both tables 5 and 7 which show the comparisons for men under the special rule for men. Likewise, table 6A and 8A (large, square) shows the comparison under the special rule for women. In both these special rule tables there are three entries for each age, 51–70: First, the maximum annual set-aside under the new limits, 1 percent or $1 a day"; second, the maximum annual set-aside under the limits of H.R. 10; third, the difference which is a negative amount in most cases, especially for men.

Mr. DICKINSON. Then, I trust, every Member of the Senate and the House, the staff of the Treasury Department and any citizen can understand our proposed substitute limits of 1 percent or $1 a day. At the very least, they provide a simpler way of explaining the small potential annual revenue loss than do the present limits of H.R. 10. In a very broad sense, the two sets of limits are two ways of saying about the same thing as far as revenue loss is concerned. I believe, sir, that it is very helpful to say it in two ways.

Thanks for your patience. I would be very glad to answer any questions you have. I am sorry that Mr. Keogh is not present. I hope that I have not said anything, and I am sure that I have not said anything, although in variance to H.R. 10 to which he would object, because he knows what I have been doing, and he knows of my interest through the years in trying to convert this proposal over to the language of the pension plans that exist today, and use as much of the language of the Civil Service Retirement Act as possible.

Senator FREAR. Thank you very much.

The next witness is Mr. Edwin S. Cohen, National Association of Investment Companies.

STATEMENT OF EDWIN S. COHEN, THE NATIONAL ASSOCIATION OF INVESTMENT COMPANIES, NEW YORK, N.Y.

Mr. COHEN. Mr. Chairman and members of the committee, my name is Edwin S. Cohen. I am a member of the law firm of Root, Barrett, Cohen, Knapp & Smith, of New York, N.Y. I am appearing today on behalf of the National Association of Investment Companies, 61 Broadway, New York, N.Y.

With the general objective of H.R. 10, which seeks to provide a mechanism for the establishment of retirement plans for self-employed individuals comparable to those permitted to be established for employed individuals, we believe there can be no sound objection.

We should like, however, to call to the attention of your committee one point in the pending bill which we believe should be changed before passage. This is an administrative change approved in principle by the Treasury Department in its report to your committee dated February 16, 1959.

Section 4 of the bill, in proposed new section 405, requires that the trustee of the restricted retirement fund be a bank. The purpose of

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H.R. 10 vs. "1% or $1-a-Day"

Table 1. — Maximum Set-Asides under New Limits Ages 25-70 for Incomes $1,0

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$5,000	$
		— Incomes —																				
25	$13	$85	$128	$171	$214	$256	$299	$342	$384	$427	$470	$513	$555	$598	$641	$684	$726	$769	$812	$854	$897	
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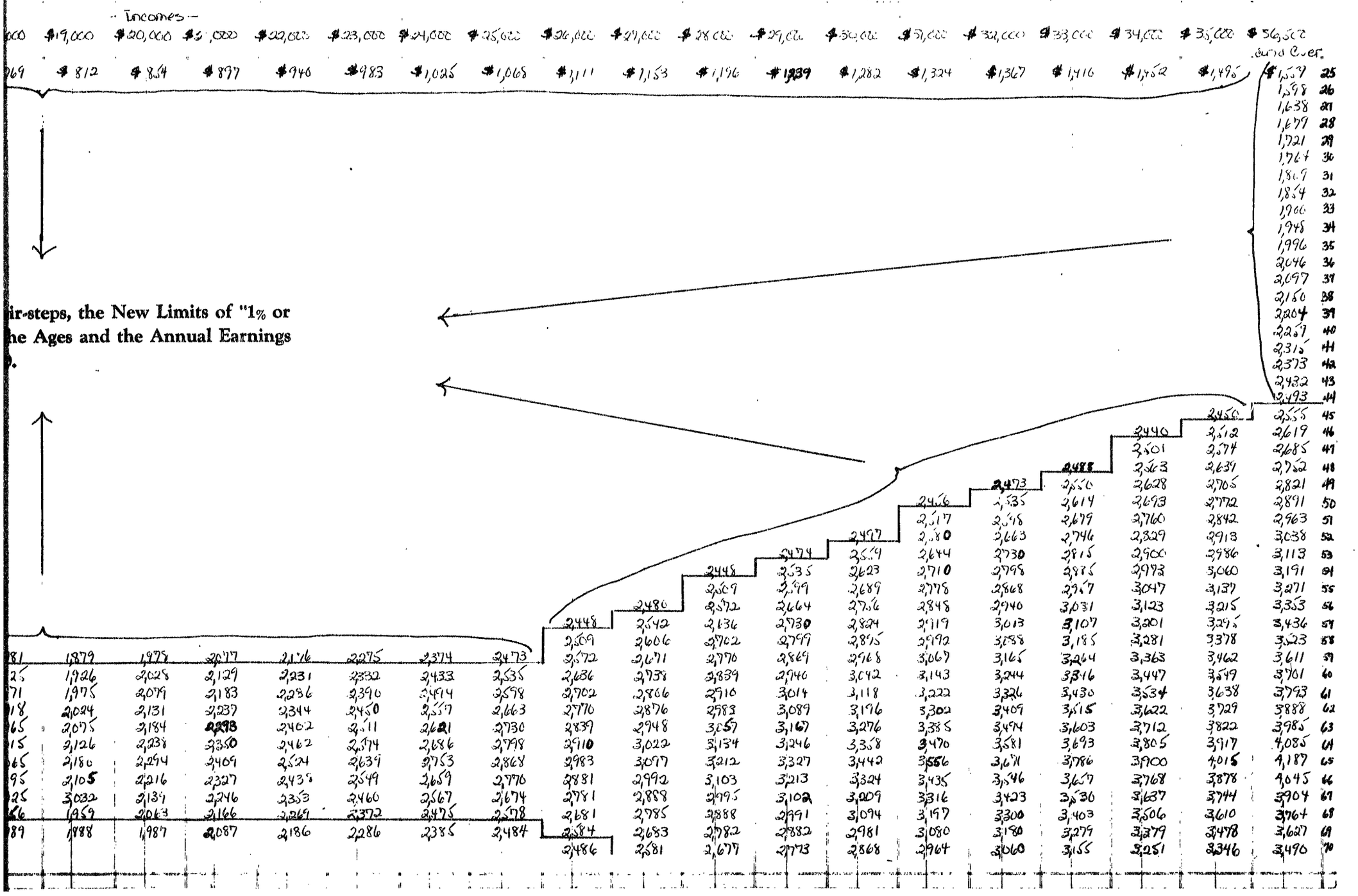
59	99	198	297	396	495	594	692	791	890	989	1,088	1,187	1,286	1,385	1,484	1,583	1,682	1,781	1,879	1,975	2,077	
60	101	203	304	406	507	608	710	811	913	1,014	1,115	1,217	1,318	1,419	1,521	1,622	1,724	1,825	1,926	2,028	2,129	
61	104	208	312	416	520	624	728	831	935	1,039	1,143	1,247	1,351	1,455	1,559	1,663	1,767	1,871	1,975	2,079	2,183	
62	107	213	320	426	533	639	746	852	959	1,065	1,172	1,278	1,385	1,491	1,598	1,704	1,811	1,918	2,024	2,131	2,237	
63	109	218	328	437	546	655	764	874	983	1,092	1,201	1,310	1,419	1,529	1,638	1,747	1,856	1,965	2,075	2,184	2293	
64	112	224	336	448	560	672	783	895	1,007	1,119	1,231	1,343	1,455	1,567	1,679	1,791	1,903	2,015	2,126	2,238	2350	
65	115	229	344	459	574	688	803	918	1032	1,147	1,262	1377	1,491	1,606	1,721	1,836	1,950	2,065	2,180	2,294	2409	
66	111	222	332	443	554	665	776	886	997	1,108	1,219	1330	1,441	1,551	1,662	1,773	1,884	1,995	2,105	2216	2327	
67	107	214	321	428	535	642	749	856	963	1,070	1,177	1284	1390	1,497	1,604	1711	1818	1,925	3032	2,134	2,246	
68	103	206	309	413	516	619	722	825	928	1,031	1,134	1238	1,341	1444	1,547	1,650	1,753	1866	1959	2063	2,166	
69	99	199	298	397	497	596	696	795	894	994	1,093	1,192	1,292	1,391	1,491	1,590	1,689	1,789	1,888	1,987	2087	
70	96																					

Above and/or Below Stair-steps, the New Limits of "1 $1-a-day" are Lower for the Ages and the Annual Earn than the Limits of H.R. 10.

42777 O - 59 (Face p. 248) No. 1

R. 10 vs. "1% or "1-a-Day" Limits

Ages 25-70 for Incomes $1,000-$36,500 and Over, Excluding Special Rule: For Men



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H.R. 10 vs. "1% or $1-a-Day

Table 2.-Maximum Set-Asides under New Limits Ages 25-70 for Incomes $1,00

Ages	$1,000	2,000	3,000	4,000	5,000	6,000	7,000	8,000	9,000	10,000	11,000	12,000	13,000	14,000	15,000	16,000	17,000	18,000	19,000	20,000	21,000
25	$50	$100	$151	$201	$251	$301	$351	$401	$452	$502	$552	$602	$652	$703	$753	$803	$853	$903	$953	$1,004	$1,054
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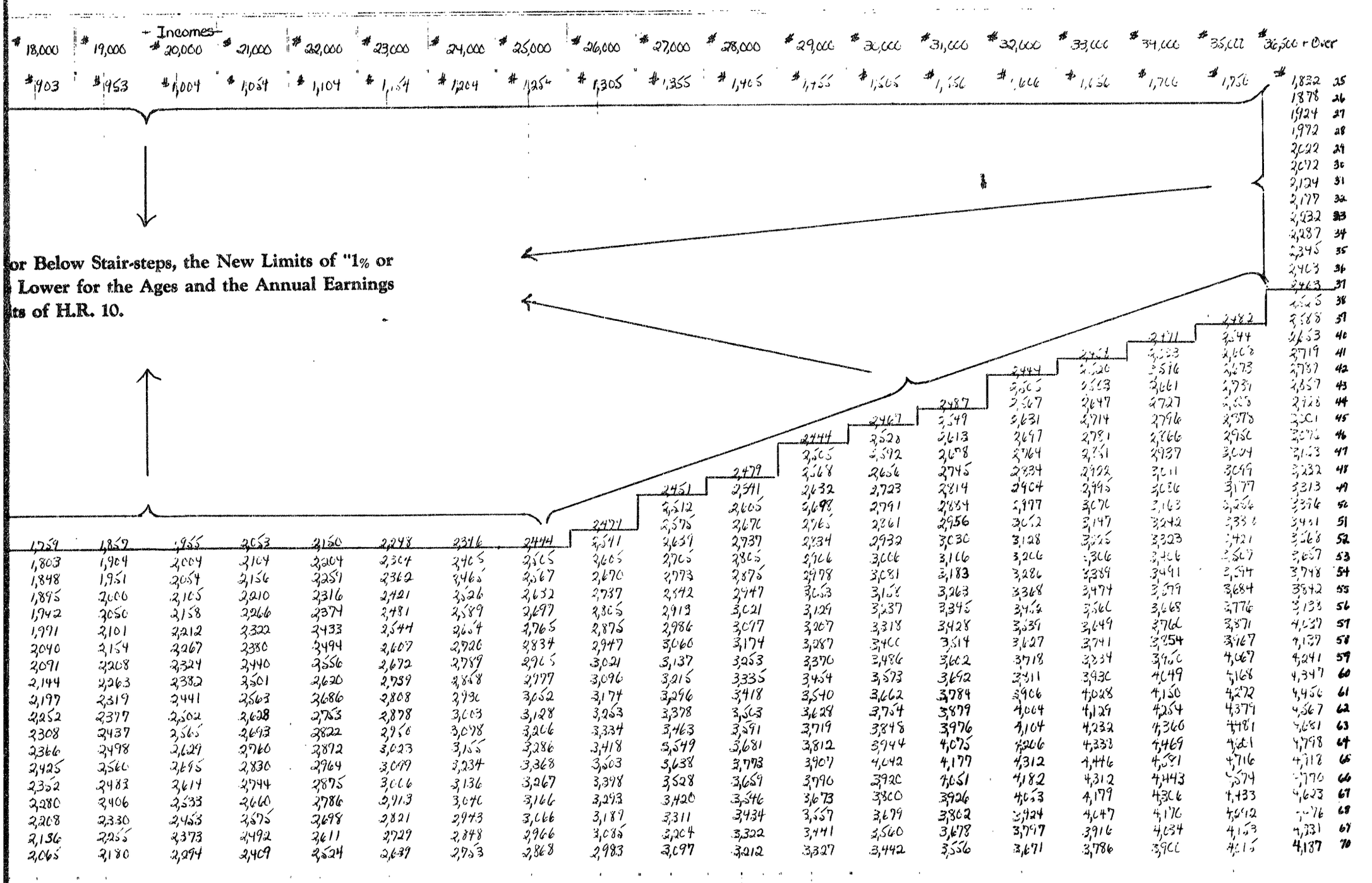
52	98	195	293	391	489	586	684	782	880	977	1,075	1,173	1,271	1,368	1,466	1,564	1,662	1,759	1,857	1,955	2,053
53	100	200	301	401	501	601	701	802	902	1,002	1,102	1,202	1,302	1,403	1,503	1,603	1,703	1,803	1,904	2,004	2,104
54	103	205	308	411	513	616	719	822	924	1,027	1,130	1,232	1,335	1,438	1,540	1,643	1,746	1,848	1,951	2,054	2,156
55	105	211	316	421	526	632	737	842	947	1,053	1,158	1,263	1,368	1,474	1,579	1,684	1,789	1,895	2,000	2,105	2,210
56	108	216	324	432	539	647	755	863	971	1,079	1,187	1,295	1,403	1,510	1,618	1,726	1,834	1,942	2,050	2,158	2,266
57	111	221	332	440	553	664	774	885	995	1,106	1,216	1,327	1,438	1,548	1,659	1,769	1,880	1,991	2,101	2,212	2,322
58	113	227	340	453	567	680	793	907	1,020	1,134	1,247	1,360	1,474	1,587	1,700	1,814	1,927	2,040	2,154	2,267	2,380
59	116	232	349	465	581	697	813	930	1,046	1,162	1,278	1,394	1,510	1,627	1,743	1,859	1,975	2,091	2,208	2,324	2,440
60	119	238	357	476	595	715	834	953	1,072	1,191	1,310	1,429	1,548	1,667	1,786	1,906	2,025	2,144	2,263	2,382	2,501
61	122	244	366	488	610	732	854	977	1,099	1,221	1,343	1,465	1,587	1,709	1,831	1,953	2,075	2,197	2,319	2,441	2,563
62	125	250	375	500	626	751	876	1,001	1,126	1,251	1,376	1,501	1,627	1,752	1,877	2,002	2,127	2,252	2,377	2,502	2,628
63	128	256	385	513	641	770	898	1,026	1,154	1,282	1,411	1,539	1,667	1,796	1,924	2,052	2,180	2,308	2,437	2,565	2,693
64	131	263	394	526	657	789	920	1,052	1,183	1,314	1,446	1,577	1,709	1,840	1,972	2,103	2,235	2,366	2,498	2,629	2,760
65	135	269	404	539	674	808	943	1,078	1,213	1,347	1,482	1,617	1,752	1,886	2,021	2,156	2,291	2,425	2,560	2,695	2,830
66	131	261	392	523	653	784	915	1,045	1,176	1,307	1,437	1,568	1,699	1,830	1,960	2,091	2,222	2,352	2,483	2,614	2,744
67	127	253	380	507	633	760	887	1,013	1,140	1,266	1,393	1,520	1,646	1,773	1,900	2,026	2,153	2,280	2,406	2,533	2,660
68	123	245	368	491	613	736	858	981	1,104	1,226	1,349	1,472	1,594	1,717	1,840	1,962	2,085	2,208	2,330	2,453	2,575
69	119	237	356	475	593	712	831	949	1,068	1,187	1,305	1,424	1,543	1,661	1,780	1,899	2,017	2,136	2,255	2,373	2,492
70	115	229	344	459	574	688	803	918	1,032	1,147	1,262	1,377	1,491	1,606	1,721	1,836	1,950	2,065	2,180	2,294	2,409

Above and/or Below Stair-steps, the New Lim
$1-a-day" are Lower for the Ages and the Ann
than the Limits of H.R. 10.

42777 O - 59 (Face p. 248) No. 2

H.R. 10 vs. "1% or $1-a-Day" Limits

its Ages 25-70 for Incomes $1,000 – $36,500 and Over, Excluding Special Rule: For Women.



or Below Stair-steps, the New Limits of "1% or
Lower for the Ages and the Annual Earnings
ts of H.R. 10.

H.R. 10 vs. "1% OR $1-A-DAY

Table 3.- Dollar Differences in Maximum Set-Asides Between Old and New Limits Ages 25-70 for Incomes

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000
25	$ 51	$ 115	$ 172	$ 229	$ 286	$ 344	$ 401	$ 458	$ 516	$ 573	$ 630	$ 687	$ 745	$ 802	$ 859	$ 916	$ 974	$ 1,031	$ 1,088	$ 1,146	$ 1,203
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58	- 3																				
59	- 1	- 2	- 3	- 4	- 5	- 6	- 8	- 9	- 10	- 11	- 12	- 13	- 14	- 15	- 16	- 17	- 18	- 19	- 21	- 22	- 23
60	+ 1	+ 3	+ 4	+ 6	+ 7	+ 8	+ 10	+ 11	+ 13	+ 14	+ 15	+ 17	+ 18	+ 19	+ 21	+ 22	+ 24	+ 25	+ 26	+ 28	+ 29
61	+ 4	+ 8	+ 12	+ 16	+ 20	+ 24	+ 28	+ 31	+ 35	+ 39	+ 43	+ 47	+ 51	+ 55	+ 59	+ 63	+ 67	+ 71	+ 75	+ 79	+ 83
62	+ 7	+ 13	+ 20	+ 26	+ 33	+ 39	+ 46	+ 52	+ 59	+ 65	+ 72	+ 78	+ 85	+ 91	+ 98	+ 104	+ 111	+ 118	+ 124	+ 131	+ 137
63	+ 9	+ 16	+ 25	+ 37	+ 46	+ 55	+ 64	+ 74	+ 83	+ 92	+ 101	+ 110	+ 119	+ 129	+ 138	+ 147	+ 156	+ 165	+ 175	+ 184	+ 193
64	+ 12	+ 24	+ 36	+ 48	+ 60	+ 72	+ 83	+ 95	+ 107	+ 119	+ 131	+ 143	+ 155	+ 167	+ 179	+ 191	+ 203	+ 215	+ 226	+ 238	+ 250
65	+ 15	+ 29	+ 44	+ 59	+ 74	+ 88	+ 103	+ 118	+ 132	+ 147	+ 162	+ 177	+ 191	+ 206	+ 221	+ 236	+ 250	+ 265	+ 280	+ 294	+ 309
66	+ 11	+ 22	+ 32	+ 43	+ 54	+ 65	+ 76	+ 86	+ 97	+ 108	+ 119	+ 130	+ 141	+ 151	+ 162	+ 173	+ 184	+ 195	+ 205	+ 216	+ 227
67	+ 7	+ 14	+ 21	+ 28	+ 35	+ 42	+ 49	+ 56	+ 63	+ 70	+ 77	+ 84	+ 90	+ 97	+ 104	+ 111	+ 118	+ 125	+ 132	+ 139	+ 146
68	+ 3	+ 6	+ 9	+ 13	+ 16	+ 19	+ 22	+ 25	+ 28	+ 31	+ 34	+ 38	+ 41	+ 44	+ 47	+ 50	+ 53	+ 56	+ 59	+ 63	+ 66
69	- 1	- 1	- 2	- 3	- 3	- 4	- 4	- 5	- 6	- 6	- 7	- 8	- 8	- 9	- 9	- 10	- 11	- 11	- 12	- 13	- 13
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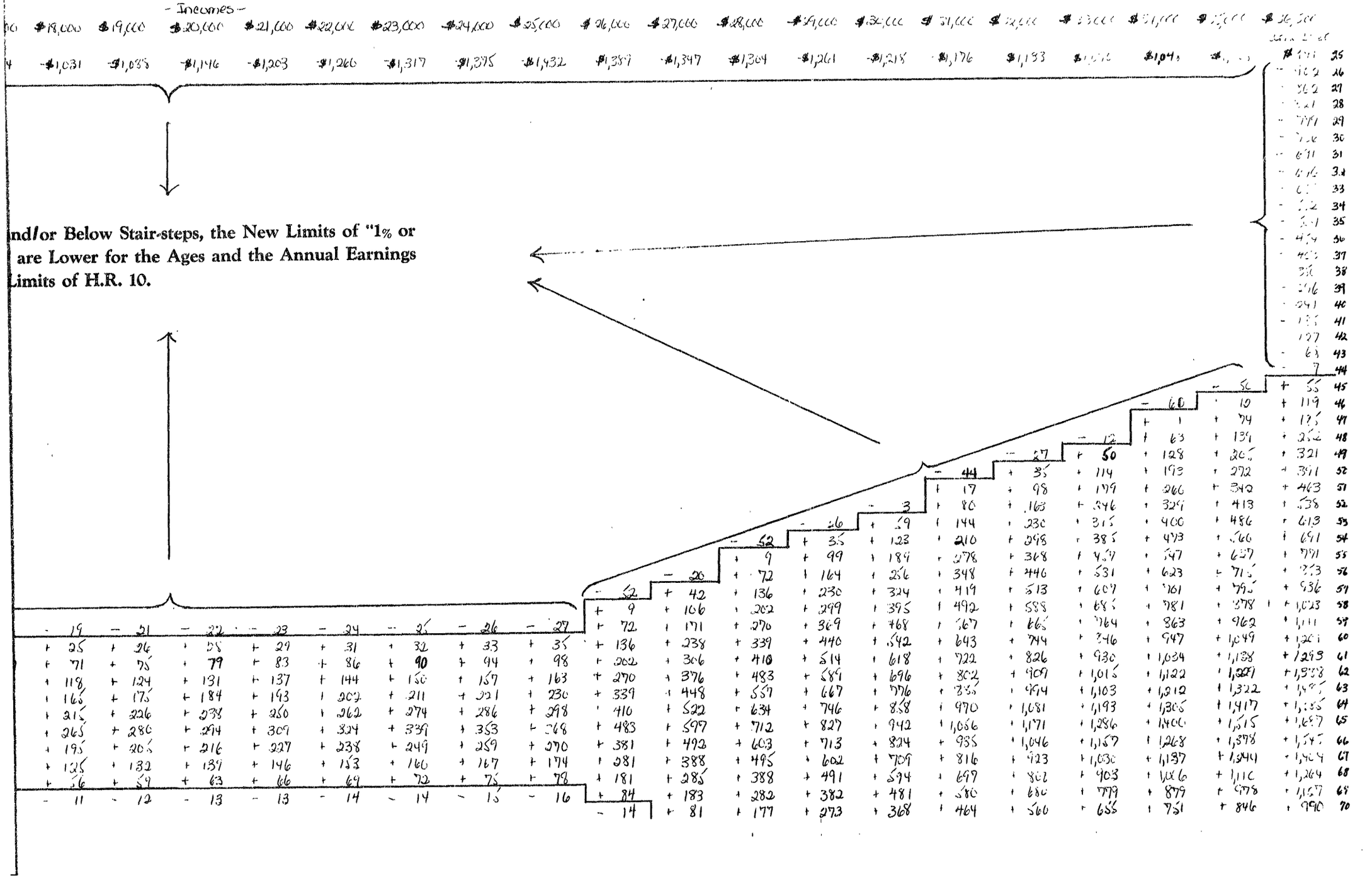
Above and/or Below Stair-steps, the New Lim
$1-a-day" are Lower for the Ages and the Ann
than the Limits of H.R. 10.

42777 O-59 (Face p. 248) No. 3

H.R. 10 vs. "1% OR $1-A-DAY" LIMITS

New Limits Ages 25–70 for Incomes $1,000–$36,500 and Over, Excluding Special Rules for Men



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H.R. 10 vs "1% or $1-a-Day

Table 4.- Dollar Differences in Maximum Set-Asides Between Old and New Limits Ages 25-70 for Incomes $

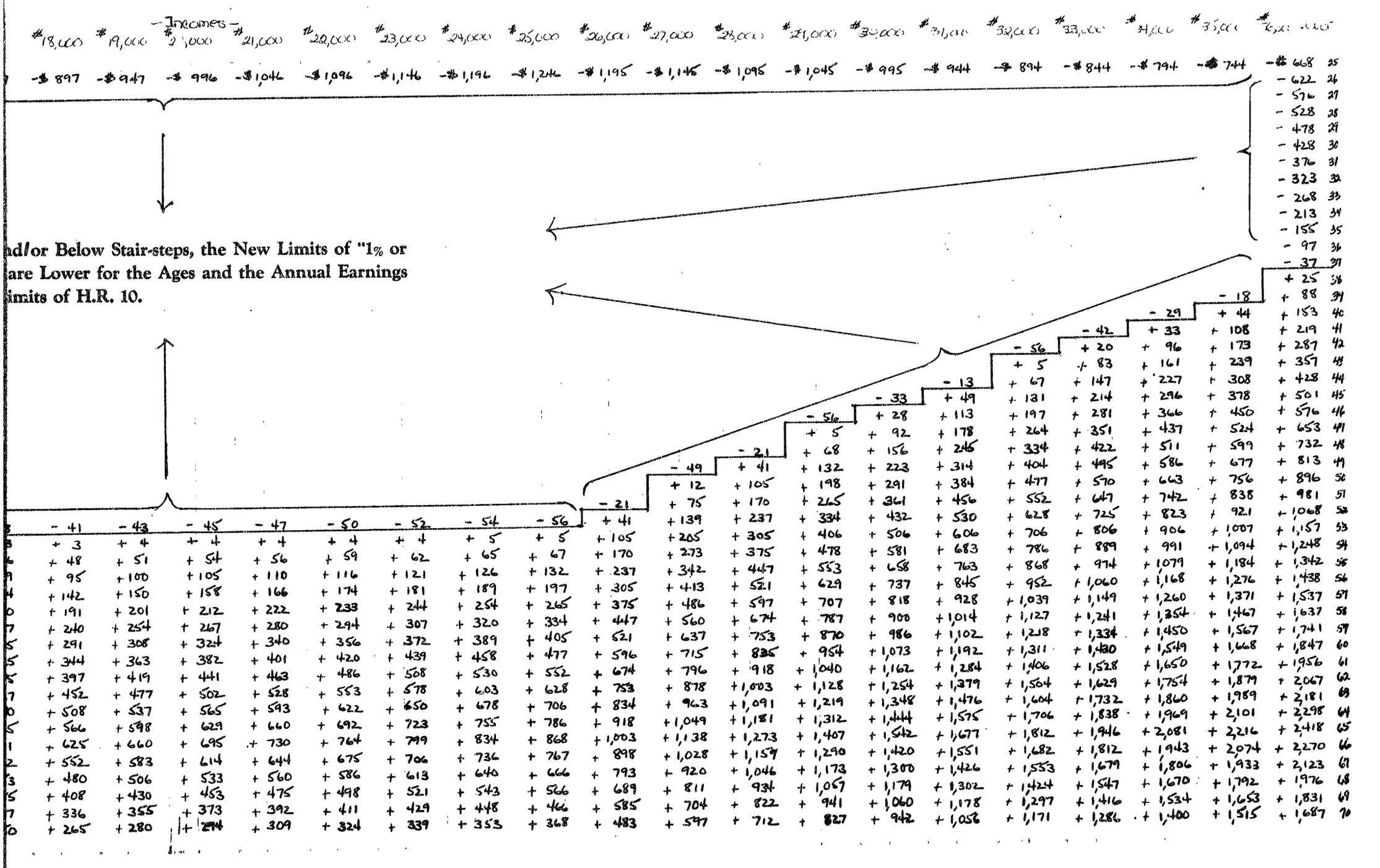
Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000
	— Incomes —																				
25	-$50	-$100	-$149	-$199	-$249	-$299	-$ 349	-$ 399	-$ 448	-$ 498	-$ 548	-$ 598	-$ 648	-$ 697	-$ 747	-$ 797	-$ 847	-$ 897	-$ 947	-$ 996	-$1,046
26	- 49																				
27	- 47																				
28	- 46																				
29	- 45																				
30	- 43																				
31	- 42																				
32	- 40																				
33	- 39																				
34	- 37																				
35	- 36																				
36	- 34																				
37	- 33																				
38	- 31																				
39	- 29																				
40	- 27																				
41	- 26																				
42	- 24																				
43	- 22																				
44	- 20																				
45	- 18																				
46	- 16																				
47	- 14																				
48	- 11																				
49	- 9																				
50	- 7																				
51	- 5																				
52	- 2	- 5	- 7	- 9	- 11	- 14	- 16	- 18	- 20	- 23	- 25	- 27	- 29	- 32	- 34	- 36	- 38	- 41	- 43	- 45	- 47
53	+ #	+ #	+ 1	+ 1	+ 1	+ 1	+ 1	+ 2	+ 2	+ 2	+ 2	+ 2	+ 2	+ 3	+ 3	+ 3	+ 3	+ 3	+ 4	+ 4	+ 4
54	+ 3	+ 5	+ 8	+ 11	+ 13	+ 16	+ 19	+ 22	+ 24	+ 27	+ 30	+ 32	+ 35	+ 38	+ 40	+ 43	+ 46	+ 48	+ 51	+ 54	+ 56
55	+ 5	+ 11	+ 16	+ 21	+ 26	+ 32	+ 37	+ 42	+ 47	+ 53	+ 58	+ 63	+ 68	+ 74	+ 79	+ 84	+ 89	+ 95	+ 100	+ 105	+ 110
56	+ 8	+ 16	+ 24	+ 32	+ 39	+ 47	+ 55	+ 63	+ 71	+ 79	+ 87	+ 95	+ 103	+ 110	+ 118	+ 126	+ 134	+ 142	+ 150	+ 158	+ 166
57	+ 11	+ 21	+ 32	+ 42	+ 53	+ 64	+ 74	+ 85	+ 95	+ 106	+ 116	+ 127	+ 138	+ 148	+ 159	+ 169	+ 180	+ 191	+ 201	+ 212	+ 222
58	+ 13	+ 27	+ 40	+ 53	+ 67	+ 80	+ 93	+ 107	+ 120	+ 134	+ 147	+ 160	+ 174	+ 187	+ 200	+ 214	+ 227	+ 240	+ 254	+ 267	+ 280
59	+ 16	+ 32	+ 49	+ 65	+ 81	+ 97	+ 113	+ 130	+ 146	+ 162	+ 178	+ 194	+ 210	+ 227	+ 243	+ 259	+ 275	+ 291	+ 308	+ 324	+ 340
60	+ 19	+ 38	+ 57	+ 76	+ 95	+ 115	+ 134	+ 153	+ 172	+ 191	+ 210	+ 229	+ 248	+ 267	+ 286	+ 305	+ 325	+ 344	+ 363	+ 382	+ 401
61	+ 22	+ 44	+ 66	+ 88	+ 110	+ 132	+ 154	+ 177	+ 199	+ 221	+ 243	+ 265	+ 287	+ 309	+ 331	+ 353	+ 375	+ 397	+ 419	+ 441	+ 463
62	+ 25	+ 50	+ 75	+ 100	+ 126	+ 151	+ 176	+ 201	+ 226	+ 251	+ 276	+ 301	+ 327	+ 352	+ 377	+ 402	+ 427	+ 452	+ 477	+ 502	+ 528
63	+ 28	+ 56	+ 85	+ 113	+ 141	+ 170	+ 198	+ 226	+ 254	+ 282	+ 311	+ 339	+ 367	+ 396	+ 424	+ 452	+ 480	+ 508	+ 537	+ 565	+ 593
64	+ 31	+ 63	+ 94	+ 126	+ 157	+ 189	+ 220	+ 252	+ 283	+ 314	+ 346	+ 377	+ 409	+ 440	+ 472	+ 503	+ 535	+ 566	+ 598	+ 629	+ 660
65	+ 35	+ 69	+ 104	+ 139	+ 174	+ 208	+ 243	+ 278	+ 313	+ 347	+ 382	+ 417	+ 452	+ 486	+ 521	+ 556	+ 591	+ 625	+ 660	+ 695	+ 730
66	+ 31	+ 61	+ 92	+ 123	+ 153	+ 184	+ 215	+ 245	+ 276	+ 307	+ 337	+ 368	+ 399	+ 430	+ 460	+ 491	+ 522	+ 552	+ 583	+ 614	+ 644
67	+ 27	+ 53	+ 80	+ 107	+ 133	+ 160	+ 187	+ 213	+ 240	+ 266	+ 293	+ 320	+ 346	+ 373	+ 400	+ 426	+ 453	+ 480	+ 506	+ 533	+ 560
68	+ 23	+ 45	+ 68	+ 91	+ 113	+ 136	+ 158	+ 181	+ 204	+ 226	+ 249	+ 272	+ 294	+ 317	+ 340	+ 362	+ 385	+ 408	+ 430	+ 453	+ 475
69	+ 19	+ 37	+ 56	+ 75	+ 93	+ 112	+ 131	+ 149	+ 168	+ 187	+ 205	+ 224	+ 243	+ 261	+ 280	+ 299	+ 317	+ 336	+ 355	+ 373	+ 392
70	+ 15	+ 29	+ 44	+ 59	+ 74	+ 88	+ 103	+ 118	+ 132	+ 147	+ 162	+ 177	+ 191	+ 206	+ 221	+ 236	+ 250	+ 265	+ 280	+ 294	+ 309

Above and/or Below Stair-steps, the New L
$1-a-day" are Lower for the Ages and the Ar
than the Limits of H.R. 10.

42777 O-59 (Face p. 248) No. 4

H.R. 10 vs "1% or $1-a-Day" Limits

Limits Ages 25-70 for Incomes $1,000 – $36,500 and Over, Excluding Special Rule: For Women



...nd/or Below Stair-steps, the New Limits of "1% or ...are Lower for the Ages and the Annual Earnings ...imits of H.R. 10.

5-2-59
eh

H.R. 10 vs. "1% or $1-a-Day"

Table 5.-Maximum Set-Asides Under New Limits by Special Rule for Ages 51-70 and

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	Incomes $20,000	$21,000
51	$ 89	$179	$268	$357	$447	$536	$625	$ 714	$ 804	$ 893	$ 982	$ 1,072	$ 1,161	$ 1,250	$ 1,340	$ 1,429	$ 1,518	$ 1,608	$ 1,697	$ 1,786	$ 1,876
52	100																				
53	111																				
54	122																				
55	134																				
56	147																				
57	160																				
58	174																				
59	189	376	564	752	946	1,138	1,316	1,504	1,692	1,880	2,067	2,255	2,443	2,631	2,819	3,007	3,195	3,383	3,571	3,759	3,947
60	203	406	608	811	1,014	1,217	1,419	1,622	1,825	2,028	2,231	2,433	2,636	2,839	3,042	3,044	3,447	3,650	3,853	4,056	4,258
61	208	416	624	831	1,039	1,247	1,455	1,663	1,871	2,079	2,286	2,494	2,702	2,910	3,118	3,326	3,534	3,741	3,949	4,157	4,365
62	213																				
63	218																				
64	224																				
65	229																				
66	235																				
67	241																				
68	246																				
69	191																				
70	191																				

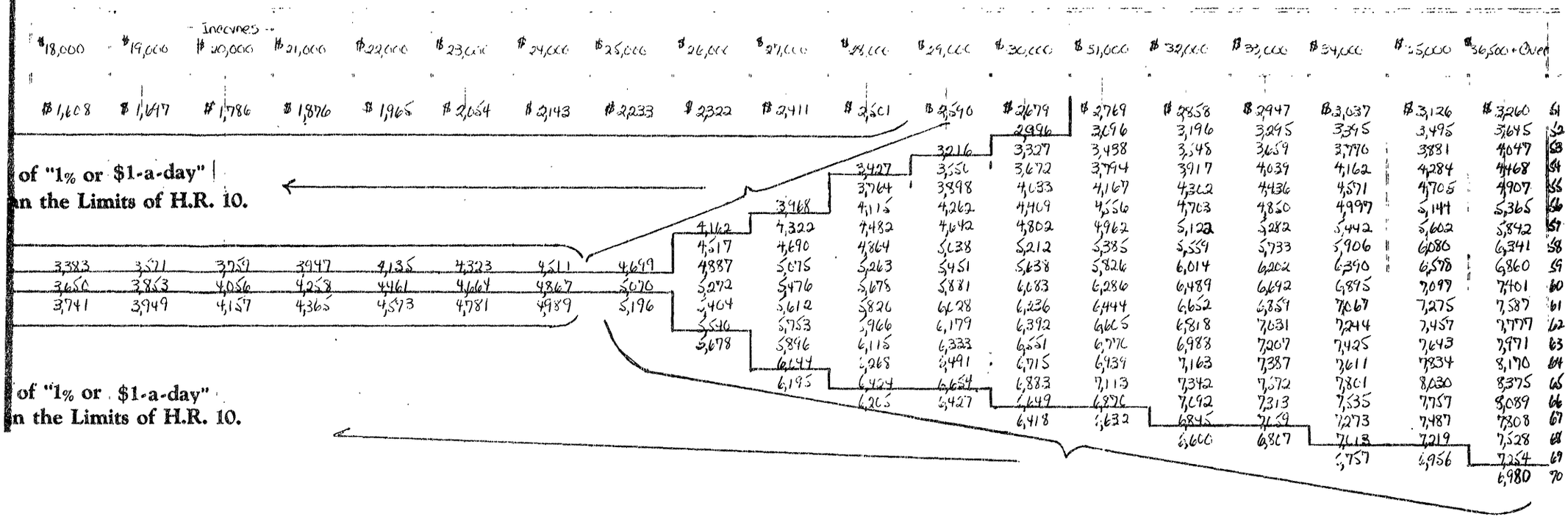
Above and/or Below Stair-steps, the New Limits of "1% or $1-a-day" are Lower for the Ages and the Annual Earnings than the Limits of H.R. 10.

Above and/or Below Stair-steps, the New Limits of "1% or $1-a-day" are Lower for the Ages and the Annual Earnings than the Limits of H.R. 10.

42777 O - 59 (Face p. 248) No. 5

H.R. 10 vs. "1% or $1-a-Day" Limits

Special Rule for Ages 61–70 and Incomes of $1,000–$36,500 and Over: For Men



12-5 56

H.R. 10 vs. "1% or $1-a-Day"

Table 6.- Maximum Set-Asides under New Limits by Special Rule for Ages 51-70 and

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	Incomes $20,000	$21,000
51	$105	$210	$315	$420	$524	$629	$ 734	$ 839	$944	$ 1,049	$ 1,154	$ 1,259	$ 1,364	$ 1,469	$ 1,574	$ 1,678	$ 1,783	$ 1,888	$ 1,993	$ 2,098	$ 2,203
52	117																				
53	130	260	391	521	651	782	912	1,042	1,172	1,302	1,433	1,563	1,693	1,824	1,954	2,084	2,214	2,344	2,475	2,605	2,735
54	144	288	431	575	719	863	1,006	1,150	1,294	1,438	1,581	1,725	1,869	2,013	2,157	2,300	2,444	2,588	2,732	2,875	3019
55	158	316	474	632	789	947	1,105	1,263	1,421	1,579	1,737	1,895	2,053	2,210	2,368	2,526	2,684	2,842	3,000	3,158	3,316
56	173	345	518	690	863	1,036	1,208	1,381	1,554	1,726	1,899	2,071	2,244	2,417	2,589	2,762	2,935	3,107	3,280	3,452	3,625
57	188	376	564	752	940	1,128	1,316	1,504	1,692	1,880	2,068	2,256	2,444	2,632	2,820	3,008	3,196	3,384	3,572	3,760	3,948
58	204	408	612	816	1,020	1,224	1,428	1,632	1,836	2,040	2,244	2,448	2,652	2,856	3,060	3,264	3,469	3,673	3,877	4,081	4,285
59	221	442	662	883	1,104	1,325	1,545	1,766	1,987	2,208	2,429	2,649	2,870	3,091	3,311	3,532	3,753	3,974	4,194	4,415	4,636
60	238	476	715	953	1,191	1,429	1,667	1,905	2,144	2,382	2,620	2,858	3,096	3,335	3,573	3,811	4,049	4,287	4,525	4,764	5,002
61	244	488	732	977	1,221	1,465	1,709	1,953	2,197	2,441	2,686	2,930	3,174	3,418	3,662	3,906	4,150	4,395	4,639	4,883	5,127
62	256	513	751	1,001	1,251	1,501	1,752	2,002	2,252	2,502	2,753	3,003	3,253	3,503	3,754	4,004	4,254	4,504	4,755	5,005	5,255
63	256	513	770	1,026	1,282	1,539	1,796	2,052	2,308	2,565	2,822	3,078	3,334	3,591	3,848	4,104	4,360	4,617	4,874	5,130	5,386
64	263	526	781	1,042	1,304	1,577	1,840	2,103	2,366	2,629	2,892	3,155	3,418	3,681	3,944	4,206	4,469	4,732	4,995	5,258	5,521
65	269	537	805	1,073	1,341	1,617	1,886	2,156	2,425	2,694	2,964	3,234	3,503	3,773	4,042	4,312	4,581	4,851	5,120	5,390	5,659
66	261	523	784	1,046	1,307	1,568	1,830	2,091	2,352	2,614	2,875	3,136	3,398	3,659	3,920	4,182	4,443	4,704	4,966	5,227	5,489
67	253	507	760	1,013	1,266	1,520	1,773	2,026	2,280	2,533	2,786	3,040	3,293	3,546	3,800	4,053	4,306	4,559	4,813	5,066	5,319
68	245																				
69	237																				
70	229																				

Above and/or Below Stair-steps, the New Limits of "1% or $1-a-day" are Lower for the Ages and the Annual Earnings than the Limits of H.R. 10.

42777 O - 59 (Face p. 248) No. 6

H.R. 10 vs. "1% or $1-a-Day" Limits

Special Rule for Ages 51-70 and Incomes of $1,000 - $36,500 and Over: For Women.

Incomes

$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,500 and over	
$1,888	$1,993	$2,098	$2,203	$2,308	$2,413	$2,518	$2,622	$2,727	$2,832	$2,937	$3,042	$3,147	$3,252	$3,357	$3,462	$3,567	$3,672	$3,829	51
								3,656	3,167	3,284	3,401	3,519	3,636	3,753	3,871	3,988	4,105	4,281	52
2,344	2,475	2,605	2,735	2,866	2,996	3,126	3,256	3,386	3,517	3,647	3,777	3,908	4,038	4,168	4,298	4,428	4,557	4,754	53
2,588	2,732	2,875	3,019	3,163	3,307	3,450	3,594	3,738	3,882	4,026	4,169	4,313	4,457	4,601	4,744	4888	5,032	5,248	54
2,849	3,006	3,158	3,316	3,474	3,631	3,789	3,947	4,105	4,263	4,421	4,579	4,737	4,895	5,052	5,210	5368	5,526	5,763	55
3,107	3,280	3,452	3,625	3798	3,970	4,143	4,316	4,488	4,661	4,833	5,006	5,179	5,351	5,524	5,696	5869	6,042	6,301	56
3,384	3,572	3,760	3,948	4,136	4,324	4,512	4,700	4,888	5,076	5,264	5,452	5,640	5828	6,016	6,204	6392	6,580	6,862	57
3,673	3,877	4,081	4,285	4,489	4,693	4,897	5,101	5,305	5,509	5,713	5,917	6,121	6325	6,529	6,733	6937	7,141	7,447	58
3,974	4,194	4,415	4,636	4857	5,077	5,298	5,519	5,740	5,961	6,181	6,402	6,623	6,844	7,064	7,285	7506	7727	8,058	59
4,287	4,525	4,764	5,002	5,240	5,478	5,716	5,954	6,193	6,431	6,669	6,907	7,145	7384	7,622	7,860	8098	8336	8,694	60
4,315	4,639	4,883	5,127	5,371	5,615	5,859	6,104	6,348	6,592	6,836	7,080	7,324	7,568	7,812	8,057	8,301	8,545	8,911	61
4,564	4,755	5,005	5,255	5,505	5,756	6,006	6,256	6,506	6,756	7007	7,257	7,507	7757	8,008	8,258	8,508	8,758	9,134	62
4,617	4,874	5,136	5,386	5,643	5,900	6,156	6,412	6669	6,926	7,182	7,438	7,695	7952	8,208	8,464	8,721	8,978	9,362	63
4,732	4,995	5,258	5,521	5,784	6,047	6,310	6572	6,835	7,098	7,361	7,624	7,887	8,150	8413	8,676	8,939	9,202	9,596	64
4,851	5,120	5,390	5,659	5,929	6,198	6,468	6,737	7006	7,276	7,545	7,815	8,084	8,354	8,623	8,893	9,162	9,432	9,836	65
4,964	4,966	5,227	5,489	5,750	6,011	6273	6,534	6,795	7,057	7,318	7,579	7,841	8,102	8364	8,625	8886	9,148	9,540	66
4,559	4,813	5,066	5,319	5,573	5,826	6,071	6332	6,586	6,839	7092	7,346	7,599	7,852	8106	8,359	8,612	8,866	9,245	67
									6,623	6,868	7,113	7,358	7,604	7849	8,094	8,340	8,585	8,953	68
											1,882	7,120	7,357	7,594	7,832	8,069	8,306	8,662	69
													7,113	7,342	7,572	7801	8,030	8,375	70

1-a-day"

s of H.R. 10.

12-3-58
CL

H.R. 10 vs. "1% or $1-a-Day" L

Table 7. - Dollar Differences between Maximum Set-Asides under H.R. 10 and New Limits by Special Rule

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	Incomes $20,000	$21,000	$22,000
51	-21	-41	-62	-83	-103	124	- 145	- 166	- 186	- 207	- 228	- 245	- 269	- 290	- 310	- 331	- 352	- 372	- 393	- 414	- 434	-
52	-20																					
53	-19																					
54	-18																					
55	-16																					
56	-18																					
57	-10																					
58	-6																					
59	-2	- 4	- 6	- 8	- 10	12	- 14	- 16	- 18	- 20	- 23	- 25	- 27	- 29	- 31	- 33	- 35	- 37	- 39	- 41	- 43	-
60	+3	+ 6	+ 8	+ 11	+ 14	+ 17	+ 19	+ 22	+ 25	+ 28	+ 31	+ 33	+ 36	+ 39	+ 42	+ 44	+ 47	+ 50	+ 53	+ 56	+ 58	+
61	-2	- 4	- 6	- 9	- 11	- 13	- 15	- 17	- 19	- 21	- 24	- 26	- 28	- 30	- 32	- 34	- 36	- 39	- 41	- 43	- 45	-
62	-7																					
63	-12																					
64	-16																					
65	-21																					
66	-38																					
67	-56																					
68	-74																					
69	-91																					
70	-109																					

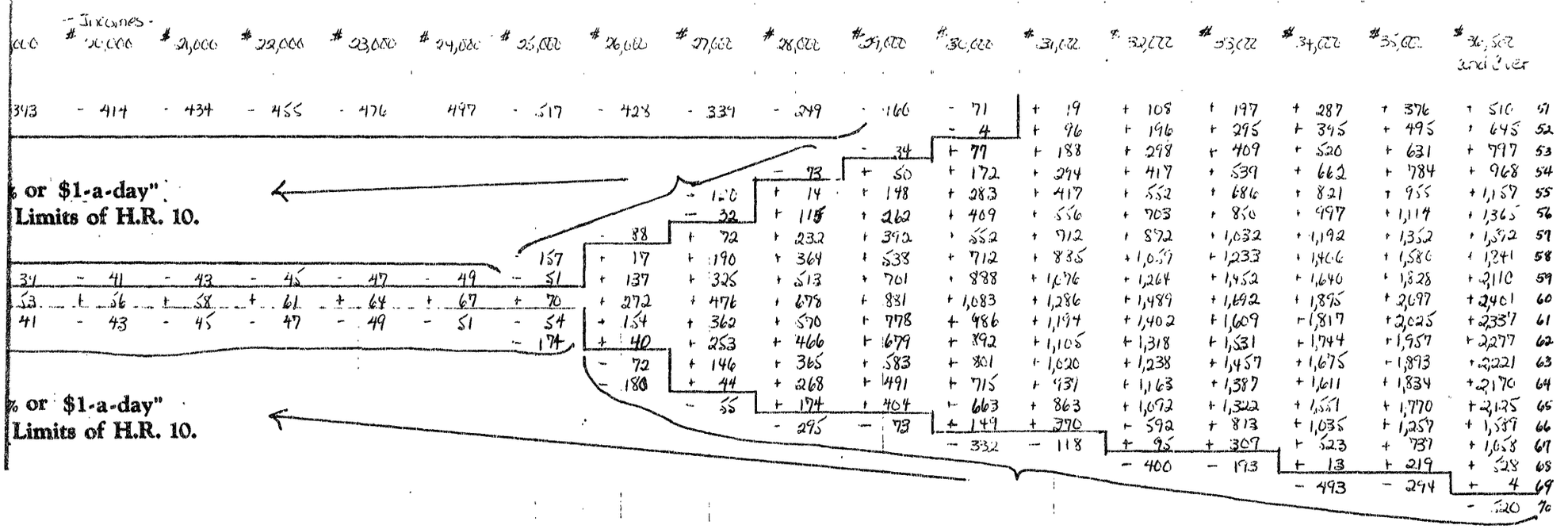
Above and/or Below Stair-steps, the New Limits of "1% or $1-a-day" are Lower for the Ages and the Annual Earnings than the Limits of H.R. 10.

Above and/or Below Stair-steps, the New Limits of "1% or $1-a-day" are Lower for the Ages and the Annual Earnings than the Limits of H.R. 10.

42777 O - 59 (Face p. 248) No. 7

"1% or $1-a-Day" Limits

Limits by Special Rule for Ages 51-70 and Incomes of $1,000-$36,500 and Over: For Men.



000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,500 and Over	
343	- 414	- 434	- 455	- 476	497	- 517	- 423	- 334	- 249	- 166	- 71	+ 19	+ 108	+ 197	+ 287	+ 376	+ 510	51
											- 4	+ 96	+ 196	+ 295	+ 395	+ 495	+ 645	52
										- 34	+ 77	+ 188	+ 298	+ 409	+ 520	+ 631	+ 797	53
									- 73	+ 50	+ 172	+ 294	+ 417	+ 539	+ 662	+ 784	+ 968	54
								- 120	+ 14	+ 148	+ 283	+ 417	+ 552	+ 686	+ 821	+ 955	+ 1,159	55
								- 32	+ 115	+ 262	+ 409	+ 556	+ 703	+ 850	+ 997	+ 1,114	+ 1,365	56
							- 88	+ 72	+ 232	+ 392	+ 552	+ 712	+ 872	+ 1,032	+ 1,192	+ 1,352	+ 1,572	57
						- 157	+ 17	+ 190	+ 364	+ 538	+ 712	+ 885	+ 1,057	+ 1,233	+ 1,406	+ 1,580	+ 1,841	58
34	- 41	- 43	- 45	- 47	- 49	- 51	+ 137	+ 325	+ 513	+ 701	+ 888	+ 1,076	+ 1,264	+ 1,452	+ 1,640	+ 1,828	+ 2,110	59
53	+ 56	+ 58	+ 61	+ 64	+ 67	+ 70	+ 272	+ 476	+ 678	+ 881	+ 1,083	+ 1,286	+ 1,489	+ 1,692	+ 1,895	+ 2,097	+ 2,401	60
41	- 43	- 45	- 47	- 49	- 51	- 54	+ 154	+ 362	+ 570	+ 778	+ 986	+ 1,194	+ 1,402	+ 1,609	+ 1,817	+ 2,025	+ 2337	61
						- 174	+ 40	+ 253	+ 466	+ 679	+ 892	+ 1,105	+ 1,318	+ 1,531	+ 1,744	+ 1,957	+ 2,277	62
							- 72	+ 146	+ 365	+ 583	+ 801	+ 1,020	+ 1,238	+ 1,457	+ 1,675	+ 1,893	+ 2221	63
							- 180	+ 44	+ 268	+ 491	+ 715	+ 931	+ 1,163	+ 1,387	+ 1,611	+ 1,834	+ 2170	64
								- 55	+ 174	+ 404	- 663	+ 863	+ 1,092	+ 1,322	+ 1,551	+ 1,770	+ 2,125	65
									- 295	- 78	+ 149	+ 370	- 592	+ 813	+ 1,035	+ 1,259	+ 1,587	66
											- 332	- 118	+ 95	+ 309	+ 523	+ 737	+ 1,058	67
													- 400	- 193	+ 13	+ 219	+ 528	68
															- 493	- 294	+ 4	69
																	- 320	70

% or $1-a-day" Limits of H.R. 10.

% or $1-a-day" Limits of H.R. 10.

H.R. 10 vs. "1% or "1-a-Day" L

Table 8.- Dollar Differences between Maximum Set-Asides under H.R. 10 and New Limits by Special Rule for

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	Incomes $20,000	$21,000	$
51	$- 5	$- 10	$- 15	$- 20	$- 26	$- 31	$- 36	$- 41	$- 46	$- 51	$- 56	$- 61	$- 66	$- 71	$- 76	$- 82	$- 87	$- 92	$- 97	$- 102	$- 107	$
52	- 3																					
53	+ *	+ 1	+ 1	+ 1	+ 1	+ 2	+ 2	+ 2	+ 2	+ 2	+ 3	+ 3	+ 3	+ 4	+ 4	+ 4	+ 4	+ 4	+ 5	+ 5	+ 5	+
54	+ 4	+ 8	+ 11	+ 15	+ 19	+ 23	+ 26	+ 30	+ 34	+ 38	+ 41	+ 45	+ 49	+ 53	+ 57	+ 60	+ 64	+ 68	+ 72	+ 75	+ 79	+
55	+ 8	+ 16	+ 24	+ 32	+ 39	+ 47	+ 55	+ 63	+ 71	+ 79	+ 87	+ 95	+ 103	+ 110	+ 118	+ 126	+ 134	+ 142	+ 150	+ 158	+ 166	+
56	+ 13	+ 25	+ 38	+ 50	+ 63	+ 76	+ 88	+ 101	+ 114	+ 126	+ 139	+ 151	+ 164	+ 179	+ 189	+ 202	+ 215	+ 227	+ 240	+ 252	+ 265	+
57	+ 18	+ 36	+ 54	+ 72	+ 90	+ 108	+ 126	+ 144	+ 162	+ 180	+ 198	+ 216	+ 234	+ 252	+ 270	+ 288	+ 306	+ 324	+ 342	+ 360	+ 378	+
58	+ 24	+ 48	+ 72	+ 96	+ 120	+ 144	+ 168	+ 192	+ 216	+ 240	+ 264	+ 288	+ 312	+ 336	+ 360	+ 384	+ 409	+ 438	+ 457	+ 481	+ 505	+
59	+ 31	+ 62	+ 92	+ 123	+ 154	+ 185	+ 215	+ 246	+ 277	+ 308	+ 338	+ 369	+ 400	+ 431	+ 461	+ 492	+ 523	+ 554	+ 584	+ 615	+ 646	+
60	+ 38	+ 76	+ 115	+ 153	+ 191	+ 229	+ 267	+ 305	+ 344	+ 382	+ 420	+ 458	+ 496	+ 535	+ 573	+ 611	+ 649	+ 687	+ 725	+ 764	+ 802	+
61	+ 34	+ 68	+ 102	+ 137	+ 171	+ 205	+ 239	+ 273	+ 307	+ 341	+ 376	+ 410	+ 444	+ 478	+ 512	+ 546	+ 580	+ 615	+ 649	+ 683	+ 717	+
62	+ 30	+ 60	+ 91	+ 121	+ 151	+ 181	+ 212	+ 242	+ 272	+ 302	+ 333	+ 363	+ 393	+ 423	+ 454	+ 484	+ 514	+ 544	+ 575	+ 605	+ 635	+
63	+ 26	+ 53	+ 80	+ 106	+ 132	+ 159	+ 186	+ 212	+ 238	+ 265	+ 292	+ 318	+ 344	+ 371	+ 398	+ 424	+ 450	+ 477	+ 504	+ 530	+ 556	+
64	+ 23	+ 46	+ 69	+ 92	+ 114	+ 137	+ 160	+ 183	+ 206	+ 229	+ 252	+ 275	+ 298	+ 321	+ 344	+ 366	+ 389	+ 412	+ 435	+ 458	+ 481	+
65	+ 19	+ 39	+ 58	+ 78	+ 97	+ 117	+ 136	+ 156	+ 175	+ 195	+ 214	+ 234	+ 253	+ 273	+ 292	+ 312	+ 331	+ 351	+ 370	+ 390	+ 409	+
66	+ 1	+ 3	+ 4	+ 5	+ 7	+ 8	+ 10	+ 11	+ 12	+ 14	+ 15	+ 16	+ 18	+ 19	+ 20	+ 22	+ 23	+ 24	+ 26	+ 27	+ 29	+
67	- 17	- 33	- 50	- 67	- 84	- 100	- 117	- 134	- 150	- 167	- 184	- 200	- 217	+ 234	- 250	- 267	- 284	- 301	- 317	- 334	- 351	-
68	-35																					
69	-53																					
70	-71																					

Above and/or Below Stair-steps, the New Limits of "1% or $1-a-day" are Lower for the Ages and the Annual Earnings than the Limits of H.R. 10.

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H.R. 10 vs. "1% or $1-a-Day" Limits

10 and New Limits by Special Rule for Ages 51–70 and Incomes of $1,000–$36,500 and Over: For Women.

	$18,000	$19,000	Incomes $20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,500 and Over	
7	− 92	− 97	− 102	− 107	− 112	− 117	− 122	− 128	− 23	+ 82	+ 187	+ 292	+ 397	+ 502	+ 607	+ 712	+ 817	+ 922	+ 1,079	51
									+ 50	+ 167	+ 284	+ 401	+ 519	+ 636	+ 753	+ 871	+ 988	+ 1,105	+ 1,281	52
4	+ 4	+ 5	+ 5	+ 5	+ 6	+ 6	+ 6	+ 6	+ 136	+ 267	+ 397	+ 527	+ 658	+ 788	+ 918	+ 1,048	+ 1,178	+ 1,309	+ 1,504	53
4	+ 68	+ 72	+ 75	+ 79	+ 83	+ 87	+ 90	+ 94	+ 238	+ 382	+ 526	+ 669	+ 813	+ 957	+ 1,101	+ 1,244	+ 1,388	+ 1,532	+ 1,748	54
4	+ 142	+ 150	+ 158	+ 166	+ 174	+ 181	+ 189	+ 197	+ 355	+ 513	+ 671	+ 829	+ 987	+ 1,145	+ 1,302	+ 1,460	+ 1,618	+ 1,776	+ 2,013	55
5	+ 227	+ 240	+ 252	+ 265	+ 278	+ 290	+ 303	+ 316	+ 488	+ 661	+ 833	+ 1,006	+ 1,179	+ 1,351	+ 1,524	+ 1,696	+ 1,869	+ 2,042	+ 2,301	56
6	+ 324	+ 342	+ 360	+ 378	+ 396	+ 414	+ 432	+ 450	+ 638	+ 826	+ 1,014	+ 1,202	+ 1,390	+ 1,578	+ 1,766	+ 1,954	+ 2,142	+ 2330	+ 2,613	57
9	+ 438	+ 457	+ 481	+ 505	+ 529	+ 553	+ 577	+ 601	+ 805	+ 1,009	+ 1,213	+ 1,417	+ 1,621	+ 1,825	+ 2,029	+ 2,233	+ 2,437	+ 2641	+ 2947	58
3	+ 554	+ 584	+ 615	+ 646	+ 677	+ 707	+ 738	+ 769	+ 990	+ 1,211	+ 1,431	+ 1,652	+ 1,873	+ 2,094	+ 2,314	+ 2,535	+ 2756	+ 2977	+ 3308	59
9	+ 687	+ 725	+ 764	+ 802	+ 840	+ 878	+ 916	+ 954	+ 1,193	+ 1,431	+ 1,669	+ 1,907	+ 2,145	+ 2384	+ 2,622	+ 2,860	+ 3,098	+ 3,336	+ 3,694	60
0	+ 615	+ 649	+ 683	+ 717	+ 751	+ 785	+ 819	+ 854	+ 1,098	+ 1,342	+ 1,586	+ 1,830	+ 2,074	+ 2,318	+ 2,562	+ 2,807	+ 3,051	+ 3,295	+ 3661	61
4	+ 544	+ 575	+ 605	+ 635	+ 665	+ 696	+ 726	+ 756	+ 1,006	+ 1,256	+ 1,507	+ 1,757	+ 2,007	+ 2,257	+ 2,508	+ 2758	+ 3,008	+ 3,258	+ 3,634	62
6	+ 477	+ 504	+ 530	+ 556	+ 583	+ 610	+ 636	+ 662	+ 919	+ 1,176	+ 1,432	+ 1,688	+ 1945	+ 2,202	+ 2458	+ 2714	+ 2971	+ 3,228	+ 3,612	63
9	+ 412	+ 435	+ 458	+ 481	+ 504	+ 527	+ 550	+ 572	+ 835	+ 1,098	+ 1,361	+ 1,624	+ 1,887	+ 2,150	+ 2413	+ 2,676	+ 2939	+ 3,202	+ 3,596	64
1	+ 351	+ 370	+ 390	+ 409	+ 429	+ 448	+ 468	+ 487	+ 756	+ 1,026	+ 1,295	+ 1,665	+ 1,834	+ 2,104	+ 2,373	+ 2,643	+ 2,912	+ 3,182	+ 3,536	65
3	+ 24	+ 26	+ 27	+ 29	+ 30	+ 31	+ 33	+ 34	+ 295	+ 557	+ 818	+ 1,079	+ 1,341	+ 1,602	+ 1,864	+ 2,125	+ 2386	+ 3,648	+ 3,040	66
4	− 301	− 317	− 334	− 351	− 367	− 384	− 401	− 418	− 164	+ 89	+ 342	+ 596	+ 849	+ 1,102	+ 1,356	+ 1,609	+ 1,862	+ 2,116	+ 2,495	67
										− 377	− 132	+ 113	+ 358	+ 604	+ 849	+ 1,094	+ 1,340	+ 1,585	+ 1,953	68
												− 368	− 130	+ 107	+ 344	+ 582	+ 819	+ 1,056	+ 1,412	69
														− 387	− 158	+ 72	+ 301	+ 538	+ 875	70

ts of "1% or $1-a-day"
han the Limits of H.R. 10.

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H.R. 10 vs. "1% or "1-a-Day" L

Table 1A.- Entries for Vacant Rows and Columns of

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$2
												Incomes										
25	$ 43	$85	$128	$171	$214	$256	$299	$342	$384	$427	$470	$513	$555	$598	$641	$684	$726	$769	$812	$854	$897	$
6	44	88	131	175	219	263	307	350	394	438	482	525	569	613	657	701	744	788	832	876	920	
7	45	90	135	180	224	269	314	359	404	449	494	539	584	628	673	718	763	808	853	898	943	
8	46	92	138	184	230	276	322	368	414	460	506	552	598	644	690	736	782	828	874	920	966	1
9	47	94	141	189	236	283	330	377	424	472	519	566	613	660	707	755	802	849	896	943	990	1
30	48	97	145	193	242	290	338	387	435	483	532	580	628	677	725	773	822	870	918	967	1,015	1
1	50	99	149	198	248	297	347	396	446	496	545	595	644	694	743	793	842	892	941	991	1,041	1
2	51	102	152	203	254	305	356	406	457	508	559	609	660	711	762	813	863	914	965	1,016	1,067	1
3	52	104	156	208	260	312	364	416	469	521	573	625	677	729	781	833	885	937	989	1,041	1,093	1
4	53	107	160	213	267	320	374	427	480	534	587	640	694	747	800	854	907	960	1,014	1,067	1,121	1
35	55	109	164	219	273	328	383	438	492	547	602	656	711	766	820	875	930	984	1,039	1,094	1,148	1
6	56	112	168	224	280	336	392	448	505	561	617	673	729	785	841	897	953	1,009	1,065	1,121	1,177	1
7	57	115	172	230	287	345	402	460	517	575	632	690	747	804	862	919	977	1,034	1,092	1,149	1,207	1
8	59	118	177	236	294	353	412	471	530	589	648	707	766	825	884	942	1,001	1,060	1,119	1,178	1,237	1
9	60	121	181	241	302	362	423	483	543	604	664	724	785	845	906	966	1,026	1,087	1,147	1,207	1,268	1
40	62	124	186	248	309	371	433	495	557	619	681	743	804	866	928	990	1,052	1,114	1,176	1,238	1,299	1
1	63	127	190	254	317	381	444	507	571	634	698	761	825	888	951	1,015	1,078	1,142	1,205	1,269	1,332	1
2	65	130	195	260	325	390	455	520	585	650	715	780	845	910	975	1,040	1,105	1,170	1,236	1,300	1,365	1
3	67	133	200	267	333	400	466	533	600	666	733	800	866	933	999	1,066	1,133	1,199	1,266	1,333	1,399	1
4	68	137	205	273	342	410	478	546	615	683	751	820	888	956	1,024	1,093	1,161	1,229	1,298	1,366	1,434	1
45	70	140	210	280	350	420	490	560	630	700	770	840	910	980	1,050	1,120	1,190	1,260	1,330	1,400	1,470	1
6	72	144	215	287	359	431	502	574	646	718	789	861	933	1,005	1,076	1,148	1,220	1,292	1,363	1,436	1,507	1
7	74	147	221	294	368	441	515	588	662	736	809	883	956	1,030	1,103	1,177	1,250	1,324	1,397	1,471	1,545	1
8	75	151	226	302	377	452	528	603	679	754	829	905	980	1,055	1,131	1,206	1,282	1,357	1,432	1,508	1,583	1
9	77	155	232	309	386	464	541	618	696	773	850	927	1,005	1,082	1,159	1,236	1,314	1,391	1,468	1,546	1,623	1
50	79	158	238	317	396	475	554	634	713	792	871	951	1,030	1,109	1,188	1,267	1,347	1,426	1,505	1,584	1,663	1
1	81	162	244	325	406	487	568	650	731	812	893	974	1,055	1,137	1,218	1,299	1,380	1,461	1,543	1,624	1,705	1
2	83	166	250	333	416	499	583	666	749	832	915	999	1,082	1,165	1,248	1,332	1,415	1,498	1,581	1,664	1,748	1
3	85	171	256	341	426	512	597	682	768	853	938	1,024	1,109	1,194	1,280	1,365	1,450	1,535	1,621	1,706	1,791	1
4	87	175	262	350	437	525	612	699	787	874	962	1,049	1,137	1,224	1,311	1,399	1,486	1,574	1,661	1,749	1,836	1
55	90	179	269	358	448	538	627	717	807	896	986	1,075	1,165	1,255	1,344	1,434	1,524	1,613	1,703	1,792	1,882	1
6	92	184	276	367	459	551	643	735	827	919	1,010	1,102	1,194	1,286	1,378	1,470	1,562	1,653	1,745	1,837	1,929	2
7	94	188	282	377	471	565	659	753	847	942	1,036	1,130	1,224	1,318	1,412	1,506	1,601	1,695	1,789	1,883	1,977	2
8	97	193	290	386	483	579	676	772	869	965	1,062	1,158	1,255	1,351	1,448	1,544	1,641	1,737	1,834	1,930	2,027	2
9	99	198	297	396	495	594	692	791	890	989	1,088	1,187	1,286	1,385	1,484	1,583	1,682	1,781	1,879	1,978	2,077	2
60																						
1																						
2																						
3																						
4																						
65																						
6																						
7																						
8																						
9	99	199	298	397	497	596	696	795	894	994	1,093	1,192	1,292	1,391	1,491	1,590	1,689	1,789	1,888	1,987	2,087	2
70	96	191	287	382	478	574	669	765	860	956	1,052	1,147	1,243	1339	1,434	1,530	1,625	1,721	1,817	1,912	2,008	2

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H.R. 10 vs. "1% or "1-a-Day" Limits

tries for Vacant Rows and Columns of Table 1: For Men.

– Incomes –

$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,500 and Over	
$769	$812	$854	$897	$940	$983	$1,025	$1,068	$1,111	$1,153	$1,196	$1,239	$1,282	$1,324	$1,367	$1,410	$1,452	$1,495	$1,559	25
788	832	876	920	963	1,007	1,051	1,095	1,139	1,182	1,226	1,270	1,314	1,357	1,401	1,445	1,489	1,533	1,598	6
808	853	898	943	988	1,032	1,077	1,122	1,167	1,212	1,257	1,302	1,347	1,392	1,436	1,481	1,526	1,571	1,638	7
828	874	920	966	1,012	1,058	1,104	1,150	1,196	1,242	1,288	1,334	1,380	1,426	1,472	1,518	1,564	1,610	1,679	8
849	896	943	990	1,038	1,085	1,132	1,179	1,226	1,273	1,320	1,368	1,415	1,462	1,509	1,556	1,603	1,651	1,721	9
870	918	967	1,015	1,063	1,112	1,160	1,208	1,257	1,305	1,354	1,402	1,450	1,499	1,547	1,595	1,644	1,692	1,764	30
892	941	991	1,041	1,090	1,140	1,189	1,239	1,288	1,338	1,387	1,437	1,486	1,536	1,586	1,635	1,685	1,734	1,809	1
914	965	1,016	1,067	1,117	1,168	1,219	1,270	1,321	1,371	1,422	1,473	1,524	1,574	1,625	1,676	1,727	1,778	1,854	2
937	989	1,041	1,093	1,145	1,197	1,249	1,302	1,354	1,406	1,458	1,510	1,562	1,614	1,666	1,718	1,770	1,822	1,900	3
960	1,014	1,067	1,121	1,174	1,227	1,281	1,334	1,387	1,441	1,494	1,547	1,601	1,654	1,708	1,761	1,814	1,868	1,948	4
984	1,039	1,094	1,148	1,203	1,258	1,313	1,367	1,422	1,477	1,531	1,586	1,641	1,695	1,750	1,805	1,859	1,914	1,996	35
1,009	1,065	1,121	1,177	1,233	1,289	1,345	1,402	1,458	1,514	1,570	1,626	1,682	1,738	1,794	1,850	1,906	1,962	2,046	6
1,034	1,092	1,149	1,207	1,264	1,322	1,379	1,436	1,494	1,551	1,609	1,666	1,724	1,781	1,839	1,896	1,954	2,011	2,097	7
1,060	1,119	1,178	1,237	1,296	1,355	1,414	1,472	1,531	1,590	1,649	1,708	1,767	1,826	1,885	1,944	2,003	2,062	2,150	8
1,087	1,147	1,207	1,268	1,328	1,389	1,449	1,509	1,570	1,630	1,690	1,751	1,811	1,871	1,932	1,992	2,053	2,113	2,204	9
1,114	1,176	1,238	1,299	1,361	1,423	1,485	1,547	1,609	1,671	1,733	1,795	1,856	1,918	1,980	2,042	2,104	2,166	2,259	40
1,142	1,205	1,269	1,332	1,395	1,459	1,522	1,586	1,649	1,713	1,776	1,839	1,903	1,966	2,030	2,093	2,157	2,220	2,315	1
1,170	1,235	1,300	1,365	1,430	1,495	1,560	1,625	1,690	1,755	1,820	1,885	1,950	2,015	2,080	2,145	2,210	2,275	2,373	2
1,199	1,266	1,333	1,399	1,466	1,532	1,599	1,666	1,732	1,799	1,866	1,932	1,999	2,066	2,132	2,199	2,265	2,332	2,432	3
1,229	1,298	1,366	1,434	1,503	1,571	1,639	1,708	1,776	1,844	1,912	1,981	2,049	2,117	2,186	2,254	2,322	2,390	2,493	4
1,260	1,330	1,400	1,470	1,540	1,610	1,680	1,750	1,820	1,890	1,960	2,030	2,100	2,170	2,240	2,310	2,380	2,450		45
1,292	1,363	1,435	1,507	1,579	1,650	1,722	1,794	1,866	1,938	2,009	2,081	2,153	2,225	2,296	2,368	2,440			6
1,324	1,397	1,471	1,545	1,618	1,692	1,765	1,839	1,912	1,986	2,059	2,133	2,206	2,280	2,354	2,427				7
1,357	1,432	1,508	1,583	1,659	1,734	1,809	1,885	1,960	2,036	2,111	2,186	2,262	2,337	2,412	2,488				8
1,391	1,468	1,546	1,623	1,700	1,777	1,855	1,932	2,009	2,087	2,164	2,241	2,318	2,396	2,473					9
1,426	1,505	1,584	1,663	1,743	1,822	1,901	1,980	2,059	2,139	2,218	2,297	2,376	2,456						50
1,461	1,543	1,624	1,705	1,786	1,867	1,949	2,030	2,111	2,192	2,273	2,355	2,436							1
1,498	1,581	1,664	1,748	1,831	1,914	1,997	2,080	2,164	2,247	2,330	2,413	2,497							2
1,535	1,621	1,706	1,791	1,877	1,962	2,047	2,132	2,218	2,303	2,388	2,474								3
1,574	1,661	1,749	1,836	1,923	2,011	2,098	2,186	2,273	2,361	2,448									4
1,613	1,703	1,792	1,882	1,972	2,061	2,151	2,240	2,330	2,420										55
1,653	1,745	1,837	1,929	2,021	2,113	2,205	2,296	2,388	2,480										6
1,695	1,789	1,883	1,977	2,071	2,165	2,260	2,354	2,448											7
1,737	1,834	1,930	2,027	2,123	2,220	2,316	2,413												8
1,781	1,879	1,978	2,077	2,176	2,275	2,374	2,473												9
																			60
																			1
																			2
																			3
																			4
																			65
																			6
																			7
																			8
																			9
1,789	1,888	1,987	2,087	2,186	2,286	2,385	2,484												70
1,721	1,817	1,912	2,008	2,103	2,199	2,295	2,390	2,486											

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H.R. 10 vs. "1% OR "1-A-DAY"

Table 2A.- Entries for Vacant Rows and Columns of

Ages	Incomes - $1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$
25	$50	$100	$151	$201	$251	$301	$351	$401	$452	$502	$552	$602	$652	$703	$753	$803	$853	$903	$953	$1,004	$1,054	$
6	51	103	154	206	257	309	360	412	463	514	566	617	669	720	772	823	874	926	977	1,029	1,080	
7	53	105	158	211	264	316	369	422	474	527	580	633	685	738	791	844	896	949	1,002	1,054	1,107	
8	54	108	162	216	270	324	378	432	486	540	594	648	703	757	811	865	919	973	1,027	1,081	1,135	
9	55	111	166	222	277	332	388	443	499	554	609	665	720	775	831	886	942	997	1,052	1,108	1,163	
30	57	114	170	227	284	341	397	454	511	568	625	681	738	795	852	908	965	1,022	1,079	1,136	1,192	
1	58	116	175	233	291	349	407	466	524	582	640	698	757	815	873	931	989	1,048	1,106	1,164	1,222	
2	60	119	179	239	298	358	418	477	437	596	656	716	775	835	895	954	1,014	1,074	1,133	1,193	1,253	
3	61	122	183	245	306	367	428	489	550	611	673	734	795	856	917	978	1,039	1,101	1,162	1,223	1,284	
4	63	125	188	251	313	376	439	501	564	627	689	752	815	877	940	1,003	1,065	1,128	1,191	1,253	1,316	
35	64	128	193	257	321	385	450	514	578	642	707	771	835	899	964	1,028	1,092	1,156	1,221	1,285	1,349	
6	66	132	198	263	329	395	461	527	593	658	724	790	856	922	988	1,053	1,119	1,185	1,251	1,317	1,383	
7	67	135	202	270	337	405	472	540	607	675	742	810	877	945	1,012	1,080	1,147	1,215	1,282	1,350	1,417	
8	69	138	208	277	346	415	484	553	623	692	761	830	899	969	1,038	1,107	1,176	1,245	1,314	1,384	1,453	
9	71	142	213	284	354	425	496	567	638	709	780	851	922	993	1,064	1,134	1,205	1,276	1,347	1,418	1,489	
40	73	145	218	291	363	436	509	581	654	727	799	872	945	1,018	1,090	1,163	1,236	1,308	1,381	1,454	1,526	
1	74	149	224	298	372	447	522	596	670	745	820	894	968	1,043	1,118	1,192	1,266	1,341	1,416	1,490	1,564	
2	76	153	229	305	382	458	535	611	687	764	840	916	993	1,069	1,145	1,222	1,298	1,374	1,451	1,527	1,604	
3	78	157	235	313	391	470	548	626	704	783	861	939	1,018	1,096	1,174	1,252	1,331	1,409	1,487	1,565	1,644	
4	80	160	241	321	401	481	562	642	722	802	882	963	1,043	1,123	1,203	1,284	1,364	1,444	1,524	1,604	1,685	
45	82	164	247	329	411	493	576	658	740	822	905	987	1,069	1,151	1,233	1,316	1,398	1,480	1,562	1,645	1,727	
6	84	169	253	337	421	506	590	674	759	843	927	1,011	1,096	1,180	1,264	1,348	1,433	1,517	1,601	1,686	1,770	
7	86	173	259	346	[illegible]	518	605	691	778	864	950	1,037	1,123	1,209	1,296	1,382	1,469	1,555	1,641	1,728	1,814	
8	89	177	266	354	443	531	620	708	797	886	974	1,063	1,151	1,240	1,328	1,417	1,505	1,594	1,682	1,771	1,860	
9	91	182	272	363	454	545	635	726	817	908	998	1,089	1,180	1,271	1,361	1,452	1,543	1,634	1,724	1,815	1,906	
50	93	186	279	372	465	558	651	744	837	930	1,023	1,116	1,209	1,302	1,395	1,488	1,582	1,675	1,768	1,861	1,954	
1	95	191	286	381	477	572	668	763	858	954	1,049	1,144	1,240	1,335	1,430	1,526	1,621	1,716	1,812	1,907	2,003	
2	98	195	293	391	489	586	684	782	880	977	1,075	1,173	1,271	1,368	1,466	1,564	1,662	1,759	1,857	1,955	2,053	
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I.R. 10 vs. "1% or "$1-a-Day" Limits

s for Vacant Rows and Columns of Table 2: For Women.

← Incomes →																		
$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,500 and Over	
$903	$953	$1,004	$1,054	$1,104	$1,154	$1,204	$1,254	$1,305	$1,355	$1,405	$1,455	$1,505	$1,556	$1,606	$1,656	$1,706	$1,756	$1,832	25
926	977	1,029	1,080	1,132	1,183	1,235	1,286	1,337	1,389	1,440	1,492	1,543	1,595	1,646	1,698	1,749	1,800	1,878	6
949	1,002	1,054	1,107	1,160	1,213	1,265	1,318	1,371	1,423	1,476	1,529	1,582	1,634	1,687	1,740	1,792	1,845	1,924	7
973	1,027	1,081	1,135	1,189	1,243	1,297	1,351	1,405	1,459	1,513	1,567	1,621	1,675	1,729	1,783	1,837	1,891	1,972	8
997	1,052	1,108	1,163	1,219	1,274	1,329	1,385	1,440	1,496	1,551	1,606	1,662	1,717	1,772	1,828	1,883	1,939	2,022	9
1,022	1,079	1,136	1,192	1,249	1,306	1,363	1,420	1,476	1,533	1,590	1,647	1,703	1,760	1,817	1,874	1,931	1,987	2,072	30
1,048	1,106	1,164	1,222	1,280	1,339	1,397	1,455	1,513	1,571	1,630	1,688	1,746	1,804	1,862	1,921	1,979	2,037	2,124	1
1,074	1,133	1,193	1,253	1,312	1,372	1,432	1,491	1,551	1,611	1,670	1,730	1,790	1,849	1,909	1,968	2,028	2,088	2,177	2
1,101	1,162	1,223	1,284	1,345	1,406	1,467	1,528	1,590	1,651	1,712	1,773	1,834	1,895	1,956	2,018	2,079	2,140	2,232	3
1,128	1,191	1,253	1,316	1,379	1,441	1,504	1,567	1,629	1,692	1,755	1,817	1,880	1,943	2,005	2,068	2,131	2,193	2,287	4
1,156	1,221	1,285	1,349	1,413	1,478	1,542	1,606	1,670	1,734	1,799	1,863	1,927	1,991	2,056	2,120	2,184	2,248	2,345	35
1,185	1,251	1,317	1,383	1,448	1,514	1,580	1,646	1,712	1,778	1,844	1,909	1,975	2,041	2,107	2,173	2,239	2,304	2,403	6
1,215	1,282	1,350	1,417	1,485	1,552	1,620	1,687	1,755	1,822	1,890	1,957	2,025	2,092	2,160	2,227	2,295	2,362	2,463	7
1,245	1,314	1,384	1,453	1,522	1,591	1,660	1,730	1,799	1,868	1,937	2,006	2,075	2,145	2,214	2,283	2,352	2,421		8
1,276	1,347	1,418	1,489	1,560	1,631	1,702	1,772	1,843	1,914	1,985	2,056	2,127	2,198	2,269	2,340	2,411	2,482		9
1,308	1,381	1,454	1,526	1,599	1,672	1,744	1,817	1,890	1,962	2,035	2,108	2,180	2,253	2,326	2,398	2,471			40
1,341	1,416	1,490	1,564	1,639	1,714	1,788	1,862	1,937	2,012	2,086	2,160	2,235	2,310	2,384	2,458				1
1,374	1,451	1,527	1,604	1,680	1,756	1,833	1,909	1,985	2,062	2,138	2,214	2,291	2,367	2,444					2
1,409	1,487	1,565	1,644	1,722	1,800	1,878	1,957	2,035	2,113	2,192	2,270	2,348	2,426						3
1,444	1,524	1,604	1,685	1,765	1,845	1,925	2,006	2,086	2,166	2,246	2,326	2,407	2,487						4
1,480	1,562	1,645	1,727	1,809	1,891	1,974	2,056	2,138	2,220	2,302	2,385	2,467							45
1,517	1,601	1,686	1,770	1,854	1,938	2,023	2,107	2,191	2,276	2,360	2,444								6
1,555	1,641	1,728	1,814	1,901	1,987	2,073	2,160	2,246	2,333	2,419									7
1,594	1,682	1,771	1,860	1,948	2,037	2,125	2,214	2,302	2,391	2,479									8
1,634	1,724	1,815	1,906	1,997	2,087	2,178	2,269	2,360	2,451										9
1,675	1,768	1,861	1,954	2,047	2,140	2,233	2,326	2,419											50
1,716	1,812	1,907	2,003	2,098	2,193	2,289	2,384	2,479											1
1,759	1,857	1,955	2,053	2,150	2,248	2,346	2,444												2
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																			70

H.R. 10 vs. "1% or $1-a-Day"

Table 3A. - Entries for Vacant Rows and Columns

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$22,000
25	-57	-115	-172	-229	-286	-344	-401	-458	-516	-573	-630	-687	-745	-802	-859	-916	-974	-1,031	-1,088	-1,146	-1,203	-
26	-56	-112	-169	-225	-281	-337	-393	-450	-506	-562	-618	-675	-731	-787	-843	-899	-956	-1,012	-1,068	-1,124	-1,180	-
27	-55	-110	-165	-220	-276	-331	-386	-441	-496	-551	-606	-661	-716	-772	-827	-882	-937	-992	-1,047	-1,102	-1,157	-
28	-54	-108	-162	-216	-270	-324	-378	-432	-486	-540	-594	-648	-702	-756	-810	-864	-918	-972	-1,026	-1,080	-1,134	-
29	-53	-106	-159	-211	-264	-317	-370	-423	-476	-528	-581	-634	-687	-740	-793	-845	-898	-951	-1,004	-1,057	-1,110	-
30	-52	-103	-155	-207	-258	-310	-362	-413	-465	-517	-568	-620	-672	-723	-775	-827	-878	-930	-982	-1,033	-1,085	-
31	-50	-101	-151	-202	-252	-303	-353	-404	-454	-504	-555	-605	-656	-706	-757	-807	-858	-908	-959	-1,009	-1,059	-
32	-49	-98	-148	-197	-246	-295	-344	-394	-443	-492	-541	-591	-640	-689	-738	-787	-837	-886	-935	-984	-1,033	-
33	-48	-96	-144	-192	-240	-288	-336	-384	-431	-479	-527	-575	-623	-671	-719	-767	-815	-863	-911	-959	-1,007	-
34	-47	-93	-140	-187	-233	-280	-326	-373	-420	-466	-513	-560	-606	-653	-700	-746	-793	-840	-886	-933	-979	-
35	-45	-91	-136	-181	-227	-272	-317	-362	-408	-453	-498	-544	-589	-634	-680	-725	-770	-816	-861	-906	-952	-
36	-44	-88	-132	-176	-220	-264	-308	-352	-395	-439	-483	-527	-571	-615	-659	-703	-747	-791	-835	-879	-923	-
37	-43	-85	-128	-170	-213	-255	-298	-340	-383	-425	-468	-510	-553	-596	-638	-681	-723	-766	-808	-851	-893	-
38	-41	-82	-123	-164	-206	-247	-288	-329	-370	-411	-452	-493	-534	-575	-616	-658	-699	-740	-781	-822	-863	-
39	-40	-79	-119	-159	-198	-238	-277	-317	-357	-396	-436	-476	-515	-555	-594	-634	-673	-713	-753	-793	-832	-
40	-38	-76	-114	-152	-191	-229	-267	-305	-343	-381	-419	-457	-496	-534	-572	-610	-648	-686	-724	-762	-801	-
41	-37	-73	-110	-146	-183	-219	-256	-293	-329	-366	-402	-439	-475	-512	-549	-585	-622	-658	-695	-731	-768	-
42	-35	-70	-105	-140	-175	-210	-245	-280	-315	-350	-385	-420	-455	-490	-525	-560	-595	-630	-665	-700	-735	-
43	-33	-67	-100	-133	-167	-200	-234	-267	-300	-334	-367	-400	-434	-467	-501	-534	-567	-601	-634	-667	-701	-
44	-32	-63	-95	-127	-158	-190	-222	-254	-285	-317	-349	-380	-412	-444	-476	-507	-539	-571	-602	-634	-666	-
45	-30	-60	-90	-120	-150	-180	-210	-240	-270	-300	-330	-360	-390	-420	-450	-480	-510	-540	-570	-600	-630	-
46	-28	-56	-85	-113	-141	-169	-198	-226	-254	-282	-311	-339	-367	-395	-424	-452	-480	-508	-537	-565	-593	-
47	-26	-53	-79	-106	-132	-159	-185	-212	-238	-264	-291	-317	-344	-370	-397	-423	-450	-476	-503	-529	-555	-
48	-25	-49	-74	-98	-123	-148	-172	-197	-221	-246	-271	-295	-320	-345	-369	-394	-418	-443	-468	-492	-517	-
49	-23	-45	-68	-91	-114	-136	-159	-182	-204	-227	-250	-273	-295	-318	-341	-364	-386	-409	-432	-454	-477	-
50	-21	-42	-62	-83	-104	-125	-146	-166	-187	-208	-229	-249	-270	-291	-312	-333	-353	-374	-395	-416	-437	-
51	-19	-38	-56	-75	-94	-113	-132	-150	-169	-188	-207	-226	-245	-263	-282	-301	-320	-339	-357	-376	-395	-
52	-17	-34	-50	-67	-84	-101	-117	-134	-151	-168	-185	-201	-218	-235	-252	-268	-285	-302	-319	-336	-352	-
53	-15	-29	-44	-59	-74	-88	-103	-118	-132	-147	-162	-176	-191	-206	-220	-235	-250	-265	-279	-294	-309	-
54	-13	-25	-38	-50	-63	-75	-88	-101	-113	-126	-138	-151	-163	-176	-189	-201	-214	-226	-239	-251	-264	-
55	-10	-21	-31	-42	-52	-62	-73	-83	-93	-104	-114	-125	-135	-145	-156	-166	-176	-187	-197	-208	-218	-
56	-8	-16	-24	-33	-41	-49	-57	-65	-73	-81	-90	-98	-106	-114	-122	-130	-138	-147	-155	-163	-171	-
57	-6	-12	-18	-23	-29	-35	-41	-47	-53	-58	-64	-70	-76	-82	-88	-94	-99	-105	-111	-117	-123	-
58	-3	-7	-10	-14	-17	-21	-24	-28	-31	-35	-38	-42	-45	-49	-52	-56	-59	-63	-66	-70	-73	-
59	-1	-2	-3	-4	-5	-6	-8	-9	-10	-11	-12	-13	-14	-15	-16	-17	-18	-19	-21	-22	-23	-
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68																						
69	-1	-1	-2	-3	-3	-4	-4	-5	-6	-6	-7	-8	-8	-9	-9	-10	-11	-11	-12	-13	-13	-
70	-4	-9	-13	-18	-22	-26	-31	-35	-40	-44	-48	-53	-57	-61	-66	-70	-75	-83	-83	-88	-92	-

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H.R. 10 vs. "1% or $1-a-Day" Limits

tries for Vacant Rows and Columns of Table 3: For Men.

Incomes																		
$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,000 and over	
$ - 1,031	$ - 1,088	$ - 1,146	$ - 1,203	$ - 1,260	$ - 1,317	$ - 1,375	$ - 1,432	$ - 1,389	$ - 1,347	$ - 1,304	$ - 1,261	$ - 1,218	$ - 1,176	$ - 1,133	$ - 1,090	$ - 1,048	$ - 1,005	$ - 941	25
- 1,012	- 1,068	- 1,124	- 1,180	- 1,237	- 1,293	- 1,349	- 1,405	- 1,361	- 1,318	- 1,274	- 1,230	- 1,186	- 1,143	- 1,099	- 1,055	- 1,011	- 967	- 902	6
- 992	- 1,047	- 1,102	- 1,157	- 1,212	- 1,268	- 1,323	- 1,378	- 1,333	- 1,288	- 1,243	- 1,198	- 1,153	- 1,108	- 1,064	- 1,019	- 974	- 929	- 862	7
- 972	- 1,026	- 1,080	- 1,134	- 1,188	- 1,242	- 1,296	- 1,350	- 1,304	- 1,258	- 1,212	- 1,166	- 1,120	- 1,074	- 1,028	- 982	- 936	- 890	- 821	8
- 951	- 1,004	- 1,057	- 1,110	- 1,162	- 1,215	- 1,268	- 1,321	- 1,274	- 1,227	- 1,180	- 1,132	- 1,085	- 1,038	- 991	- 944	- 897	- 849	- 779	9
- 930	- 982	- 1,033	- 1,085	- 1,137	- 1,188	- 1,240	- 1,292	- 1,243	- 1,195	- 1,146	- 1,098	- 1,050	- 1,001	- 953	- 905	- 856	- 808	- 736	30
- 908	- 959	- 1,009	- 1,059	- 1,110	- 1,160	- 1,211	- 1,261	- 1,212	- 1,162	- 1,113	- 1,063	- 1,014	- 964	- 914	- 865	- 815	- 766	- 691	1
- 886	- 935	- 984	- 1,033	- 1,083	- 1,132	- 1,181	- 1,230	- 1,179	- 1,129	- 1,078	- 1,027	- 976	- 926	- 875	- 824	- 773	- 722	- 646	2
- 863	- 911	- 959	- 1,007	- 1,055	- 1,103	- 1,151	- 1,198	- 1,146	- 1,094	- 1,042	- 990	- 938	- 886	- 834	- 782	- 730	- 678	- 600	3
- 840	- 886	- 933	- 979	- 1,026	- 1,073	- 1,119	- 1,166	- 1,113	- 1,059	- 1,006	- 953	- 899	- 846	- 792	- 739	- 686	- 632	- 552	4
- 816	- 861	- 906	- 952	- 997	- 1,042	- 1,087	- 1,133	- 1,078	- 1,023	- 969	- 914	- 859	- 805	- 750	- 695	- 641	- 586	- 504	35
- 791	- 835	- 879	- 923	- 967	- 1,011	- 1,055	- 1,098	- 1,042	- 986	- 930	- 874	- 818	- 762	- 706	- 650	- 594	- 538	- 454	6
- 766	- 808	- 851	- 893	- 936	- 978	- 1,021	- 1,064	- 1,006	- 949	- 891	- 834	- 776	- 719	- 661	- 604	- 546	- 489	- 403	7
- 740	- 781	- 822	- 863	- 904	- 945	- 986	- 1,028	- 969	- 910	- 851	- 792	- 733	- 674	- 615	- 556	- 497	- 438	- 350	8
- 713	- 753	- 793	- 832	- 872	- 911	- 951	- 991	- 930	- 870	- 810	- 749	- 689	- 629	- 568	- 508	- 447	- 387	- 296	9
- 686	- 724	- 762	- 801	- 839	- 877	- 915	- 953	- 891	- 829	- 767	- 705	- 644	- 582	- 520	- 458	- 396	- 334	- 241	40
- 658	- 695	- 731	- 768	- 805	- 841	- 878	- 914	- 851	- 787	- 724	- 661	- 597	- 534	- 470	- 407	- 343	- 280	- 185	1
- 630	- 665	- 700	- 735	- 770	- 805	- 840	- 875	- 810	- 745	- 680	- 615	- 550	- 485	- 420	- 355	- 290	- 225	- 127	2
- 601	- 634	- 667	- 701	- 734	- 768	- 801	- 834	- 768	- 701	- 634	- 568	- 501	- 434	- 368	- 301	- 235	- 168	- 68	3
- 571	- 602	- 634	- 666	- 697	- 729	- 761	- 792	- 724	- 656	- 588	- 519	- 451	- 383	- 314	- 246	- 178	- 110	- 7	4
- 540	- 570	- 600	- 630	- 660	- 690	- 720	- 750	- 680	- 610	- 540	- 470	- 400	- 330	- 260	- 190	- 120	- 50		45
- 508	- 537	- 565	- 593	- 621	- 650	- 678	- 706	- 634	- 562	- 491	- 419	- 347	- 275	- 204	- 132	- 60			6
- 476	- 503	- 529	- 555	- 582	- 608	- 635	- 661	- 588	- 514	- 441	- 367	- 294	- 220	- 146	- 73				7
- 443	- 468	- 492	- 517	- 541	- 566	- 591	- 615	- 540	- 464	- 389	- 314	- 238	- 163	- 88	- 12				8
- 409	- 432	- 454	- 477	- 500	- 523	- 545	- 568	- 491	- 413	- 336	- 259	- 182	- 104	- 27					9
- 374	- 395	- 416	- 437	- 457	- 478	- 499	- 520	- 441	- 361	- 282	- 203	- 124	- 44						50
- 339	- 357	- 376	- 395	- 414	- 433	- 451	- 470	- 389	- 308	- 227	- 145	- 64							1
- 302	- 319	- 336	- 352	- 369	- 386	- 403	- 420	- 336	- 253	- 170	- 87	- 3							2
- 265	- 279	- 294	- 309	- 323	- 338	- 353	- 368	- 282	- 197	- 112	- 26								3
- 226	- 239	- 251	- 264	- 277	- 289	- 302	- 314	- 227	- 139	- 52									4
- 187	- 197	- 208	- 218	- 228	- 239	- 249	- 260	- 170	- 80										55
- 147	- 155	- 163	- 171	- 179	- 187	- 195	- 204	- 112	- 20										6
- 105	- 111	- 117	- 123	- 129	- 135	- 140	- 146	- 52											7
- 63	- 66	- 70	- 73	- 77	- 80	- 84	- 87												8
- 19	- 21	- 22	- 23	- 24	- 25	- 26	- 27												9
																			60
- 11	- 12	- 13	- 13	- 14	- 14	- 15	- 16												1
- 83	- 83	- 88	- 92	- 97	- 101	- 105	- 110	- 14											2
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12-18-58
CW

H.R. 10 vs. "1% OR "1-A-DA

Table 4A.- Entries for Vacant Rows and Colum

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	Incomes + $20,000	$21,000
25	$ 50	$ 100	$ 149	$ 199	$ 249	$ 299	$ 349	$ 399	$ 448	$ 498	$ 548	$ 598	$ 648	$ 697	$ 747	$ 797	$ 847	$ 897	$ 947	$ 996	$ 1,046
6	- 49	- 97	- 146	- 194	- 243	- 291	- 340	- 388	- 437	- 486	- 534	- 583	- 631	- 680	- 728	- 777	- 826	- 874	- 923	- 971	- 1,020
7	- 47	- 95	- 142	- 189	- 236	- 284	- 331	- 378	- 426	- 473	- 520	- 567	- 615	- 662	- 709	- 756	- 804	- 851	- 898	- 946	- 993
8	- 46	- 92	- 138	- 184	- 230	- 276	- 322	- 368	- 414	- 460	- 506	- 552	- 597	- 643	- 689	- 735	- 781	- 827	- 873	- 919	- 965
9	- 45	- 89	- 134	- 178	- 223	- 268	- 312	- 357	- 401	- 446	- 491	- 535	- 580	- 625	- 669	- 714	- 758	- 803	- 848	- 892	- 937
30	- 43	- 86	- 130	- 173	- 216	- 259	- 303	- 346	- 389	- 432	- 475	- 519	- 562	- 605	- 649	- 692	- 735	- 778	- 821	- 864	- 908
1	- 42	- 84	- 125	- 167	- 209	- 251	- 293	- 334	- 376	- 418	- 460	- 502	- 543	- 585	- 627	- 669	- 711	- 752	- 794	- 836	- 878
2	- 40	- 81	- 121	- 161	- 202	- 242	- 282	- 323	- 363	- 404	- 444	- 484	- 525	- 565	- 605	- 646	- 686	- 726	- 767	- 807	- 847
3	- 39	- 78	- 117	- 155	- 194	- 233	- 272	- 311	- 350	- 389	- 427	- 466	- 505	- 544	- 583	- 622	- 661	- 699	- 738	- 777	- 816
4	- 37	- 75	- 112	- 149	- 187	- 224	- 261	- 299	- 336	- 373	- 411	- 448	- 486	- 523	- 560	- 597	- 635	- 672	- 709	- 747	- 784
35	- 36	- 72	- 107	- 143	- 179	- 215	- 250	- 286	- 322	- 358	- 393	- 429	- 465	- 501	- 536	- 572	- 608	- 644	- 679	- 715	- 751
6	- 34	- 68	- 102	- 137	- 171	- 205	- 239	- 273	- 307	- 342	- 376	- 410	- 444	- 478	- 512	- 547	- 581	- 615	- 649	- 683	- 717
7	- 33	- 65	- 98	- 130	- 163	- 195	- 228	- 260	- 293	- 325	- 358	- 390	- 423	- 455	- 488	- 520	- 553	- 585	- 618	- 650	- 683
8	- 31	- 62	- 92	- 123	- 154	- 185	- 216	- 247	- 277	- 308	- 339	- 370	- 401	- 431	- 462	- 493	- 524	- 555	- 586	- 616	- 647
9	- 29	- 58	- 87	- 116	- 146	- 175	- 204	- 233	- 262	- 291	- 320	- 349	- 378	- 407	- 436	- 466	- 495	- 524	- 553	- 582	- 611
40	- 27	- 55	- 82	- 109	- 137	- 164	- 191	- 219	- 246	- 273	- 301	- 328	- 355	- 382	- 410	- 437	- 464	- 492	- 519	- 546	- 574
1	- 26	- 51	- 76	- 102	- 128	- 153	- 178	- 204	- 230	- 255	- 280	- 306	- 332	- 357	- 382	- 408	- 434	- 459	- 484	- 510	- 536
2	- 24	- 47	- 71	- 95	- 118	- 142	- 165	- 189	- 213	- 236	- 260	- 284	- 307	- 331	- 355	- 378	- 402	- 426	- 449	- 473	- 496
3	- 22	- 43	- 65	- 87	- 109	- 130	- 152	- 174	- 196	- 217	- 239	- 261	- 282	- 304	- 326	- 348	- 369	- 391	- 413	- 435	- 456
4	- 20	- 40	- 59	- 79	- 99	- 119	- 138	- 158	- 178	- 198	- 218	- 237	- 257	- 277	- 297	- 316	- 336	- 356	- 376	- 396	- 415
45	- 18	- 36	- 53	- 71	- 89	- 107	- 124	- 142	- 160	- 178	- 195	- 213	- 231	- 249	- 267	- 284	- 302	- 320	- 338	- 355	- 373
6	- 16	- 31	- 47	- 63	- 79	- 94	- 110	- 126	- 141	- 157	- 173	- 189	- 204	- 220	- 236	- 252	- 267	- 283	- 299	- 314	- 330
7	- 14	- 27	- 41	- 54	- 68	- 82	- 95	- 109	- 122	- 136	- 150	- 163	- 177	- 191	- 204	- 218	- 231	- 245	- 259	- 272	- 286
8	- 11	- 23	- 34	- 46	- 57	- 69	- 80	- 92	- 103	- 114	- 126	- 137	- 149	- 160	- 172	- 183	- 195	- 206	- 218	- 229	- 240
9	- 9	- 18	- 28	- 37	- 46	- 55	- 65	- 74	- 83	- 92	- 102	- 111	- 120	- 129	- 139	- 148	- 157	- 166	- 176	- 185	- 194
50	- 7	- 14	- 21	- 28	- 35	- 42	- 49	- 56	- 63	- 70	- 77	- 84	- 91	- 98	- 105	- 112	- 118	- 125	- 132	- 139	- 146
1	- 5	- 9	- 14	- 19	- 23	- 28	- 32	- 37	- 42	- 46	- 51	- 56	- 60	- 65	- 70	- 74	- 79	- 84	- 88	- 93	- 97
2	- 2	- 5	- 7	- 9	- 11	- 14	- 16	- 18	- 20	- 23	- 25	- 27	- 29	- 32	- 34	- 36	- 38	- 41	- 43	- 45	- 47
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42777 O - 59 (Face p. 248) No. 12

10 vs. "1% or "1-a-Day" Limits

Vacant Rows and Columns of Table 4: For Women.

Incomes → $19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,500 and Over	
$ 947	$ 996	$ 1,046	$ 1,096	$ 1,146	$ 1,196	$ 1,246	1,195	$ 1,145	1,095	1,045	995	$ 944	894	$ 844	$ 794	$ 744	$ 668	25
923	971	1,020	1,068	1,117	1,165	1,214	1,163	1,111	1,060	1,008	957	905	854	802	751	700	622	6
898	946	993	1,040	1,087	1,135	1,182	1,129	1,077	1,024	971	918	866	813	760	708	655	576	7
873	919	965	1,011	1,057	1,103	1,149	1,095	1,041	987	933	879	825	771	717	663	609	528	8
848	892	937	981	1,026	1,071	1,115	1,060	1,004	949	894	838	783	728	672	617	561	478	9
821	864	908	951	994	1,037	1,080	1,024	967	910	853	797	740	683	626	569	513	429	30
794	836	878	920	961	1,003	1,045	987	929	870	812	754	696	638	579	521	463	376	1
767	807	847	888	928	968	1,009	949	889	830	770	710	651	591	532	472	412	323	2
738	777	816	855	894	933	972	910	849	788	727	666	605	544	482	421	360	269	3
709	747	784	821	859	896	933	871	808	745	683	620	557	495	432	369	307	213	4
679	715	751	787	822	858	894	830	766	701	637	573	509	444	380	316	252	155	35
649	683	717	752	786	820	854	788	722	656	591	525	459	393	327	261	196	97	6
618	650	683	715	748	780	813	745	678	610	543	475	408	340	273	205	138	37	7
586	616	647	678	709	740	770	701	632	563	494	425	355	286	217	148	79		8
553	582	611	640	669	698	728	657	586	515	444	373	302	231	160	87	18		9
519	546	574	601	628	656	683	610	538	465	392	320	247	174	102	29			40
484	510	536	561	586	612	638	563	488	414	340	265	191	116	42				1
449	473	496	520	544	567	591	515	438	362	286	209	133	56					2
413	435	456	478	500	522	543	465	387	308	230	152	74						3
376	396	415	435	455	475	494	414	334	254	174	93	13						4
338	355	373	391	409	426	444	362	280	198	115	33							45
299	314	330	346	362	377	393	309	224	140	56								6
259	272	286	299	313	327	340	254	167	81									7
218	229	240	252	263	275	286	198	109	21									8
176	185	194	203	213	222	231	140	49										9
132	139	146	153	160	167	174	81											50
88	93	97	102	107	111	116	21											1
43	45	47	50	52	54	56												2
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12-17-58
H.R.

H.R. 10 vs. "1% OR $1-A-DAY" L

Table 5A + 7A. - Special Rule: Maximum Annual Set-Asides under New Limits, under H.R. 10, and the Dollar Difference

Ages	$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	- Incomes - $20,000	$21,000	$22,0
51 New	$ 89	$ 179	$ 268	$ 357	$ 447	$ 536	$ 625	$ 714	$ 804	$ 893	$ 982	$ 1,072	$ 1,161	$ 1,250	$ 1,340	$ 1,429	$ 1,518	$ 1,608	$ 1,697	1,786	1,876	1,9
H.R.10	110	220	330	440	550	660	770	880	990	1,100	1,210	1,320	1,430	1,540	1,650	1,760	1,870	1,980	2,090	2,200	2,310	2,4
Diff.	- 21	- 41	- 62	- 83	-103	-124	- 145	- 166	- 186	- 207	-228	- 248	- 269	- 290	- 310	- 331	- 352	- 372	- 393	- 414	- 434	- 4
52 New	100	200	300	399	499	599	699	799	899	999	1,098	1,198	1,298	1,398	1,498	1,598	1,698	1,797	1,897	1,997	2,097	2,1
H.R.10	120	240	360	480	600	720	840	960	1,080	1,200	1,320	1,440	1,560	1,680	1,800	1,920	2,040	2,160	2,280	2,400	2,520	2,6
Diff.	- 20	- 40	- 60	- 81	-101	-121	- 141	- 161	- 181	- 201	- 222	- 242	- 262	- 282	- 302	- 322	- 342	- 363	- 383	- 403	- 423	- 4
53 New	111	222	333	444	554	665	776	887	998	1,109	1,220	1,331	1,442	1,552	1,663	1,774	1,885	1,996	2,107	2,218	2,329	24
H.R.10	130	260	390	520	650	780	910	1,040	1,170	1,300	1,430	1,560	1,690	1,820	1,950	2,080	2,210	2,340	2,470	2,600	2,730	2,8
Diff.	- 19	- 38	- 57	- 76	- 96	- 115	- 134	- 153	- 172	- 191	- 210	- 229	- 248	- 268	- 287	- 306	- 325	- 344	- 363	- 382	- 401	- 4
54 New	122	245	367	490	612	734	857	979	1,102	1,224	1,346	1,469	1,591	1,714	1,836	1,958	2081	2203	2326	2448	2570	2,6
H.R.10	140	280	420	560	700	840	980	1,120	1,260	1,400	1,540	1,680	1,820	1,960	2,100	2,240	2,380	2,520	2,660	2,800	2,940	3,0
Diff.	- 18	- 35	- 53	- 76	- 88	- 106	- 123	- 141	- 158	- 176	- 194	- 211	- 229	- 246	- 264	- 282	- 299	- 317	- 334	- 352	- 370	- 3
55 New	134	269	403	538	672	807	941	1,075	1,210	1,344	1,479	1,613	1,748	1,882	2,016	2,151	2285	2420	2554	2,689	2823	2,9
H.R.10	150	300	450	600	750	900	1,050	1,200	1,350	1,500	1,650	1,800	1,950	2,100	2,250	2,400	2,550	2,700	2,850	3,000	3,150	3,3
Diff.	- 16	- 31	- 47	- 62	- 78	- 93	- 109	- 125	- 140	- 156	- 171	- 187	- 202	- 218	- 234	- 249	- 265	- 280	- 296	- 311	- 327	- 3
56 New	147	294	441	588	735	882	1,029	1,176	1,323	1,470	1,617	1,764	1,911	2058	2205	2352	2499	2646	2793	2,940	3,087	3,2
H.R.10	160	320	480	640	800	960	1,120	1,280	1,440	1,600	1,760	1,920	2,080	2,240	2,400	2,560	2,720	2,880	3,040	3,200	3,360	3,5
Diff.	- 13	- 26	- 39	- 52	- 65	- 78	- 91	- 104	- 117	- 130	- 143	- 156	- 169	- 182	- 195	- 208	- 221	- 234	- 247	- 266	- 273	- 2
57 New	160	320	480	640	800	960	1,120	1,280	1,441	1,601	1,761	1,921	2,081	2041	2,401	2,561	2,721	2881	3041	3,201	3,361	3,5
H.R.10	170	340	510	680	850	1,020	1,190	1,360	1,536	1,700	1,870	2,040	2,210	2,380	2,550	2,720	2,890	3,060	3,230	3,400	3,570	3,7
Diff.	- 10	- 20	- 30	- 40	- 50	- 60	- 70	- 80	- 89	- 99	- 109	- 119	- 129	- 139	- 149	- 159	- 169	- 179	- 189	- 199	- 209	- 2
58 New	174	347	521	695	869	1,042	1,216	1,390	1,563	1,737	1,911	2085	2258	3432	2,606	2786	2953	3127	3301	3474	3,648	3,8
H.R.10	180	360	540	720	900	1,080	1,260	1,440	1,620	1,800	1,980	2,160	2,340	2,520	2700	2880	3,060	3240	3,420	3,600	3,780	3,9
Diff.	- 6	- 13	- 19	- 25	- 31	- 38	- 44	- 50	- 57	- 63	- 69	- 75	- 82	- 88	- 94	- 106	- 107	- 113	- 119	- 126	- 132	-
59 New	188	376	564	752	940	1,128	1,316	1,504	1,692	1,886	2067	2255	2,443	2631	2819	3007	3,195	3383	3,571	3,759	3,947	4,
H.R.10	190	380	570	760	950	1,140	1,330	1,526	1,710	1,900	2,090	2280	2,470	2,660	2850	3,046	3,230	3420	3,610	3,800	3,990	4,1
Diff.	- 2	- 4	- 6	- 8	- 10	- 12	- 14	- 16	- 18	- 20	- 23	- 25	- 27	- 29	- 31	- 33	- 35	- 37	- 39	- 41	- 43	-
60 New	203	406	608	811	1,014	1,217	1,419	1,622	1,825	2028	2231	2433	2,636	2839	3042	3,244	3447	3650	3,853	4056	4,258	4,
H.R.10	200	400	600	800	1,000	1,200	1,400	1,600	1,800	2,000	2,200	2,400	2,600	2800	3,000	3,200	3400	3600	3,800	4,000	4,200	4,4
Diff.	+ 3	+ 6	+ 8	+ 11	+ 14	+ 17	+ 19	+ 22	+ 25	+ 28	+ 31	+ 33	+ 36	+ 39	+ 42	+ 44	+ 47	+ 50	+ 53	+ 56	+ 58	+
61 New	208	416	624	831	1,039	1,247	1,455	1,663	1,871	2,079	2,286	2494	2702	2910	3118	3326	3534	3741	3949	4157	4,365	4,
H.R.10	210	420	630	840	1,050	1,260	1,470	1,680	1,890	2,106	2310	2520	2730	2946	3150	3360	3570	3780	3990	4200	4410	4,
Diff.	- 2	- 4	- 6	- 9	- 11	- 13	- 15	- 17	- 19	- 21	- 24	- 26	- 28	- 30	- 32	- 34	- 36	- 39	- 41	- 43	- 45	-
62 New	213	426	639	852	1,065	1,278	1,491	1,904	1,918	2,131	2344	2557	2770	2983	3196	3409	3622	3835	4,048	4,261	4474	4,
H.R.10	220	440	660	880	1,100	1,320	1,540	1,760	1,980	2,200	2,420	2,640	2860	3080	3,300	3520	3740	3960	4,180	4400	4,620	4
Diff.	- 7	- 14	- 21	- 28	- 35	- 42	- 49	- 56	- 62	- 69	- 76	- 83	- 90	- 97	- 104	- 111	- 152	- 125	- 132	-, 139	- 146	-
63 New	218	437	655	874	1,092	1,310	1,529	1,747	1965	2184	2402	2621	2839	3058	3,276	3495	3714	3932	4,151	4369	4,588	4,

H.R. 10 vs. "1%" or "1-a-Day" Limits

nder H.R. 10, and the Dollar Difference: Entries for all Ages and Incomes of Tables 5+7: For Men

Incomes																	
$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,500 or Over	
$ 1,608	$ 1,697	1,786	1,876	1,965	2,054	2,143	2,233	2,322	2,411	2,501	2,590	2,679	2,769	2,858	2,947	3,037	3,126	3,260	61
1,986	2,090	2,206	2,310	2,426	2,536	2,646	2,756	→	→	→	→	→	→	→	→	→	→	→	
− 378	− 393	− 420	− 434	− 461	− 482	− 503	− 523	− 428	− 339	− 249	− 166	− 71	+ 19	+ 168	+ 197	+ 287	+ 376	+ 510	
1,797	1,897	1,997	2,097	2,197	2,297	2,397	2,496	2,596	2,696	2,796	2,896	2,996	3,096	3,196	3,295	3,395	3,495	3,645	62
2,160	2,280	2,400	2,520	2,640	2,766	2,880	3,000	→	→	→	→	→	→	→	→	→	→	→	
− 363	− 383	− 403	− 423	− 443	− 463	− 483	− 504	− 404	− 304	− 204	− 164	− 4	+ 96	+ 196	+ 215	+ 395	+ 495	+ 645	
1,996	2,107	2,218	2,329	2,440	2,550	2,661	2,772	2883	2994	3,105	3,216	3,327	3438	3,548	3,659	3,770	3,881	4,047	63
2346	2470	2,606	2,730	2,866	2990	3,120	3,260	→	→	→	→	→	→	→	→	→	→	→	
−344	−363	− 382	− 401	− 426	− 440	− 459	− 478	− 367	− 256	− 145	− 34	+ 77	+ 188	+ 298	+ 409	+ 520	+ 631	+ 797	
2203	2326	2448	2570	2693	2815	2938	3060	3,182	3305	3427	3,550	3672	3794	3917	4039	4,162	4,284	4,468	64
2,520	2,660	2,800	2940	3,080	3,220	3,360	3,500	→	→	→	→	→	→	→	→	→	→	→	
− 317	− 334	− 352	− 370	− 387	− 405	− 422	− 440	− 318	− 195	− 73	+ 50	+ 172	+ 294	+ 417	+ 539	+ 662	+ 784	+ 968	
2420	2,554	2689	2823	2,957	3092	3226	3361	3,495	3630	3764	3898	4,033	4,167	4,302	4,436	4,571	4,705	4907	65
2700	2850	3,000	3,150	3300	3450	3600	3756	→	→	→	→	→	→	→	→	→	→	→	
− 280	− 296	− 311	− 327	− 343	− 358	− 374	− 389	− 255	− 120	+ 14	+ 148	+ 283	+ 417	+ 552	+ 686	+ 821	+ 955	+1,157	
2646	2793	2,940	3,087	3,234	3381	3528	3674	3821	3968	4,115	4,262	4,409	4,556	4,703	4,850	4,997	5,144	5,365	66
2880	5040	3,200	5,366	3,526	3680	5846	4,006	→	→	→	→	→	→	→	→	→	→	→	
− 234	− 247	− 260	− 273	− 286	− 299	− 312	− 326	− 179	− 82	+ 115	+ 262	+ 409	+ 556	+ 703	+ 850	+ 997	+1,114	+1,365	
2881	3041	3201	3,361	3521	3681	3841	4,002	4,162	4,322	4482	4,642	4,802	4,962	5,122	5,282	5,442	5,602	5,842	67
3060	3230	3,400	3,570	3740	3910	4,080	4,250	→	→	→	→	→	→	→	→	→	→	→	
− 179	− 189	− 199	− 209	− 219	− 229	− 239	− 248	− 88	+ 72	+ 232	+ 392	+ 552	+ 712	+ 872	+1,032	+1,192	+1,352	+1,592	
3127	3301	3474	3,648	3822	3996	4,169	4,343	4,517	4,696	4,864	5,038	5,212	5,385	5,559	5,733	5,906	6,080	6341	68
3240	3426	3,600	3,780	3960	4,140	4,320	4,506	→	→	→	→	→	→	→	→	→	→	→	
− 113	− 119	− 126	− 132	− 138	− 144	− 151	− 157	+ 17	+ 190	+ 364	+ 538	+ 712	+ 885	+1,059	+1,233	+1,406	+1,580	+1,841	
3383	3,571	3759	3947	4,135	4,323	4,511	4699	4,887	5,075	5,263	5451	5,638	5,826	6,014	6,202	6,390	6,578	6,866	69
3420	3610	3,800	3990	4180	4370	4,560	4756	→	→	→	→	→	→	→	→	→	→	→	
− 37	− 39	− 41	− 43	− 46	− 47	− 49	− 51	+ 137	+ 325	+ 513	+ 701	+ 888	+1,076	+1,264	+1,452	+1,640	+1,828	+2,116	
3650	3,853	4,056	4,258	4461	4,664	4,867	5,070	5,272	5476	5,678	5881	6,083	6,286	6,489	6,692	6,895	7,099	7,401	60
3600	3800	4,000	4,206	4406	4,606	4,806	5,006	→	→	→	→	→	→	→	→	→	→	→	
+ 50	+ 53	+ 56	+ 58	+ 61	+ 64	+ 67	+ 70	+ 272	+ 476	+ 678	+ 881	+1,083	+1,286	+1,489	+1,692	+1,895	+2,099	+2,401	
3741	3949	4157	4,365	4,573	4,781	4989	5196	5404	5,612	5,820	6028	6,236	6,444	6,652	6859	7,067	7,275	7587	61
3780	3990	4,200	4410	4620	4830	5,040	5250	→	→	→	→	→	→	→	→	→	→	→	
− 39	− 41	− 43	− 45	− 47	− 49	− 51	− 54	+ 154	+ 362	+ 570	+ 778	+ 986	+1,194	+1,402	+1,609	+1,817	+2,025	+2,337	
3835	4048	4,261	4,474	4,687	4900	5,113	5326	5,540	5,753	5966	6,179	6,392	6,605	6818	7,031	7,244	7,457	7,777	62
3960	4,180	4400	4620	4840	5,060	5280	5,500	→	→	→	→	→	→	→	→	→	→	→	

H.R.10	180	220	260	300	340	1,080	1,220	1,440	1,620	1,800	1,980	2,160	2,340	2,520	2,700	2,880	3,060	3,240	3,420	3,600	3,780	
Diff.	- 6	- 13	- 19	- 25	- 31	- 38	- 44	- 50	- 57	- 63	- 69	- 75	- 82	- 88	- 94	- 100	- 107	- 113	- 119	- 126	- 132	- 13
59 New	188	376	564	752	940	1,128	1,316	1,504	1,692	1,880	2067	2255	2443	2631	2819	3007	3195	3383	3571	3759	3947	4,13
H.R.10	190	380	570	760	950	1,140	1,330	1,520	1,710	1,900	2,090	2280	2470	2660	2850	3040	3230	3420	3610	3800	3990	4,18
Diff.	- 2	- 4	- 6	- 8	- 10	- 12	- 14	- 16	- 18	- 20	- 23	- 25	- 27	- 29	- 31	- 33	- 35	- 37	- 39	- 41	- 43	- 4
60 New	203	406	608	811	1,014	1,217	1,419	1,622	1,825	2028	2231	2433	2636	2839	3042	3044	3447	3650	3853	4056	4,258	4,46
H.R.10	200	400	600	800	1,000	1,200	1,400	1,600	1,800	2,000	2,200	2,400	2,600	2800	3,000	3,200	3,400	3600	3800	4,000	4,200	4,40
Diff.	+ 3	+ 6	+ 8	+ 11	+ 14	+ 17	+ 19	+ 22	+ 25	+ 28	+ 31	+ 33	+ 36	+ 39	+ 42	+ 44	+ 47	+ 50	+ 53	+ 56	+ 58	+ 6
61 New	208	416	624	831	1,039	1,247	1,455	1,663	1,871	2,079	2,286	2494	2702	2910	3118	3326	3534	3741	3949	4,157	4,365	4,5
H.R.10	210	420	630	840	1,050	1,260	1,470	1,680	1,890	2,100	2,310	2520	2730	2940	3150	3360	3,570	3780	3990	4,200	4,410	4,6
Diff.	- 2	- 4	- 6	- 9	- 11	- 13	- 15	- 17	- 19	- 21	- 24	- 26	- 28	- 30	- 32	- 34	- 36	- 39	- 41	- 43	- 45	-
62. New	213	426	639	852	1,065	1,278	1,491	1,704	1,918	2,131	2,344	2557	2770	2983	3196	3409	3622	3835	4048	4,261	4,474	4,6
H.R.10	220	440	660	880	1,100	1,320	1,540	1,760	1,980	2,200	2,420	2640	2860	3080	3300	3520	3740	3960	4,180	4400	4,620	48
Diff.	- 7	- 14	- 21	- 28	- 35	- 42	- 49	- 56	- 62	- 69	- 76	- 83	- 90	- 97	- 104	- 111	- 152	- 125	- 132	- 139	- 146	- 1
63. New	218	437	655	874	1,092	1,310	1,529	1,747	1,965	2,184	2,402	2621	2839	3057	3276	3494	3712	3931	4,149	4368	4,586	4,8
H.R.10	230	460	690	920	1,150	1,380	1,610	1840	2,070	2,300	2,530	2760	2990	3,220	3,450	3,680	3,910	4,140	4370	4,600	4,830	5,0
Diff.	- 12	- 23	- 35	- 45	- 58	- 70	- 81	- 93	- 105	- 116	- 228	- 139	- 151	- 163	- 174	- 186	- 198	- 209	- 221	- 232	- 244	- 2
64. New	224	448	672	895	1,119	1,343	1,567	1,791	2015	2238	2462	2686	2910	3134	3358	3,581	3,805	4,029	4,253	4,477	4701	4,9
H.R.10	240	480	720	960	1,200	1,440	1,680	1,920	2,160	2400	2,640	2880	3,120	3360	3,600	3,840	4,080	4,320	4,560	4800	5,040	5,2
Diff.	-16	- 32	- 48	- 65	- 81	- 97	- 113	- 129	- 145	- 162	- 178	- 194	- 210	- 226	- 242	- 259	- 275	- 291	- 307	- 323	- 339	- 3
65. New	229	459	688	918	1,147	1,377	1,606	1,836	2065	2294	2,524	2753	2983	3,212	3,442	3,671	3,900	4,130	4,359	4,589	4,818	5,0
H.R.10	250	500	750	1,000	1,250	1,500	1,750	2,000	2250	2500	2750	3000	3250	3500	3750	4000	4,250	4,500	4750	5,000	5,256	5,5
Diff	- 21	- 41	- 62	- 82	- 103	- 123	- 144	- 164	- 185	- 206	- 226	- 247	- 267	- 288	- 308	- 329	- 350	- 370	- 391	- 411	- 432	- 4
66. New	222	443	665	886	1,108	1,330	1,551	1,773	1,995	2216	2438	2659	2881	3,103	3,324	3,546	3768	3,989	4,211	4,432	4,654	4,8
H.R.10	260	520	780	1,040	1,300	1,560	1,820	2,080	2,340	2,600	2860	3120	3380	3,640	3900	4,160	4,420	4,680	4,940	5,200	5,460	5,7
Diff.	- 38	- 77	- 115	- 154	- 192	- 230	- 269	- 307	- 345	- 384	- 422	- 461	- 499	- 537	- 576	- 614	- 652	- 691	- 729	- 768	- 806	- 8
67. New	214	428	642	856	1,070	1,284	1,497	1,711	1,925	2139	2353	2,567	2781	2995	3209	3423	3,637	3851	4,064	4278	4,492	4,7
H.R.10	270	540	810	1,080	1,350	1,620	1,896	2,166	2,430	2700	2,970	3,240	3,510	3,786	4,050	4,320	4,590	4,860	5,130	5,400	5,670	5,9
Diff.	- 56	- 112	- 168	- 224	- 280	- 336	- 393	- 449	- 504	- 561	- 617	- 673	- 729	- 785	- 841	- 897	- 953	- 1,009	- 1,066	- 1,122	- 1,178	- 1,
68. New	206	413	619	825	1,031	1,238	1,444	1,650	1,856	2,063	2269	2475	2681	2888	3094	3,300	3,506	3,713	3919	4,125	4,331	4,5
H.R.10	280	560	840	1,120	1,400	1,680	1,960	2,240	2,520	2800	3,080	3360	3640	3920	4200	4480	4,760	5,040	5320	5,600	5,880	6,
Diff.	- 74	- 147	- 221	- 295	- 369	- 442	- 516	- 590	- 664	- 737	- 811	- 885	- 959	- 1,032	- 1,106	- 1,180	- 1,254	- 1,327	- 1,401	- 1,475	- 1,549	- 1,
69. New	199	397	596	795	994	1,192	1,391	1,590	1,789	1,987	2186	2385	2,584	2,782	2,981	3,180	3379	3,577	3,776	3975	4,174	4,3
H.R.10	290	580	870	1,160	1,450	1,740	2,030	2,320	2,610	2900	3,190	3480	3,770	4,060	4,350	4,640	4930	5,220	5,510	5800	6,090	6,3
Diff.	- 91	- 183	- 274	- 365	- 456	- 548	- 639	- 730	- 821	- 913	- 1,004	- 1,095	- 1,186	- 1,278	- 1,369	- 1,460	- 1,551	- 1,643	- 1,734	- 1,825	- 1,916	- 2,
70. New	191	382	574	765	956	1,147	1,339	1,530	1,721	1,912	2103	2,295	2486	2677	2868	3,060	3,251	3442	3633	3824	4,016	4,2
H.R.10	300	600	900	1,200	1,500	1,800	2,106	2,400	2700	3000	3300	3600	3900	4,200	4,500	4,800	5,100	5,400	5700	6000	6,300	6,
Diff.	- 109	- 218	- 326	- 435	- 544	- 653	- 761	- 870	- 979	- 1,088	- 1,197	- 1,305	- 1,414	- 1,523	- 1,632	- 1,740	- 1,849	- 1,958	- 2,067	- 2,176	- 2,284	- 2,

−113	−119	−126	−132	−138	−144	−151	−157												
3383	3,571	3,759	3,947	4,135	4,323	4,511	4,699	4,887	5,075	5,263	5,451	5,638	5,826	6,014	6,202	6,390	6,578	6,866	59
3420	3610	3800	3990	4180	4370	4560	4756	→	→	→	→	→	→	→	→	→	→	→	
−37	−39	−41	−43	−48	−47	−49	−51	+137	+325	+513	+701	+888	+1,076	+1,264	+1,452	+1,640	+1,828	+2,116	
3650	3,853	4,056	4,258	4461	4,664	4,867	5,070	5,272	5,476	5,678	5,881	6,083	6,286	6,489	6,692	6,895	7,097	7,401	60
3600	3800	4000	4200	4406	4600	4800	5000	→	→	→	→	→	→	→	→	→	→	→	
+50	+53	+56	+58	+61	+64	+67	+70	+272	+476	+678	+881	+1,083	+1,286	+1,489	+1,692	+1,895	+2,097	+2,401	
3741	3949	4157	4,365	4,573	4781	4989	5196	5,404	5,612	5,820	6,028	6,236	6,444	6,652	6,859	7,067	7,275	7,587	61
3780	3990	4200	4410	4620	4830	5040	5250	→	→	→	→	→	→	→	→	→	→	→	
−39	−41	−43	−45	−47	−49	−51	−54	+154	+362	+570	+778	+986	+1,194	+1,402	+1,609	+1,817	+2,025	+2,337	
3835	4,048	4,261	4,474	4,687	4,900	5,113	5,326	5,540	5,753	5,966	6,179	6,392	6,605	6818	7,031	7,244	7,457	7,777	62
3960	4,180	4400	4620	4840	5060	5280	5500	→	→	→	→	→	→	→	→	→	→	→	
−125	−132	−139	−146	−153	−160	−167	−174	+40	+253	+466	+679	+892	+1,105	+1,318	+1,531	+1,744	+1,957	+2277	
3931	4,149	4,368	4,586	4,804	5,023	5,241	5,460	5,678	5,896	6,115	6,333	6,551	6,770	6,988	7,207	7,425	7,643	7,971	63
4,140	4370	4,600	4830	5060	5290	5520	5750	→	→	→	→	→	→	→	→	→	→	→	
−209	−221	−232	−244	−256	−267	−279	−290	−72	+146	+365	+583	+801	+1,020	+1,238	+1,457	+1,675	+1,893	+2,221	
4029	4,253	4477	4701	4924	5,148	5372	5,596	5,820	6044	6,268	6,491	6,715	6,939	7,163	7,387	7,611	7,834	8,170	64
4,320	4,560	4806	5,040	5,280	5,520	5,760	6,000	→	→	→	→	→	→	→	→	→	→	→	
−291	−307	−323	−339	−356	−372	−388	−404	−180	+44	+268	+491	+715	+939	+1,163	+1,387	+1,611	+1834	+2,170	
4,130	4,359	4,589	4,818	5,048	5,277	5,507	5736	5,965	6,195	6,424	6,654	6,883	7,113	7,342	7,572	7,801	8,030	8,375	65
4,500	4,750	5,000	5,250	5,500	5,750	6,000	6,250	→	→	→	→	→	→	→	→	→	→	→	
−370	−391	−411	−432	−452	−473	−493	−514	−285	−55	+174	+404	+633	+863	+1,092	+1,322	+1,551	+1,770	+2,125	
3,989	4,211	4,432	4,654	4,876	5,097	5,319	5,540	5,762	5,984	6,205	6,427	6,649	6,870	7,092	7,313	7,535	7,757	8,089	66
4,680	4,946	5,206	5,460	5,720	5,980	6,240	6,500	→	→	→	→	→	→	→	→	→	→	→	
−691	−729	−768	−806	−844	−883	−921	−960	−262	−1,484	−295	−73	+149	+370	+592	+813	+1,035	+1,257	+1,589	
3,851	4,064	4278	4,492	4,706	4,920	5,134	5,348	5,562	5,776	5,990	6,204	6,418	6,632	6845	7,059	7,273	7,487	7,808	67
4,860	5,130	5,400	5,670	5,940	6,210	6,480	6,750	→	→	→	→	→	→	→	→	→	→	→	
−1,009	−1,066	−1,122	−1,178	−1,234	−1,290	−1,346	−1,402	−1,188	−974	−760	−546	−332	−118	+95	+309	+523	+737	+1,055	
3713	3919	4,125	4,331	4,538	4,744	4,950	5,156	5,363	5,569	5,775	5,982	6,188	6,394	6,600	6,807	7,013	7,219	7,528	68
5,040	5,320	5,600	5,880	6,160	6440	6,720	7,000	→	→	→	→	→	→	→	→	→	→	→	
−1,327	−1,401	−1,475	−1,549	−1,622	−1,696	−1,770	−1,844	−1,637	−1,431	−1,225	−1,018	−812	−606	−400	−198	+13	+219	+528	
3,577	3,776	3975	4,174	4,372	4,571	4,770	4968	5,167	5,366	5,565	5,763	5,962	6,161	6,360	6,558	6,757	6,956	7254	69
5,220	5,516	5,800	6090	6,380	6,670	6,960	7,256	→	→	→	→	→	→	→	→	→	→	→	
−1,643	−1,734	−1,825	−1,916	−2,008	−2099	−2,196	−2282	−2,083	−1,884	−1,685	−1,487	−1,288	−1,089	−890	−692	−493	−294	+4	
3,442	3633	3824	4,016	4,207	4,398	4,589	4780	4,972	5,163	5,354	5,545	5,737	5,928	6,119	6,310	6,501	6693	6,980	70
5,406	5,700	6,000	6,300	6,600	6,900	7,200	7,506	→	→	→	→	→	→	→	→	→	→	→	
−1,958	−2067	−2,176	−2284	−2,393	−2,502	−2611	−2720	−2,528	−2337	−2,146	−1,955	−1,763	−1,572	−1,381	−1,190	−999	−807	−520	

12-19-58
mam

H.R. 10 vs. "1% OR "1-A-DAY"

Table 6A + 8A.- Special Rule: Maximum Annual Set-Asides under New Limits, under H.R. 10, and the Dollar Diffe

Ages		$1,000	$2,000	$3,000	$4,000	$5,000	$6,000	$7,000	$8,000	$9,000	$10,000	$11,000	$12,000	$13,000	$14,000	$15,000	$16,000	$17,000	$18,000	$19,000	$20,000	$21,000	$
											-Incomes-												
51	New	$105	$210	$315	$420	$524	$629	$734	$839	$944	$1,049	$1,154	$1,259	$1,364	$1,469	$1,574	$1,678	$1,783	$1,888	$1,993	$2,098	$2,203	
	H.R.10	110	220	330	440	550	660	770	880	990	1,100	1,210	1,320	1,430	1,540	1,650	1,760	1,870	1,980	2,090	2,200	2,310	
	Diff.	-5	-10	-15	-20	26	-31	-36	-41	-46	-51	-56	-61	-66	-71	-76	-82	-87	-92	-97	-102	-107	
52	New	117	235	352	469	586	704	821	938	1,056	1,173	1,290	1,407	1,525	1,642	1,759	1,877	1,994	2,111	2,229	2,346	2,463	
	H.R.10	120	240	360	480	600	720	840	960	1,080	1,200	1,320	1,440	1,560	1,680	1,800	1,920	2,040	2,160	2,280	2,400	2,520	
	Diff.	-3	-5	-8	-11	-14	-16	-19	-22	-24	-27	-30	-33	-35	-38	-41	-43	-46	-49	-51	-54	-57	
53	New	130	261	391	521	651	782	912	1,042	1,172	1,302	1,433	1,563	1,693	1,824	1,954	2,084	2,214	2,344	2,475	2,605	2,735	
	H.R.10	130	260	390	520	650	780	910	1,040	1,170	1,300	1,430	1,560	1,690	1,820	1,950	2,080	2,210	2,340	2,470	2,600	2,730	
	Diff.	—	1	1	1	1	2	2	2	2	2	3	3	3	4	4	4	4	4	5	5	5	
54	New	144	288	431	575	719	863	1,006	1,150	1,294	1,438	1,581	1,725	1,869	2,013	2,157	2,300	2,444	2,588	2,732	2,875	3,019	
	H.R.10	140	280	420	560	700	840	980	1,120	1,260	1,400	1,540	1,680	1,820	1,960	2,100	2,240	2,380	2,520	2,660	2,800	2,940	
	Diff.	4	8	11	15	19	23	26	30	34	38	41	45	49	53	57	60	64	68	72	75	79	
55	New	158	316	474	632	789	947	1,105	1,263	1,421	1,579	1,737	1,895	2,053	2,210	2,368	2,526	2,684	2,842	3,000	3,158	3,316	
	H.R.10	150	300	450	600	750	900	1,050	1,200	1,350	1,500	1,650	1,800	1,950	2,100	2,250	2,400	2,550	2,700	2,850	3,000	3,150	
	Diff.	8	16	24	32	39	47	56	63	71	79	87	95	103	110	118	126	134	142	150	158	166	
56	New	173	345	518	690	863	1,036	1,208	1,381	1,554	1,726	1,899	2,071	2,244	2,417	2,589	2,762	2,935	3,107	3280	3,452	3,625	
	H.R.10	160	320	480	640	800	960	1,120	1,280	1,440	1,600	1,760	1,920	2,080	2,240	2,400	2,560	2,720	2,880	3,040	3,200	3,360	
	Diff.	13	25	38	50	63	76	88	101	114	126	139	151	164	177	189	202	215	227	240	252	265	
57	New	188	376	564	752	940	1,128	1,316	1,504	1,692	1,880	2,068	2,256	2,444	2,632	2,820	3,008	3,196	3,384	3,572	3,760	3948	
	H.R.10	170	340	510	680	850	1020	1,190	1,360	1,530	1,700	1,870	2,040	2,210	2,380	2,550	2,720	2,890	3,060	3230	3,400	3570	
	Diff.	18	36	54	72	90	108	126	144	162	180	198	216	234	252	270	288	306	324	342	360	378	
58	New	204	408	612	816	1020	1224	1,428	1,632	1,836	2,040	2,244	2,448	2,652	2,856	3,060	3,264	3,469	3,673	3,877	4,081	4,285	
	H.R.10	180	360	540	720	900	1,080	1,260	1,440	1,620	1,800	1,980	2,160	2,340	2,520	2,700	2880	3,060	3,240	3420	3,600	3780	
	Diff.	24	48	72	96	120	144	168	192	216	240	264	288	312	336	360	384	409	433	457	481	505	
59	New	221	442	662	883	1,104	1,325	1,545	1,766	1,987	2,208	2,428	2,649	2,870	3,091	3,311	3,532	3,753	3974	4,194	4415	4,636	
	H.R.10	190	380	570	760	950	1,140	1,330	1,520	1,710	1,900	2,090	2,280	2,470	2,660	2,850	3,040	3,230	3,420	3,610	3800	3,990	
	Diff.	31	62	92	123	154	185	215	246	277	308	338	369	400	431	461	492	523	554	584	615	646	
60	New	238	476	715	953	1,191	1,429	1,667	1,905	2,144	2,382	2620	2,858	3,096	3,335	3,573	3811	4,049	4,287	4,525	4764	5002	
	H.R.10	200	400	600	800	1000	1200	1,400	1,600	1,800	2,000	2,200	2,400	2,600	2,800	3,000	3,200	3,400	3,600	3800	4,000	4,200	
	Diff.	38	76	115	153	191	229	267	305	344	382	420	458	496	535	573	611	649	687	725	764	802	
61	New	244	488	732	977	1,221	1465	1,709	1953	2,197	2,441	2,686	2,930	3,174	3,418	3662	3,906	4,150	4,395	4,639	4883	5127	
	H.R.10	210	420	630	840	1050	1260	1,470	1,680	1,890	2,100	2,310	2,520	2730	2,940	3,150	3,360	3,570	3,780	3,990	4,200	4410	
	Diff.	34	68	102	137	171	205	239	273	307	341	376	410	444	478	512	546	580	615	649	683	717	
62	New	250	500	751	1,001	1,251	1,501	1,752	2,002	2,252	2,502	2,753	3,003	3,253	3,503	3,754	4,004	4,254	4,504	4,755	5,005	5,255	
	HR.10	220	440	660	880	1,100	1320	1,540	1,760	1,980	2,200	2,420	2,640	2860	3,080	3,300	3520	3740	3960	4 1°1	4400	4620	
	D.%	30	60	91																			

H.R. 10 vs. "1% or "1-a-Day" Limits

s, under H.R. 10, and the Dollar Differences: Entries for all Ages and Incomes of Tables 6 + 8: For Women.

	-Incomes-																
$18,000	$19,000	$20,000	$21,000	$22,000	$23,000	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$31,000	$32,000	$33,000	$34,000	$35,000	$36,000 and over	
$1,888	$1,993	$2,098	$2,203	$2,308	$2,413	$2,518	$2,622	$2,727	$2,832	$2,937	$3,042	$3,147	$3,252	$3,357	$3,462	$3,567	$3,672	$3,829	51
1980	2090	2200	2310	2420	2530	2640	2750	2750	2750	2750	2750	2750	2750	2750	2750	2750	2750	2750	
-92	-97	-102	-107	-112	-117	-122	-128	-23	82	187	292	397	502	607	712	817	922	1,079	
2,111	2229	2,346	2,463	2,580	2,698	2,815	2,932	3,050	3,167	3,284	3,401	3,519	3,636	3,753	3,871	3988	4,105	4,281	62
2,160	2280	2400	2520	2640	2760	2880	3000	3,000	3000	3000	3,000	3000	3000	3,000	3000	3000	3000	3000	
-49	-51	-54	-57	-60	-62	-65	-68	50	167	284	401	519	636	753	871	988	1,105	1,281	
2,344	2,475	2,605	2,735	2,866	2,996	3,126	3256	3,386	3,517	3,647	3,777	3,908	4038	4168	4,298	4,428	4559	4,754	63
2,340	2470	2,600	2,730	2,860	2990	3,120	3250	3250	3,250	3,250	3,250	3250	3250	3250	3250	3,250	3250	3250	
4	5	5	5	6	6	6	6	136	267	397	527	658	788	918	1,048	1,178	1,309	1,504	
2,588	2,732	2,875	3,019	3,163	3,307	3,450	3,594	3,738	3,882	4026	4,169	4313	4457	4601	4,744	4888	5032	5248	54
2,520	2660	2,800	2940	3,080	3220	3360	3,500	3500	3500	3500	3500	3500	3500	3500	3500	3,500	3,500	3500	
68	72	75	79	83	87	90	94	238	382	526	669	813	957	1,101	1,244	1,388	1532	1,748	
2,842	3,000	3,158	3,316	3,474	3,631	3,789	3,947	4,105	4,263	4421	4579	4737	4,895	5052	5,210	5,368	5526	5,763	65
2,700	2850	3,000	3,150	3,300	3450	3600	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	3750	
142	150	158	166	174	181	189	197	355	513	671	829	987	1,145	1302	1,460	1,618	1,776	2,013	
3,107	3280	3,452	3,625	3,798	3,970	4143	4,316	4,488	4661	4833	5,006	5,179	5,351	5524	5696	5869	6,042	6301	56
2,880	3,040	3,200	3360	3,520	3680	3840	4000	4000	4,000	4000	4000	4000	4,000	4000	4000	4000	4000	4000	
227	240	252	265	278	290	303	316	488	661	833	1,006	1,179	1,351	1,524	1,696	1,869	2,042	2,301	
3,384	3572	3760	3948	4,136	4,324	4,512	4,700	4,888	5076	5,264	5,452	5,640	5828	6016	6,204	6,392	6580	6,862	57
3,060	3230	3,400	3570	3,740	3910	4080	4250	4250	4250	4250	4250	4250	4250	4250	4250	4250	4250	4250	
324	342	360	378	396	414	432	450	638	826	1,014	1,202	1,390	1,578	1,766	1954	2,142	2,330	2612	
3,673	3,877	4081	4,285	4489	4,693	4897	5101	5305	5509	5713	5917	6121	6325	6529	6733	6937	7141	7447	58
3240	3420	3600	3780	3960	4140	4320	4500	4500	4500	4500	4500	4500	4500	4500	4500	4500	4500	4500	
433	457	481	505	529	553	577	601	805	1,009	1,213	1,417	1,621	1,825	2,029	2,233	2,437	2,641	2947	
3974	4194	4416	4636	4857	5077	5298	5519	5740	5961	6181	6402	6623	6844	7064	7285	7506	7727	8058	59
3420	3610	3800	3990	4180	4370	4560	4750	4750	4750	4750	4750	4750	4750	4750	4750	4750	4750	4750	
554	584	615	646	677	707	738	769	990	1,211	1,431	1,652	1,873	2,094	2,314	2,535	2,756	2977	3308	
4287	4525	4764	5002	5240	5478	5716	5954	6193	6431	6669	6907	7145	7384	7622	7860	8098	8336	8694	60
3600	3800	4000	4200	4400	4600	4800	5000	5000	5000	5000	5,000	5000	5000	5000	5000	5000	5000	5000	
687	725	764	802	840	878	916	954	1,193	1,431	1,669	1,907	2,145	2,384	2,622	2,860	3,098	3,336	3,694	
4395	4639	4883	5127	5371	5615	5859	6104	6348	6592	6836	7080	7324	7568	7812	8057	8301	8545	8911	61
3780	3990	4200	4410	4620	4830	5040	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	
615	649	683	717	751	785	819	854	1098	1342	1,586	1830	2,074	2318	2562	2807	3051	3295	3661	
4504	4755	5005	5255	5505	5756	6006	6256	6506	6756	7007	7257	7507	7757	8008	8258	8508	8758	9134	64
3960	4180	4400	4620	4840	5060	5280	5500	5500	5500	5500	5500	5500	5500	5500	5500	5500	5500	5500	

59	New	221	442	662	883	1,104	1,325	1,545	1,766	1,987	2,208	2,428	2,649	2,870	3,091	3,311	3,532	3,753	3,974	4,194	4,416	4,636
	H.R.10	190	380	570	760	950	1,140	1,330	1,520	1,710	1,900	2,090	2,280	2,470	2,660	2,850	3,040	3,230	3,420	3,610	3,800	3,990
	Diff.	31	62	92	123	154	185	215	246	277	308	338	369	400	431	461	492	523	554	584	615	646
60	New	238	476	715	953	1,191	1,429	1,667	1,905	2,144	2,382	2,620	2,858	3,096	3,335	3,573	3,811	4,049	4,287	4,525	4,764	5,002
	H.R.10	200	400	600	800	1,000	1,200	1,400	1,600	1,800	2,000	2,200	2,400	2,600	2,800	3,000	3,200	3,400	3,600	3,800	4,000	4,200
	Diff.	38	76	115	153	191	229	267	305	344	382	420	458	496	535	573	611	649	687	725	764	802
61	New	244	488	732	977	1,221	1,465	1,709	1953	2,197	2,441	2,686	2,930	3,174	3,418	3662	3,906	4,150	4,395	4,639	4883	5127
	H.R.10	210	420	630	840	1050	1260	1,470	1680	1,890	2,100	2,310	2,520	2730	2,940	3,150	3360	3570	3,780	3990	4200	4,410
	Diff.	34	68	102	137	171	205	239	273	307	341	376	410	444	478	512	546	580	615	649	683	717
62	New	250	500	751	1,001	1,251	1,501	1,752	2,002	2,252	2,502	2,753	3,003	3,253	3,503	3,754	4,004	4,254	4,504	4,755	5,005	5,255
	H.R.10	220	440	660	880	1,100	1320	1,540	1,760	1,980	2,200	2,420	2,640	2,860	3,080	3,300	3,520	3,740	3,960	4,180	4,400	4,620
	Diff.	30	60	91	121	151	181	212	242	272	302	333	363	393	423	454	484	514	544	575	605	635
63	New	256	513	770	1,026	1,282	1,539	1,796	2,052	2,308	2,565	2,822	3,078	3,334	3,591	3848	4,104	4360	4,617	4874	5130	5,386
	H.R.10	230	460	690	920	1150	1380	1610	1840	2,070	2,300	2,530	2,760	2,990	3220	3,450	3680	3910	4,140	4370	4600	4830
	Diff.	26	53	80	106	132	159	186	212	238	265	292	318	344	371	398	424	450	477	504	530	556
64	New	263	526	789	1,052	1,314	1,577	1,840	2,103	2,366	2,629	2,892	3,155	3418	3,681	3,944	4,206	4469	4,732	4995	5,258	5,521
	H.R.10	240	480	720	960	1,200	1440	1,680	1920	2,160	2,400	2,640	2,880	3,120	3,360	3600	3840	4080	4320	4560	4800	5040
	Diff.	23	46	69	92	114	137	160	183	206	229	252	275	298	321	344	366	389	412	435	458	481
65	New	269	539	808	1,078	1,347	1,617	1,886	2,156	2,425	2,695	2,964	3,234	3503	3,773	4,042	4,312	4581	4851	5,120	5,390	5,659
	H.R.10	250	500	750	1000	1,250	1,500	1,750	2,000	2,250	2,500	2,750	3000	3,250	3,500	3,750	4000	4250	4500	4750	5000	5250
	Diff.	19	39	58	78	97	117	136	156	175	195	214	234	253	273	292	312	331	351	370	390	409
66	New	261	523	784	1,045	1,307	1,568	1,830	2,091	2,352	2,614	2,875	3,136	3398	3,659	3,920	4,182	4,443	4,704	4,966	5,227	5,489
	H.R.10	260	520	780	1040	1,300	1560	1820	2,080	2,340	2,600	2,860	3,120	3380	3,640	3,900	4,160	4420	4680	4,940	5,200	5460
	Diff.	1	3	4	5	7	8	10	11	12	14	15	16	18	19	20	22	23	24	26	27	29
67	New	253	507	760	1,013	1,266	1520	1,773	2,026	2,280	2,533	2,786	3,040	3,293	3,546	3800	4,053	4,306	4,559	4,813	5,066	5,319
	H.R.10	270	540	810	1,080	1350	1620	1890	2,160	2,430	2,700	2,970	3,240	3510	3780	4,050	4320	4590	4860	5130	5400	5670
	Diff.	-17	-33	-50	-67	-84	-100	-117	-134	-150	-167	-184	-200	-217	-234	-250	-267	-284	-301	-317	-334	-351
68	New	245	491	736	981	1,226	1472	1,717	1,962	2,208	2,453	2,698	2,943	3,189	3,434	3,679	3924	4,170	4,415	4660	4906	5,151
	H.R.10	280	560	840	1120	1400	1680	1960	2240	2,520	2800	3080	3360	3640	3920	4200	4480	4760	5040	5320	5600	5880
	Diff.	-35	-69	-104	-139	-174	-208	-243	-278	-312	-347	-382	-417	-451	-486	-521	-556	-590	-625	-660	-694	-729
69	New	237	475	712	949	1,187	1,424	1,661	1899	2,136	2,373	2,611	2,848	3,085	3,322	3,560	3797	4034	4,272	4509	4,746	4984
	H.R.10	290	580	870	1,160	1450	1740	2030	2320	2,610	2900	3,190	3480	3770	4060	4350	4640	4930	5220	5510	5800	6090
	Diff	-53	-105	-158	-211	-263	-316	-369	-421	-474	-527	-579	-632	-685	-738	-790	-843	-896	-948	-1,001	-1,054	-1,106
70	New	229	459	688	918	1,147	1,377	1,606	1,836	2,065	2,294	2,524	2,753	2,983	3,212	3,442	3,671	3,900	4,130	4,359	4589	4818
	H.R.10	300	600	900	1200	1500	1800	2,100	2,400	2,700	3000	3300	3600	3900	4200	4,500	4800	5100	5400	5700	6000	6300
	Diff.	-71	-141	-212	-282	-353	-423	-494	-564	-635	-706	-776	-847	-917	-988	-1,058	-1,129	-1,200	-1,270	-1,341	-1,411	-1,482

3,240 433	3,420 457	3,600 481	3780 505	3,960 529	4,140 553	4320 577	4,500 601	4,680 805	4,860 1,009	5,040 1,213	5,220 1,417	1,621	1,825	2,029	2,233	2,437	2,641	
3,974 3,420 554	4,194 3,610 584	4,416 3800 615	4,636 3,990 646	4,857 4,180 677	5,077 4370 707	5,298 4560 738	5,519 4,750 769	5,740 4,750 990	5,961 4,750 1,211	6,181 4,750 1,431	6,402 4750 1,652	6623 4,750 1,873	6,844 4,750 2,094	7,064 4,750 2,314	7285 4,750 2,535	7,506 4,750 2,756	7,727 4750 2,977	8,058 59 4,750 3,308
4,287 3600 687	4,525 3800 725	4,764 4000 764	5,002 4200 802	5,240 4,400 840	5,478 4,600 878	5,716 4800 916	5,954 5,000 954	6,193 5000 1,193	6,431 5000 1,431	6,669 5000 1,669	6,907 5,000 1,907	7,145 5000 2,145	7,384 5000 2,384	7,622 5000 2,622	7860 5000 2,860	8098 5000 3,098	8,336 5000 3,336	8,694 60 5000 3,694
4,395 3,780 615	4,639 3990 649	4883 4200 683	5127 4410 717	5,371 4,620 751	5,615 4830 785	5,859 5040 819	6,104 5250 854	6,348 5250 1,098	6,592 5250 1342	6,836 5250 1,586	7,080 5250 1830	7,324 5250 2,074	7.568 5250 2318	7,812 5250 2,562	8,057 5250 2807	8301 5250 3,051	8,545 5250 3295	8,911 61 5250 3,661
4,504 3960 544	4,755 4,180 575	5,005 4400 605	5,255 4620 635	5,505 4840 665	5,756 5060 696	6,006 5,280 726	6256 5,500 756	6506 5500 1,006	6,756 5500 1256	7,007 5500 1,507	7,257 5500 1,757	7,507 5500 2,007	7,757 5500 2,257	8,008 5500 2,508	8,258 5500 2,758	8,508 5,500 3,008	8,758 5500 3,258	9,134 62 5500 3,634
4,617 4,140 477	4874 4370 504	5130 4,600 530	5,386 4830 556	5,643 5,060 583	5,900 5290 610	6156 5520 636	6412 5750 662	6669 5750 919	6926 5750 1,176	7,182 5750 1,432	7438 5750 1,688	7,695 5750 1,945	7952 5750 2,202	8,208 5750 2458	8464 5750 2,714	8721 5750 2971	8978 5750 3,228	9302 63 5750 3,612
4,732 4320 412	4995 4560 435	5258 4800 458	5521 5040 481	5784 5,280 504	6,047 5520 527	6,310 5760 550	6572 6,000 572	6835 6000 835	7098 6000 1,098	7361 6000 1,361	7624 6000 1,624	7,887 6000 1,887	8150 6,000 2,150	8413 6000 2,413	8,676 6000 2,676	8939 6000 2939	9,202 6000 3,202	9,596 64 6000 3,596
4851 4500 351	5,120 4750 370	5,390 5000 390	5,654 5250 409	5929 5500 429	6198 5750 448	6468 6000 468	6737 6250 487	7,006 6250 756	7276 6250 1,026	7,545 6250 1,295	7815 6250 1,565	8084 6250 1,834	8,354 6250 2,104	8,623 6250 2,373	8893 6250 2,643	9,162 6250 2912	9,432 6250 3,182	9836 65 6250 3586
4,704 4680 24	4,966 4940 26	5227 5,200 27	5,489 5460 29	5,750 5,720 30	6,011 5980 31	6273 6240 33	6,534 6,500 34	6795 6500 295	7057 6500 557	7318 6500 818	7,579 6500 1,079	7841 6500 1,341	8,102 6500 1,602	8364 6500 1,864	8,625 6500 2,125	8,886 6500 2,386	9,148 6500 2,648	9,540 66 6500 3040
4,559 4860 - 301	4813 5,130 - 317	5,066 5400 - 334	5319 5670 - 351	5573 5940 - 367	5,826 6210 -384	6079 6480 -401	6332 6750 -418	6586 6750 -164	6839 6750 89	7092 6750 342	7,346 6750 596	7,599 6750 849	7,852 6750 1,102	8,106 6750 1,356	8,359 6750 1,609	8,612 6750 1862	8866 6750 2,116	9,245 67 6750 2,495
4,415 5040 - 625	4660 5,320 - 660	4906 5600 -694	5,151 5880 - 729	5396 6160 - 764	5641 6440 - 799	5887 6720 -833	6132 7,000 -868	6377 7000 -623	6623 7,000 - 377	6868 7,000 -132	7113 7000 113	7358 7000 358	7,604 7000 604	7849 7,000 849	8,094 7000 1,094	8,340 7000 1,340	8585 7,000 1,585	8953 68 7,000 1953
4272 5220 - 948	4509 5510 -1,001	4,746 5800 -1,054	4984 6090 -1,106	5221 6380 -1,159	5,458 6670 -1,212	5,696 6960 -1,264	5933 7250 -1,317	6170 7250 -1,080	6,408 7250 - 842	6,645 7250 - 605	6882 7250 -368	7120 7250 -130	7357 7,250 107	7,594 7250 344	7832 7250 582	8069 7250 819	8306 7250 1,056	8,662 69 7250 1,412
4130 5400 -1,270	4359 5700 -1,341	4589 6000 -1,411	4818 6300 -1482	5,048 6600 -1,552	5277 6900 -1,623	5507 7,200 -1,693	5736 7,500 -1,764	5965 7500 -1,535	6,195 7500 -1,305	6424 7500 -1,076	6654 7,500 -846	6883 7,500 - 617	7113 7,500 - 387	7342 7,500 - 158	7572 7,500 72	7801 7,500 301	8030 7500 530	8,375 70 7500 875

this requirement undoubtedly is to insure that an institution of public standing will hold the deposited funds and see that they are not made available to the individual except under the circumstances specifically provided for in the bill.

We suggest that where the trust agreement by its terms restricts the investments which may be made by the trust to obligations of the U.S. Government and shares of publicly held investment companies registered with the Securities and Exchange Commission, the bill should not require that the trustee be a bank, but should require only that a bank be a custodian of the securities in the trust under appropriate regulations of the Secretary of the Treasury.

U.S. Government securities and shares of publicly held regulated investment companies would be particularly appropriate forms of investment for retirement trusts of relatively small size. Government securities are obviously a desirable investment for retirement funds. So also in appropriate cases are the securities of publicly held investment companies, which are subject to regulation by the Securities and Exchange Commission, and which furnish to investors of moderate means an opportunity for diversification of risk and expert management advice. So long as adequate safeguards are established in the legislation for the protection of the Treasury, inexpensive means for investment of retirement funds in these securities should be facilitated.

A trustee is usually charged with the responsibility of selecting investments as well as with the care and custody of the securities in which the investments are made. For this reason, if a bank acts as trustee its charges are customarily greater than when its acts only as a custodian. Most of the retirement funds to be established under this legislation, particularly in the early years, would be of relatively small size and the differential in the charges of the bank depending upon whether it acts as trustee or as custodian would be especially significant in such cases.

I am submitting as annex A to this statement the suggested text of an amendment to proposed section 405(c) which contains language authorizing the use of a nonbank trustee providing such a trustee is required to maintain the corpus and the income of the trust in the custody of a bank, and the trust investments are limited to U.S. Government obligations or shares in regulated investment companies. It also contains appropriate additional language for proposed section 6047, one of the technical amendments made by section 5 of the bill, to permit information returns to be required, under Treasury regulations, from regulated investment companies the stock of which is held in such a trust, as is now provided in the case of banks and insurance companies.

These amendments in authorizing the use of a bank custodian account where trust investments are restricted in this manner would relieve the taxpayer from the expense of the additional fees which are incurred where a bank-trustee is charged with the duty of selecting investments. Where the taxpayer has himself dedicated his restricted retirement fund to investments in Government securities or shares of a regulated investment company, the trustee has no investment duties and responsibilities. Of course, this amendment would not preclude a taxpayer in any case from appointing a bank as trustee, if he so preferred.

In the Treasury Department's letter to this committee dated February 16, 1959, containing the Department's comments on H.R. 10, the Department gives its approval to the custodian account concept, stating:

> However, to reduce the cost of participating in the plan, an exception might be made for certain types of investment which do not appear to need the services of a trustee. For example, individuals might be permitted to purchase stock in a regulated investment company directly without the use of a trustee, provided there are appropriate safeguards and the company agrees to provide the Government with information regarding purchases and sales of its stock under the plan.

A similar approval in principle was given by the Treasury Department when Department representatives testified on an earlier version of this bill before the House Committee on Ways and Means on June 27, 1955. This appears on page 11 of the record of those hearings. Among other things, the Department stated at that time "Special custodian accounts or segregated funds in banks or investment companies also could be authorized."

It is, of course, immaterial whether this matter is dealt with by permitting the bank to act as custodian without any trust, or with a trust of which someone other than the bank is trustee, so long as the securities must be physically held by the bank.

In the last Congress, on July 29, 1958, when this same legislation in identical form passed the House, Mr. Keogh, one of the cosponsors of this bill, in his statement on the floor of the House approved in detail the need for permitting the bank to act as custodian where "the trust funds must be invested in U.S. Government securities or in the shares of publicly held investment companies." (P. 14137, Congressional Record, July 29, 1958.) In annex B, attached to my statement, Mr. Keogh's remarks are quoted in full.

We understand, therefore, that the omission of such a provision from the bill at the present time is not intentional but is a matter of inadvertence, and we earnestly hope that the provision can be inserted in the bill.

We appreciate very much the courtesy of your committee in permitting us to be heard today.

Senator FREAR. Questions, Senator Carlson?

Senator CARLSON. No.

Senator FREAR. Annex A and annex B will be made a part of the record, Mr. Cohen.

(Annex A and annex B referred to are as follows:)

ANNEX A TO STATEMENT OF EDWIN S. COHEN

Amendatory text to H.R. 10 required to put in custodian account rule

1. Section 4 of the bill: Amend proposed new section 405(c)(1) to read as follows (new material in italic; deleted material in linetype):

"(c) *REQUIREMENTS FOR A RETIREMENT PLAN.*—A plan described in subsection (b) shall be treated as a retirement plan only if the requirements of paragraphs (1), (2), and (3) of this subsection are met:

"~~(1) TRUSTEE MUST BE A BANK.—The trustee is a bank as defined in section 581.~~

"*(1) INVESTMENTS MUST BE HELD BY A BANK.*—

"*(A) BANK AS TRUSTEE.—The Trustee must be a bank (as defined in section 581), unless the provisions of subparagraph (B) are applicable.*

"(B) BANK AS CUSTODIAN IN CERTAIN CASES.—*Subparagraph (A) shall not be applicable if under the trust instrument—*

"(i) *the trustee is required to maintain the corpus and income of the trust in the custody of a bank (as defined in section 581) under such regulations as may be prescribed by the Secretary or his delegate, and*

"(ii) *the trustee may not invest or reinvest the corpus or income of the trust other than in obligations of the United States and stock in regulated investment companies meeting the requirements of section 851.*"

2. Section 5 of the bill: (a) Amend proposed new section 6047(a) relating to information requirements to read as follows (new matter in italic):

"(a) BANKS, REGULATED INVESTMENT COMPANIES AND INSURANCE COMPANIES.—Every bank *or other trustee* which is a trustee of a restricted retirement fund (as defined in section 405), *every regulated investment company the stock of which is held in a restricted retirement fund (as so defined) of which a bank is custodian as provided in section 405(c)(1)(B)*, and every insurance company which is the issuer of a policy which is a restricted retirement policy (as defined in section 217(f), shall file such returns (in such form and at such times), keep such records, make such identification of policies and funds (and accounts within such funds, and supply such information, as the Secretary or his delegate shall by forms or regulations prescribe."

(b) In the amendments proposed by section 5 of the bill with respect to section 6047(b) and section 7207 change the phrase: "bank or insurance company" to read: bank, *trustee, regulated investment company* or insurance company."

ANNEX B TO STATEMENT OF EDWIN S. COHEN

Statement respecting custodian accounts made by Hon. Eugene J. Keogh on the floor of the House on July 29, 1958 (Congressional Record, page 14137)

The new draft of the bill in section 4 eliminates "custodian" accounts from the types of permissible retirement funds, and requires the use of a fixed bank trust.

This is very surprising because when Secretary Humphrey and Laurens Williams appeared at the Ways and Means hearings of June 27, 1955, the official Treasury position was stated to be (p. 11, hearings):

2. Allowable investments

"In general, we believe that it would be desirable to permit investment of the savings eligible for the exclusions in a fairly broad range of investment. Special issues of U.S. savings bonds could be offered in forms appropriate for the accumulation of retirement funds. *Special custodian accounts or segregated funds in banks or investment companies also could be authorized* * * *." (Emphasis supplied.)

Prohibition against use of custody accounts will place a substantial handicap on the use of U.S. Government securities and shares of regulated investment trusts as an investment medium for retirement funds.

The charges of a bank are substantially greater when it acts as trustee than when it acts only as a custodian. Most of the retirement funds to be established under the proposed statute, particularly in the early years following their creation, would be of relatively small size, and the differential in the charges of the bank, depending upon whether it acted as trustee or as custodian, would be especially significant in such cases.

U.S. Government securities and shares of publicly held investment companies would be particularly appropriate forms of investments for retirement trusts of relatively small size. Government securities are obviously a desirable investment for retirement funds. So also in appropriate cases are the securities of publicly held investment companies, which are subject to regulation by the Securities and Exchange Commission, and which furnish to investors of moderate means an opportunity for diversification of risk and expert management advice.

If under the terms of the trust agreement the trust funds must be invested in U.S. Government securities or in the shares of publicly held investment companies, the objectives of the statute would be fully attained by a requirement that a bank act as custodian only. The custody agreement with the bank would provide, under regulations of the Treasury Department, that the bank could not

deliver over any part of the trust assets to the taxpayer except in accordance with the strict terms of the statute.

Provision for this could be made by adding after line 3 on page 25 the following:

"(D) The requirement that the trustee be a bank (as so defined) shall not be applicable to any trust indenture which authorizes and directs the trustee or trustees (a) to invest and reinvest the assets of the trust solely in obligations of the Government of the United States and/or in shares of investment trusts or companies registered under the Federal Investment Company Act of 1940 as from time to time amended and (b) to place and maintain the assets of the trust in the custody of a bank (as so defined), under such rules and regulations as may from time to time be prescribed for the protection of the participating individuals by the Secretary."

Senator FREAR. We thank you very much for your testimony.

The next witness is Mr. George J. Burger, National Federation of Independent Business, Inc.

STATEMENT OF GEORGE J. BURGER, VICE PRESIDENT, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, INC., WASHINGTON, D.C.

Mr. BURGER. I am George J. Burger, vice president, legislative activities, National Federation of Independent Business.

We are the largest business organization in the Nation, from the standpoint of directly supporting business and professional enterprisers. Our membership is exclusively among small independent enterprisers.

At this point, Mr. Chairman, I want to say that our membership in the year 1958 increased 33⅓ percent and the total of voting membership of our organization is now a little in excess of 130,000.

These people, who are your constituents, and they alone, set our stand on bills and issues by direct, signed ballots which they send to their congressional Representatives on the House side, in our mandate polls. I mention this only to emphasize the fact that what I say here is intended to reflect their collective thinking, just as though they were here to speak for themselves.

I might mention here that the federation is the only independent business organization performing this function for smaller firms and their Congressmen.

Now, we have not polled our members on S. 1979. But we have polled them on four occasions over the past 4 years on earlier bills that touch on the points at issue in S. 1979. The results of these polls are my authority to speak before you on this bill, S. 1979.

For instance, in mandate No. 214 (1955) we polled our members as follows: I am not going to read that second page, but it is interesting to note the arguments presented to our membership against the present legislation typify some of the questions that were brought up this morning as to the position on the balanced budget of the Treasury Department officials and whatnot. And the result of that poll showed 76 percent for the bill, 20 percent against, and 4 percent no vote.

In mandate No. 223, again we polled our members—and again I call to your attention the arguments presented against the bill—but not withstanding the arguments the poll disclosed 85 percent for the bill, 11 percent against and 4 percent no vote.

Then again on mandate No. 227 (1957), we polled our members, and the result of that poll was 76 percent for, 19 percent against, and 5 percent no vote.

And, finally, in 1959 on mandate ballot No. 245, we polled our members again, and again I call your attention to the argument presented to us by our members against the bill. Notwithstanding, the result of the poll was 76 percent for, 20 percent against and 4 percent no vote.

(The material referred to follows:)

MANDATE No. 214

4. H.R. 9–H.R. 10 (Jenkins, Ohio-Keogh, N.Y.). Exempt from tax the first 10 percent of yearly income paid into personal retirement funds by self-employed professional and businessmen and workers not covered in private pension plans; exempt these funds from taxes until beneficiaries start to draw on them at age 65 or later.

Following are the brief arguments "for" and "against" which we furnished them, to help spark their thinking on the issues posed by this bill:

4. *Argument for.*—All these bills seek is to give the 10 million self-employed professional and businessmen and workers not covered by private plans, the same chance to build pension funds as corporation officials and employees now have. Present high taxes, which no one expects to be cut substantially soon, don't leave the average self-employed person enough to cover living costs and a residue for relatively high payments required for an acceptable private pension plan. These bills encourage private, personal initiative on retirement plans.

4. *Argument against.*—Granted these 10 million don't have the same retirement opportunities as their corporate brethren. But these bills don't solve the problem. They favor the higher middle and upper income groups. By denying the Treasury tax collections, they delay the day when there can be a general tax cut, and benefits can go to all, including the low income group. The only realistic solution to this problem is to cut Federal spending to point where taxes can be cut. Then these people can have their retirement plans.

And this is how they voted on this bill:

Following is the national summary of votes cast on issues carried in "The Mandate" No. 214. This summary has been forwarded to Members of Congress, to members of the permanent Senate Small Business Committee, to members of the House Small Business Committee, to other interested congressional committees, members of administrative Government and governmental agencies.

[Percent]

	For	Against	No vote
1. S. 3. Widen State control of labor problems	80	17	3
2. S. 2205. Quicker enforcement, stiffer fines on violations of law against price discrimination	72	19	9
3. H.R. 7096. Government pay for private antitrust suits	47	45	8
4. H.R. 9–H.R. 10. Make it easier for self-employed to finance their own retirement plans	76	20	4
5. H.J. Res. 319. Cancel treaties permitting foreign nations to try and punish U.S. Soldiers	65	28	7

MANDATE No. 223

1. Are you for or against action by Congress to exempt from tax the first 10 percent of yearly income paid into personal retirement plans by professional and businessmen not covered in private pension plans?

Following are the brief arguments "for" and "against" which we furnished them, to help spark their thinking on the issues posed by this bill:

1. *Argument for.*—"All these bills seek is to give the 10 million self-employed professional and businessmen and workers not covered by private plans the same chance to build pension funds as corporation officials and employers now have. Present high taxes, which no one expects to be cut substantially soon, don't leave the average self-employed person enough to cover living costs and a residue

for relatively high payments required for an acceptable private pension plan. These bills encourage private, personal initiative on retirement plans.

1. *Argument against.*—"Granted these 10 million don't have the same retirement opportunities as their corporate brethren. But these bills don't solve the problem. They favor the higher middle- and upper-income groups. By denying the Treasury tax collections, they delay the day when there can be a general tax cut, and benefits can go to all, including the low-income group. The only realistic solution to this problem is to cut Federal spending to point where taxes can be cut. Then these people can have their retirement plans.

And this is how they voted on this bill:

Following is the national summary of votes cast on issues carried in mandate No. 223. This summary has been forwarded to Members of Congress, to members of the permanent Senate Small Business Committee, to members of the House Small Business Committe, to other interested congressional committees, members of administrative Government and Government agencies.

[Percent]

	For	Against	No vote
1. Tax exemption for payments into private retirement plans	61	34	5
2. Promote independents' rights to handle products they choose	85	11	4
3. Compel PX's and commissaries to raise prices they charge	70	26	4
4. Create independent commission to study and recommend tax changes	80	16	4
5. Special congressional probe into charges of labor racketeering	92	6	2

MANDATE NO. 227

2. H.R. 9, H.R. 10. Private retirement plans help self-employed professional and businessmen build their own private retirement plans, by exempting from tax first 10 percent of yearly income paid into these plans (bills by Representative Keogh of New York and Jenkins of Ohio).

Following are the brief arguments "for" and "against" which we furnished them to help spark their thinking on the issues posed by this bill:

2. *Argument for.*—Fair play for independent business and professional people, that's all these bills ask. These people who generate much of our prosperity and provide essential services must have the same rights to provide for retirement as have corporation officials and employees, which is what the bills would grant them. Present high tax rates, which won't be cut substantially soon, don't leave them enough to cover costs and support the high payments needed for a rounded retirement program. By exempting from tax the first 10 percent of income paid into these plans, they'd have a chance to build for old age. And Government would collect tax on income from plans when retirement commences.

2. *Argument against.*—There are a lot of injustices in our tax laws. Perhaps these bills would correct one of them. But in doing so, they would create others. Treasury officials have testified that the bills would throw a harpoon into budget balancing work and promote further depreciation of the dollar. Others have argued that the bills would confer special privilege on higher middle- and upper-income groups at a time when all need a tax reduction. Congressional authorities say we should start with a general reduction in all tax rates, and eliminate all special exceptions. Let's start right at the beginning, with a general tax cut, then all the rest, including these bills, will work themselves out.

And this is how they voted on this bill:

Here's the national summary of votes on issues in mandate No. 227. This has been sent to all Congressmen and Senators, all congressional committees, and all agencies and individuals in the executive branch of our Government, for their information.

[Percent]

	For	Against	No vote
1. S. 245-H.R. 658. Tax cut for smaller corporations	87	10	3
2. H.R. 9-H.R. 10. Ten percent tax exemption for retirement plans	76	19	5
3. S. 545-H.R. 2143. Establish permanent, independent Small Business Administration	83	14	3
4. H.R. 2143. Require larger firms to give advance notice on mergers	76	18	6
5. H.R. 23. $50,000 tax deduction for expansions, improvements	71	23	6

MANDATE NO. 245

2. H.R. 9. Private retirement plans * * * help self-employed professional and businessmen build their own private retirement programs, by exempting from tax the first 10 percent of yearly income paid into these plans. (Representative Simpson, Pa.)

Following are the brief arguments "for" and "against" which we furnished them, to help spark their thinking on the issues posed by this bill:

2. *Argument for.*—Fair play for business and professional people, that's what this bill seeks. These people generate much of our prosperity and provide essential services. They should have the same chance to provide for retirement as have corporation officials and employees * * * which this bill would grant them. By exempting from tax the first 10 percent of income paid into these plans, it would help them finance programs for retirement. Congress went almost 75 percent of the way toward making this into law in 1958 * * * in all fairness it should go all the way this year. This is nothing but simple justice.

2. *Argument against.*—There are a lot of injustices in our tax laws. Perhaps these bills would correct one of them. But in doing so, they would create others. Treasury officials have testified that the bills would throw a harpoon into budget balancing work and promote further depreciation of the dollar. Others have argued that the bills would confer special privilege on higher middle and upper income groups * * * at a time when all need a tax reduction. Congressional authorities say we should start with a general reduction in all tax rates, and eliminate all special exceptions. Let's start with a general tax cut.

And this is how they voted on this bill:

Here's the national summary of votes on issues in mandate 245. This has been sent to all Congressmen and Senators, all congressional committees, and all agencies and individuals in the executive branch of our Government, for their information.

[Percent]

	For	Against	No vote
1. H.R. 2. Tax allowance for inventory increases	71	25	4
2. H.R. 9. Private retirement plans	76	20	4
3. H.R. 83. $1.25 minimum wage	30	66	4
4. H.R. 99. Reduce Government competition	88	9	3
5. H.R. 63. Permit social security pensioners to earn up to $1,800 yearly in private employment	81	17	2

Mr. BURGER. The membership of the federation, all individual voting members, comprises independent business and professional men. Of course this includes doctors, lawyers, accountants, civil engineers, and so forth, and all as mentioned above are classed as "self-employed." I myself have been self-employed for over a quarter of a century and there is no way that I, like many thousands of others, could build up a reserve for retirement purposes, except through private investment.

I think that the proposals in the bills being considered here today are fair and just, that they present a commonsense approach to the problem, and that if such legislation was approved it might for the time being result in a slight loss of revenue to the Government, but on the other hand, it could produce savings in many ways both to the Nation and to the individual States.

Professional men and self-employed persons having the privilege under the law to postpone paying taxes on a limited amount of money deducted from their taxable income each year and put into a retirement fund, would be subject to the tax when the pension benefit was received.

I do know in my travels throughout the Nation and in discussion of matters of this kind, pension and retirement funds, the self-em-

ployed often remark: "Well, if I was working for a corporation for the years I have spent in my own business, I would find myself at the retirement age not alone receiving the benefits through social security, but I would in most cases receive retirement benefits from my employment over the years."

The trend of the times it seems is to make provisions for faithful and conscientious employment, which is typified in some degree through the actions of organized labor insisting on contract arrangements for the people they represent, through a guaranteed annual wage and other provisions.

You will hear the present-day youth, when they go into the commercial world remark "Why should I open up my own business when I can get a job with some corporation and build up over the years a retirement fund"? Surely many of the States and the Nation itself provide for retirement funds after years of service.

Mr. Chairman, the remarks I am making on the overall legislation are my personal views, but they will be found to be shared by many in the Federation membership as shown by the Mandate polls above.

Senator FREAR. Any questions?

(No response.)

Senator FREAR. Thank you, Mr. Burger.

Mr. Cecil P. Bronston, American Bankers Association.

STATEMENT OF CECIL P. BRONSTON, CHAIRMAN, COMMITTEE ON EMPLOYEES TRUSTS OF THE TRUST DIVISION OF THE AMERICAN BANKERS ASSOCIATION; ACCOMPANIED BY JOSEPH R. GATHRIGHT, VICE PRESIDENT OF THE KENTUCKY TRUST CO., OF LOUISVILLE, KY.

Mr. BRONSTON. My name is Cecil P. Bronston. I am a vice president of Continental Illinois National Bank & Trust Co., of Chicago, and am here today as chairman of the Committee on Employees Trusts of the Trust Division of the American Bankers Association. With me is another member of the committee, Mr. Joseph R. Gathright, sitting to my right, vice president of the Kentucky Trust Co., of Louisville, Ky. The membership of our committee, direct and ex officio, is representative of the banks and trust companies of all sections of the country.

In the course of the daily operations of the trust business, we are constantly made aware of the comparative difficulties which the average self-employed person—the average lawyer or other professional man, the average farmer or small shopkeeper—has in making provision for retirement. As a result, we understand and sympathize with them in their desire to be placed on a par in this respect with employed persons who work under retirement funding programs financed by their employers. We, therefore, endorse the principles of H.R. 10, S. 1979, and similar bills pending before the committee.

Senator FREAR. May I ask at this point, Mr. Bronston, are these the views of the American Bankers Association that you are expressing?

Mr. BRONSTON. They are.

Senator FREAR. Thank you.

Mr. BRONSTON. Under the terms of the bills, if enacted, the responsibility of acting as trustee for the funds set aside by qualified individuals in restricted retirement trusts will be lodged in banks and trust companies. Our purpose in appearing before you today is to refer to the working provisions of the proposed legislation relating to these trusts.

After considering how restricted retirement funds can best be established and operated, it seems to us that three basic patterns of trusts will be used:

1. A trust may be established by an individual, providing that the trust investments may be made in permitted assets or, if the law ultimately so permits, in a common trust fund operated by the trustee pursuant to section 584 of the Internal Revenue Code and the regulations of the Federal Reserve Board;

2. A trust may be established by a professional or other association or group of individuals acting together, under which separate accounts will be maintained for each member, but assets will be invested collectively; and

3. A trust may be established under a declaration of trust executed by a bank or trust company, by which the bank sets up a restricted retirement fund for the acceptance of deposits from qualified individuals for collective investment, with separate accounts to be maintained for each member.

Experience of Canadian trust companies, which have now been operating restricted retirement funds for approximately 2 years, has been that participants' deposits have averaged about $800 a year. As we all know, the expense of administration and direct investment of assets in a single trust of such small proportions is prohibitive. The terms of the bill indicate its framers have contemplated that, if funds of the self-employed are to be managed to their greatest advantage, it will be through means by which their funds are pooled for investment. For this purpose it would seem desirable that clear approval be given to the use of common trust funds, as well as to collective investment funds which the bills now authorize specifically. Common trust funds are now available. The latest Federal Reserve Board survey shows that, at the end of 1958, 322 common trust funds were being operated by 246 banks in 44 States and districts of the Nation. These funds, which have assets of almost $2½ billion, will accommodate the individual restricted retirement fund depositor. Bank-declared collective forms of trust, when established specifically for restricted retirement funds, may reasonably be expected to attract many thousands of members. Both forms of trusts will provide the full investment advantages and administration economies to be derived from pooling by participants of their retirement resources.

Based primarily on our experience in the general administration of trusts, we have four suggestions which we believe will work to the benefit of all concerned. We have submitted these suggestions to you in a written statement bearing date of May 27, 1959, which Mr. Byrd, as chairman, has kindly agreed to make a part of the printed record.

(The statement referred to follows:)

COMMITTEE ON EMPLOYEES TRUSTS

TRUST DIVISION

AMERICAN BANKERS ASSOCIATION

SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959—RESTRICTED RETIREMENT FUNDS

To the FINANCE COMMITTEE,
U.S. Senate, Washington, D.C.
(Attention of the Honorable Harry F. Byrd).

The Self-Employed Individuals' Retirement Act of 1959 prescribes two means by which a qualified individual may set aside retirement funds pursuant to its provisions: (1) the purchase of a restricted retirement annuity policy through a life insurance company; and (2) the deposit and accumulation of funds in a restricted retirement trust of which the trustee must be a bank or trust company.

The banks and trust companies across the Nation are pleased to share with the insurance industry the opportunity to be of service to self-employed persons which the act will provide. In the course of the daily operations of the trust business, trustmen are constantly made aware of the comparative difficulties which self-employed persons have in making provision for their retirement years. As a result, trustment understand, sympathize with, and endorse the desires of the self-employed to be placed on a par in this respect with employed persons who work under retirement funding programs financed by their employers.

As the act has taken shape over the years since its principles first came under consideration in 1945, its trust provisions have been refined to the point that only a few further modifications seem necessary to make it generally workable. Our purpose in this memorandum is to set forth four suggested further refinements which, in our opinion, will make it possible for banks and trust companies to best carry out the duties with which they will be charged as trustees—to the end that restricted retirement funds established pursuant to the act may be administered to the greatest advantage of those citizens it is intended to help.

FORMS OF RESTRICTED RETIREMENT TRUSTS

As trustmen and their legal counsel have given thought to how restricted retirement funds can best be operated, three basic patterns of trusts have begun to emerge. These are:

(1) A self-employed person may establish an individual inter vivos trust conforming to the requirements of the act, under which the trustee may invest directly in permitted assets or, if the act ultimately so permits, in a common trust fund operated by the trustee pursuant to regulations of the Federal Reserve Board;

(2) A professional or other association, or group of individuals acting together, may establish a trust conforming to the requirements of the act, under which separate accounts for each member will be maintained, but assets will be invested collectively; and

(3) A bank may declare a trust, stating its intention to qualify such trust as a restricted retirement fund and to accept deposits therein from qualified self-employed individuals for collective investment, with separate accounts to be maintained for each depositor.

It seems most likely that the bank-declared, collective form of trust (No. (3) above) will be the most commonly used. Trusts of this form may reasonably be expected to attract many thousands of members, because of the investment advantages and administrative economies to be derived from the pooling by the members of their retirement resources.

LET THE INDIVIDUAL SELECT HIS OWN INVESTMENT MEDIUM

The greatest advantages will be available to members if the trust facilities are such that the members, individually, may select the types of investments they prefer for their own retirement funds. To one person, a portion in bonds and a

portion in stocks will form a desirable arrangement; to another, a portion in insurance and a portion in stocks will seem appropriate; and others may conceivably prefer all insurance, or all bonds, or all stocks, or other combinations. Surveys made by banks among persons to be covered by the act have shown that the trusts to be established should permit this flexibility.

FOUR SUGGESTED REFINEMENTS IN THE ACT[1]

These are the four suggested further refinements in the bill's provisions which we hope may have the favorable consideration of the Congress:

(1) Provide that restricted retirement funds may be invested in assets which are permitted for the investment of trust funds by national banks under regulations of the Board of Governors of the Federal Reserve System issued pursuant to section 11(k) of the Federal Reserve Act;

(2) As is the case with common trust funds and collective trusts for employee retirement funds, provide that participations in restricted retirement trusts shall be exempt from issuance stamp taxes;

(3) Provide, with reference to prohibited transactions—

(*a*) that a restricted retirement fund shall not lose its tax exemption as the result of a prohibited transaction, if adjustment satisfactory to the Secretary of the Treasury is made within such reasonable time as the Secretary determines;

(*b*) that a member who knowingly engages in a prohibited transaction shall continue to be penalized by loss of his tax exemption; and

(*c*) that the definition of prohibited transactions in this act be made uniform in effect with the now existing definition in the Internal Revenue Code (sec. 503(c)), except that in this act the trustee shall be prohibited from lending corpus or income of the trust to a member; and

(4) Just as a member may have a restricted retirement policy purchased from funds in a restricted retirement trust, provide that he may, also, direct the transfer of the cash surrender value of a restricted retirement policy to a restricted retirement fund.

These four suggestions and the reasons for their advancement follow in specific detail. (The existing provisions of the bill proposed to be omitted are inside black brackets, new matter is in italic, and existing provisions in which no change is proposed are shown in ordinary type.)

Item 1. Permissible investment—Section 405(c)(3)

To set a fiduciary standard for fund investments, it is suggested that section 405(c)(3) be revised as follows:

"SEC. 405. RESTRICTED RETIREMENT FUNDS.

* * * * * * *

"(c) REQUIREMENTS FOR RETIREMENT PLAN.— * * *

* * * * * * *

"(3) PERMISSIBLE INVESTMENTS.—Under the trust instrument, the trustee may not invest or reinvest the corpus or income of the trust other than [in]—

"[(A) (i) stock or securities listed on a securities exchange which is registered with the Securities and Exchange Commission as a national securities exchange (not including stock and securities in a corporation if, immediately after the acquisition thereof, the aggregate ownership of voting stock in such corporation by the trust and by its members (including ownership attributed to such members under section 318) is more than 10 percent of such voting stock), (ii) bonds or other evidences of indebtedness issued by the United States, any State or Territory, or the District of Columbia, or any political subdivision or instrumentality of any of the foregoing, and (iii) stock in a regulated investment company meeting the requirements of section 851, and]

in assets which are permitted for the investment of trust funds by national banks under regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System issued under section 11(k) of the Federal Reserve Act; subject to the limita-

[1] These suggestions are supplemental to and in lieu of those contained in our committee's memorandum of Dec. 29, 1958. Item 1, herein, is in lieu of item 1 of the 1958 memorandum. Item 2, in each memorandum, is the same. Items 3 and 4, herein, are additional suggestions.

tion that no investment or reinvestment for the trust shall be made in stocks, or bonds, or other obligations of any one person, firm, or corporation which would cause the total amount of investment in stocks, or bonds, or other obligations issued or guaranteed by such person, firm, or corporation to exceed the greater of $10,000 or 10 percent of the fair market value of the trust: Provided, however, that this limitation shall not apply to (i) obligations of the United States or obligations for the payment of the principal and interest of which the faith and credit of the United States shall be pledged; (ii) stock in a regulated investment company meeting the requirements of section 851; or (iii) participations in any common trust fund or other collective investment fund established and administered in conformity with the rules and regulations, prevailing from time to time, of the Board of Governors of the Federal Reserve System; and

"(B) *in* the purchase, for the account in the plan of a member thereof, of an annuity on the life of such member (or a face-amount certificate which meets the requirements of section 217(h) which provides only restricted retirement benefits (within the meaning of section 217(f)(2)."

THE "LEGAL LIST" OF THE PRESENT BILL

The bill now provides that under the trust instrument the trustee may not invest or reinvest the corpus or income of the trust other than in stock or securities listed on a securities exchange, bonds or other evidences of indebtedness issued by the United States, any State or Territory, or the District of Columbia, or any political subdivision or instrumentality thereof, stock in a regulated investment company, and in the purchase of an annuity on the life of the individual member. Provision for the purchase of stock or securities is further limited in that investments may not include stock and securities in a corporation if immediately after the acquisition thereof the aggregate ownership of voting stock in such corporation by the trust and its members (including attributed ownership under sec. 318) is more than 10 percent of such voting stock.

MAJOR DEFECTS OF THE PRESENT INVESTMENT PROVISION

This provision has these major defects:

(*a*) In the immediately preceding stage of the bill's development, it contained alternative provisions by which a person could deposit his retirement funds either in a trust or a custodian account. Because of the latter alternative, it was desirable to list specifically the investments which would be permissible. Now the bill provides that only trusts may be used—trusts which must have as trustee a bank or trust company—so that a less restrictive and more satisfactory approach to permissible investments is possible.

(*b*) The fact that stock or securities are listed on a securities exchange may be indicative but is not controlling as to investment merit of a stock or a security;

(*c*) Assets of trust investment quality, other than stock or securities listed on a securities exchange, are barred from use. One example: Mortgages. Another: Many bonds of high quality are not listed on a securities exchange and cannot be purchased through an exchange.

(*d*) To comply with the limitation in ownership of 10 percent of voting stock of a corporation by the fund and its members, the trustee would have to know the number of shares of such stock owned by each member (including attributed ownership) in any company whose stock was being considered for purchase. In a fund of many members, this would be impossibly cumbersome and unworkable.

PROPOSED PERMISSIBLE INVESTMENTS

In substitution for the "legal list" approach to permissible investments contained in the present bill, the suggested revision would set as a standard for investment those assets which are permitted for the investment of trust funds by national banks under Federal Reserve Board regulations issued pursuant to the Federal Reserve Act. What this means specifically is seen in these condensed quotations from the Federal Reserve Board's Regulation F:

"Funds received or held by a national bank as fiduciary shall, * * * subject to the rules of law applicable to fiduciaries, be invested promptly and in strict accordance with the * * * instrument creating the trust * * *. When such instrument does not specify the character or class of investments to be made and does not expressly vest in the bank * * * a discretion in the matter, funds received or held in trust shall be invested * * * in any investments in which corporate or individual fiduciaries in the State in which the bank is acting may lawfully invest[2] * * *. Funds * * * shall not be invested collectively except that (i) such collective investments may be made in accordance with section 17 of this regulation[3] * * *. Funds * * * shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank."[4]

WHAT OF THE LIMITATION ON VOTING STOCK?

In the suggested revision, the limitation upon the investment in assets issued or guaranteed by any one entity to "the greater of $10,000 or 10 percent of the fair market value of the trust" is a workable substitute for the limitation on voting stock contained in the present bill. It should prove equally effective, as intended by the framers of the bill, to prevent the settlor of an individual trust from financing his business, through the trust's investments, on a tax exempt basis. Under the suggested revision, this limitation will not apply (i) to obligations of the United States Government, (ii) stock in a regulated investment company, and (iii) to common trust funds or other collective investment funds operated under regulations of the Federal Reserve Board. Such assets inherently provide diversification of investment risk.

THE PRECEDENT FOR THE SUGGESTED INVESTMENT STANDARD

The suggested revision sets up an effective standard for trust investments which has been found suitable by Congress with reference to the trust business which is now conducted by national banks—a standard which is at least equivalent to the best investment practices required of State banks exercising fiduciary powers. The suggested revision will also permit the desired and necessary flexibility in investment provisions of restricted retirement funds—whereby a member may select the type of investments preferred for his own account—all within the framework of the rules of law applicable to fiduciaries.

Item 2. Issuance stamp taxes—Section 4303

To eliminate issuance taxes, it is suggested that section 4303 be revised as follows:

"SEC. 4303. EXEMPTIONS.

"(a) COMMON TRUST FUNDS.—The tax imposed by section 4301 shall not apply to the issue of shares or certificates of a common trust fund, as defined in section 584.

"(b) POOLED INVESTMENT FUNDS.—The tax imposed by section 4301 shall not apply to the issue of shares or certificates of a fund maintained by a bank exclusively for the collective investment and reinvestment of assets of qualified trusts (within the meaning of sections 401 *and 405*, relating to qualified pension, profit-sharing, [and] stock bonus, *and restricted retirement* plans)."

Under Section 4303(a), the Internal Revenue Code exempts "* * * the issue of shares or certificates of a common trust fund, as defined in section 584 * * *" from the Federal documentary stamp tax. In 1958, this exemption was extended to apply to "* * * the issue of shares or certificates of a fund maintained by a bank exclusively for the collective investment and reinvestment of assets of qualified trusts (within the meaning of section 401, relating to qualified pension, profit-sharing and stock bonus plans)."

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[2] Regulation F, sec. 10(a).
[3] Sec. 10(c). Sec. 17 covers the terms and conditions under which common trust funds may be and are operated. Representatives of the Federal Reserve Board have given informal assurances of the Board's intention to sanction the collective investment of restricted retirement funds established under the Self-Employed Individuals' Retirement Act of 1959, if the act becomes effective.
[4] Sec. 11(a).

SIMILAR EXEMPTION EQUITABLE

In view of these specific exemptions, it would seem that Congress, in affording self-employed persons the benefit of participation in collectively invested restricted retirement funds, would also intend that such participation interests be exempt from the issuance tax.

Item 3. Prohibited transactions—Section 78(a)(3) and section 405(d)

To set standards more nearly uniform with existing law, and to prevent penalties from falling upon the innocent, it is suggested that section 78(a)(3) and section 405(d) be revised as follows:

"SEC. 78. AMOUNTS RECEIVED FROM RESTRICTED RETIREMENT FUNDS OR POLICIES.

"(a) RESTRICTED RETIREMENT FUNDS.—

* * * * * * *

"(3) PROHIBITED TRANSACTIONS, ETC.—If the trustee, *or a member (or members)* of a restricted retirement fund knowingly engages in a prohibited transaction (within the meaning of section 405(d)(3)), the member (or members) in respect of whom such transaction occurred shall be treated as having received, in his taxable year in which such transaction occurred, his entire interest in the fund. The period for assessing a deficiency for any taxable year, to the extent attributable to the interest described in the preceding sentence, shall not expire before one year after the date on which the Secretary or his delegate is notified, in such manner as he shall by regulations prescribe, of such prohibited transaction."

"SEC. 405. RESTRICTED RETIREMENT FUNDS.

* * * * * * *

"(d) REQUIREMENTS FOR EXEMPTION FROM TAX.—

"(1) IN GENERAL.—A restricted retirement fund which has engaged in a prohibited transaction shall not be exempt from taxation under section 501(a).

"(2) TAXABLE YEARS AFFECTED.—*Pursuant to regulations which the Secretary or his delegate shall prescribe,* paragraph (1) shall apply *to the fund* only for taxable years after the taxable year during which the [fund] *trustee* is [notified] *given final notice* by the Secretary or his delegate that [it] *the fund* has engaged in a prohibited transaction *which has continued beyond, or of which adjustment has not been made to the satisfaction of the Secretary or his delegate within, a reasonable time after preliminary notice thereof shall have been given to the trustee by the Secretary or his delegate;* except that if the trustee, *or a member (or members)* knowingly engaged in a prohibited transaction, paragraph (1) shall apply with respect to the accounts in the fund of the member *(*or members*)* in respect of whom such transaction occurred for the taxable year in which such transaction occurred and all taxable years thereafter.

"(3) PROHIBITED TRANSACTION DEFINED.—For purposes of this subsection, the term 'prohibited transaction' means any transaction in which the trustee—

"(A) lends any part of the corpus or income of the fund to;

"(B) pays [any] *more than reasonable* compensation for personal services rendered to the fund to;

"(C) makes any part of its services available on a preferential basis to; or

"(D) acquires for the fund any stock, securities, or evidences of indebtedness *for more than an adequate consideration in money or money's worth,* from, or sells any stock, securities, or evidences of indebtedness of the fund *for less than an adequate consideration in money or money's worth,* to;

any person described in section 503(c) (for this purpose treating each member of the plan as the grantor of the trust). The term also includes any transaction pursuant to which the fund ceases to meet any requirement of subsection (c) of this section, and any failure to comply with any provision of the trust instrument required by such subsection."

WHAT IS A PROHIBITED TRANSACTION?

The bill defines a prohibited transaction as any transaction in which:

(1) The trustee { (a) lends; (b) pays compensation for personal services; (c) makes its services available preferentially, or; (d) acquires from, or sells } to { (i) the trust maker; (ii) a member; (iii) a member of the family of a member, or; (iv) a corporation controlled directly or indirectly by a member;

(2) The fund ceases to meet in any respect the requirements for a retirement plan as set forth in the act; or

(3) The trustee or other interested persons fail to comply with any provision of the trust instrument required by the act.

SECTION 503(c) NOW SETS A REASONABLE STANDARD

Item (1), above, sets forth limitations which would prohibit any transaction whatsoever with a member, regardless of its reasonableness or the adequacy of consideration. These limitations may have been necessary when the bill provided for custodian accounts. However, since the bill now provides that funds must be deposited in trusts—with a bank as trustee—it would seem that the tests would be sufficient if they were made consistent with those in the existing provisions of section 503(c) of the Internal Revenue Code, with this exception: it seem entirely reasonable that the member and the trustee should be prohibited from defeating the purposes of the retirement trust through loans to a member of the funds he has deposited. If this were not the case, a member would be able to make a deposit, claim a tax deduction therefor, borrow back the money deposited, and have its use tax free. On the other hand, the only essential test for the trustee's purchase of assets, assuming their qualification as permissible investments, would seem to be that the purchase price should not exceed an adequate consideration and, in the case of sales, the sale price should not be less than an adequate consideration.

THE LABORER IS WORTHY OF HIS HIRE

A further apparently inadvertent result of the language in this section of the bill is that the trustee of the fund could not be paid any compensation whatsoever for its services, if the trust is of that form in which the trustee is the declarer and, therefore, technically, the maker of the trust. Also, no payment could be made for legal services rendered to the fund by an attorney who is a member of the fund. Further, no commissions could be paid for purchases or sales of securities if a partner of the brokerage firm handling the purchase or sale is a member of the fund.

The suggested revision would make it possible for the bank-trustee to receive reasonable compensation for its services, whether it is the declarer of the trust or the trust was established by others. And attorneys and brokers who serve the fund could be paid their reasonable fees and regular commissions even though they were members of the fund.

THE PENALTY

The penalty for engaging in a prohibited transaction is that the fund, ipso facto, loses its tax exemption. By the terms of the act, this could occur merely as a result of a member's misstatement of his age followed by the trustee's unknowing retention of his interest in the fund beyond the prescribed age.

If the trustee knowingly engages in a prohibited transaction with a member of the fund, the member is to be treated as having received his entire interest in the fund, with loss of his tax exemption effective as of the time of the transaction. To other members of the fund, the loss of exemption would be deferred until the taxable year following that in which the trustee is notified by the Secretary of the Treasury that the fund had engaged in the prohibited transaction. But, note, this is merely a deferral of the time as of which the penalty is invoked. The effect can only be the dissolution of the trust, as all members must transfer their interests to other trusts to escape loss of the tax exemption for their own accounts.

If the trustee unknowingly engages in a prohibited transaction, the trust's loss of exemption becomes effective in the taxable year after that in which the trustee receives notification from the Secretary.

Therefore, whether the prohibited transaction is engaged in by the trustee knowingly or unknowingly, and whether the prohibited transaction be grave or trivial, the innocent members would have to suffer the dissolution of the fund and the transfer of their liquidated interests to another fund. Thousands of innocent members could be thus adversely affected.

THAT THE INNOCENTS MAY NOT SUFFER

Under the suggested revisions, a fund which had engaged in a prohibited transaction would still lose its tax exemption, if the transaction were continued beyond, or not adjusted to the satisfaction of the Secretary within, a reasonable time set by him. Subject to regulations of the Secretary as to the manner and time of correction, a breach—whether major or merely a trivial technicality—could be adjusted so that the innocent members would not suffer.

FOR THE GUILTY, THE PENALTY

However, if either the trustee or a member (or members) knowingly engaged in a prohibited transaction, the account of such member (or members) would lose tax exemption immediately as of the time of the transaction. This revision would invoke the penalty, if a member (or members) engaged knowingly in a prohibited transaction, whereas the present bill limits to the trustee only the knowledgeable factor which sets up the immediate penalty.

Item 4. Transfer of cash surrender value of restricted retirement policy to restricted retirement fund—section 217 (f) (3)

To permit a member to adjust his retirement program to possible changed conditions, it is suggested that section 217(f) (3) be revised as follows:

"SEC. 217. AMOUNTS PAID AS RETIREMENT DEPOSITS.

* * * * * * *

"(f) RESTRICTED RETIREMENT POLICY DEFINED.—

* * * * * * *

"(3) RESTRICTED RETIREMENT POLICIES MUST BE NONASSIGNABLE, ETC.—

"(A) IN GENERAL.—To meet the requirements of this paragraph, a policy—

"(i) shall be nonassignable, and no person other than the insured shall have any of the incidents of ownership, and

"(ii) shall not provide for life insurance protection after age 70½.

"(B) SPECIAL RULES.—For purposes of subparagraph (A) (i), there shall not be taken into account—

"(i) the right to make any designation described in paragraph (2),

"(ii) the right to designate one or more beneficiaries to receive the proceeds payable in the event of the death of the insured before he attains age 70½, ~~and~~

"*(iii) the right to direct that all or any part of the cash surrender value of a restricted retirement policy shall be transferred to the account of the member in a restricted retirement fund designated by such member, and*

~~(iii)~~ *(iv)* any designation made pursuant to a right described in clause (i), ~~or~~ (ii), *or (iii)*."

LET THE MEMBER HAVE A TWO-WAY SELECTION

The bill now provides that a members' funds in a restricted retirement trust may be used to purchase for him a restricted retirement annuity policy. It is suggested that the opportunity should also be available to a member for the transfer of his cash surrender value in a restricted retirement policy to a restricted retirement fund. Changing conditions—either personal to the member or general to the economy—could make such transfers desirable—either way—and a member should be in a flexible position to adjust his restricted retirement program to meet his changing conditions. This suggestion would provide such flexibility.

If we can explain further the points of this memorandum, or can be of any service in any way to the Senate Finance Committee, we shall welcome the opportunity.

Respectfully submitted.

Committee on Employees Trusts, Trust Division, American Bankers Association: Esmond B. Gardner, Vice President, The Chase Manhattan Bank, New York, N.Y.; Joseph R. Gathright, Vice President and Trust Officer, The Kentucky Trust Co., Louisville, Ky.; Hugh A. Logan, Vice President, St. Louis Union Trust Co., St. Louis, Mo.; B. Frank Patton ,Vice President, Morgan Guaranty Trust Co. of New York, New York, N.Y.; Frank H. Schmidt, Senior Vice President, California Bank, Los Angeles, Calif.; Arthur V. Toupin, Trust Officer, Bank of America National Trust & Savings Association, San Francisco, Calif.; Cecil P. Bronston (Chairman), Vice President, Continental Illinois National Bank & Trust Co. of Chicago, Chicago, Ill.

Mr. BRONSTON. I would now like to review those suggestions briefly, and to be available for any questions that you may have:

Suggestion (1): That section 405(c)(3), dealing with permissible investments, be revised to provide that restricted retirement funds may be invested in assets which are permitted for the investment of trust funds by national banks under regulations of the Board of Governors of the Federal Reserve System issued under section 11(k) of the Federal Reserve Act. The authority should be subject to the limitation that no investment for the trust in obligations of any one entity shall exceed the greater of $10,000 or 10 percent of the fair market value of the trust, but such limitation should not apply to U.S. Government obligations, stock in a regulated investment company, or participations in any common trust fund or other collective investment fund established and administered under rules and regulations of the Board of Governors of the Federal Reserve System.

Senator FREAR. Mr. Bronston, do I gather from this paragraph that you have just recited that there is some distinction in the holding or investment between national and State banks in H.R. 10?

Mr. BRONSTON. No, sir I do not mean to emply that. This would be the investment authority under which both State and National banks acting as trustees would handle these funds.

To answer your question, to paraphrase the pertinent current Federal Reserve Board Regulation F, this would mean that funds received by the trustee shall, subject to the rules of law applicable to fiduciaries, be invested promptly and in strict accordance with the instrument creating the trust. But if the instrument does not specify the character or class of investments to be made and does not expressly vest in the trustee a discretion in the matter, the funds received shall be invested in any investments in which corporate or individual fiduciaries in the State in which the trustee is acting may lawfully invest. Under the current regulation, funds could be invested collectively only through common trust funds, but representatives of the Federal Reserve Board have given informal assurances of the Board's intention to sanction the collective investment of restricted retirement funds, if H.R. 10 is enacted.

Regulation F also provides that funds shall not be invested in stock or obligations of, or property acquired from, the bank or its affiliates, its directors, officers, or employees.

This sugested revision would apply to restricted retirement funds the same investment standard which Congres has prescribed with

reference to all trust business now conducted by national banks. It is, as it should be, a high standard—at least equivalent to the best investment practices required of State banks exercising fiduciary powers—and should provide a fiduciary investment authority under which banks and trust companies can operate to the best advantage of fund members.

Suggestion (2): That section 4303 of the Internal Revenue Code be amended to exempt interests in restricted retirement trusts from documentary issuance taxes, just as in the case now with common trust funds and collective investment trusts for employee retirement funds.

Suggestion (3): That sections 78(2)(3) and 405(d), dealing with prohibited transactions, be revised so that—

1. The definition of prohibited transactions be made uniform in effect with the new existing definition in section 503(c), except that in restricted retirement funds the trustee shall be prohibited from lending principal or income of the trust to a member; and
2. A restricted retirement fund shall not lose its tax exemption as the result of a prohibited transaction, if adjustment satisfactory to the Secretary of the Treasury is made within such reasonable time as the Secretary determines.

Suggestions (4): That section 217(f)(3), relating to restricted retirement policies, be revised to permit a participant to direct the transfer of the cash surrender value of a restricted retirement policy to restricted retirement trust fund. This will give a participant greater freedom to adjust his program to changing conditions, as the bills now provide that a participant may have a restricted retirement policy purchased from funds in a restricted retirement trust.

For a comprehensive explanation of these four suggestions and our reasons for their advancement, reference may be made to our statement of May 27.

I would like, if the committee would give me time, to say one thing further extemporaneously, as a result of some of the questions which have been presented over these 2 days and, specifically, in answer to your question earlier as to whether what I have said is the position of the American Bankers Association.

Since 1928, in the wisdom of Congress, it has consistently followed in tax legislation the fundamental principle of giving encouragement to employers and employees alike to setting aside retirement funds against the day of retirement of those employees. In effect, Congress has said, "Mr. Employer, the compensation you pay to your employees which is reasonable will be allowed as a deduction in computing your income taxes. Of course, what you pay to employees will be taxable to them. However, if you choose to set aside a part of that compensation, irrevocably, beyond your own power of recall to be held exclusively for your own employees, but not to be available to them until they respectively reach retirement age, become disabled, or pass away, you will still be allowed a tax deduction. Employees will not be taxed on these funds now but when the employees receive the funds, they will be taxed."

So it is merely a tax deferment. The pension reserves held cannot be regarded as having been taken out of the tax stream; in fact, they should be thought of as a pool of ultimately taxable resources.

The Securities and Exchange Commission released its statistical series on May 26, Release No. 1605, which showed that contributions

to trust fund pension plans for the year 1958 from employers alone amounted to $2.3 billion. This is the sum on which employers would have been allowed a tax deduction.

The same report shows that from these funds benefit payments to pensioners totaled $710 million.

So that that $710 million was taxed within the year 1958.

And these reserves, parenthetically, form part of the sinews and muscles of our economy.

This same SEC report states:

> In recent years pension funds have constituted one of the most important sources of funds in the capital markets. In 1958 net acquisitions of corporate bonds of our pension funds absorbed an amount equivalent to almost one-fifth of the $7 billion of net funds added to the market supply during the year. And it is estimated that corporate pension funds own more than one-eighth of the outstanding long-term bond notes of American corporations. Corporation pension funds last year acquired common and preferred stock equal to 30 percent of net new stock issues, more than any other institutional group.

Senator FREAR. Are you quoting from an SEC annual report?

Mr. BRONSTON. From a release of the Commission, No. 1605, dated May 26, 1959.

So what Congress has wrought in its encouragement to retirement plans is really a wonderful thing. If this legislation, which Congress has set up to encourage employers to help employees to provide for old age has been and is so wholesome in its effect upon our economy, why should it not be extended to others of our people who are not essentially different from employees? As they grow old their productive power is reduced. So let's give them the same encouragement, the same tax deferral to provide for their old age.

Senator FREAR. Just one question, Mr. Bronston. I believe a previous witness has indicated that it would take quite a while, in case H.R. 10 was enacted, before the banks and other institutions would be prepared to handle the volume that may be presented by trusts or fund or others. Would your bank be prepared to handle anything immediately?

Mr. BRONSTON. Yes, sir. It would be possible to handle funds immediately under a common trust fund investment if such investment is authorized by the law. However, it will be necessary under the terms of the bill to have the approval of these funds by the Internal Revenue Service before they can be put into operation.

Senator FREAR. Yes, I understand. Thank you very much, sir.

The next witness is Mr. L. H. Penney, president of the American Institute of Certified Public Accountants.

STATEMENT OF L. H. PENNEY, PRESIDENT, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Mr. PENNEY. For purposes of identification, my name is L. H. Penney, and I conduct an accounting practice in San Francisco. I appear here today as president of the American Institute of Certified Public Accountants—the national professional society of some 34,000 certified public accountants from all over the Nation.

Senator FREAR. Are your views representative of your association?

Mr. PENNEY. Yes, sir.

I might add that most of the institute's members are practicing certified public accountants, who offer their professional services to hundreds of thousands of business enterprises of all types and sizes.

Most of the institute's members conduct their practices through small firms or proprietorships. Approximately 55 percent of these offices are individual proprietorships with less than five employees. Nearly half of that 55 percent sole practitioners operate without any full-time staff. The typical partnership of two to three partners also has less than five employees. Many of these firms are located in the smaller cities throughout the country, with the result that our members are constantly brought into contact with the problems facing the small businessmen, farmers, and professional men who would be directly affected by H.R. 10, the bill now before you.

The principle embodied in this bipartisan bill has been endorsed by the institute on a number of occasions through—

(1) recommendations, submitted to Congress by our committee on Federal taxation, over a period of many years;

(2) resolutions, first adopted in October 1951 by the council, which is the governing body of the institute;

(3) testimony presented by the institute in 1955 and 1958 to the House Ways and Means Committee.

H.R. 10 also has the endorsement of local, State, and regional organizations of certified public accountants. There is no division of opinion within the profession as to the value and necessity of this legislation, in its encouragement to thrift on the part of the self-employed. Accountants, in their daily practice, are in an excellent position to observe the striking inequity in the current Federal tax law, which permits a corporation, with a qualified pension plan, to deduct its contributions on behalf of its employees, including controlling stockholder managers, but makes no comparable provision for encouraging the self-employed person to provide for himself.

Certified public accountants have a constant opportunity to observe this disparity at work, and its resulting effect on self-employed businessmen, farmers and professionals. There is an urgent need for tax legislation which will encourage the self-employed person to save his own money, for his own retirement, on a basis comparable to that enjoyed by others. Moreover, it would be sound policy to encourage him to provide for his own retirement, to discourage undue personal reliance on the Federal Government in retirement years.

The public accounting profession itself provides a typical example. Like other professional men, certified public accountants perform their work as partners in a firm, or as sole proprietors. The profession's code of conduct, and the laws of most States, forbid them to incorporate, and thus the pension benefits of the tax law as it now stands are denied them.

It is important to any individual to create and to contribute to his own retirement fund. When the individual ceases to be productive, he can then feel that his own productivity has enabled him to provide for his own retirement. This feeling is vitally important to the well-being of the man who is no longer productive. It should not be denied the self-employed.

Much has been done and properly so to encourage the creation of pension plans for executives and employees of incorporated busi-

nesses. Surely, however, it was not the original intent of Congress that the availability of retirement plans should hinge on the technical fact of incorporation. Yet that is the practical situation under current tax law.

There has been a tremendous growth in the number of qualified retirement plans because of governmental encouragement. In June of 1958, more than 45,000 such plans were in existence, involving some 18 million employees. Urbanization, population increases and the increase in the life span have been among the major factors in this trend. All evidence points to a still larger future increase in the number of qualified plans.

The self-employed, despite the fact that they are beset with inherent risks which would more than justify comparable incentive plans, are still forgotten.

Income tax, in view of national needs, will remain high. It becomes increasingly difficult, in the face of high costs and high taxes, for the self-employed individual to build up an adequate amount of savings during his productive years.

Consider these factors which affect the security of the self-employed:

(1) The wide fluctuations of income, year to year, of the self-employed.

(2) The high rate of small business failures.

(3) The trend, on the part of many recent college graduates, to assess their own careers in security terms and to avoid the status of self-employment.

If some change is not made soon, the professions and small businesses will have even greater difficulty in attracting capable people. In view of the traditional and valuable role of these institutions in our economy, it is imperative that a solution be provided.

Independent public accounting firms, for example, are in direct competition with industry for skilled accounting personnel. While an accounting firm may establish a pension plan for its employees, this still does not place accounting firms on an equal footing with corporations in competing for key personnel. The best men, in any professional firm, hope eventually to become partners or to enter practice for themselves. At that time when a man is confronted with the choice of accepting a partnership (or perhaps establishing his own firm), as opposed to continued status as an employee, he is faced with the loss of pension rights which he may already have acquired plus the additional difficulty of building up adequate savings for his retirement.

We recognize, of course, that H.R. 10 involves a temporary deferment in tax revenues—though we believe that the Terasury Department estimates are unreasonably high. We recognize, too, the desirability of striving to achieve and maintain a balance between the Government's revenue and its expenditures; but we would challenge the morality of seeking to balance the Federal budget by continuing to penalize the self-employed, while permitting nearly $2 billion to be diverted each year from Treasury revenue as a result of a corporate pension plans. A balanced budget ought to be our goal—yet it should not and it need not be achieved at the expense of tax fairness for the self-employed.

In their day-by-day work, CPA's are in constant contact with the practical impact of the tax code on individual citizens. We feel that H.R. 10 would eliminate an unintended hardship that deprives the self-employed individual of an equitable opportunity to provide for his retirement.

We strongly recommend its prompt enactment as a long overdue measure of tax justice.

Thank you.

Senator FREAR. Senator Carlson?

Senator CARLSON. Mr. Penney, I notice you also question the Treasury Department's estimates as to the cost of this program. I believe you state they are unreasonably high. I believe we have had testimony that there are probably 7 million people that might qualify.

Mr. PENNEY. There are approximately 7 million people, according to the testimony that I have heard, that were self-employed, in that category, yes.

Senator CARLSON. These 7 million self-employed people, would they not be eligible for this program?

Mr. PENNEY. They would be eligible.

Senator CARLSON. How many do you anticipate would apply for this program? You made a statement that you think the Treasury's figures are high. I presume that is based on the presumption that they would not all apply or not all qualify.

Mr. PENNEY. We think that it will be several years before as many as 50 percent of them would be covered in the plan.

Senator CARLSON. 50 percent?

Mr. PENNEY. It would be several years, we feel, before as much as 50 percent would be covered.

Senator CARLSON. I believe it was Dr. Murray this morning who said that if 1 million qualified on the basis of $1,000 a year it would total $1 billion.

Mr. PENNEY. Yes. And I recall his testimony. He made the report that that would be $2 billion, and that would cost the Treasury Department approximately the $360 million that was being discussed. But Dr. Murray, I believe, also made the point that it would be some time in his opinion, before you could ever reach 1 million people.

Senator CARLSON. Under the bill as written, life insurance would qualify, of course, as setting up funds for a time and based on nontaxable income under this bill, is that not correct?

Mr. PENNEY. That is my understanding, yes.

Senator CARLSON. Don't you anticipate that out of these 7 million people a substantial number would take life insurance?

Mr. PENNY. With the inflationary spiral that is going on in this country at the present time, we accountants are inclined to question whether a substantial segment of the population would take life insurance.

Senator CARLSON. Well, do you not assume that these 7 million have life insurance, or a large percentage of them?

Mr. PENNY. Most of them or a large percentage of them would have a life insurance program.

Senator CARLSON. Isn't it reasonable to assume that they would convert their present life insurance into this program?

Mr. PENNY. If they could, I presume that would be a reasonable assumption.

Senator CARLSON. Well, is there any reason why they can't under the bill?

Mr. PENNY. I am not the expert on the bill that can answer that particular question for you.

Senator CARLSON. As I read the bill, any person carrying life insurance, any self-employed person, could convert his present life insurance under this bill. I may be in error, because the bill is certainly not clear on that, in my opinion.

That is all.

Senator FREAR. Mr. Penney, were you here yesterday when we were debating subsection R of the 1954 code?

Mr. PENNEY. No, I am sorry, I was not here yesterday.

Senator FREAR. Subsection R of the 1954 code gives approximately the same privileges to a partnership when they file an income tax as are granted to a corporation.

Mr. PENNEY. They could be taxed as a corporation.

Senator FREAR. Would not your people qualify under that?

Mr. PENNEY. There is some question as to whether they would or not. There has been one case of a medical group that attempted that and won their battle in court. I understand that some other group did not. But there is a question in my mind, and I wouldn't recommend it to anybody, whether they should put themselves in that noose, because they then put themselves in a position where they must meet the corporation tax rates. And most of these small businesses, sole proprietorships and partnerships, have such small income figures that the corporation tax rates with double taxation on income distributed from the business to their personal pockets would break their backs, it would be so injurious to them that it would hurt them much more than any gains that they might realize through entering into the pension program.

Senator FREAR. I take it that you as a CPA would not recommend, then, taking any advantage of subsection R under these conditions?

Mr. PENNEY. In my practice, I have recommended it in two or three cases, but they were very unusual cases, and there was no pension factor involved in them whatever.

Senator FREAR. Subsection R, then, hasn't produced the benefit, in your opinion, that the committee and the Congress intended it to produce?

Mr. PENNEY. It is my understanding, and in my practice I have observed it to operate this way, that in general subsection R has been utilized where a partnership has suddenly achieved a tremendous windfall of some type, they have a tremendous taxable income staring them in the face that is going to be nonrecurring, and it would be cheaper for them to come under subsection R and then liquidate the partnership, which means also the corporation, in the following year, thus having one corporate tax and one capital gains tax on the liquidation, rather than incurring the ordinary personal income tax on rates up to 91 percent on that personal income.

Senator FREAR. It is true, is it not, that that partnership, however, can make only one election?

Mr. PENNEY. Yes, that is right.
Senator FREAR. Thank you, sir.
Mr. Robert C. Vogt, National Society of Professional Engineers.

STATEMENT OF ROBERT C. VOGT, NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS

Mr. VOGT. Good afternoon, Mr. Chairman, and gentlemen.

My name is Robert C. Vogt. I am a partner in the consulting engineering firm of Vogt, Ivers, Seaman & Associates of Cincinnati, Ohio. I am appearing here today as the designated representative of the National Society of Professional Engineers, a nonprofit membership organization composed of professional engineers in virtually all branches of the engineering profession, each of whom is registered under applicable State engineering registration laws. The society's 50,000 members are affiliated through 50 State and territorial societies and approximately 375 local community chapters.

My comments today will deal with the relationship of H.R. 10 to one of this country's most vital professions—engineering.

It is not a novel thought for me to mention that recent international developments have pointed up this Nation's need for skilled brainpower. One need only pick up a daily newspaper to read about the various proposals which have been advanced for the Federal Government, State and local governments, industry and the educational institutions to meet this requirement. It is not my purpose, of course, in this presentation to discuss the relative merits of the diverse programs which have been suggested to improve and stimulate the output of our scientific and engineering brains. There is, however, before this committee a proposed Federal program by way of tax equalization which can materially aid our technological progress, which everyone agrees is so vital if we are to maintain our status as a free nation and world power. I refer, of course, to H.R. 10, popularly known as the Keogh-Simpson proposal to permit a tax deferment to self-employed citizens on sums placed in private retirement plans or annuity insurance.

To state this point in as concise a manner as possible, it may be said that H.R. 10 would encourage our scientists and engineers to achieve that degree of self-reliant individualism which is so vital for the fullest development to their technical competence. A scientist or engineer who may be classified as a self-reliant individual is one who, upon his own initiative and drive, seeks more than that which is offered him in a formal undergraduate education. He has the desire to expand his range of knowledge and explore the unknown or undeveloped. He has enough fortitude, if you will, to follow his own convictions toward the solution of a problem or the fulfillment of a dream. It is this type of person upon whom the future security of our Nation depends.

Without having to place undue emphasis on the factor of personal security in his choice of an avenue through which he will offer his knowledge, the scientist or engineer, assured of the benefits of a comprehensive and fair retirement program, would be free to offer his services through the channel which, according to his individual opinion, would prove most productive for his technical talents. By

permitting a self-employed consulting engineer, for example, an opportunity for retirement benefits equal to those of his professional brothers who are not self-employed, the Keogh-Simpson bill will materially assist his opportunity for freedom of thought and activity.

It should be made clear that a large segment of the Nation's engineers and scientists are employees and in that capacity come under the employer's retirement program. It will probably always be true that the majority of engineers and scientists will be employees. Nothing stated here should in any manner be construed as lessening the great importance of this part of the profession to our economic development and scientific advancement.

There is, however, a growing recognition of the necessity and desirability of looking toward the self-employed consultants for certain research and development aspects of the defense program. This is particularly so in the case of highly specialized and unique technological problems which a self-employed consultant may be in a better position to handle on an efficient and expeditious basis.

There are a number of definite advantages to the Government and industry in using consulting engineers for certain supplemental or highly specialized aspects of a project. Flexibility of operation is a distinct advantage, in that a consultant may provide his special knowledge and skill to highly complex aspects of the project to a number of firms or governmental agencies. Were it not for this type of special arrangement, such organizations would, in many cases, be required to maintain a highly skilled specialist on the permanent staff even though there was not a continuous need for that special service. This exemplifies the urgent necessity of encouraging and maintaining a strong engineering and scientific consulting force in this country to provide such highly technical services, and to utilize the special talents of the consultants to the maximum degree.

Computer technology is now an indispensable element in efficient development of modern defense techniques and other scientific processes. Some of this highly complicated work can be done effectively on a full-time employee basis. Other aspects, however, require tremendously expensive equipment and highly specialized training, and often it is most efficient to retain a consultant who has this equipment, knowledge, and experience to deal with a particular problem. There are many other similar examples wherein the consultant is vital to the defense operation, such as electronic control equipment development, temperature control techniques, and devices and communication systems, to mention only a few.

It should also be noted that the use of consultants along the lines indicated has the very important advantage of promoting the most effective utilization of the scarce skills which plague our defense effort. The President's Committee on Engineers and Scientists as well as other agencies and individuals who have studied the engineering and scientific manpower picture are agreed and have stressed the fact that improved utilization is the most important thing we can do now to meet our skilled personnel needs. If we may quote from our own recent public statement on the manpower question: "Experience has shown that we have wasted engineering talent by using it at a level below that which it is capable of performing. Improved utilization of engineering talent can do more for an immediate need than any other single program."

From the standpoint of the total national welfare, then, we submit that it is vitally important for the Federal Government to do what it reasonably and properly can to place no roadblocks in the paths of those whose specialized knowledge may best be utilized as self-employed consultants. It is obvious, of course, that the present Federal tax laws are a roadblock for such persons because of the penalty which must be paid by the self-employed in terms of retirement income protection. The Keogh-Simpson bill will remove that roadblock.

Another phase of this problem which is of general national concern is that we must do a better job of identifying, stimulating, and helping those young people who have the aptitude for engineering and scientific study into making these vital professions their career choice. How does this responsibility relate to H.R. 10? Simply this: Self-employed retirement programs can prove to be one of the important elements of all the factors surrounding young people when they are considering various paths of career developments and fields of endeavor. Furthermore, H.R. 10 would be a major contribution toward the enhancement of the professions from an economic standpoint and would assist in establishing a climate favorable to the professions for career development. Surely, we will do well to recognize that these young people are aware of the economic aspects of various career choices and are conscious of the widespread pattern of retirement income protection. The Keogh-Simpson plan will, of course, enable the professions to approach some degree of equality with other groups in this respect and thus make the choice of a professional career more attractive.

The stimulating drive which serves to keep our highly capable scientists and engineers mobile and adaptable is the relatively constant need to solve diverse problems in a variety of ways or methods, depending upon the particular company or agency which has engaged the services of the consultant. The varying circumstances surrounding each project serve to help the consultant keep abreast of changing developments and processes and allow him to perform a variety of jobs with a high degree of facility.

Such technological versatility is essential to our economy today. A tax equalization program such as that proposed by H.R. 10 will do much to stimulate and encourage the development of the self-reliant, individualistic scientist or engineer who is free to take the risk of establishing a general or specialized consulting office so that he may offer clients new ideas, techniques, or methods—the lifeblood of technological progress—without having to pay the penalty of sacrificing personal security which is available through the retirement programs of employers under the current provision of the Internal Revenue Code. Given that degree of self-assurance recommended by the Keogh-Simpson legislation, the ingenuity and resourcefulness of America's engineers will not let us down.

I want to thank the committee for the opportunity of appearing here today and presenting the views of the engineering profession on the importance of this legislation to our national welfare. The National Society of Professional Engineers stands ready to render such further assistance as the committee may desire.

Senator FREAR. Does the National Society of Professional Engineers recommend enactment of H.R. 10?

Mr. VOGT. Yes, sir; it does.
Senator FREAR. Questions?
(No response.)
Senator FREAR. Thank you.
Mr. Allen Lauterbach, American Farm Bureau Federation.

STATEMENT OF ALLEN A. LAUTERBACH, GENERAL COUNSEL AND ASSISTANT SECRETARY-TREASURER, AMERICAN FARM BUREAU FEDERATION; ACCOMPANIED BY HUGH HALL, OF THE LEGISLATIVE STAFF, WASHINGTON OFFICE

Mr. LAUTERBACH. Mr. Chairman and members of the committee, my name is Allen Lauterbach, general counsel of the American Farm Bureau Federation. With me today is Mr. Hugh Hall of the legislative staff of our Washington office.

We in the Farm Bureau appreciate the opportunity to present the views of the Farm Bureau with respect to H.R. 10 and the companion bills which were introduced in the Senate. This organization has supported the general principles of this type of legislation for several years, within certain limits adequate to prevent abuse.

The voting delegates of the member State farm bureaus to the 40th annual meeting of the American Farm Bureau Federation last December adopted the following resolution on this subject:

> Under present laws certain employer contributions to retirement plans are deductible by the employer and nontaxable to the employee. This discriminates against self-employed persons, who are required to pay taxes on any income that they set aside for retirement. In the interest of equity we recommend that a self-employed person be permitted to deduct from gross income the amounts paid during the tax year to purchase single premium annual life annuity beginning at age 65, equal to 1 percent of his earnings from self-employment during the year, within limits adequate to prevent abuse. Annuity payments received under this plan should be fully taxable when received without exemption, deduction, or offset of any kind other than personal exemptions.

According to a survey made in 1958 by the Bank of New York among 20,000 physicians, dentists, and lawyers, 70 percent of the respondents had no planned retirement program of any kind ("Pension and Profit Sharing," Prentice-Hall, sec. 23.4). We are confident that a similar survey of our 1,576,462 members would disclose that an even higher percentage of farmers do not have a planned retirement program.

On the other hand, the number of retirement programs for employees and officers established by employers has been increasing at an amazing rate in recent years. This growth is reflected in the following statistics taken from March 1959 "Social Security Bulletin" (vol. 22, No. 3, p. 12):

	1940	1957
Coverage	4,100,000	17,700,000
Employer contributions	$180,000,000	$3,900,000,000
Employee contributions	$130,000,000	$680,000,000
Reserves	$2,400,000,000	$34,800,000,000
Beneficiaries	160,000	1,250,000
Amount of benefits	$140,000,000	$1,150,000,000

And here you can glance through that, it sets forth the pension and deferred profit sharing plans. The coverage increased from 4 milion in 1940 to 17,700,000 in 1957. You will notice the increase in the employer contributions from $180,000,000 in 1940 to $3,900,000,000 in 1957.

Reserves, the increase there is from $2.4 billion in 1940 to $34.8 billion in 1957.

We have a quote here from the "Pension Plan Guide" published by Commerce Clearing House.

The amazing expansion of these plans has been due to a number of factors, most important of which undoubtedly has been the imposition, beginning with World War II, of high corporation taxes coupled with allowable deductions for contributions to these programs and the court rulings that such plans are proper subjects of collective bargaining.

"Pension and Profit Sharing" published by Prentice-Hall reports, for example, that the pension fund maintained by the American Telephone & Telegraph Co. and its subsidiaries for their 725,000 employees held assets of $2,826,647,000 on December 31, 1958, an increase of $226,400,000 over the previous year.

The above figures show that employers in 1957 contributed nearly $4 billion toward the cost of private pension and deferred profit-sharing plans. These payments were deductible business expenses not subject to tax. The investment income earned on funds held by pension trusts is also tax exempt—in other words, "a tax-free build-up on nontaxed earnings." Under the present law no tax is imposed on the employee covering such contributions until pensions are received after retirement. Many employees will pay little, if any, tax on their retirement benefits because of substantially reduced income after retirement, together with various deductions allowed taxpayers who are 65 years of age or over.

Recognition of the fact that discrimination does exist in the tax treatment of employees and self-employed was evidenced by the following statement by a representative of the Treasury Department at the hearings before the House Ways and Means Committee in 1955 on H.R. 10:

We have recognized the discrimination that does exist between the self-employed and those who are covered by qualified pension plans. There is no question about the discrimination.

One of the requirements for qualification of a retirement fund established under section 401(a) of the Internal Revenue Code is that the retirement plan shall be nondiscriminatory among employees. We suggest that the tax laws be amended so that the same principle of nondiscrimination would apply as between employees and self-employed.

We believe that if self-employed were given the added encouragement to develop a retirement program of their own through benefits afforded by this type of legislation, many farmers would be in a better financial position to retire upon reaching age 65. Statistics seem to indicate that the trend is in the other direction. According to the 1954 Census of Agriculture,

* * * the proportion of farm operators in the age 65 or more years increased from 14.8 percent of all operators in 1950 to 16.6 percent in 1954.

We favor a retirement program for self-employed which will enable a participant to vary the amounts that he may contribute from year to year. This is necessary in the case of most farmers since their annual income tends to fluctuate. This is illustrated by the following figures showing the variances in realized net income of farm operators (realized total gross farm income less production expenses) during the period 1940 to 1958: In 1940 realized net income was $4.3 billion. In 1947 it jumped to $17.3 billion. And in 1950 it went down to $13.2 billion; in 1951, $15.2 billion; 1955, $11.5 billion; 1956, up to $12.1 billion; and in 1957, down to $10.8 billion; and in 1958, it was up to $13.1 billion.

If such a retirement program as we are considering here had been available to the self-employed in 1947, many farmers no doubt would have purchased the maximum amount of annuities allowed because of relatively high farm income in relation to other years. On the other hand, in the years 1940 and 1957, many farmers were not in as favorable a financial position to set aside a portion of their earnings into a retirement program.

Although we are in general agreement with the principles of the bills under consideration we recommend a different approach in determining the limitations of amounts that may be deducted annually from the adjusted gross income by a self-employed taxpayer. The deduction under these bills would be limited, in general, to 10 percent of net earnings from self-employment. In most cases the deduction could not exceed $2,500 in any 1 taxable year, nor more than $50,000 during the lifetime of the self-employed person.

We recommend, as a substitute for the limitation set forth in section 217 of these bills, a 1 percent of earnings plan. Under this proposal—and this, I might say out of script, is similar to the proposal that Dr. Dickinson presented earlier this afternoon. Under this proposal the self-employed person could purchase an annual annuity payable at age 65 for life, equal to 1 percent of his net earnings from self-employment during the taxable year, subject to certain limitations, and deduct the cost thereof for tax purposes. The following is an example of how this proposal would work.

A farmer, age 40, with net earnings from self-employment of $5,000 would be entitled to purchase an annual annuity of $50—that is 1 percent of his $5,000 net earnings—payable at age 65 for life. The single premium for such annuity would be approximately $310. The taxpayer would be permitted to deduct this amount ($310) from his gross income in preparing his income tax report for the taxable year. A separate single premium annuity contract providing an annual annuity income, beginning at age 76, could be purchased by the taxpayer for each subsequent year in which he had income from self-employment. The cost of these annuities, if within the 1 percent of earnings rule, would be deductible from gross income. Beginning at age 65, the taxpayer would report as income the retirement payments that he received from his annuity contracts.

It is our recommendation that such annuity payments should be fully taxable when received without exemption, deduction or offset of any kind, other than personal exemptions.

We understand that this "1 percent of earnings" principle is similar that followed in many conventional retirement plans. The emphasis

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is upon providing a retirement income at age 65. This proposal would make it possible for older persons to have an equal opportunity to purchase the same amount of annuity as younger persons where the self-employment income is the same. It would also give self-employed women equal opportunity to purchase the same amount of annuities as men even though the cost of annuities for women is higher due to their longer life expectancy.

This difference in the cost of annuities is illustrated below. The figures show the approximate cost (single premium) of purchasing annual annuities in units of $100, payable at age 65 for life:

Age	Male	Female	Age	Male	Female
25	$427	$502	45	$700	$822
30	483	568	50	792	930
35	547	642	55	896	1,053
40	619	727	60	1,014	1,191

You will notice the difference in cost of a $100 annuity for a man or a woman, and how the cost increases from age 25 on up. We followed it on through age 60. In other words, a $200 annual annuity for life, payable at age 65, for a man would cost $966 at age 30 and $1,584 at age 50.

This age factor is particularly important to farmers since most farmers will be in a better financial position to develop a retirement program after they have become established in farming. The capital expenditures required today to get started in the business of farming leave a young farmer with little, if any, available funds to invest in a retirement program.

The resolution of our voting delegates recommends that these deductions be permitted "within limits to prevent abuse?" The board of directors, in considering this matter last September, approved the following limitations:

(a) That the maximum amount of annual annuity benefits at age 65 that a self-employed person should be permitted to purchase in any given tax year, and deduct the cost thereof for tax purposes, should be $250;

(b) That the maximum aggregate of all annual annuity benefits, beginning at age 65, that a self-employed person should be permitted to purchase during the period of self-employment, and deduct the cost thereof for tax purposes, should be $6,000.

The proposal that Dr. Dickinson presented earlier, as I recall, had a limit of $365 a year, and our recommendation here would be for a maximum of $250.

Under these limitations, $25,000 would be the maximum self-employment income that could be used by a taxpayer in computing such retirement income (1 percent of $25,000) in any one tax year. No deduction would be allowed after the aggregate of all annuities purchased by allowable deductions equaled an annual amount of $6,000, payable at age 65 for life.

We believe that the "1 percent of earnings plan," within these recommended limitations, will result in a substantially smaller loss of tax revenue to the Government than under the proposed bills. Although it would not completely correct the discrimination which now

exists between employees under qualified plans and self-employed, it would be a substantial improvement. Whatever the loss may be in tax revenue, we sincerely believe that it could be offset by savings resulting from the Government exercising strict economy, eliminating duplication of effort, and promoting efficient operations.

Senator Douglas talked this morning about plugging certain tax loopholes which would fit into this category.

We realize that there are many technical details to the proposed "1 percent of earnings plan" which need to be worked out. We sincerely believe that it has merit and respectfully recommend that this committee give favorable consideration to this proposed plan.

Senator FREAR. Senator Carlson.

Senator CARLSON. Mr. Lauterbach, I think from the standpoint of agriculture you have produced a very interesting proposal which follows somewhat Dr. Dickinson's suggestion, and I think that it is one that we should study. I notice that you read from your resolution at the last annual meeting in regard to this proposal. Now, if I am not mistaken, the American Farm Bureau Federation has some very definite views on our fiscal policies and balancing the budget. Do you have that resolution in here?

Mr. LAUTERBACH. This resolution has been presented to the House and to the Senate Committees on Appropriations and to legislative committees when considering spending proposals. Mr. Hall of our Washington staff is here, if you would care to question him further on this. You are absolutely right, we do have a very firm policy on monetary and fiscal policies. We sincerely believe, though, that this proposal does not necessarily conflict with our other policies on inflation control. If you would care to have us enlarge on this, I would like to have Mr. Hall do it for you.

Senator CARLSON. Of course I do not want to get into this, but I would like to have some close connection with the Farm Bureau Federation—and I know some of the farm bureau people, and I notice they have not been a bit hesitant about writing me in regard to reduction of Federal expenditures, and a balanced budget, and yesterday I placed in the record the resolution of the Kansas State Farm Bureau by Mr. Boone on this very subject. And I want the record to show that they are calling for a balanced budget, if I am not in error. Isn't that correct, Mr. Hall?

Mr. HALL. That is right.

Senator CARLSON. And when this matter is being considered, if it develops that this proposal might cost less than some of the proposals in the present bill, we still can anticipate a substantial cost to the Federal Government at a time when we are operating at a deficit, is that not correct?

Mr. HALL. That is true. I have heard testimony yesterday and today, and I participated in the hearings on this subject back in 1955 and in earlier discussions back in 1951, and it seems to me that in this whole problem, as it has been presented by the Treasury people, they have assumed that the salesmanship was going to be at a terrific rate. This is the kind of thing, not unlike insurance, if you please, which has to be sold to people. True, the tax angle will be an argument, but there will still be a lot of folks that would rather pay their taxes today than have to pay them come age 65. The loss of

revenue, therefore, that has been estimated has overshadowed the problem of selling this sort of thing as it would affect revenues. I can't for the life of me see how more than $50 or $75 million of revenue could be lost under this proposal inside of 5 years. That can't be more than just an opinion. But due to the fact that this is the kind of thing that has to be sold, the life insurance people or the banking people who might set up trusts to carry on this retirement functions, to carry these funds, have got to sell them, and the farm organizations have got to encourage the membership to take an interest in it. And this is a long time sort of thing.

Senator CARLSON. Mr. Hall, there are members of this committee that sat for weeks, practically months, on the taxation of life insurance companies, of which your organization has several.

Mr. HALL. That is right.

Senator CARLSON. And I think the presiding officer here this afternoon and the chairman would agree that their life insurance people are pretty good salesmen. Would you believe that if we make these tax benefits available they wouldn't be quite active in promoting these sales to these people who would receive these benefits, about 7 million of them?

Mr. HALL. Certainly they will. But at the same time there is a lot of resistance on the part of people who have to pay out money for these things.

Senator CARLSON. True.

Mr. HALL. And while there are advantages here, I just can't conceive of it being sold at a rate to lose $365 million of revenue year after next. That is just too fast.

Senator CARLSON. You would agree, however, that there might be a great inducement to sales?

Mr. HALL. There is no question about it—in fact, it is offered as such.

Senator CARLSON. That is all.

Mr. LAUTERBACH. Mr. Chairman, we might add, in reference to this tax bill on life insurance companies, that we did support the legislation to increase the level of tax, which I assume will bring in $200 to $300 million additional revenue. So we are consistent to that extent, of being for increasing tax revenue, and we are for balancing the budget and cutting Government expenditures and plugging some of these loopholes that have been referred to previously here in this hearing.

Senator CARLSON. I would like to state on that that you have a very substantial and fine company in Manhattan, Kans., and I have had a number of wires from Mr. Boone and from the organizations that were a little bit cautious on some of the taxes that they were about to impose on them, I want to assure you of that. And I placed them in the record.

Mr. HALL. I might add, if I might take a moment, that there are some of the newer farm bureau insurance companies which are going to have to pay two to three times as much taxes under the new life insurance company bill as might have otherwise been the case.

Senator CARLSON. I think that is correct.

Senator FREAR. I guess we have had enough testimony on life insurance.

Thank you very much.

Does the American Farm Bureau Federation recommend enactment of H.R. 10, Mr. Lauterbach?

Mr. LAUTERBACH. We would recommend enactment of it, with some of these recommended changes such as substituting this 1-percent principle for the 10-percent principle that is now set forth in that section 217. So we would recommend H.R. 10 with these limitations endorsed into it.

Senator FREAR. Mr. Melvin R. Jenney, American Patent Law Association.

Mr. BURNS. Mr. Chairman, Mr. Jenney was unable to be here and has asked me to appear in his stead.

Senator FREAR. Please identify yourself, sir.

Mr. BURNS. My name is James R. Burns, and I am a patent lawyer of this city, past president of the American Patent Law Association, and delegate in the house of delegates of the American Bar Association, representing the American Patent Law Association.

Mr. Jenney has prepared a short statement which I will give. This is Mr. Jenney speaking.

STATEMENT OF MELVIN R. JENNEY, AMERICAN PATENT LAW ASSOCIATION, PRESENTED BY JAMES R. BURNS

I am a lawyer in Boston, Mass., and I have been engaged in the practice of patent law since 1926. I am chairman of the Committee on Economic Matters in the Section of Patent, Trademark and Copyright Law of the American Bar Association and I have been appointed to represent the American Patent Law Association in connection with the Smathers-Keogh-Simpson bill.

I shall confine this statement to one phase of law practice which has become especially important in the patent law field in recent years, but which will, I believe, be increasingly prominent in other branches of the law, and indeed in other professions and small businesses.

I refer particularly to the difficulty in attracting capable young men into the private practice of law in competition with the job offers made by law departments of corporations and Government agencies.

Although actual figures and statistics are difficult to obtain, I think I can make my point clear by comparing the situations of two men starting practice at the same time, one in private practice and the other as a house attorney for a corporation or a Government agency. It is immediately apparent that the two situations are not competitive on the basis of base salary of the house attorney versus the net income of the man in private practice, because the house attorney has certain fringe benefits, one of which is the employer's contributions to the retirement fund. Even if the private practitioner could equal the house attorney's base salary plus the employer's contributions, he would still be at a disadvantage because he would have to pay a present tax on his entire income.

The disparity increases with age and increasing income. A young man faced with the decision of which job to take can look ahead and see that in a few years the tax-deferral benefits of the corporate pension plan will assume greater and greater importance.

Not only do we have the problem of attracting qualified young men into the profession, but we are faced with the further problem that

the younger, and even middle-aged, men are under constant pressure to leave private practice and accept work in legal departments. In the case of middle-aged men, the fringe benefits are especially attractive because their value increases as the individuals move into higher tax brackets.

Furthermore, any assumption of equality of net income of the private practitioner with the salary of his equally qualified house counsel brother may not be fully justified. When the demand for qualified workers exceeds the supply, the corporation can afford to outbid the partnership. This makes it only more essential that the tax discrimination against the self-employed be eliminated.

If a vigorous independent bar is to be maintained it is necessary that this legislation be passed. Private law practice, whether sole or partnership, is essentially small business, and it has troubles enough in maintaining itself against corporate and Government competition without having to contend against tax discrimination as well.

Mr. BURNS. Mr. Jenney has asked me to make a few personal comments, if the committee will indulge me.

Senator FREAR. Proceed, Mr. Burns.

Mr. BURNS. Like Mr. Jenney, I have been in practice since 1924. I started out as an examiner in the Patent Office. Had I remained in Government employment, I would be entitled today to a pension of the order of $7,000 or $8,000 a year, since I would have had more than 42 years of service, including my service in World War I, and would be entitled to 80 percent of the highest 5-year average compensation that I would have received in Government. I elected to go out into law practice in 1924. I have risen in my profession, I have been the president of my bar, but today I could not possibly retire on an income comparable to that of my brothers who elected to stay in the Patent Office.

I am an employer as well as a self-employed. I have the problem of trying to attract new men to our profession in competition with the corporate employer and even the Government. I take them as neophytes out of engineering school and send them to law school for 3 years. At the end of that time the corporations gobble them up. And in the case of a chap with two children, for instance, the principal thing that leads him into corporate employment is the fringe benefits and the security of the pension plan that is provided for him. I would be perfectly happy, and I am sure that the self-employed of our profession would be perfectly happy, to limit the benefits of this bill to self-employed who provide the same benefits for those employees whom they may themselves employ.

Senator FREAR. Any questions?

(No response.)

Senator FREAR. Thank you, Mr. Burns.

Mr. William R. Railey, Virginia Retail Merchants Association.

Is that the correct pronunciation of your name?

Mr. RAILEY. It is, sir, and that is one of the few times that anybody has got it right. I guess it is because my Senator is sitting there beside you.

STATEMENT OF WILLIAM R. RAILEY, VIRGINIA RETAIL MERCHANTS ASSOCIATION, RICHMOND, VA.

Mr. RAILEY. My name is William Railey. I live in the city of Richmond, Va., and operate an appliance center. My competitors, for the most part, are corporations.

In my field of business, I am one of few in Richmond operating as an individual owner. My problems are many in attempting to keep abreast of my competitors. I am sure I do not have to tell you the financial position of most appliance dealers in our country today. We have been operating in a saturated market for the past 8 to 10 years. It has been nip and tuck with me to keep my head above water.

I have come here to ask for your consideration in reporting H.R. 10, the Keogh bill, to the floor of the Senate favorably. In asking for your help, I speak for myself and other self-employed retailers that belong to the Virginia Retail Merchants Association, the Virginia Retail Jewelers Association, The Automotive Trade Association of Virginia, the Virginia Retail Hardware Association, and the Virginia Pharmaceutical Association.

In making this request for this broad segment of retailers in Virginia, we ask for a tax relief now enjoyed by corporations in providing for retirement income.

I cannot give you a broad set of statistics on each of my fellow retailers for whom I speak, but these figures I can attest to:

My volume is less than $500,000. My margin of profit is less than 3 percent. My cost of operation has gone up 2 to 3 percent per year. I find it increasingly hard to maintain a financial position which allows me an opportunity of saving for those years, rapidly approaching, when I will be less productive, yet Mrs. Railey and I will need additional moneys on which to live.

Statistics tell us there are approximately 10 million of us in the United States that are self-employed.

I cannot believe that our Congress meant to pass class legislation which would exclude those of us that are self-employed. It wasn't many years ago that all businesses in our Nation were individually owned. The self-employed person has been the very lifeline upon which our Nation was built. Since the beginning of Jamestown, individual owners have been willing to forge ahead, satisfy, and service the American public.

We ask no special favors. We do not seek subsidies to our business ventures. We do not wish to have Federal or State intervention into the operation of our businesses. All we ask is the same tax treatment given our competitors operating as corporations in being allowed to lay aside a portion of our profits, if any, to prepare for those days ahead when we will need a nest egg to care for ourselves or the loved ones we leave behind.

H.R. 10, the Keogh bill, is of extreme importance to us. This bill will allow those of us that are self-employed an opportunity of laying aside a small reserve on which we can draw sustenance when the time comes to retire. It would also remove a discrimination against the self-employed which has existed for over 17 years.

Those for whom I speak as self-employed businessmen like to think we are enterprising and self-supporting. H.R. 10 is one step in the direction by which the Government can aid us in keeping ourselves financially sound, and off the rolls of burden. We wish to be an asset, not a liability, in our retiring years.

I thank you.

Senator FREAR. Mr. Railey, on behalf of those for whom you speak, do you endorse the enactment of H.R. 10?

Mr. RAILEY. Yes, Senator.

Senator FREAR. Senator Byrd?

The CHAIRMAN. I think Mr. Railey has made a very concise and short statement.

Senator FREAR. Thank you, Mr. Railey.

Mr. RAILEY. Thank you.

Senator FREAR. Mr. W. H. J. Hipple 3d, American Physicians Foundation.

STATEMENT OF W. H. J. HIPPLE 3D, EXECUTIVE DIRECTOR, AMERICAN PHYSICIANS FOUNDATION

Mr. HIPPLE. My name is William Hipple residing in Margate, N.J. I am engaged there and in the metropolitan area of Philadelphia as a life insurance broker the sales of which are derived from estate and close corporation analysis. A few days ago I took up the duties of the executive director of the American Physicians Foundation, whose sentiments I express—a nonprofit corporation pursuant to the laws of Delaware. The foundation is an association of physicians organized for the purpose of pooling and distributing medical and economic information. The bylaws of this group preclude political actively of the foundation except that it is expressly opposed to such acts and measures that tend to, in any way, socialize the medical entity. My efforts on behalf of this organization are in addition to the occupation described above. Addressing the House of Commons, William Pitt remarked "The distinction between legislation and taxation is essentially necessary to liberty." Insofar as we lose sight of that difference we surrender to the tax assessor legal dominion over all our possessions to solve the fiscal problems by legal confiscation.

If this view is correct and we can rely on the "common law" interpretation of the nature of taxation, for example, that the tax levy is a grant of the people, it follows that the grant is intended to be equitable—which it is clearly not in our present tax code. All the principles of justice that I know cannot comprehend the discrimination as between "employee" and "self-employed" workers.

The argument of the need to maintain the tax income of the Federal Government has been mentioned as a considerable factor against the enactment of this bill. It is a surprising and extraneous obstacle. To be anxious about the preservation of tax receipts is to begin at the end. Reconciliation upon this point is an adjustment to be made when the force of debate has rendered an equitable judgment whether the measure is corrective or permissive. In the presence of section 401 of the Internal Revenue Code there is abundant evidence that the present treatment of the self-employed is inequitable with respect to the tax-free funding of pension programs. The taxpayer whom tax relief has

least favored deserves at last to be reformed from his retrograde status in this area at least.

The class of men who choose to be employed independent of the corporate system and those in service and professional occupations are confronted with a system of taxation of such constraining dimensions it is in effect destructive of the very objective tax legislation is intended to pursue—the common security of the taxpayer.

The physician and attorney, after many years of the severest financial sacrifice, are by the terms of physical endurance compelled to telescope their productive life into the self-limiting time when the body can perform the task the mind has placed before it. Now, I will anticipate a preoccupation if not shared by this committee is a lively issue in the minds of laymen when they think about the income of physicians and they often do. What about all those Cadillacs and how about the way the gentlemen live? Irrelevant as questions seem, the fact is the spectre of silence stands against them, and there is no reason why it should. The doctor once he is in practice finds himself by qualification, education, investment, and the sheer force of labor in the higher income level, all of which income is currently taxable to him as an individual taxpayer. Since the profession is not considered to embrace the lower income workers usch as nurses and hospital personnel with whom he is associated, the economic common denominator of the profession is large—however, not nearly so enormous as the imagination of the public conceives it to be and this income coming as late as it does and subject, all of it, to Federal income taxes does not begin to be sufficient to provide funds for retirement.

Cardinal Newman wrote that "half the truth is often a lie" and we haven't the heart to beg exception. There is some avarice in the medical profession, it is a great pity these relics arise in the mind of the public when the physician ought to be represented fairly, but I have no concern for that sort of antecedent thinking in this body.

The most obvious and definitive handicap of the self-employed is the absence of organization. There is no corporate legal staff cleverly though rightfully preserving the fiscal advantage of the corporate body, neither is there the odious scent of labor hoodlums regurgitation imperfectly the counsels of a highly paid legal staff. There is to represent the breed of men who have naugh else to do but stand, no matter how awkward, on their own two feet; there is just this or that devotee of an older, fading order to strike a blow for an orthodoxy that cast the mold for this electric culture and I ask you if the men who profess it are to say, in time, that their faith was no protection against the juggernaught of the Government's voracity.

There is not the novelty in this bill which so often arouses suspicion and no magnitude of imagination can make the evidence larger than it is. Messrs. Keogh and Simpson, I judge, simply intend to repair the disproportionate treatment of the self-employed. They should know too that they are likely to spoil a few coronaries and improve the performance of the self-employed at the advent of old age which he should expect to meet with honor and fulfillment.

I am mindful of the diligence of this committee and I wish to recall the splendid thoughts of a man who lived and worked among you when he was my guest in Chapel Hill. When asked why he had changed his decision on a bill he had participated in writing, he an-

swered "I never would engage in debate unless I thought to learn and was willing to change my mind" as I looked around, the opposition seemed to wilt and although I am in no respect a Senator Taft, I feel sure that we are all of that mind today and I hope I have given some reason here or there that may add to the preponderance of evidence that the Simpson-Keogh bill will be reported favorably by this committee.

Senator FREAR. Mr. Hipple, is your testimony on behalf of the others in addition to yours?

Mr. HIPPLE. Yes, sir; the American Physicians Foundation, sir.

Senator FREAR. Does the foundation as well as yourself, support the enactment of H.R. 10?

Mr. HIPPLE. Yes, sir.

Senator FREAR. Senator Byrd.

The CHAIRMAN. No questions.

Senator FREAR. Thank you, sir.

Mr. F. Joseph Jiggs Donohue, D.C. Bar Association.

STATEMENT OF F. JOSEPH DONOHUE, DISTRICT OF COLUMBIA BAR ASSOCIATION, ACCOMPANIED BY JOHN C. WILLIAMSON

Mr. DONOHUE. Mr. Chairman, with your permission, I would like to yield my time to another practicing lawyer, Mr. John C. Williamson, of the District bar, who may perhaps answer a question which perplexed you and the committee earlier.

Senator FREAR. We know Mr. Williamson, we have seen him before. You may each have a seat.

Mr. WILLIAMSON. Thank you, Senator.

Before making a few remarks about a question that was raised yesterday, I would like for one moment to assume the role of vice chairman of the American Thrift Assembly and ask that there be inserted in the record a list of the 66 trade associations which have endorse H.R. 10.

Senator FREAR. Without objection, it may be made a part of the record.

(The document referred to is as follows:)

NATIONAL ASSOCIATIONS WHICH HAVE ENDORSED H.R. 10 IN THE 86TH CONGRESS

American Angus Association
American Association of Medical Clinics
American Association of Small Business
American Bar Association
American Brahman Breeders Association
American College of Radiology
American Dental Association
American Hereford Association
American Hotel Association
American Institute of Architects
American Institute of Certified Public Accountants
American Institute of Chemists
American Medical Association
American National Cattlemen's Association
American Ophthalmological Society
American Optometric Association
American Patent Law Association
American Society of Industrial Designers

American Retail Federation
American Shorthorn Breeders' Association
American Society of Internal Medicine
American Thoroughbred Breeders' Association, Inc.
American Veterinary Medical Association
American Woman's Society of Certified Public Accountants
American Association of Consulting Chemists & Chemical Engineers
Association of Consulting Management Engineers, Inc.
Association of Stock Exchange Firms
Automotive Affiliated Representatives
Consulting Engineers Council
Contracting Plasterers' and Lathers' International Association
Engineers Joint Council
Holstein-Friesian Association of America
Investment Bankers Association of America
Mobilehome Dealers Association
National Association of Homebuilders of the United States
National Association of Chiropodists & American Podiatry Association
National Association of Plumbing Contractors
National Association of Real Estate Boards
National Association of Retail Druggists
National Association of Retail Grocers
National Association of Retail Meat & Food Dealers, Inc.
National Association of Tax Accountants
National Association of Women's & Children's Apparel Salesmen, Inc.
National Association of Women Lawyers
National Automobile Dealers Association
National Council of Salesmen's Organizations, Inc.
National Federation of Independent Business
National Food Brokers Association
National Funeral Directors Association
National Liquor Stores Association, Inc.
National Live Stock Tax Committee
National Medical Veterans Society
National Shorthand Reporters Association
National Restaurant Association, Inc.
National Small Business Men's Association
National Society of Professional Engineers
National Society of Public Accountants
National Sugar Brokers Association
National Wholesale Furniture Salesmen's Association
National Wool Growers' Association
Painting & Decorating Contractors of America
Santa Gertrudis Breeders International
Society of American Florists
The National Bureau for Lathing and Plastering
The National Grange
Tile Contractors Association of America, Inc.

Senator FREAR. Is that in addition to Dr. Murray's testimony?

Mr. WILLIAMSON. Yes, I don't believe he included that list.

Mr. Chairman, yesterday and today some reference was made to both subchapter R and subchapter S.

First, I would like to say that in my opinion I don't think that subchapter R has any bearing on the problem that we are discussing, the tax deduction and considerations made for pension plans, because, as I understand subchapter R—which was put into the law in 1954, and I think the Internal Revenue Service finally got around to issuing regulations—it has a very limited application. Though it permits the partnership to elect to be taxed as a corporation, the form of business is still a partnership, and, thereof, it cannot make the contributions to a pension fund or any other deferred compensation plans as a corporation. So it doesn't have any application. And by the way,

the regulations on subchapter R specifically exclude the professional self-employed. It has no application, really, to this problem, but subchapter S does.

Now, subchapter S was put in the law last year. Originally, I think it was part of the Small Business Tax Relief Act, and then later it was added to the technical tax amendments of 1958. The word "small" in "small business" has no bearing on subchapter S, because there is no limit to the income or the capitalization of the corporation which can take advantage of subchapter S. The word "small" means "closely held," it cannot have more than 10 stockholders, so it refers to closely held corporations.

Now, we have made a study of subchapter S, because our first reaction was that perhaps subchapter S does provide in a modified scope some of the potential advantages of the Keogh-Simpson bill. But we have come to the conclusion that in many respects subchapter S which the Congress approved last year aggravate the inequity to which H.R. 10 is directed.

Now, subchapter S permits these closely held corporations to elect not to be taxed as corporations. So it means that a proprietor or a partnership could incorporate, they actually must incorporate under State law, and at the end of the corporate year they may elect not to be taxed as a corporation.

So they pay a tax just as though they were individuals. The partners will pay a tax on the basis of their holdings of the common stock, whether it is distributed as income or undistributed, they pay a tax at the end of that year.

Now, first of all I say that subchapter S aggravates the inequity to which H.R. 10 is directed, because, the professional people who cannot do business as a corporation are excluded altogether. So these groups, the doctors, lawyers, architects, accountants, and the professional engineers, subchapter S hits right in the teeth, because it carves out only a group of self-employed people, and offers them an opportunity for these corporations fringe benefits, but completely excludes the professional people whose representatives you have heard today.

Now, let's take the self-employed people who can do business as a corporation. We question seriously whether a self-employed person can incorporate and elect not to be taxed as a corporation, if incorporation was accomplished solely for the tax consequences.

If the Internal Revenue Service permits a real estate broker to incorporate only for the tax consequences, then I suggest that that is a perversion of the Tax Code, because why should a person have to incorporate in order to be able to take a deduction for a retirement plan?

After all, what business really is it of the Internal Revenue Service whether he does business as a proprietor, a partner, or a corporation? So if the Internal Revenue Service would permit him to incorporate for that purpose, then I say that is a perversion of the code.

Now, suppose the Internal Revenue Service does not permit him to incorporate. If some self-employed person would come to me and want to incorporate, as a tax lawyer, I would strongly recommend that he build up a record of reasons why he is incorporating.

If the Internal Revenue Service concludes that he cannot incorporate solely for the tax consequences, then we have further aggravated this inequity, because we have taken the self-employed people

who can incorporate, and we have carved out of that group only those who can establish to the satisfaction of the Internal Revenue Service that the corporate form is the more preferable and is not accomplished solely for tax consequences.

As the Senator knows, I am counsel for the legislative committee of the National Association of Real Estate Boards. Many of the members of that association are realtors that may have salesmen who are independent contractors, and a bookkeeper and a secretary, and I question seriously whether they would be permitted to incorporate only to take advantage of subchapter S.

And then I think there is a serious question as to whether we want the self-employed people to incorporate only for that purpose, because the business of real estate, like many other small businesses is a personal service to the public. And I think that the realtor and many other small, self-employed people who are doing business as proprietors and partners can actually serve themselves and the public much better by maintaining that personal relationship with the people that they serve. Therefore, I think it is wrong to state to self-employed persons in effect: "If you incorporate, you can make this deductible contribution; if you don't, you can't."

Now, there are, of course, many other pitfalls to subchapter S. It is a risky proposition at best. If he incorporates when he doesn't have to, he might run a foul of State corporate laws. The State laws might treat the undistributed portion as corporate income, and he may suddenly discover that there is no unanimity of opinion as to the stockholders on making the election—there are so many uncertainties and hazards involved in it that most lawyers and accountants have not recommended that taxpayers follow subchapter S.

I just want to emphasize that the Congress, in taking that action, really aggravated this inequity that we are talking about with respect to H.R. 10, and that it is far better to proceed directly to treat this problem and not force the self-employed person to incorporate in order to build up a retirement fund.

I just want to add one other thing. I think Senator Carlson asked one of the witnesses about insurance policies, and remarked that the insurance underwriters would be big salesmen of H.R. 10. I think the record ought to show that when we talk about insurance policies that we are talking only about that type of policy that has an annuity feature, because only that part of a life insurance policy attributable to annuities would come under the act. The great bulk of life protection policies would not come under that.

Senator FREAR. Senator Byrd?

The CHAIRMAN. No questions.

Senator FREAR. I might say that it is a bit refreshing to have an attorney at law appear before a committee making statements such as you have made today, Mr. Williamson. And I gathered from your statement that you would advise clients of yours not to incorporate to take advantage of the self-employment pension trust fund. Many times—and we read about it daily in our papers——attorneys advise their clients how to avoid the payment of income taxes. So certainly I am very appreciative of your testimony.

Mr. WILLIAMSON. Thank you.

Mr. DONOHUE. Thank you, Senators.

Senator FREAR. Dr. Edwin P. Jordan, American Association of Medical Clinics.

STATEMENT OF EDWIN P. JORDAN, M.D., EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF MEDICAL CLINICS, CHARLOTTESVILLE, VA.

Dr. JORDAN. Gentlemen, I shall try to read this very fast, as I know the hour is late.

My name is Edwin P. Jordan. I am a physician employed as the executive director of the American Association of Medical Clinics. This is a national organization of private medical groups. The headquarters of the association is in Charlottesville, Va.

The association was founded in 1949. Its membership consists of 130 private medical groups in 36 States and the District of Columbia. There are approximately 3,000 physicians in our member clinics and an average of about 3 para-medical personnel, including nurses, receptionists, medical technologists, and the like for each physician.

The purpose of the association are to elevate the standards of practice in medical clinics, to foster and improve graduate medical education, to promote medical research in clinics, to give mutual help by the interchange of ideas and experience of member clinics, and to disseminate scientific and medical knowledge.

The association will hold its 10th annual meeting in Chicago in September. It publishes a monthly periodical and a directory, the latest being the 1958 edition.

About 80 to 90 percent of our member clinics are organized as partnerships. The physician partners are today faced with a particularly serious problem of providing for their old age, because any funds which they can save for such purposes have been taxed. It is for this reason that we appear in support of H.R. 10 and S. 1979.

It does not seem necessary to try to duplicate the testimony of others appearing before this committee. However, it should be pointed out that the income of physicians is received over a relatively brief span of years, between about the ages of 35 and 62. Furthermore, because of the long educational period required for medical training today, virtually all physicians are in debt at the time they start to practice and such debt must be repaid from funds taxed in the year in which they are earned. Consequently, even if physicians are fortunate enough to obtain a relatively high gross income for a few years, it is frequently impossible for them to save enough, after taxes, for retirement and the problems of old age.

There is alarming evidence that the medical profession is not now attracting as many able young people as it needs. A tabulation of the number of individuals applying to medical schools for the 8 years up to 1957–58 has been published in the Journal of Medical Education (April 1959, p. 424). In 1950–51 the number of individuals applying was 22,279. This dropped to 14,538 in 1954–55, rose to 15,917 in 1956–57, and dropped again to 15,791 in 1957–59.

Senator FREAR. May I ask, Dr. Jordan, if you have figures showing the number of persons who have applied to medical school and been rejected because of lack of space?

Dr. JORDAN. The admissions—there are about 8,000 admitted each year, so at the present time about 1 out of 2 overall is admitted.

Senator FREAR. Thank you.

Dr. JORDAN. However, that is only part of the problem which I get into in my next paragraph.

Even more serious than the drop in numbers is the evidence that the intellectual qualities of the applicants for medical schools has been falling as revealed in the same article. This article concluded with the sentence:

*** * * if the present shift continues to the point where the lowest echelon of accepted applicants becomes a group that is incapable of applying scientific advancement and methodology in the treatment of human illness, there will be cause for real alarm.**

That this drop in high caliber applicants to medical schools may be partly the result of lack of security and ability to provide for retirement was brought out in a discussion held at the meeting of this association in San Francisco last October 2, 3, and 4 on the subject: "Why Young Physicians Join Clinics—What Can Be Done To Make Group Practice More Attractive?" One of the eminent physicians participating in this panel conducted an opinion survey of young physicians. This revealed that these young men felt there was a real need for improvement in their economic security for the future. Along these lines they (the young physicians) particularly stressed some type of retirement or pension plan. Thus it seems imperative that such a plan be made available.

But in our membership it is not only the physicians who are faced with a difficult problem of providing for old age. As stated earlier, our members have an average of about three employees for each physician. These also are prevented from saving for a retirement or pension plan, unless the physician employers set up such a plan from which they are themselves excluded. Many are reluctant to do this for understandable reasons. Thus there are some 10,000 in our association alone who are unable to provide for retirement under the modern means which are available to employees of corporations, government, universities, and other large employer groups.

There is much more which we could present on this subject, but I should like to close with a point which may have most serious implications for the future of medical practice and the welfare of the patients served by our profession. Because of the inequity presently existing in the establishment of retirement programs, many physicians are under great personal pressure—in order to provide for the welfare of themselves and their families—to seek positions as employees of corporations, trade unions, government, life insurance companies, and the like. Physicians in such capacities surely serve a most useful purpose, and we are not criticizing, but it would cause changes of catastrophic dimensions if the number of physicians available to care for the general public was drastically reduced and nearly all future practitioners decided that they must become employees rather than work independently or in partnerships. The pressure on physicians to seek employee staus to take advantage of retirement plans would, we feel, be greatly reduced if this legislation were adopted.

Senator FREAR. Senator Byrd.

The CHAIRMAN. No questions.

Senator FREAR. It is true, is it not, Dr. Jordan, that the medical profession elected not to take advantage of the benefits of the Association Security System?

Dr. JORDAN. That is correct, that is, the House of Delegates of the American Medical Association elected that, sir.

Senator FREAR. Thank you, doctor.

James Perkins Parker, the Florida Bar Association.

STATEMENT OF JAMES PERKINS PARKER, MEMBER, FLORIDA BAR ASSOCIATION

Mr. PARKER. I am here today as a member of the Florida Bar Association, speaking for that body of 6,800 practicing lawyers and its tax section to urge passage of H.R. 10, commonly referred to as the Keogh-Simpson bill, which was recently passed by the House and presently pending before the Senate Finance Committee.

Senator Smathers of Florida favors the principle underlying H.R. 10 and has introduced his own version of that bill in the form of S. 1979. When Congress enacted the present voluntary pension plan laws in 1942, the self-employed individuals were evidently forgotten, yet they get old and sick just as other people do and today there are over 10 million self-employed workers who are not allowed the advantage of tax relief provisions now offered to corporations and their employees. This discrimination was not intentional yet that is exactly the net result and the Florida Bar submits that this glaring inequity deserves prompt correction by the Congress.

Senator Smathers' able and comprehensive statement on pension plans for self-employed individuals, as printed in the May 26, 1959, Congressional Record, gives many of the reasons why the Florida Bar Association is solidly behind H.R. 10.

Senator FREAR. You are familiar, Mr. Parker, are you not, with the contents of H.R. 10 and S. 1979?

Mr. PARKER. Yes. My understanding of the difference is that Senator Smather's merely delays the effective date of the same principles.

Senator FREAR. Only one difference, and the effective date is what?

Mr. PARKER. 1961, I believe, sir. And I think Senator Smathers in his statement recognized the need for that, or the purpose of the delay which was to avoid the present opposition of an unbalanced budget, hoping that by that time they may have more favorable circumstances.

Both H.R. 10 and S. 1979 will encourage the creation of these pension plans for the benefit of self-employed people in the years when their earning capacity has diminished or ceased to exist just as the present laws provide for the vast majority of salaried employees throughout the Nation.

In 1958, the Bank of New York conducted a survey among self-employed in that State, 4,000 of whom submitted reliable answers from which a deplorable picture is available. That survey revealed that fewer than three out of every ten self-employed taxpayers now have a planned retirement program of any kind. This same survey indicates that the time of decision for the professional men is at age 35. After years of formal education and specialized training, usually at

subsistence rates of pay, a professional has arrived at the crossroads by age 35. The survey showed there is an equal division between those who are employees and those who have established themselves as fully self-employed.

Ten years later, at age 45, and continuing through age 65, on the average some 8 out of 10 professionals have become self-employed practitioners but, as the survey also shows, 7 out of 10 by their own admission have no planned retirement program of any kind. One self-employed lawyer, aged 60, sums up the situation: "While I regret the trend toward emphasis on security, I feel the self-employed have no alternative—with income taxes as they are—except to build upon a retirement savings account or pension."

The obvious inequity points to the need for an early correction of the situation but the principal opposition appears to come from the Treasury Department on the ground that to equalize the tax burden as provided by H.R. 10 would cost the Government a loss of revenue in the neighborhood of $365 million.

Now, the feared loss of revenue is a highly speculative matter, and it will certainly depend on many factors, all of which are variable. And I suggest that these factors be the number of people who would elect to participate, the extent to which they might participate, and the tax bracket they happen to be in at the time of their contribution.

Now, interestingly enough, England has eliminated this disparity or inequity with regard to self-employed. They adopted legislation similar in operation and effect to H.R. 10 in 1956. In 1957 both Canada and New Zealand followed suit and eliminated this discrimination against self-employment.

In Canada they had the same problem we had here. Many discussions on self-pension legislation continued for a matter of 10 years, and the persistent plea of lawyers, accountants and other professional practitioners was based on the matter of inequity, there was never any question about the argument of inequity. But the Canadian Finance Ministry, the same as the Treasury Department here, had an equally long record of opposition, the principal reason being, as here, that the expected decrease in tax revenues would hamper the Government, and the prospective increase of administrative detail would be a burden.

It is of particular interest to note that in Canada, after the first year of permissible self-pension, the Canadian Finance Ministry itself acknowledged that the changeover was far simpler than anticipated; and, secondly, the loss of revenue was far less than had been estimated, partly because it took some time for insurance companies and others to design the policies and organize the plans.

Now, we feel, the Florida bar as a group, that even the possibility that the revenue loss might be so considerable as to require higher tax rates, it is not a truly valid objection, for it is more equitable to distribute the tax burden among all taxpayers than to continue the discrimination against the self-employed as a group.

And, in conclusion, I would like to quote one simple paragraph from Senator Smather's statement:

> Millions of our self-employed citizens today are looking to this Congress to give to them the equivalent tax treatment which others are presently enjoying so that they too may be able to provide for the twilight years of their lives. Granting to them tax equality is an investment in the future of America which we in the Congress can ill afford to ignore.

We of the Florida bar favor the passage of H.R. 10.

Senator FREAR. Thank you, Mr. Parker.

Our next witness is Mr. James L. Greenbaum, chairman of the executive advisory council and past president, National Association of Women's and Children's Apparel Salesmen.

Please proceed, Mr. Greenbaum.

STATEMENT OF JAMES L. GREENBAUM, CHAIRMAN OF THE EXECUTIVE ADVISORY COUNCIL AND PAST PRESIDENT, NATIONAL ASSOCIATION OF WOMEN'S AND CHILDREN'S APPAREL SALESMEN

Mr. GREENBAUM. My name is James L. Greenbaum, and I live at 21988 Byron Road, East, Cleveland, Ohio. I appear on behalf of the Bureau of Salesmen's National Association to request approval of H.R. 10.

For your information, our bureau is a joint service organization maintained by three nationwide salesmen's groups in as many industries—the National Association of Men's Apparel Clubs; the National Association of Women's & Children's Apparel Salesmen, and the National Shoe Travelers' Association. The combined membership exceeds 20,000 individuals.

Ever since this bill was first proposed, our bureau and its member organizations have urged its adoption. We favor this legislation for the following reasons:

1. It would remove the tax inequity which now prevails—the discrimination which allows corporate employees to participate in private pension plans but denies the same privilege to the self-employed. Unlike the doctor, lawyer, architect, certified public accountant and others who endorse this measure, our members are directly exposed to this unfairness. In case after case, the companies they work for have pension plans for everybody on the payroll but the salesmen. Being excluded from such benefits is one of the penalties of self-employment; this can be mitigated, in part, by allowing salesmen to share the benefits of H.R. 10.

2. It would enable and encourage salesmen and the other self-employed to save regularly for retirement. Our members are badly squeezed between a fixed, traditional commission rate, on the one hand, and rising costs of living and business travel, on the other. Being able to save even a small amount each year from net income before taxes would be a boon to thousands of salesmen.

3. It would serve the public interest by helping to solve the problem of recruiting new salesmen for the future. As any manufacturer in our industries can confirm, salesmen are in short supply. Younger men prefer the assured return and guaranteed security which other jobs can give them, including the right to share in a company pension plan. If this trend continues, the public will suffer, because the traveling salesman is an essential factor in our distribution system. Production jobs and company pension plans alike depend on an adequate flow of new orders, and countless retailers throughout the country depend on the salesman for advice on what to stock.

4. It would restore self-employment to its former prominence as a goal for business striving. Independence and self-reliance used to be parts of the American dream; both have been negated to a high degree

by steep income taxes and the benefits which large companies can use as lures.

5. It would serve, to some degree, as an averaging device for those, such as salesmen, who have good and bad years. Due to the "squeeze" referred to, many salesmen would not be able annually to save the 10 percent, up to $2,500, allowed by this bill. However, when they do exceed their norm, they would have a chance to save at least that much toward the life maximum of $50,000.

6. It would help to counter inflation, by giving all self-employed persons an incentive to save rather than spend. Under the present rate schedule, the income tax has an opposite effect, leading taxpayers to spend every possible dollar that can be deducted as business expense. If some of this could be kept by the taxpayer himself, it is logical to assume that he would restrain such spending. If all the self-employed were so motivated, the total amount diverted from spending to saving could be an important brake on spending.

In the interest of all the self-employed, as well as of our members who qualify, or can be qualified, under this measure, we earnestly petition you to approve this legislation and clear the way for its adoption.

I thank you.

Senator FREAR. Thank you, Mr. Greenbaum.

Our next witness is Mr. Leonard L. Silverstein on behalf of the Bureau of Salesmen's National Associations.

Please proceed, Mr. Silverstein.

STATEMENT OF LEONARD L. SILVERSTEIN, ON BEHALF OF THE BUREAU OF SALESMEN'S NATIONAL ASSOCIATIONS

Mr. SILVERSTEIN. My name is Leonard L. Silverstein. I appear before you today on behalf of the Bureau of Salesmen's National Associations. I will briefly outline the reasons why, as a matter of statutory technicalities, the bill does not cover traveling salesmen, and I will suggest a method by which the bill can be amended so as to provide this coverage.

H.R. 10 in its present form is limited to persons who are subject to the self-employment tax under section 1401 of the 1954 International Revenue Code. A commissioned salesman, even though he constitutes perhaps the most typical example of an independent self-employed person in our business world, does not fall within the self-employed category for social security purposes.

This situation arose as a result of congressional interest in 1950 in obtaining social security benefits for commissioned salesmen before the original enactment of the self-employment tax law. When this latter tax was finally passed, it did not cover those persons who were previously made subject to the employees' social security tax.

Although commissioned salesmen do have this employee designation for social security purposes, they do not come within the meaning of the word "employee" as it appears in section 401, et seq., of the 1954 Internal Revenue Code—that is, those sections authorizing a deduction for contributions to qualified pension plans. In consequence, although commissioned salesmen may for some purposes be technically treated

as employees, they are not eligible for coverage under qualified private pension plans.

As a result of the above statutory history, commissioned salesmen now find themselves in a dilemma. They are neither entitled to the benefits of qualified pension, profit sharing plans, and so forth, nor will they be entitled to the benefits of H.R. 10 as it was passed by the House. All that is, or will be, available under current proposals is the limited benefits of social security.

The Bureau of Salesmen's National Associations, as the representative of more than 30,000 persons who find themselves in this dilemma, strongly urges that H.R. 10 be made equitable in application. This can be simply accomplished by amending the definition of self-employed persons in the manner suggested in the accompanying statutory draft.

Thank you for this opportunity to appear.

STATUTORY AMENDMENT TO H.R. 10 AS PROPOSED BY LEONARD L. SILVERSTEIN ON BEHALF OF THE BUREAU OF SALESMEN'S NATIONAL ASSOCIATIONS

SEC. 217. AMOUNTS PAID AS RETIREMENT DEPOSITS.

* * * * * * *

(c) SELF-EMPLOYED INDIVIDUAL DEFINED.—

(1) IN GENERAL.—For purposes of this section, the term "self-employed individual" means, with respect to any taxable year,

(A) any individual who is subject to tax for the taxable year under section 1401 (imposing a tax on self-employment income), or who would be subject to such tax for the taxable year but for—

(i) paragraph (4) (relating to ministers of a church and members of a religious order) or paragraph (5) (relating to physicians, etc.) of section 1402(c) or

(ii) section 1402(b)(1) (relating to reduction of net earnings for wages paid).

(B) any individual under the definition set forth in section 3121(d)(3)(D) (definition of employee for purposes of employment tax on employer).

Senator FREAR. Thank you Mr. Silverstein.

We will now hear from Mr. J. Milton Edelstein on behalf of the Association of Advanced Life Underwriters.

Please proceed Mr. Edelstein.

STATEMENT OF J. MILTON EDELSTEIN, CHAIRMAN OF THE LEGISLATIVE COMMITTEE, ASSOCIATION OF ADVANCED LIFE UNDERWRITERS

Mr. EDELSTEIN. Mr. Chairman and members of the committee, my name is J. Milton Edelstein. I appear before you today as chairman of the Legislative Committee of the Association of Advanced Life Underwriters, an organization whose membership is comprised of life insurance agents throughout the country.

The Association of Advanced Life Underwriters is strongly in favor of the rationale and theory underlying H.R. 10. The bill represents an opportunity for a sizable group of the population to receive pension benefits currently unavailable to them. However, we feel it falls short of making available to this segment of the American public equitable treatment as respects adequate provisions for the contingencies of old age.

H.R. 10 in its current form would cover all individuals who are subject to self-employment tax under section 1401 of the 1954 Internal Revenue Code. However, no coverage is provided for those individuals treated as employees for social security tax purposes. To the best of my knowledge this was done on the assumption that employees, as a group, would have available to them the tax benefits of qualified pension plans under section 401 of the 1954 Internal Revenue Code. Generally speaking, a qualified pension plan is one in which contributions by an employer to the plan, with or without additional contributions by his employees, are deductible at the time of contribution. On the other hand, the employee does not have taxable income until he receives payments during retirement.

This premise of exclusion for those eligible for qualified private pension plan coverage is a commendable one, but it assumes too much. Qualification for coverage under a private pension plan does not equal actual coverage under such a plan. As a result there are millions of people in this country, who, while they are eligible for participation in qualified pension plans, are not sufficiently lucky to have employers who have instituted such plans, and thus have neither qualified private pension coverage nor coverage under H.R. 10.

The bill in its present form has within it a system of unequal tax treatment. This is based purely on the fortuity of whether an employee is, in fact, covered by a qualified private pension plan. In most instances the employee is not in the position to control his employer's decision to install such a private plan.

Since I am intimately aware of the practices of the life insurance industry I would direct the committee's attention to the organization of the sales group in that industry. For the most part insurance salesmen are associated with insurance companies on what can be roughly called an agency basis. The remuneration of the salesmen is in direct proportion to his sales, commissions only. The salesman must use his initiative and is, in fact, in busness for himsef. Coupled with these independent contractor aspects are other considerations which tie the salesman to the insurance company very much as if he were an employee. This ambiguous, quasi-employee status renders the life insurance salesman helpless to avail himself of the statutory benefits provided by law to other individual entrepreneurs.

Under section 2 of the bill which would add proposed section 217(f) to the code, the only types of life insurance policies which qualify within the term "restricted retirement policy" are those issued by domestic life insurance companies. This provision will eliminate some fine Canadian and other foreign insurance companies otherwise qualified to do business in the United States. It will also limit the services which local life insurance agencies representing foreign companies can render. There seems no justification for this closed-door approach.

Our organization has conducted an informal survey of its membership and found that less than 30 percent were covered by qualified private pension plans. This is only one instance where a group of persons, performing essentially identical work, would be subject to unequal treatment, as respects each other, if H.R. 10 were to be passed as it reads today. This result is undoubtedly reflected by the experience of numerous groups throughout the country who similarly are

counted in the employee category, but who do not have private pension plan coverage.

The Association of Advanced Life Underwriters strongly urges upon the committee that H.R. 10 be amended to include within its coverage all persons except those who are, in fact, covered by qualified private pension plans. We further submit that, to the extent that private pension coverage does not equal the benefits available under H.R. 10, the exception should not apply.

The Association of Advanced Life Underwriters stands ready to furnish this committee with any technical assistance needed and which its own resources, in the form of pension, actuarial and life insurance statistical experience on the part of its own members, can provide. We will be glad to work with designated staffs as requested.

Thank you for allowing me the opportunity to present the views of my organization.

Senator FLEAR. Thank you, Mr. Edelstein.

Our next witness is Mr. Richard W. Thorington, chairman of the Philadelphia Bar Association's Committee on Lawyer's Retirement Benefits.

Please proceed, Mr. Thorington.

STATEMENT OF RICHARD W. THORINGTON, CHAIRMAN OF THE PHILADELPHIA BAR ASSOCIATION'S COMMITTEE ON LAWYERS' RETIREMENT BENEFITS

Mr. THORINGTON. My name is Richard W. Thorington. I am a partner in the Philadelphia law firm of Obermayer, Rebmann, Maxwell & Hippel and present chairman of the Philadelphia Bar Association's Committee on Lawyers' Retirement Benefits. The other members of the committee are Sanford D. Beecher, Frederick E. S. Morrison, Fred L. Rosenbloom, Hugh D. Scott, Jr., William R. Spofford, Lewis Weinstock, and Andrew B. Young.

The Philadelphia Bar Association has consistently favored the principle of retirement benefits as provided by H.R. 10, believing that this represents a practical approach to the problem of establishing a method whereby self-employed persons may provide for their own retirement through the use of earnings accruing from their own personal efforts.

Accordingly when H.R. 10 was being considered by the Ways and Means Committee of the House in the 84th Congress in June 1955, Mr. William R. Spofford, the then chairman of the Philadelphia Bar Association's committee, appeared and testified in support of the bill.

It was our opinion then and it is our opinion today that current income tax rates make it difficult, if not impossible, for the average lawyer and other self-employed persons to provide adequately for old age with savings available to them after the payment of Federal income tax. The exemption allowed under section 404 of the Internal Revenue Code for contributions to employee pension plans is not available to persons who do not occupy an employee status. This discrimination in the law is a serious one and has directed attention to the

need of a plan under which all self-employed persons may be accorded the same favorable tax treatment with respect to savings set aside and earmarked for retirement purposes as is available to employed persons. Such a plan is contained in the bill presently under consideration.

We do not regard this bill as special legislation for the benefit of any group of citizens, but rather as a bill which attempts to remove, in part at least, the discrimination which presently exists in the law in favor of employed persons. I say "in part" because the present bill restricts deductions in any year for persons under age 50 to $2,500 or 10 percent of earnings from self-employment, whichever is less, with a lifetime limit of $50,000. There is no such limitation on amounts that may be set aside to provide retirement benefits for employed persons. We are willing to accept this limitation however because we recognize the fiscal problem involved. We believe that an income tax deduction should be granted only where it will serve a public interest. We also believe that it is sound public policy to encourage people to exercise thrift and to make it possible for them to provide adequately for themselves in their old age rather than having to rely on Government as the ultimate source of economic security.

We ask that the discrimination against the self-employed be eliminated, at least to the extent provided by H.R. 10, and that lawyers and all other self-employed groups be afforded the opportunity and privilege of providing for their later years through their own efforts.

Senator FREAR. Thank you, Mr. Thorington.

We will now adjourn.

(By direction of the chairman, the following is made a part of the record:)

NATIONAL SHORTHAND REPORTERS ASSOCIATION,
Philadelphia, Pa., July 3, 1959.

Hon. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR SENATOR BYRD: I am writing to you, as president of the National Shorthand Reporters Association, to state that the Smathers-Keogh-Simpson bill (H.R. 10) has on two occasions received the unanimous support of the board of directors of this association. That support is on behalf of the shorthand reporters of the United States who are self-employed and not in salaried positions.

We endorse the various reasons that have been advanced for the passage of this bill.

We are particularly concerned that this bill should become law for an additional reason, which applies particularly to shorthand reporters (Pitman, Gregg, or Stenotype), and which may apply with equal force to others in the ranks of the self-employed. That reason is that shorthand writers are peculiarly dependent, for their earning power, upon the peak of effectiveness of their physical powers, including not only general health, but specifically eyesight, hearing, and good physical coordination. As we all know, these powers are apt to fail, so that it is especially important for shorthand writers to be able to participate in a retirement plan—and especially important for the community that these people be allowed to do so, because otherwise the burden may fall upon the community.

Will you please see that this statement is included in the record of the hearings on H.R. 10.

Respectfully yours,

E. G. RODEBAUGH.

MASSACHUSETTS STATE ASSOCIATION OF MASTER PLUMBERS, INC.,
Boston, Mass., July 8, 1959.

HON. LEVERETT SALTONSTALL,
U.S. Senator,
Senate Office Building, Washington, D.C.

DEAR SENATOR SALTONSTALL: The Massachusetts Association of Master Plumbers has adopted the following resolution:

"*Resolved,* That the Massachusetts Association of Master Plumbers endorse House bill No. 10 referred to as the Smathers-Simpson-Keogh bill; be it further

"*Resolved,* That the Massachusetts Association of Master Plumbers seek the aid of Senators Leverett Saltonstall and John F. Kennedy for the purpose of having this resolution included in the Senate Finance Committee hearing to be held in Washington in July 1959."

The Massachusetts Association of Master Plumbers, an organization of 500 members will appreciate it very much if you will make every effort possible to effect favorable passage of H.R. 10.

Thank you for past courtesies extended in our behalf.

Very truly yours,

ANDREW H. MILES, *President.*

AUTOMOTIVE AFFILIATED REPRESENTATIVES,
New York, N.Y., June 15, 1959.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: We regret that conditions beyond our control prevent the writer from testifying in person on H.R. 10. However, you may be assured that this in no way diminishes or is a lack of interest on the part of our association and this letter is written with the request that you please insert it in the records of the hearings held on this bill June 17–18, 1959.

We are an association of some 425 member firms of manufacturers representatives, all of whom are self-employed.

As you are aware the average income of the members of an association such as ours varies considerably. Regardless of income, though, the fact remains that very few members of the Automotive Affiliated Representatives have ever been able to put aside anything for their future security. It is true, of course, that some of our more fortunate members have taken out annuities or retirement plans but the vast majority of our people have never been in a position to do so.

Our association believes that this is much-needed legislation which will correct an unfair situation that exists in our tax regulations. Any consideration which can be given so that the Smathers-Keogh-Simpson bills can be passed favorably will certainly be appreciated by this organization—and we know that there are many others who feel the same as we do.

Very truly yours,

ED L. LEE, *Executive Secretary.*

(Whereupon, at 4:50 p.m., the committee recessed, subject to the call of the Chair.)

SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959

WEDNESDAY, JULY 15, 1959

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:20 a.m., in room 2221, New Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Talmadge, Hartke, Williams, Carlson, Bennett, and Cotton.

Also present: Representative Keogh, of New York.

Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

The first witness is Dr. V. Eugene McCrary, American Optometric Association.

Senator CARLSON. Mr. Chairman, before Dr. McCrary starts his testimony, I would like to submit for the record a letter from the executive vice president and secretary of the Kansas Restaurant Association in which they endorse and approve the pending legislation.

(The letter referred to is as follows:)

KANSAS RESTAURANT ASSOCIATION,
Wichita, Kans., July 8, 1959.

Senator FRANK CARLSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR: We would like to request that you place in the record concerning hearings on the Keogh-Simpson bill, the fact that the board of directors of the Kansas Restaurant Association in a meeting held in Manhattan, Kans., on March 1, went on record as unanimously endorsing the passage of this bill.

The officers and directors of our organization definitely feel that this legislation would be most fair to the self-employed person and afford them the same privileges afforded corporations with regard to retirement funds.

Cordially yours,

J. ARTHUR WOLF,
Executive Vice President and Secretary.

The CHAIRMAN. Proceed, Dr. McCrary.

STATEMENT OF DR. V. EUGENE McCRARY, AMERICAN OPTOMETRIC ASSOCIATION

Dr. MCCRARY. Mr. Chairman, and members of the committee, my name is V. Eugene McCrary. I am an optometrist practicing in College Park, Md., and for the past 2 years have been a member of the Department of National Affairs of the American Optometric Association.

During 1944 and 1945 I served as a naval air gunner, and during 1951 and 1952 I was again on active duty with the Navy, this time as an optometry officer. I was promoted to lieutenant, junior grade, and now hold the rank of lieutenant in the Medical Service Corps, U.S. Naval Reserve.

Senator BENNETT. May I stop the witness?

(Discussion off the record.)

Dr. MCCRARY. I am a member of the executive committee of the Maryland Optometric Association and, in addition to my private practice, I am serving as optometric consultant to the Naval Research Laboratory on problems of industrial vision.

Last month, Governor Tawes appointed me as a member of the Maryland Board of Examiners in Optometry. I am also president of the Lions Club of College Park, Md., and engaged in other civic activities.

Our national association, like most others in the health field, is composed of individual members in each of the 49 States, Hawaii, and the District of Columbia. In most instances, the individual joins the local or State association, and at the same time becomes a member of the national organization. In all 49 States, Hawaii, and the District of Columbia, either by statute or regulation having the force of law, a person now seeking an original license to practice optometry in one of these jurisdictions must be a graduate of an approved school or college of optometry, each of which requires a minimum of 5 years of study at the college level—three of which are devoted exclusively to their specialty.

There are about 18,000 optometrists licensed to practice in the United States. The great majority of these men practice as individuals or in partnership with other optometrists. There are some employed by corporations, but our association considers this type of practice to be unethical. It is prohibited by law in many jurisdictions. For this reason subchapter S, enacted by the 85th Congress, offers no relief to a majority of the members of our profession.

Objections have been raised to these bills on the ground that they will benefit primarily the Wall Street lawyers and the Park Avenue physicians. While the great majority of self-employed optometrists are making a good living, I can assure you that their earnings are not such as to place them in that class. Possibly only a few of them would take advantage of the opportunity these bills would offer. However, our association strongly believes that the self-employed should be given incentives such as those proposed and that now is the time corrective action should be taken.

We believe that it is in the public interest that optometrists, as other members of the health profession, should not engage in corporate practice. The welfare of the patient should always be uppermost in the minds of every practitioner in the health-care field. He should maintain his freedom of thought and independence of judgment.

This may be difficult, even when one is practicing alone, but it is certainly much more difficult when one is employed by a corporation, the officers, directors, and stockholders of which are generally laymen whose primary objectives are profits and dividends.

It is difficult for a young man or woman who has just received a doctor's degree in optometry to get started in private practice. Every

proper incentive should be held out to the young optometrists to do this. One such incentive would be if they were permited to augment their social security by taking advantage of the possible tax benefits provided by the bills now under consideration. However, we do not base our request for this legislation upon the theory that it would encourage the younger members of our profession to maintain their independence in private practice, but upon the ground that all self-employed members of our profession, as well as other self-employed individuals, should be accorded the same incentive and opportunities which our tax laws accord to individuals who are employed by corporate enterprises.

The tax burden on all of our people is becoming heavier and heavier, but it is particularly onerous on the self-employed individual who is successful in his business or profession. The income of the self-employed is subject to fluctuations dependent upon many factors over which he has little or no control. In the good years it is only fair and just that he should be afforded an opportunity and be encouraged to set aside a part of his earnings to be utilized in his later years. We are not asking for a tax exemption, but only for a tax deferment on a comparatively small portion of one's income.

There have been various estimates as to the effect of this legislation upon the current receipts of the Government. Those who are much better qualified than I am will discuss this particular factor which I know is uppermost in the minds of many of the members of this committee, but I still maintain that the growth of our country in years gone by, and its strength today as well as in the future, depends in a large measure upon the self-employed in all walks of life. Independence, self-reliance, freedom of thought and action, are the cornerstones of the American way of life, and any tax law which discourages and discriminates against the self-employed is not in the public interest, no matter how it may temporarily affect the Treasury receipts.

On behalf of the members of the optometric profession particularly, and of all the self-employed in our great country, I strongly urge the committee to report this legislation to the Senate with a recommendation for favorable action.

The CHAIRMAN. Thank you very much, Dr. McCrary.

Are there any questions?

Senator KERR. Mr. Chairman, I would like for a resolution of the Associated Plumbing & Mechanical Contractors of Oklahoma, Inc., be made a part of the record.

The CHAIRMAN. Without objection.

(The resolution referred to is as follows:)

RESOLUTION ENDORSING AND IN SUPPORT OF H.R. 10, THE KEOGH-SIMPSON BILL

(Passed July 10, 1959 by the board of directors of the Associated Plumbing & Mechanical Contractors of Oklahoma, Inc., Oklahoma City, Okla.)

Whereas over half of the members of this association are within the category of self-employed persons, as defined in H.R. 10, the Keogh-Simpson bill, passed by the U.S. House of Representatives on March 16, 1959, and now pending before the Finance Committee of the U.S. Senate; and

Whereas the bill in essence would permit self-employed persons to defer income tax each year on a portion of their own income to provide for retirement—

thus in effect granting them tax privileges already available to persons not self-employed; Therefore be it

Resolved, That this association officially record its support and endorsement of H.R. 10, the Keogh-Simpson bill; and be it further

Resolved, That a copy of this resolution be sent forthwith to Oklahoma's Senator Robert S. Kerr, stating the suggestion that the resolution be used in the Senate Finance Committee hearings on H.R. 10 to indicate this organization's support and endorsement of the bill.

CERTIFICATION

I, the undersigned secretary of the Associated Plumbing & Mechanical Contractors of Oklahoma, Inc., do hereby certify the above resolution was duly adopted July 10, 1959, by the affirmative vote of the board of directors of this association.

In witness whereof I have hereto affixed my signature and attached the seal of said association this 13th day of July 1959.

[SEAL] GROVER L. FAUSS, *Secretary*.

The CHAIRMAN. The next witness is Dr. Jack Knowles, American Veterinary Medical Association.

Will you proceed, sir?

STATEMENT OF DR. JACK O. KNOWLES, AMERICAN VETERINARY MEDICAL ASSOCIATION

Dr. KNOWLES. Mr. Chairman and gentlemen, I am Dr. Jack Knowles, a veterinarian, practicing in Miami, Fla. I am a member of the house of delegates of the American Veterinary Association and chairman of the advisory committee of that house, and I am here speaking for the American Veterinary Association and its members to urge this committee to act favorably on the legislation H.R. 10 and S. 1979.

I have a prepared statement that, with your permission, I would like to submit for the record——

The CHAIRMAN. You may do so.

Dr. KNOWLES. And there are three points I would like to discuss briefly if I may.

The first point, the present tax law imposes an undue burden, we feel, on the self-employed professional such as a veterinarian, because it tends to siphon off much of their earnings at the time when it should be available to apply toward retirement.

The pattern of earnings for professional people, as has been pointed out several times, that we have many years while we are building our practice that is below our average, a few years of peak, and then a few years again of declining income.

During the peak years the surtax acts to siphon off much of the money, and that is about the only money which would be available for our retirement.

Veterinarians have an additional problem that some professional people do not have, in that we must provide a hospital in which to practice, and that we must make an important investment. The veterinary hospital will cost between $15,000 and $20,000, and it is a single-purpose building, so, although it represents a considerable investment, it is not security in proportion to that.

The market for single-purpose building is limited, and if anyone has ever tried to use one for collateral, as I have, they will find out

they are not worth as much as you put into them. So that veterinarians have little opportunity to provide for themselves under the tax law as it is now enforced.

The second point, proposed legislation will be of benefit to many, many people who are not in the high-income bracket. The record shows many instances where it is felt that just the very wealthy will benefit from this.

Veterinarians are of the middle-income tax group, and yet we are interested enough in this that I have made two trips to Washington for the privilege of these few minutes here. We make less than $10,000 a year on the average, and since this carries also a few years of peak, most of the veterinarian's time he makes considerably less than $10,000 a year, and that, of course, before taxes.

The third point, passage of H.R. 10 is, we feel, in the public interest. It will extend the benefits of pension plans not only to the self-employed but to their staffs as well, we feel, because as we come to know more of their plans we will know more of their value, and we will be able to incorporate them into our organizations.

This is permissive legislation. It is already permitted to our staffs, only is denied to us. And we must compete.

The CHAIRMAN. I would like to ask a question on that.

What do you mean when you say your staff would be eligible?

Dr. KNOWLES. Our employees.

The CHAIRMAN. How would they be? It is only for self-employed.

Dr. KNOWLES. Yes, sir; but as the self-employed learn the value of it, and as we use it for ourselves it will find its way, I am convinced, into our staff.

I have in mind, for example, that in our own hospital we have, say, health and accident insurance, which we are on exactly the same terms as our staffs, and I think, as self-employed——

The CHAIRMAN. But this bill itself does not do that.

Dr. KNOWLES. No, sir.

The CHAIRMAN. It would give no benefit to your staff at all.

Dr. KNOWLES. No, sir; it has nothing to do with your staff, that is quite true, but if it is permitted, as I understand it for us, we could provide it for our staffs now.

As we come to have more regard for this legislation, I feel, sir, and submit, that we will extend it also to our staffs. In a small organization it is a little bit like a family; what you do for yourself, sometimes you do that for your staff.

The CHAIRMAN. What assurance can you give that will be done?

Dr. KNOWLES. I can't give you any assurance except in our practice it has happened, as, for example, in health and accident insurance is the one specific, concrete example that I have.

Senator BENNETT. Mr. Chairman, it requires no law to permit you to give your staff the benefit of health and accident insurance, but it requires a change in law, or it requires that you qualify a plan under existing law as it applies to corporations——

Dr. KNOWLES. Yes, sir.

Senator BENNETT. In order for you to give that to your staff.

Do you know of any veterinarians that have provided that for their staffs?

Dr. KNOWLES. No, sir; I do not.

Senator BENNETT. Do you believe it is necessary that you be given this privilege provided for in H.R. 10 before you can provide benefits for your staffs?

Dr. KNOWLES. No, sir; I think it would be helpful.

Senator BENNETT. Then don't you think it is wishful thinking to assume that—or let's put it another way:

Do you think a little selfish to say that unless we get it for ourselves we are not going to give it to our staffs?

Dr. KNOWLES. I hadn't meant to say it exactly that way, sir. My interest is that as I have become interested in this law, I now have our accountants looking into it. I think it is a good thing for the staff as well as for us.

If I may elaborate just a moment, we are in, as small practitioners and small, say, businessmen, we are in a competitive market for our staff. I have learned since I have been reading the record and listening to the testimony here how, with that explosiveness, this idea of pension plans is spreading across the country, and if the other employees in the country want it, my employees will want it. If I am going to employ a competent staff, I must offer them inducements that will encourage them to work for me. If one of those inducements is a pension, my staff will have it.

And an example of that, sir, is, for example, the wage and hour laws. We are not under the wage and hour law, yet we are profoundly influenced by it.

Senator BENNETT. That is right. But the opportunity exists now——

Dr. KNOWLES. Yes, sir.

Senator BENNETT. And you ignore it; you are telling us that you are not going to be interested in it——

Dr. KNOWLES. No, sir.

Senator BENNETT. Unless and until you get it for yourself, you get this kind of a proposal for yourself.

Dr. KNOWLES. Senator, sir; I had not intended to tell you that I am not interested in it. I now have our accountants looking into it. I am not here speaking as an individual. I know very little about it, or knew very little about it until the association interested me in this legislation. I think that applies for the most of the veterinarians, and I don't think they know very much about it, and knowing very little about it they are not interested in it.

Now that I do know of it I have begun looking into it, and I think that will happen to others, and it is only opinion, subject to being wrong, but I feel strongly if this is for veterinarians, if they look into it for themselves, they will also extend it. It certainly wouldn't slow it down, and I think they will extend it to their staffs, too.

Senator BENNETT. If this bill were amended and a law were passed which makes it impossible for you to get benefits until you have given similar benefits to your staff, what kind of reaction would you have to that?

Dr. KNOWLES. I am looking into it now, sir. I think this is an inequity, and I do not feel that the Government intends to continue an inequity. I think it——

Senator BENNETT. But if this bill is passed you continue an inequity, you give yourself a benefit that you are not by law required to give to your staff.

Dr. KNOWLES. By the law of economics, in a small business you have to be pretty careful about your staff. If you want a good staff and keep them a long time you treat them pretty nicely; I certainly try to.

Senator BENNETT. Well, you are talking all around, you are getting all around the answer I want to my question.

I asked you whether you would be interested in supporting this proposal if, as a provision of it, there was a requirement not similar but approximately equal benefits must be given to your staff before you can give them to yourself.

Dr. KNOWLES. I am sorry, sir, I did not understand the question. Yes, I would be interested in it.

Senator BENNETT. Because that is the basis on which corporate retirement plans must be set up. Corporate retirement plans may not be set up for the top executives and may become tax deductible unless similar benefits are available to other members, other employees.

Dr. KNOWLES. I would only speak for myself, but that seems most proper. I am sorry I did not understand your question.

Senator BENNETT. Thank you.

Dr. KNOWLES. Then, in conclusion, if I may, a veterinarian is anxious to stand on his own feet, to be responsible for his own actions as much as possible to solve his own problems, including that of his old age, and we of the American Veterinary Association, therefore, urge this committee to permit us the privilege of doing this by acting favorably or reporting favorably on this legislation.

Thank you very much for the privilege of appearing.

The CHAIRMAN. Thank you very much.

Are there any questions?

(No response.)

(The prepared statement of Dr. Knowless is as follows:)

STATEMENT BY JACK O. KNOWLES, V.M.D., AMERICAN VETERINARY MEDICAL ASSOCIATION, CHICAGO, ILL., RE SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959.

Mr. Chairman and members of the committee, I am Dr. Jack O. Knowles of Miami, Fla., where I am engaged in the practice of veterinary medicine. I am a member of the house of delegates of the American Veterinary Medical Association, also chairman of the advisory committee of that house.

I appear today as the representative of the American Veterinary Medical Association to support S. 1979, introduced by Senator Smathers, and H.R. 10 and H.R. 9, sponsored respectively by Representative Keogh and Representative Simpson (Republican of Pennsylvania), bills to encourage the establishment of voluntary pension plans by individuals. Our association has for many years endorsed the principle of legislation of this type.

Both measures under consideration today are designed to provide tax deferment for the self-employed individual, whereby that person may each year set aside a limited portion of his own income for investment in certain types of retirement annuity, or a specific retirement trust. These are restricted voluntary plans, with certain transactions prohibited, and penalty provisions are provided also, an example of the latter being withdrawal of amounts before age 65.

A problem common to numerous individuals is to provide a source of income for themselves and their families in later years related to the standard of living

established during the more productive years. A solution, though difficult under the present high tax rate and inflated costs, would be in the interest of the self-employed person and the national economy. The Congress has recognized the objective as merited by amendments to the Internal Revenue Code which provides for qualified pension plans for corporate employees, including the executives. Employees participating in these approved plans do not, under the law, have to include the employer's contribution as gross income until pensions are received, and contributions by the company are deductible in the year made.

Why this tax relief to one group in our economy—the corporate employee? There are many doctors of veterinary medicine in the latter. Why are those engaged in the private practice of their profession—the self-employed—denied by law the tax relief offered to corporations and their employees? It is an existing discrimination which we think is unfair and unsound. The American Veterinary Medical Association believes the practicing veterinarian and other self-employed persons should be encouraged and assisted to provide their own funds for their old age and retirement, by enactment of the bill providing for tax deferment.

THE SELF-EMPLOYED VETERINARIAN, ECONOMIC DIFFICULTIES AND PRODUCTIVE YEARS

First, the veterinarian starts his professional career following 6 to 8 years in preprofessional and professional study. He is almost 26 years of age when entering practice, and starts to earn income. Then he has to build his practice. He is left with a relatively few years of top earning before his income begins to diminish. The obvious funds for providing for retirement should come from the surplus during these years of highest return. The income tax now siphons off much of this surplus. We have this problem in common with other self-employed groups and professional people. However, we also have a specific problem that should be brought to your attention. The nature of our work requires that in addition to the conventional expenses, such as family, home, and so forth, we must provide a building in which to practice. A veterinary hospital is a single-purpose building and as such is a poor investment. It is of no use to a widow and is of little use to anyone besides another veterinarian, so although it represents a considerable investment of the family's funds, it has a limited market and does not provide comparable security against disability, demise, or for retirement. A veterinary hospital will cost from a minimum of perhaps $15,000, to as much as $200,000.

There has been considerable discussion before this committee that H.R. 10 is class legislation and is intended for the people in the upper income tax brackets. I am able to speak for a group who are vitally interested in persuading you to act favorably on this legislation, but are certainly not in the upper income tax group. The average net income for a veterinarian in private practice is approximately $10,000 per year. This income, of course, is calculated on a lifetime basis, which means that there are many years of income much less than that before he builds up to his peak, a few years of income considerably more, and then several years of income that again is reduced. The structure of the income tax is such that much of his excess is siphoned off during his peak years. To earn his $10,000 a year, he works on an average of 60 hours a week and must invest from that income whatever is required to provide his facilities for his practice.

Considering all these factors, both professional and individual, the self-employed veterinarian has little opportunity under the present tax law to take advantage of the more prosperous years of his practice to provide economic security for his family and himself by embarking on a sound retirement program.

There seems to be concern that this law would enable a self-employed individual to provide for himself but not for his staff. I wonder if this is realistic. The tremendous increase in the number of retirement programs in this country shows that the principle is being so well received it certainly will find its way into most business. An employer, self-employed or not, must compete in the general labor market for his staff and he must provide adequate inducements in order to obtain competent employees. If most of the employed people of the country have retirement plans, our employees will too. For example, our hospital in Miami is not under the wage-and-hour law but yet the law profoundly influences our pay scale. Years ago when it was first enacted, it brought about a rise in our pay scale equal to that required by the wage and hour law. We have since that time paid equal to or above the scale and as an economic necessity we shall continue that policy.

The veterinarian is a prime example of the self-reliance so vital to the building of this country. We are anxious to stand on our own feet, to be responsible for our own actions and, as much as possible, solve our own problems, including that of our old age. The American Veterinary Medical Association urges your committee to permit us this privilege by acting favorably on H.R. 10 and S. 1979.

Thank you for the privilege of presenting our views.

The CHAIRMAN. Mr. John A. Gosnell, National Small Business Men's Association.

STATEMENT OF JOHN A. GOSNELL, GENERAL COUNSEL, NATIONAL SMALL BUSINESS MEN'S ASSOCIATION

Mr. GOSNELL. Mr. Chairman and members of the committee, my name is John A. Gosnell. I am general counsel of the National Small Business Men's Association of Washington, D.C.

This association was founded in 1937. In 1938 it was chartered as a nonprofit corporation under the laws of the State of Ohio. The association now has approximately 20,000 members, and we are growing at the rate of about 1,000 new members per month.

The National Small Business Men's Association strongly endorses the self-employed individuals' retirement bill, because it would remove an inequitable discrimination which exists under the present law against some 10 million small businessmen, farmers, and professional people. We believe that the same reasons which impelled Congress to permit corporations to deduct, as business expense, payments into a qualified employees' pension plan, apply with equal force to the self-employed.

It is beyond question that a flourishing small business community is a vital part of our economic system. While everyone is eager to admit this fact, we have embraced frustrating tax policies which defeat incentives and which make it almost impossible for a small business to thrive on its own earnings.

We believe that the stature of this country today is in a large part due to the venturesome spirit of individual enterprise which characterized the early development of commerce in this Nation. Although we still pay lipservice to this American tradition, it seems to us that our tax and fiscal policies are contributing to the defeat rather than the nurturing of individual enterprise. Far too many of our young people are seeking false security in employment by the large corporations or by the Government. The trend today is definitely toward becoming an employee.

Although the establishment of an equitable and uniform tax policy is ample justification for the enactment of this legislation, we sincerely believe that it is even more important to foster incentives for self-employment. We are dealing here with national values of vital importance—we need to stimulate and encourage the spirit of traditional American enterprise.

The arguments in favor of this legislation have been exhaustively set forth in the record of previous hearings, and we will not impose on the time of this committee to reiterate these arguments. We embrace and strongly endorse the statements made by Senators Smathers and Representatives Keogh and Simpson in support of this legislation and urge favorable consideration by this distinguished committee.

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In conclusion, Mr. Chairman, we earnestly submit that this legislation will have a highly constructive social and economic impact on the welfare of the Nation which greatly overshadows any temporary dislolation of revenue which might result.

We greatly appreciate this opportunity to submit our views.

The CHAIRMAN. Thank you very much, Mr. Gosnell.

Are there any questions?

Senator BENNETT. I would just like to ask Mr. Gosnell what his answer would be to the question I asked Dr. Knowles.

Mr. GOSNELL. As I recall the question, Senator, I believe you will find it true that any small business which has reached a degree of prosperity that will enable it to install a pension plan would have already done so. Certainly that is true within our membership.

Senator BENNETT. Well, my question is, Would you be willing to have this legislation amended so that it would not be available to the self-employed unless he made it also available to his staff?

Mr. GOSNELL. I think that would greatly impair the benefit of the bill in cases where you have a small beginning enterprise, and a man may have only one or two employees. I think the amendment would be impractical in such a circumstance and that is the primary area of benefit, as I see, in the bill, because the other situations are already taken care of. That is, where a little company has been formed, it has begun to be prosperous, I think that in at least 80 percent of the cases you would find they have already instituted a small group plan.

Senator BENNETT. I think you will find that less than half of the people employed in the United States come under pension.

Mr. GOSNELL. Yes; by and large.

Senator BENNETT. So 80 percent is probably a little enthusiastic.

Mr. GOSNELL. I am talking about the small, prosperous enterprise alone.

Senator BENNETT. So am I.

Your answer is you would object to an amendment to the bill which would tie the benefit to the employer to give benefit to his staff?

Mr. GOSNELL. Unless it was stated that it would not completely void the benefit to the individual proprietor who has only one or two employees. Otherwise it would knock him completely out of the bill, if I understand the hypothesis correctly.

Senator BENNETT. Well, the hypothesis is to apply to the employees of the self-employed the same principle that is applied to the employees of corporations, the same basis must be available, and to extend that to include the self-employed proprietor or operator or owner of the combination.

Mr. GOSNELL. I have not had much time to consider this point, but I believe that it would greatly nullify the benefit of the bill to make that a mandatory prerequisite to the operation of the bill that it be applied also to the case of one or two employees.

Senator BENNETT. No further questions, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Gosnell.

The next witness is Mr. Rowland Jones, Jr., of the American Retail Federation.

Have a seat, sir.

STATEMENT OF ROWLAND JONES, JR., PRESIDENT, AMERICAN RETAIL FEDERATION; ACCOMPANIED BY WILLIAM C. McCAMANT, DIRECTOR OF TRADE AND PUBLIC RELATIONS, AMERICAN RETAIL FEDERATION

Mr. JONES. Mr. Chairman, and gentlemen, my name is Rowland Jones, Jr. I am president of the American Retail Federation, with offices at 1145 19th Street NW., Washington, D.C.

The American Retail Federation is a federation of 38 statewide retail associations and 30 national retail associations, representing through their combined membership more than 800,000 retail outlets.

In a referendum conducted by the federation, the member associations (see list attached) overwhelmingly endorsed the principles contained in the Keogh-Simpson bill, H.R. 10, and the Smathers bill, S. 1979, as the most feasible and practical means of correcting a long-standing discrimination against the self-employed taxpayer as to the tax treatment given to funds set aside for retirement. Our members know of no reason why the self-employed should be discriminated against in this manner.

The retail industry is an industry of small independent businessmen. The most recent figures available on the retail industry come from the 1954 Census of Business. That census indicates the retail industry is comprised of 1,721,650 retail outlets of which 86.5 percent, or 1,489,355 outlets, were operated as proprietorships and partnerships.

Over 900,000 retail establishments operating as partnerships and individual proprietorships have annual sales of under $50,000; and 268,000 have sales between $50,000 to $100,000 annually. About half of these stores have no employees—being operated solely by the proprietor or the partners. The other half which do have employees would have only a small number.

While these individual partnerships and proprietorships within the retail industry constitute over 86 percent of the total retail outlets, they also move into the hands of the consumer 50 percent of all the goods and commodities sold through retail outlets. By maintaining competition within our industry, these smaller firms make a valuable contribution to our national economy.

The current discrimination between the employed and the self-employed has existed for almost a full generation. It was in 1942, at the beginning of the Second World War, when the Congress amended the Internal Revenue Code to permit special tax treatment for private pension plans which qualified under the code and which were certified as such by the Treasury Department. The amendment was designed to encourage the creation of private pension plans to take care of employed people in their older years when their earning power had diminished.

These tax considerations have played a vital role in the tremendous growth of private pension plans. Today, close to 19 million employed workers are covered in plans which have been approved by the Treasury Department. This means that the money which is set aside to provide retirement income is not taxed as income to the employee until he receives the income as a pension. It also means that

the Treasury Department recognizes that the funds contributed by the employer are part of the necessary cost of doing business.

The Congress is to be commended for the enactment of this legislation. It is indeed sound public policy for the Federal Government to encourage the establishment of annuity plans and pension trusts in order that employed workers can enjoy their senior years in security and comfort.

The social and economic benefits which are derived from this wise provision are so widely recognized today that there is no serious suggestion from any responsible source that this incentive be removed from our tax laws. However, the time is long overdue for the Congress to give the same consideration to the self-employed.

Our current high level of income taxes and constantly rising price levels make it just as difficult for the self-employed workers to save for their retirement years as it is for the employed workers. Like the employed, they, too, grow old, lose their productive capacity, and their ability to manage their individual businesses. Frequently, the proprietor himself, his business knowledge, his standing in the community, and his reputation for value and service are his greatest capital assets. Often, businessmen who have prospered in their community when, through physical impairment, are no longer able to continue, find it impossible to dispose of their business at a price which has any sound relation to the total income which they have succeeded in deriving from it. Without their active participation and direction, the physical assets are an empty shell. Only by having laid aside funds in a pension trust or annuity plan can they be assured of having sufficient income to live and enjoy their remaining years in peace and dignity.

Today, when young men and women are searching for their lifetime careers, businesses which operate as corporations are able to point out pension benefits which their company provides for their employees. It may seem very strange that men and women still in their twenties are giving consideration to their security 40 years in advance. Yet it is a well-known fact that every major corporation considers a sound pension and retirement plan as a necessary incentive to attract high-talented personnel. Indeed, it is even used by recruiting officers from large corporations when interviewing students who are still on college campuses.

We find no fault with these practices but we do believe that when a young man is weighing the choice of going to work for a large company or starting in business for himself, the tax laws should not throw the choice to either one side or the other.

We are a rapidly growing country We need new businesses. Small and new business enterprises should stand equal in the eyes of the law and in the incentives which can be granted or denied by tax regulations. These smaller enterprises are the backbone of competition in our industry and make a valuable contribution to our economy. We need to encourage able and venturous men to start their own businesses, not to discourage them through discriminatory tax laws.

Like many measures before the Congress, this proposal is not without its opponents. Much of the opposition stems from the fact the Treasury would lose a significant portion of revenue, estimated to be in the neighborhood of $365 million per year. The Treasury Depart-

ment, while recognizing the discrimination against the self-employed, is opposed to the enactment on revenue grounds. We will have a deficit in the budget this year and, in times like these, some state a deficit is an emergency situation.

May I call to the attention of this committee that the discrimination against the self-employed was adopted in 1942, which I need not point out was an emergency year. Only a few months after the attack on Pearl Harbor when this Nation was hurled into the greatest war in all history, and at a time when Federal expenditures were exceeding income by tremendous proportions, Congress adopted an amendment to the Internal Revenue Code to stimulate the establishment of pension plans for the employed worker. The Federal Government at that time was faced with tremendous demands for funds to finance the expansion of our Armed Forces and provide the ships, guns, planes, and ammunition needed for victory. It was then that the Congress changed the tax laws in order to encourage private pension plans for employees, even though the change resulted in less Federal revenue. It is indeed difficult for the self-employed to understand how the Congress could grant tax concessions for the employed in those trying days and deny them to the self-employed during the past 17 years.

When appearing before this committee on June 17, Mr. David A. Lindsay, Assistant to the Secretary of the Treasury, presented the statement for the Treasury on this bill. At that time, Mr. Lindsay stated:

> The Treasury recognizes that present law does not give self-employed persons tax treatment for their retirement savings comparable to that now accorded to employees covered by employer-financed pension plans.

Yet, despite the Treasury recognition of the inequity, Mr. Lindsay offered no remedy—nor has any spokesman for the Treasury since the inequity was placed in the tax code over 17 years ago.

The most positive suggestion Mr. Lindsay made was to delay action until after completion of the hearings on income taxes to be held by the Ways and Means Committee this coming November. Certainly if the Ways and Means Committee had considered this advisable, it would not have reported H.R 10 to the House for action. The Ways and Means Committee has taken action on this bill twice—once in the 85th Congress and this year in the 86th Congress. With nothing from the Treasury but a suggestion for delay, with House approval received a second time, I urge this committee to consider the bill on its merits and act accordingly.

The retail industry is composed of business enterprises, both large and small, both incorporated and nonincorporated. We believe that the self-employed are entitled to the same advantages under our tax laws as are the employed. In urging enactment of this measure, the small retailer is not seeking any Government favors or subsidies. He fully realizes any funds set aside for retirement purposes must first be earned and then saved. With the keen competition which prevails within the industry and the high cost of keeping his business modernized so that he may compete with larger establishments, saving will be no easy task. In fact, not all retailers will be able to set aside by any means the amounts the bill would allow, which is 10 percent of net earnings up to a maximum of $2,500 in any 1 year. There will

be years when volume is low or when required modernization and expansion take every extra dollar.

We do believe, however, that in the long run, the provisions of H.R. 10 will materially assist the small independent businessman to set aside funds for his retirement years. We would also like to point out that, during the retirement years, he would continue to lend his financial support to the Government, for the annuity received would be taxed as income, as H.R. 10 is a tax deferral, not a tax forgiveness.

We sincerely hope that this committee will act favorably on H.R. 10 and S. 1979 in order that this longstanding discriminatory treatment of the self-employed can be erased from our tax laws. The self-employed have waited long for appropriate action. We hope they will receive it this year.

Mr. CHAIRMAN. Thank you very much, Mr. Jones.

Mr. Jones, you favor this bill which provides for $2,500 deduction from the income tax. Do you think the social security contributions made by the employees should be deductible from income tax?

Mr. JONES. Well, that is a tough question, Senator.

The CHAIRMAN. Yes; it is a question this committee must consider.

Mr. JONES. I haven't given it any thought.

The CHAIRMAN. There is discrimination there, it would seem, because if you deny it to those contributing to social security and give it to the self-employed, you create discrimination.

Mr. JONES. Well, in social security, as I recall, we have a dual contribution in the form of a tax on the employee and on the employer alike. I think it was the theory of social security that with the employer's assistance, with his contribution, and a contribution from the employee, was a democratic and sound way to finance the social security system.

The CHAIRMAN. The employer can deduct his social security payment as a business expense; the employee cannot deduct it, and approximately 60 to 70 million people are paying social security, many of them in the poorer classes.

Why is it just and proper to allow someone making $25,000 a year—that is the only way you can make your $2,500 deduction—to deduct and deny the privilege to the social security man?

Do you have an opinion on that?

Mr. JONES. I think you have a point.

The CHAIRMAN. This is a serious question the committee must decide if we want to do justice to everyone.

You say you are being discriminated against, and I ask you frankly whether you don't create another discrimination with respect to social security, the civil service, the railroad retirement, none of which are deductible for income tax purposes.

Mr. JONES. Of course the employer—at least in the area that I have been talking about today—while he deducts the employee share, he pays his own social security tax at the same time.

Senator BENNETT. But he pays it at a lower rate than is paid by the combination of the employer and the employee. I can't remember whether it is two-thirds or three-quarters—it is two-thirds, isn't it?

Senator WILLIAMS. It is a lower rate.

Senator BENNETT. He gets the benefit of social security at two-thirds the cost to himself.

The CHAIRMAN. A great mass of social security people are not self-employed and they are not permitted to deduct it for income tax purposes. If this bill is enacted, it would be the first time in history that a beneficiary of a retirement fund is permitted to deduct his contribution from the income tax; is that correct?

Mr. JONES. That is right; I think so.

The CHAIRMAN. So we are establishing a precedent that we should consider very carefully. I am not speaking in opposition to the bill, but I simply want to know all of its implications.

There are 39 million people, so the Treasury testified, that are not yet in retirement systems, except that I imagine that practically all of them get the social security except those possibly who have refused to take it.

Now 7 million of those are self-employed, so the Treasury states. That leaves 32 million that are not taken care of by any kind of deduction of their payments for their own retirement.

I think that poses to the committee a very serious question. I think you will agree with me on that as a matter of fact.

Now the civil service people are not permitted to deduct for purposes of income taxes; the railroad retirement people are not permitted to deduct. And then there are millions of other people who are under no retirement fund except social security. Would you favor permitting deduction of all retirement plan payments?

Mr. JONES. Well——

The CHAIRMAN. As a matter of justice and equity, would you favor that?

Mr. JONES. I think the base of our position is that corporations which are actually a joining of hands of many stockholders simply because they are corporations, as far as I can see, have the privilege of setting up a retirement fund for their employees.

The CHAIRMAN. But that isn't what I asked you. Those payments are made as a business expense, and I am speaking of the payments made under civil service, under the railroad retirement, for social security and like payments that are made by the individual.

Do you believe such payments should be deductible for income tax purposes?

Senator BENNETT. Will the Senator yield?

The CHAIRMAN. Yes.

Senator BENNETT. There are many of these private pension plans set up by corporations that require contributions from the employees, and under those plans the amount the employee contributes is not deductible.

The CHAIRMAN. Is it your position that they should all be deductible? Your organizations have as many social security as——

Mr. JONES. My staff expert on this, I think, might throw some light on this; Mr. McCamant, if you will hear him, a member of my staff who is in charge of this whole area of our operation.

The CHAIRMAN. Identify yourself.

Mr. MCCAMANT. I am William McCamant, and I am director of trade and public relations for the American Retail Federation.

I think we have to consider the self-employed as both an employer and as an employee.

Now in regard to the civil service, the civil service——

The CHAIRMAN. Before you leave that, the self-employed people are under social security.

Mr. MCCAMANT. The self-employed are under social security.

The CHAIRMAN. And they are not permitted to deduct their contributions.

Mr. MCCAMANT. They are not permitted to take their contributions.

The CHAIRMAN. Should this be permitted?

Mr. MCCAMANT. As a matter of equity in their capacity as an employer, maybe they should be.

Senator BENNETT. That was taken care of because they were given the privilege of getting social security benefits for a payment of only two-thirds of the amount that the combination of the corporation and the employee put into the fund.

Mr. MCCAMANT. I think that is true, but I think you might be inferring there that the employed are paying for the retirement benefits of the self-employed under social security.

Senator BENNETT. I am not inferring that. I am suggesting that their dual position has been recognized in social security to the extent that their net cost has been reduced by one-third, which certainly more than offsets whatever tax saving may come to a corporation because it can deduct as a business expense its contribution to social security.

Mr. MCCAMANT. But it is still my understanding it is still self-sustaining as far as the benefits which they receive from it.

The CHAIRMAN. I am not talking about the benefits, I am talking about the payments that are made, and whether such payments should be deductible for income tax purposes.

Mr. MCCAMANT. Well, how, as far as——

The CHAIRMAN. They are two different matters entirely.

Mr. MCCAMANT. Under the present status, the contributions which are made by employees to any pension plan, whether it is civil service or a private pension plan, are taxed. The contributions which the employer makes are not taxed, whether that employer is a private employer or whether that employer is the Federal Government.

Now, the self-employed is both an employer and an employee. There are many other contributions which the employer makes to his employees other than pension plans which are not taxed.

The CHAIRMAN. May I ask you the question again?

Should the self-employed be permitted to deduct his contributions to the social security in his income tax calculation?

Mr. MCCAMANT. Not the contributions that he is making as an employee.

The CHAIRMAN. Under this he is not making them as an employee any more than he is making as an employer.

Mr. MCCAMANT. The self-employed is his own employer.

The CHAIRMAN. Is what?

Mr. MCCAMANT. The self-employed is his own employer.

The CHAIRMAN. Isn't that the classification under social security as in this case?

Mr. MCCAMANT. I believe it is, sir.

The CHAIRMAN. They have the same classification.

Mr. MCCAMANT. I believe it is.

The CHAIRMAN. So I ask you the direct question whether or not a self-employed under social security should have the same privilege as the self-employed under this bill.

Mr. MCCAMANT. Well, we have taken no position on it because evidently we didn't favor it.

The CHAIRMAN. Well is your proposal here just and fair?

Mr. MCCAMANT. I would say——

The CHAIRMAN. Aren't they in the same category?

Mr. MCCAMANT. I would say, giving a personal opinion, no, it is not in the same category.

The CHAIRMAN. Explain why it is different. Both social security and this plan are for the purpose of retirement; they both have the same category and same definition: Who is self-employed.

Tell me why you think one, the well-to-do ones, should be permitted to take it off the income taxes, but the others who are perhaps not so well-to-do should not be permitted to do so.

Mr. MCCAMANT. Senator, I think—I can't examine this question without considering the self-employed as two people, one as an employer, and the other as an employee.

The CHAIRMAN. In this bill the application is the same, isn't it?

Mr. MCCAMANT. That is right.

The CHAIRMAN. What is the difference between the two? What is the difference between the social security self-employed and the self-employed under this bill?

Mr. MCCAMANT. When we studied this bill, Senator, we did not compare this with the pension system set up under social security. We compared it with the pension systems set up by corporations, because the individual proprietorships and partnerships within the retail industry——

The CHAIRMAN. I am not asking you to do that. You are avoiding the question.

I am asking you the simple question that if a self-employed has the same definition under social security as it is under this bill, should one be permitted to deduct and the other not allowed to deduct?

Mr. MCCAMANT. The social security deduction—I really don't know the answer, Senator.

The CHAIRMAN. You have no comment to make?

Mr. MCCAMANT. I have no comment to make on that.

The CHAIRMAN. Take the civil service, should the civil service people be permitted to deduct their contributions to their retirement fund, while self-employed are permitted to do that under this bill?

Mr. MCCAMANT. We are asking for a 10-percent deduction for retirement purposes. The Federal Government contributes 6.5 percent toward the employee's retirement fund.

The CHAIRMAN. And the individual contributes——

Mr. MCCAMANT. The 6.5 percent, also.

The CHAIRMAN. 6.5 percent, the individual.

Mr. MCCAMANT. Now, the 6.5 percent——

The CHAIRMAN. That 6.5 percent compares to the 10 percent that you have in this bill.

Mr. MCCAMANT. But in addition to the 6.5 percent which the Government contributes, the Government also contributes, makes cer-

tain contributions toward other benefits. Some of them have—certain Government agencies would have—health and accident insurance, hospitalization, and so on.

Now, a large retail store which is a corporation would have a pension system. It is true they are making contributions of less than 10 percent. In addition to that they are carrying hospitalization insurance and accident, and other benefits.

Now, these add up, Senator, frequently to 12 to 15 percent of payroll. In other words, there is almost 12 to 15 percent of the benefits which the employee receives under a corporation which are tax free.

Of that, maybe 5, 6, or 7 percent is in pension benefits; the other 6 or 7 percent are in these other fringe benefits.

When we took this figure of 10 percent, we were figuring that this is the self-employed in his capacity as an employer, that his contributions should be tax exempt.

There are many other things that an employer is now able to provide his employees which we are not asking that he have tax exempt. That is, his group hospitalization, his accident, his life insurance policies. There is no provision in this bill to make any tax exemption for those contributions, even though he is now able to provide them for his employees, and the employees benefit from the cost of them that is really adding to the payroll cost is not taxing the employee at all.

The CHAIRMAN. Aren't there a good many insurance policies taken out for the purpose of retirement?

Mr. MCCAMANT. Yes; there are; certainly.

The CHAIRMAN. Of course, those premiums are not deductible.

Mr. MCCAMANT. By individuals they are not deductible. But there are many retirement policies, though, that are paid for by the employer. Those contributions are deductible.

The CHAIRMAN. An individual today wants to take a retirement out for his own benefit by means of an insurance policy, and it is strictly retirement; he cannot deduct that insurance premium from his income.

Mr. MCCAMANT. No, sir.

The CHAIRMAN. Don't misunderstand my questions. It is not an antagonism to this bill. But there are implications and complications of this bill that have not been fully developed by the witnesses who favor it because it deals with only 7 million of the 39 million who have no retirement funds except on social security, and it leaves a field of 32 million.

It seems to me to have some responsibility to those who are not included in this bill.

Am I correct about that?

Mr. MCCAMANT. I think there may be, Senator; yes, sir.

The CHAIRMAN. I think it is a problem you have got to meet. I think the question of retirement is going to be of growing importance in this country. But I don't know whether we could solve it by taking 7 million of 39 million and giving them special treatment.

I would like to have a comment, not now, necessarily, sometime as to what you think about this. You may give it further study.

Mr. MCCAMANT. Well, the pattern of the law is now already set. There are still many millions of employees that are not yet covered by their employers.

Generally, something like this starts with the larger corporations and it works its way down. Each year there are thousands more employees that are coming under pension plans, and I think as time goes on that will continue.

Even this system if it were established, if this bill were passed, not every self-employed would be able to adopt it.

The CHAIRMAN. Senator Bennett made the point that in many corporations plans the individual makes a contribution as well as the corporation.

Mr. MCCAMANT. Yes, sir.

The CHAIRMAN. The corporation takes its part off the income tax because it is supposed to be a business expense.

Mr. MCCAMANT. That is right.

The CHAIRMAN. But the individual would have no opportunity under the law to take his off, although a self-employed person could.

Mr. MCCAMANT. But the trend, however, is for completely employer-financed pension plans.

The CHAIRMAN. What you want is equality for everybody.

Mr. MCCAMANT. That is right.

The CHAIRMAN. You are not asking for special privileges.

Mr. MCCAMANT. That is right, Senator.

The CHAIRMAN. Are there any further questions?

Senator BENNETT. I would just like to raise the same question. I am delighted that this last witness identifies the self-employed as two persons, an employer and an employee.

Is it your contention that he should be allowed, as an employer, the benefit of the retirement rather than as an employee?

Mr. MCCAMANT. He is contributing; he is contributing perhaps in two ways, as an employer and an employee.

Senator BENNETT. I think you are——

Mr. MCCAMANT. Of course, his pension, just as the Government and the civil service employee both contribute, but the benefiting only to the employee, so he is retiring as an employee.

Senator BENNETT. All right.

Then if he is retiring as an employee, don't you believe before we pass this legislation we should seriously consider making it apply to all these employees of the two-hatted man that you identify as the self-employed? Do you think we should permit, to be specific, a small businessman with a staff of 10 people, to take care of himself, and ignore the retirement needs of his 10 employees?

Mr. MCCAMANT. Well, now, Senator, you have already passed a law which permits the employer to take care of his employees, but you don't give him any benefit to take care of himself.

Senator BENNETT. Well, but one of the features of that law is that the employees must all be taken care of on the same basis.

Mr. MCCAMANT. That is right.

Senator BENNETT. And now you have a two-hatted man who is part employee, and you have just said that the benefits come to him as an employee, and you are going to permit him under this law to get benefits as an employee of himself, the employer.

Don't you think in the same legislation we should require that anybody who is going to take advantage of this law—and it is permissive—should have to give the same treatment approximately, or

some comparable treatment to his employees? I recognize that it may not be the same because the conditions are different; but to put it in the simplest terms, do you think we should allow a self-employed who is an employer to take care of himself without at the same time requiring him to take care of the people who work for him on some kind of a comparable basis?

That, to me, is the basic and most fundamental problem we face in this issue. As the chairman has said, while there are 19—and I am getting this figure out of Mr. Gosnell's statement—there are 19 million people now subject to private pension plans. There are still many more millions who are not subject, and there are only 7 million self-employed. Your proposal is that the 7 million self-employed, who themselves are probably employers of more than 7 million, I would guess twice as many, now be allowed to take care of themselves without being under any compulsion to consider the people who work for them.

But in a corporate retirement program, the executives can't take care of themselves without taking care of everybody down the line on an equal basis, and I think that principle must be given serious consideration before we attempt to write this particular legislation. Frankly, I am disappointed that those who come in to propose support of H.R. 10 have either not given this any consideration or have considered it and rejected it, because except for our friend the veterinarian, this is the first witness I have heard come in here and say he is concerned about his employees.

Mr. McCAMANT. I would say, Senator, if you put that provision in there would be many retailers who would inaugurate such a system. There are many who would like to inaugurate a system like that, but because of the tax problems that are involved they have not inaugurated it, and I think many of them would do it.

Now, as far as when it gets down to the thousands of smaller retail stores, where you have the problems of a lot of part-time employment, that raises a problem, but I presume as long as it is nondiscriminatory it still could be used by thousands of retail establishments.

Senator BENNETT. Well, I come back fundamentally to the plea that this bill is necessary to remove a discrimination. I have the fear that in removing one we create another one, or we perpetuate—well, it isn't an existing discrimination because the self-employed employer has no right to deduct his retirement benefits, but cartainly then we create a new one. I would hope that if we proceed with this bill to the point where we are going to recommend it to the Senate, we can develop an amendment which will take into consideration the obligation of the small businessman to his employees. I would be delighted to have somebody come before the committee and suggest such a program and defend it.

Senator WILLIAMS. Will the Senator yield?

Senator BENNETT. Yes.

Senator WILLIAMS. Is it not true under the existing law a self-employed, one of these retail merchants, can set up a retirement system comparable to the corporation's retirement system and deduct it whereby both he and his employees can participate?

Mr. McCAMANT. Yes, he can. He can now.

Senator BENNETT. He can deduct his own——

Mr. MCCAMANT. No, not his own, not for himself. For his employees, yes, sir.

Senator WILLIAMS. Can he not deduct the part that is paid in, can any part of that which is paid in for himself be deducted?

Mr. MCCAMANT. No.

Senator BENNETT. No.

Senator WILLIAMS. You refer to the fact that this would be a tax deferral rather than any tax forgiveness.

You will recognize that there would be some tax forgiveness involved in it even though it is partially a tax deferral, isn't it?

Mr. MCCAMANT. Well, Senator, that may be so, but with tax rates getting higher and higher, I am not sure this money being taxed 20 years from now isn't going to be taxed at a higher rate than it is being taxed today, so I am not sure we can say it is a partial tax forgiveness. I can't look into the future with such optimism.

Senator WILLIAMS. You are not anticipating having a continuous increase in tax rates?

Mr. MCCAMANT. I don't want to be too pessimistic, so perhaps it is best not to give an answer.

Senator WILLIAMS. Generally speaking, this would be paid, the man who is paying $2,500 as a minimum, the maximum would be $25,000, and the general assumption would be that it would be deferred to a period in which his income was lower.

Mr. MCCAMANT. That is right.

Senator WILLIAMS. And, is it not also true it would be deferred to a period in which he would get a $1,200 exemption rather than a $600 exemption?

Senator BENNETT. He might.

Mr. MCCAMANT. I think that is correct. That is probably true; yes.

Senator WILLIAMS. The staff has just advised that you get a total of $2,400 exemption of retirement credit, and I would suggest the staff put a memorandum in at this point as to just what exemption would be available to an individual at retirement age.

(The information referred to is as follows:)

Under subsection (c) of the new section 78 to be added to the Internal Revenue Code amounts received by a self-employed person from a restricted retirement fund or a restricted retirement policy before the individual is 64½ years of age will, in general, be subject to a tax which is 110 percent of the tax which would otherwise be payable. It may be assumed, therefore, that in most cases the recipients of income from these funds or policies will be 65 years old, or more.

Section 151 of the code provides a personal exemption of $600 for each individual under 65 years of age, and an additional exemption of $600 if he is aged 65 or more, and if the individual is married there is an exemption of $1,200 if both spouses are under 65, or $2,400 if both are aged 65 or more. Thus, the tax saving from increased exemptions (assuming the continuation of present tax rates) is at least $120 per year if the self-employed person is single, or if his spouse is not aged 65, and at least $240 per year if he is married and his spouse is also aged 65 or more, when amounts are received from restricted retirement funds or policies.

Ordinarily, there is an additional tax saving of $240 with respect to $1,200 of retirement income. However, section 5(a) of H.R. 10 amends section 37 of the code by providing that this tax credit will not be available with respect to amounts received from a restricted retirement fund or policy.

Mr. McCAMANT. That is with his wife. Whereas now he may have several small children he still may get a $2,400 exemption today, however.

Senator WILLIAMS. As a rule, when a man reached the age of 65 years retirement, he is not usually having too many small children.

Mr. McCAMANT. That is right. But only 50 percent of the people live to be 65, also.

Mr. JONES. Mr. Chairman, I would like to say, particularly in response to Senator Bennett, I think you put your finger on a problem there as to the problem involved.

I was raised in the retail business. I still have an interest in a retail business.

Senator BENNETT. So was I.

Mr. JONES. I don't think that I, as an employer, frankly, would have the nerve, if this law was passed as written, to cover myself or take advantage of the law in this case, without extending it to the employees.

Senator BENNETT. Actually, your employees would never know whether or not you took advantage of it, because it is involved only in your personal income tax return which is not public property.

Mr. JONES. I know, but that is and would be a matter of conscience, sir, so far as I am concerned.

Senator BENNETT. Well, that is interesting, because nobody—as far as I know—has come before the committee pleading for a combination program which would assure benefits to the employees at the same time the self-employed are taken care of.

Mr. JONES. Well, as a self-employed in my retail capacity, as a partner in a business, the thing that strikes me is that if, let's say, a chainstore unit that has a program on this same street, if I wanted to keep good employees I would be looking for a way to give the same benefits to my staff as other employees get in the same manner.

Senator BENNETT. Is it possible for you to tell us how many employees are employed by the 800,000 retail outlets of your association?

Mr. JONES. That would be very difficult to dig that out of the Census of Business, I think, but we will make a try. We are a cross section of the retail industry represented in ARF, which is representative, and whatever figure would show, in a census of business would, I think——

Senator BENNETT. You have no way of knowing how many of your members now have pension plans?

Mr. JONES. No, we do not.

Senator BENNETT. Do you have any idea that very many of them do?

Mr. JONES. We know there is a rising move in that direction that is very substantial.

Senator BENNETT. I recognize that it would be difficult to get that figure, but it is obviously not too many of them if only 19 million employed persons are covered, and since we had 67 million employed now, and that leaves some 49 million, including farm workers, who are not covered.

The CHAIRMAN. Senator Bennett, if you will yield for a moment, the Treasury testified that there are 39 million that are not covered today except by social security.

Senator BENNETT. Yes.

The CHAIRMAN. Of those 39 million, 7 million are self-employed, and 32 million, if this bill were passed, that would have no retirement system for which they could deduct payments for income tax purposes.

Senator BENNETT. I don't know what the Treasury bases its figures on, but there are 67 million people with jobs today according to the Secretary of Labor, and if there are only 19 million covered—and I think I got that figure out of your testimony, didn't I?

Mr. JONES. That is right.

The CHAIRMAN. There may be more than 19.

Senator BENNETT. There may be more than 19.

Mr. JONES. Public service is not in that picture.

The CHAIRMAN. We will ask the Treasury to clarify that question and put it in the record at this point as to how many are under one and how many are self-employed.

(The information referred to follows:)

	Millions
Total number employed	70
Employed not covered by social security	10
Total employed covered by social security	60
Covered jointly by social security and railroad retirement	1
Covered jointly by social security and State and local retirement plans	2
Covered jointly by social security and private pension plans	18
Covered only by social security	39
Employees	32
Self-employed	7

Senator BENNETT. We will get that from the Treasury. The problem and the principle is the same.

Mr. JONES. I think the Office of the Census of Business, they are very effective out there in analyzing their own figures, and I think they would be a very good source of information.

Senator BENNETT. I have no further questions, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

[No response.]

The CHAIRMAN. If not, thank you very much.

Mr. JONES. Thank you, gentlemen.

(The list of association members is as follows:)

NATIONAL ASSOCIATIONS

American Retail Coal Association
Associated Retail Bakers of America
Association of Family Apparel Stores, Inc.
Institute of Distribution, Inc.
Mail Order Association of America
National Appliance and Radio-TV Dealers Association
National Association of Chain Drug Stores
National Association of Music Merchants, Inc.
National Association of Retail Clothiers & Furnishers
National Association of Retail Grocers
National Council on Business Mail, Inc.
National Foundation for Consumer Credit, Inc.
National Industrial Stores Association
National Luggage Dealers Association
National Retail Farm Equipment Association
National Retail Hardware Association
National Retail Tea & Coffee Merchants Association

National Shoe Retailers Association
National Sporting Goods Association
Retail Jewelers of America, Inc.
Retail Paint & Wallpaper Distributors of America, Inc.
Super Market Institute, Inc.
Variety Stores Association, Inc.
Women's Apparel Chains Association, Inc.

STATE ASSOCIATIONS

Alabama Council of Retail Merchants, Inc.
Arizona Federation of Retail Associations
Arkansas Council of Retail Merchants, Inc.
California Retailers Association
Delaware Retailers' Council
Florida State Retailers Association
Georgia Mercantile Association
Idaho Retailers Association, Inc.
Illinois Retail Merchants Association
Associated Retailers of Indiana, Inc.
Iowa Retail Federation, Inc.
Kentucky Merchants Association, Inc.
Maine Merchants Association, Inc.
Maryland Council of Retail Merchants, Inc.
Massachusetts Council of Retail Merchants
Michigan Retailers Association
Minnesota Retail Federation, Inc.
Mississippi Retail Merchants Association
Missouri Retailers Association
Nebraska Federation of Retail Associations, Inc.
Nevada Retail Merchants Association
Retail Merchants' Association of New Jersey
New York State Council of Retail Merchants, Inc.
North Carolina Merchants Association, Inc.
Ohio State Council of Retail Merchants
Oklahoma Retail Merchants Association
Oregon State Retailers' Council
Pennsylvania Retailers' Association, Inc.
Rhode Island Retail Association
Retail Merchants Association of South Dakota
Tennessee Retail Merchants Council
Council of Texas Retailer's Associations
Utah Council of Retailers
Virginia Retail Merchants Association, Inc.
Associated Retailers of Washington
West Virginia Retailers Association, Inc.

(Mr. Jones subsequently submitted the following for the record:)

AMERICAN RETAIL FEDERATION,
Washington, D.C., August 13, 1959.

HON. HARRY F. BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: On July 15, 1959, it was my privilege to testify before the Senate Finance Committee on H.R. 10, the Self-Employed Individuals' Retirement Act. One of the questions received from members of the committee was on a facet which we had never studied in our consideration of H.R. 10, and accordingly I was unable to give an answer satisfactory to the members of the committee.

Question: If the bill were amended to require the self-employed to establish retirement benefits for their employees before they could establish such benefits for themselves, would the American Retail Federation still support the bill? (Note.—This is not a direct quotation taken from the record but does reflect the essence of several questions asked.)

Since the hearings on July 15, the American Retail Federation has made numerous inquiries to the various segments of the retail industry for the pur-

pose of determining the prevailing view on this question. Opinion has been virtually unanimous that the retail industry would still benefit by the bill even though such an amendment were added.

This endorsement is predicated on the assumption that the self-employed in establishing pension plans would be permitted, under Treasury regulations, the same degree of flexibility as is now permitted for corporate enterprises. For example, when establishing retirement systems, corporations may exclude recently hired employees and part-time workers. Because of competition in the labor market, retailers, both incorporated and unincorporated, must meet the increasing demands for supplementary retirement benefits financed by the employer. Enactment of H.R. 10 with the amendment requiring nondiscriminatory benefits for employees would be a great step in the right direction.

May we again call to your attention that 85 percent of all retail establishments are operated as individual proprietorships; further, that these concerns move 50 percent of the commodities sold through retail channels. We believe the present tax structure discriminates against the unincorporated business concerns in favor of the business which is incorporated. The enactment of H.R. 10 with the amendment as suggested by the question from the member of the committee would, we believe, establish the desired equity of treatment.

We trust that this letter may become part of the record and considered by the committee in its deliberations.

Sincerely,

ROWLAND JONES, Jr.

The CHAIRMAN. The next witness is Mr. Richmond Corbett, Chicago Bar Association.

STATEMENT OF RICHMOND CORBETT, CHICAGO BAR ASSOCIATION

Mr. CORBETT. Mr. Chairman and members of the committee, my name is Richmond M. Corbett. I am a trust officer of the Chicago Title & Trust Co. and am in charge of the pension and profit sharing funds administered by our company for employers and unions.

I am here as a representative of the Chicago Bar Association and its special committee on voluntary pension plans for self-employed persons. The Chicago Bar Association, by resolution of its board of managers, has determined that this legislation is only reasonable and fair and should be supported on behalf of its more than 7,000 members. We appreciate the opportunity to express our views to this committee.

I would like to say that I think I can answer a few of the questions that the Senators have put, but I would just like to make our statement first, if I may.

We respectfully request your support of the Smathers-Morton-Keogh-Simpson bill. Although many reasons for its support have been urged upon you, we would like to reemphasize three or four which we think should appeal to you as they do to us.

1. As a matter of fair play, self-employed persons should be entitled to make some tax deduction from earned income for retirement purposes the same as is now permitted for everyone employed by a corporation, including the owner-employees. It is unreasonable that the tax treatment of funds put aside for his retirement should depend upon the manner in which a person earns his living; it is even more unreasonable when the penalty is asserted against the self-employed rather than the employee (or owner) of a corporation which might, because of its size, et cetera, be presumed to afford some greater measure of job security. It seems almost un-American to urge against this obvious injustice that the Government can't stand the loss of tax income. With all the energy (and tax money) that is being ex-

pended by the United States to eliminate injustices in other parts of the world, the perpetuation of such an obvious injustice to a minority at home cannot be justified on the ground that it is necessary in order to finance other worthy objectives of the Government.

2. Granted that revenue considerations are of great importance, it is very unlikely that the Congress would consider the elimination of the tax deductibility now accorded contributions for pensions for corporate officers and employees under section 401 of the Internal Revenue Code, even though such elimination would result in more than a billion dollars of additional taxes. However, our association is convinced that there would be no significant revenue loss if the self-employed retirement bill were passed, at least during the first few years. There is a difference between eligibility for coverage and who is covered; employees are already eligible; more and more are being covered. Self-employed are not eligible until the pending bill is passed.

The first step is to provide a legislative "eligibility for coverage" as was done for employees in the early 1940's. Thousands of plans are adopted each year covering more and more employees. True, not all are covered as yet, but more and more are covered each year. After more than 15 years of discrimination, it is now time to provide a similar legislative vehicle for the self-employed. Not all of them will choose to or be able to be covered. It will probably take many years before the proportion of self-employed who are able to become covered will approach the large proportion of employees covered.

As a matter of fact, it is the view of our association that even if this legislation were passed, the time required to educate the self-employed about the bill and the practical problems in implementing the plans would mean that very few self-employed persons would be taking deductions the first year and that the revenue loss would probably be less than anyone has estimated.

The Income Tax Act in Canada, for example, was passed in 1957. The Minister of Finance estimated the tax loss to be $40 million. Actually, the deposits, although the final figures have not been determined, both as to premiums and trust funds, amounted to somewhat in the range of $20 million. You can't have a $40 million tax loss on total deposits of $20 million.

3. In most fields, a proprietorship or partnership can be turned into a corporation with the former owner(s) of the business becoming the stockholder(s) and the principal official(s) of the new corporation. What he formerly earned as profits he now receives from the corporation as salary and bonus. However, solely by virtue of the change in business form, he is able to utilize the generous provisions of the tax laws to provide handsomely for his retirement through deductible contributions to a pension fund. This has contributed to the proliferation of small corporations and has enabled all those who can earn their livelihood under the corporate form to claim as taxable deduction the sums they put away for retirement. But under the laws of the various States, many professional persons such as architects, lawyers, doctors, et cetera, cannot adopt the corporate form, but must earn their livelihood as sole proprietors or partners.

Unless the Federal tax laws are amended to accord them equal treatment for pension contributions, perhaps they will have recourse to State legislatures for permission to do business under some sort

of a corporate form. While this may seem rather farfetched, you will recall how, several years ago, a number of States passed, and others had bills under consideration, establishing community property rights solely for the purpose of enabling the citizens of such States to enjoy the advantage of split incomes under Federal tax laws.

To remedy this obvious injustice the Federal tax laws were amended to accord to all married persons the benefits of split incomes. The present unjust discrimination taxwise on contributions for pensions as between employed and self-employed persons is no less obvious and no less unfair than was this community property situation. It took State action or threatened State action to accomplish equity here, and perhaps it will again, but it seems strange that a thing so obviously discriminatory cannot be adjusted by direct Federal action rather than through action at the State level.

4. In our opinion, if self-employed persons were accorded equitable tax treatment on funds set aside for their pensions, a large number of proprietors and partnerships would establish pension funds for their firms. As it is, the establishment of a pension plan for a law office is not practical. One purpose of such a plan is to attract and keep good men so that there will be continuity and growth in the firm through the giving of sound legal service. Under the present law, a promising young man would have to forego his future pension rights as an employee in order to become a partner. This might well have the effect of discouraging him from assuming the duties, the larger duties, of a partner.

Under these circumstances, most firms have no pension plans. There would be more of such plans for employees of partnerships if those who become partners could continue to be covered as self-employed persons.

In the employment market for lawyers, the present law puts most law firms at a distinct disadvantage as compared to the legal departments of corporations, as the latter are able to provide substantial pensions to their employed attorneys by means of tax postponed dollars, and such plans continue to be available to employees when the latter attain positions of responsibility equivalent to that of full partnership.

The diminishing number of small proprietary establishments is frequently said to be a cause for concern in this country, and the discrimination in the tax laws could be one of the principal reasons.

In conclusion we would just like to make three points:

(*a*) Discrimination against self-employed persons has existed since 1941; it is high time to remove it.

(*b*) The 10-percent deductible amount, if anything, is on the low, rather than the high side as some people say, when compared with the maximum of 25 percent of compensation that may be deducted for contributions to qualified employee retirement plans on behalf of employees.

(*c*) It is inequitable and almost unconscionable to permit the continued approval of tax-deferred employee retirement plans involving millions of dollars in revenue loss each year while at the same time giving the "loss of revenue" as a reason for not permitting self-employed persons to provide for their retirement security.

Thank you.

The CHAIRMAN. Now, Mr. Corbett, you say this is tax deferment and not tax relief.

What would you think of Congress authorizing the establishment of these pension funds without deduction until retirement?

Mr. CORBETT. On the receipts when who is retired?

The CHAIRMAN. I am suggesting the social security laws.

Mr. CORBETT. The individual participant in a section 401 plan normally is, if he contributes the money to the fund, then he pays a tax on his portion of that contribution. The employer does not.

The CHAIRMAN. I don't think you understand me.

In company or corporation pension plans, the contribution paid by the employee is not deductible.

Mr. CORBETT. Right.

The CHAIRMAN. But when he gets his pension, then he does not pay a tax on that part of it that comes from his contribution.

Mr. CORBETT. On that part of it; that is right.

The CHAIRMAN. Why shouldn't the same thing apply here?

Mr. CORBETT. You have a different situation there. There the man has contributed a certain amount and has been taxed on it. That is in a sense his principal asset and therefore you use that as a possible deductible amount when he receives it after he retires. He is entitled to that one. It is the same as though he put it in a savings account.

The CHAIRMAN. Is that an inequality? You say you want to avoid discrimination.

I am an officer in a corporation and I contribute to a retirement fund. I pay a tax on that. I don't get a tax deduction on it. When I retire, that part of the pension fund that comes from my contributions is not taxable.

Mr. CORBETT. The only part that would really not have been taxed would be whatever you got in the way of interest or increment in the value, wouldn't it, because you had already paid a tax on the amount of money that you contributed.

The CHAIRMAN. Under present law, a self-employed man cannot set up a pension fund.

Mr. CORBETT. I beg your pardon, Senator.

The CHAIRMAN. I mean a self-employed man cannot set up a pension fund such as a corporation can.

Mr. CORBETT. That is right, except that a self-employed—I have a number of cases in connection with Knowles' testimony and the questions asked of him; I have a number of cases that I know of, a number of cases that we administer where a plan was set up by a self-employed employer for his employees, but he cannot participate, but it is qualified under section 401, but he can't participate because it is not a corporation.

Senator WILLIAMS. As I understand it, that is the basis upon which you are recommending the adoption of this bill, the fact that you, or that you as a partner in a law firm, while you can set up a pension plan for your partners—not your partners, but for your employees——

Mr. CORBETT. Employees.

Senator WILLIAMS. And associates and deduct that from the cost to the firm, but you cannot deduct your own. Is that right?

Mr. CORBETT. Right; that is correct.

Senator WILLIAMS. If this bill were amended which would extend to you that same privilege as corporations have whereby you could deduct that, but it carried with it the same provisions that you could not do it unless you at the same time set up one which was all-inclusive for all the members of your firm, all of the employees, would you endorse the bill?

Mr. CORBETT. May I ask this, Senator, in answer to that?

Senator WILLIAMS. I would like to have the answer.

Mr. CORBETT. I don't know. I think probably it is feasible, except I think that is a separate entity, a separate question, and let me just point out why I think it is. If that is what the Congress wants to do, should they not put an impetus on the employers who are not setting up plans?

The reason why there were only 19 million covered now is mostly because the employers, many of whom are corporations—true, maybe they are small corporations—but many of those are corporations, and they have not chosen to set up plans for their employees.

Senator WILLIAMS. But you are not proposing that we make that mandatory that you do it, are you?

Mr. CORBETT. If you want to make it mandatory to the self-employed, why haven't you put the pressure on the employer?

Senator WILLIAMS. We don't.

Now, to a corporation which does not have a plan then there is no benefit.

Mr. CORBETT. There is no benefit, and there is no pressure to have his employees covered.

Senator WILLIAMS. That is right. The discrimination which you refer to, as I understand it, is only directed against those corporations which have established plans for the benefit of their corporate officers, and others, but in order to obtain that benefit they must extend that pension plan coverage on a comparable basis to all the employees of the corporation; is that right?

Mr. CORBETT. That is right, sure, or to some limited group.

Senator WILLIAMS. You want that corrected. If this bill were amended whereby a self-employed merchant or law firm, where you could get it as partners of the law firm, would you endorse the same ground rules whereby you would have to carry these benefits over in a pension plan that would be applicable to all your employees?

Mr. CORBETT. That is really up to the Congress if they want to take that action. I don't think it is quite justified, no.

Senator WILLIAMS. I am asking you, you would not approve it, that is what I am asking.

Mr. CORBETT. I don't think that is the answer to this problem. What I am trying to emphasize that we are trying to make possible is to enable a self-employed to be eligible, to do what the employees can do.

Senator WILLIAMS. This would make it eligible to do what the employees could do, and assuming we made you eligible, whereby you as a partner in a law firm could do everything that a partner or an officer in a corporation could do, extend to you all of these benefits with all of the ground rules which are applicable to corporations, I am asking you this question:

Would you or would you not endorse the bill?

Mr. CORBETT. On behalf of myself, I would say yes. I am not permitted, I don't know what the association would say. On behalf of myself I would think it would be possible.

Senator WILLIAMS. Well, that is what I was asking, whether if you would endorse that that it would only be applicable in instances where it was made, extended to all the employees of the employer.

Mr. CORBETT. Let me ask one thing, or point out one thing: Is it not true that when you look at a law firm or a big self-employed operation of some sort that has to be—that has a number of staff employees, then I can see where that might very easily be justified.

But you take the small operator, the man with one or two shops, maybe the farmer who has just one or two employees, and they are changing from year to year. It is limited as to the amount that he can set aside for that purpose. He will be lucky if he can set aside 10 percent of his income this year, and won't be able to set aside 10 percent of his income next year. If he goes ahead and undertakes a qualified plan that is forced upon him, he is forced to pay money for his employees, many of whom may be temporary, and it will just be a practical problem that may be difficult to work out.

There are many big firms that would gladly do that, and many have done that even though the partners could not be covered.

Senator WILLIAMS. That is all.

Senator BENNETT. Isn't it true that in the present tax law it is possible for a firm like yours to eat your cake and have it, too? You can incorporate, you can then choose to be taxed as a partnership, which is your present tax status, I assume, but in that process you gain the privilege of setting up qualified pension plans and you can then deduct the amount you set aside on an equitable basis for the benefit of the partner-owners of the corporation.

Mr. CORBETT. If a corporation can be used in that type of a situation, a corporation can do those things. A corporation can include its owner-employees.

Senator BENNETT. Yes. But can't it choose, a small corporation, a corporation with a limited number of stockholders, choose to be taxed as a partnership?

Mr. CORBETT. Well, there is a recent decision that upholds that, but there have been very few cases. There are very few that have taken advantage of that, because there are loopholes in the decision, and it is not at all certain that that can be applicable to partnerships.

Senator BENNETT. But the law was changed to make that possible.

Mr. CORBETT. Yes.

Senator BENNETT. So there is that device that can be used now to accomplish, to overcome the problem that you state in your testimony when you say that the present situation discourages promising young lawyers from accepting partnerships. You can incorporate your partnership, you can get the benefit of taxes, you can still be taxed as a partnership.

Mr. CORBETT. You cannot incorporate a law partnership. It is impossible. It is absolutely contrary to all the code of ethics of the American Bar Association. It is not done. There must be the individual responsibility, and there are some——

Senator BENNETT. That is very interesting. Is yours the only profession that prevents or denies to its members the right of incorporation?

Mr. CORBETT. Well, I am not an authority on all of the others. I do know that normally doctors and lawyers and architects do not incorporate.

Senator WILLIAMS. Members of the New York Stock Exchange are not allowed to incorporate. I understand they can be incorporated.

Mr. CORBETT. Maybe some of them can, but lawyers cannot.

Senator BENNETT. That is a decision of your own, that is not based on a situation required by the basic law.

Mr. CORBETT. It is determined by the profession itself.

Senator BENNETT. Yes, that is a decision of the profession itself, and the basic State laws do not deny to partnerships of lawyers the right to incorporate, specifically.

Mr. CORBETT. I do not know of a single case where that has happened any place in the State of Illinois, not a single place, and I don't think it could possibly happen.

Senator BENNETT. The staff says there are some State laws prohibiting the incorporation of doctors. He has no knowledge about lawyers.

Mr. CORBETT. I know in some States there are. But it is just a matter of practice, as far as the lawyers are concerned, they do not do it. There must be that individual responsibility.

Senator BENNETT. But as far as the self-employed businessmen who have been represented here by other witnesses, that device is available to them.

Mr. CORBETT. If he wants to incorporate, sure.

Senator BENNETT. And then be taxed as a partnership.

Mr. CORBETT. And be taxed as a partnership? No, he would be taxed as a corporation.

Senator BENNETT. If there are a limited number of stockholders he may choose to be taxed as a partnership, and if he is taxed as a partnership he does not pay the 52-percent corporate tax, the total income of the corporation is divided equitably between the partner-stockholders and they are taxed as though they were still partners rather than members of a corporation.

Mr. CORBETT. It is possible, but in many cases it would not do any particular good. They might just as well operate as a corporation.

Senator BENNETT. That is true.

Mr. CORBETT. The net result is about the same.

Senator BENNETT. The point I am trying to make is that it does open the door to permit the self-employed partners to deduct, to set up a pension plan and deduct the contributions for their own income.

Mr. CORBETT. And that, of course, does not apply to the individual practitioner, of which there are many millions.

Senator BENNETT. That is right. I won't say that categorically. An individual can incorporate himself.

The CHAIRMAN. Are there any further questions?

(No response.)

The CHAIRMAN. Thank you very much, Mr. Corbett. Do you desire to make a further statement?

Mr. CORBETT. I would just like to make a few additional comments. There are some cases where it is impossible for a partnership to incorporate and take the advantage that there might be under this new

law that you are talking about. Actually, the partnership can perhaps take advantage of that in certain cases, certainly not in the law profession and not in others where it is either opposed to —where it is either contrary to State law or contrary to the ethics of the profession.

But in this case here we are just asking for the self-employed to be able to have the opportunity to do for himself what has already been made possible by law for the employer to do for the employee, and for the various Government agencies to do for the employee.

Here is just an opportunity for the man to do the same thing and over a period of years he will finally, there will finally be just as many self-employed that will participate in this program as there are those who are employees, and it is a definite trend, the door should be opened to them so they could have that possibility of tax deductibility for providing for their own retirement, and not retirement at the hands of the Government.

The social security is just a basic coverage for employees, and for self-employed, too. It is a floor of protection, and that is all it ever should be or can be. But give them an opportunity to accumulate, for their own future, funds that they set aside themselves which they will pay a tax on eventually, but let them have the benefit of putting aside a few dollars to make available their own retirement security.

Thank you very much.

Senator WILLIAMS. Mr. Corbett, just one question: Earlier in answer to a question I understood you to say that as an individual you would endorse the bill even though it were amended to make it mandatory that you would have to extend the pension benefits to all of the employees of a partnership.

Now, I understood you to say you could not speak on behalf of the Chicago Bar Association.

Mr. CORBETT. That is right.

Senator WILLIAMS. Would you furnish to the committee a memorandum as to whether or not the Bar Association of Chicago would endorse the bill if it were made mandatory in the same way?

Mr. CORBETT. I would be glad to, but may I just make one further comment? If you are going to put compulsion on the self-employed shouldn't you also put it on the employer?

Senator BENNETT. Well, the compulsion is on the employer now.

Mr. CORBETT. Not to start plans.

Senator BENNETT. I know, but we are not putting compulsion on the self-employed to start plans. We are putting him in the same position the corporation is now in, and simply saying you are going to start it for yourself, you must treat everybody in the group alike. That is true for corporations today. If the executives of a corporation decide they would like to have a pension plan which would benefit them, they may not have that unless it also benefits the other employees.

Mr. CORBETT. That would affect only a small number of the self-employed, because many of them are individual practitioners and have no employees to speak of.

Senator WILLIAMS. Then they would not be affected, and would have the benefit of the plan. If they have no employee, there is none put under it.

Mr. CORBETT. Thank you for the privilege.

The CHAIRMAN. Thank you very much for your testimony.
(The information referred to is as follows:)

THE CHICAGO BAR ASSOCIATION,
Chicago, Ill., July 20, 1959.

Re self-employed persons' retirement bill.
Hon. HARRY BYRD,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D.C.

DEAR SIR: We wish to thank you for permitting the Chicago Bar Association to express its views on H.R. 10 to your committee through Mr. Richmond M. Corbett of our association, who appeared as a witness last week.

It is my understanding that your committee, and Senator Bennett particularly, desires to know whether this association would support the bill if it required self-employed persons to establish some sort of a plan for their employees before they could take advantage of the provisions and benefits of the self-employed persons' retirement bill.

The Chicago Bar Association's committee on this subject proposes to have a meeting later this week to discuss this matter and we will notify you of any definitive conclusions on this question which may be reached by the association.

You may desire to hold the record open, pending the receipt of an answer to the question asked of our association by Mr. Bennett and your committee.

Very truly yours,

MAX E. MEYER,
Chairman, Special Committee on Self-Employed Persons' Retirement Bill.

CC: Hon. Wallace F. Bennett, Senate Finance Committee, Senate Office Building, Washington, D.C.

The CHAIRMAN. The next witness is Mr. Sanford Green, National Council of Salesmen's Organizations.

Mr. Green, proceed, sir.

STATEMENT OF SANFORD GREEN, GENERAL COUNSEL, NATIONAL COUNCIL OF SALESMEN'S ORGANIZATIONS

Mr. GREEN. Mr. Chairman, and gentlemen, my name is Sanford Green. I am the general counsel to the National Council of Salesmen's Organizations.

The National Council of Salesmen's Organizations is a nonprofit salesmen's organization duly organized under the laws of the State of New York. It is the parent body of 25 wholesale salesmen's groups and clubs located throughout the United States. The members of its constituent organizations sell the goods of our Nation's factories ranging from paint and furniture through toys, candy, apparel, et cetera.

I should like to insert for the record a complete list of our member organizations.

As the voice of these salesmen's organizations, the national council is pleased to go on record before this committee as favoring the enactment into law of H.R. 10. While our organization previously had some reservation with regard to the fact that the pensionless employee group is not included within the scope of the bill before the committee, we nevertheless believe that H.R. 10 is an important step in the direction of eliminating at least one glaring inequity in the Internal Revenue Code with relation to the deferment of the tax on a limited amount of income which may be set aside for the purpose of establishing individual retirement plans.

Our organization, from the very outset, has been in favor of the fair tax principle embodied in the legislation proposed. The whole-

sale salesmen of America, in particular, are in great need of the tax deferment privilege which the bill would grant to the self-employed. These salesmen are key factors in our ever-expanding economy. The bill would be a great incentive to the self-employed salesmen to set aside a portion of earnings for future security. In doing so, many younger men would be encouraged to make selling their life vocation.

The vast majority of wholesale salesmen are commission men required to pay their own expenses of travel and doing business entirely from their commission earnings. For them, H.R. 10, and the tax incentive contained therein, is a vital necessity. Without it, the vast majority of these salesmen are in no financial position to set aside sufficient funds to provide for future retirement.

Accordingly, our organization urges the favorable recommendation by this committee of H.R. 10 and, in doing so, expresses the hope that, with the bill enacted into law, we shall soon be on our way toward a uniform tax system which will grant the same benefits to all groups of taxpayers.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Green.

Are there any questions?

(No response.)

The CHAIRMAN. Thank you very much, Mr. Green.

(The list of council members is as follows:)

MEMBER ORGANIZATIONS OF NATIONAL COUNCIL OF SALESMEN'S ORGANIZATIONS, INC.

Boot & Shoe Travelers' Association of New York, Inc.
Connecticut Paint Salesmen's Club, Inc.
Costume Jewelry Salesmen's Association, Inc.
Empire State Furniture Manufacturers' Representatives, Inc.
Fabric Salesmen's Association of Boston, Inc.
Far Western Travelers Association, Inc.
Furniture Manufacturers' Representatives of New Jersey, Inc.
Furniture Manufacturers' Representatives of New York, Inc.
Handbag Supply Salesmen's Association, Inc.
Infants' & Children's Wear Salesmen's Guild, Inc.
Infants' Furniture Representatives Association of Greater New York.
Luggage & Leather Goods Salesmen's Association of America, Inc.
Maryland Wholesales Furniture Salesmen's Association
Men's Apparel Guild of Wholesale Salesmen, Inc.
Middle Atlantic Shoe Travelers' Association, Inc.
National Handbag & Accessories Salesmen's Association, Inc.
New Jersey Paint Travelers' Association, Inc.
New York Candy Club, Inc.
New York Corset Club, Inc.
New York Paint Travelers, Inc.
Philadelphia Manufacturers Representatives Association
Piece Goods Salesmen's Association, Inc.
Sales Representatives, Association, Inc.
Toy Knights of America
Underwear-Negligee Associates, Inc.

Mr. KEOGH. Mr. Chairman, may I make bold to address the committee?

I am Eugene Keogh. I do appreciate the considerable——

The CHAIRMAN. The committee welcomes you.

Mr. KEOGH. Thank you very much, sir. Welcome favorably. My information is that the committee will find it necessary to devote

at least another day to conclude the list of the witnesses who have requested to be heard.

I wonder if it would be good enough to add my name to the bottom of that list, so that I might, in my feeble way, attempt to answer many of the questions that have been raised.

The CHAIRMAN. We will be glad to do so, Congressman. You have already made one appearance, but we would like to have you again.

Mr. KEOGH. This would be in the nature of a rebuttal.

Thank you very much.

The CHAIRMAN. We hope you will answer the questions that have been propounded by the Senators.

Mr. KEOGH. Thank you very much. I will do my best.

The CHAIRMAN. The hearing is adjourned, subject to call.

(Whereupon, at 12 noon, the committee adjourned, subject to the call of the Chair.)

SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1959

TUESDAY, AUGUST 11, 1959

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:15 a.m., in room 2221, New Senate Office Building, Senatory Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Frear, Smathers, Anderson, Douglas, Gore, Carlson, and Cotton.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

We are honored today to have Senator Moss, U.S. Senator from Utah. We are very glad to have you, sir; please proceed.

STATEMENT OF HON. FRANK E. MOSS, U.S. SENATOR FROM THE STATE OF UTAH

Senator Moss. Thank you, Mr. Chairman.

I appreciate this opportunity to appear and testify in support of H.R. 10, the Self-Employed Individuals' Retirement Act of 1959.

On June 17 of this year, Mr. David A. Lindsay, Assistant to the Secretary of the Treasury, appeared before this distinguished committee. As spokesman for the major opponent of this legislation, he said:

> The Treasury recognizes that present law does not give self-employed persons tax treatment for their retirement savings comparable to that now accorded to employees covered by employer-financed pension plans.

In view of this statement, I don't believe it is necessary for me or other proponents of this legislation to waste your valuable time discussing whether or not an inequity exists. The Treasury Department admits it.

The people of Utah are greatly concerned about this situation, and many of them, representing an excellent cross section of the self-employed farm folks, small retailers, lawyers, dentists, doctors, and others, have written me on numerous occasions urging the enactment of H.R. 10.

Naturally, they have given a lot of thought to their old age, and the vast majority of them say that they have nothing other than OASI to live on once they retire. They can't understand why they are being penalized because they are self-employed and do not work for a corporation.

Gentlemen, with but few exceptions, these are the "average" people of my State, the middle-income group often referred to as the backbone of this great country of ours.

I am concerned about this inequity and I believe that the majority of our colleagues feel it is time to remedy it.

H.R. 10 was first introduced in 1951 and has been before the Congress for 8 years. It has always had bipartisan support from Members who feel that enactment of the bill is the best way to deal with this unfair situation.

While the Treasury Department has advanced a number of objections to the bill, their major argument is the one generally offered when all others have failed—"let's wait until the budgetary situation is more favorable for tax reduction." As part of this reasoning, they emphasize a revenue loss of $365 million, which to the best of my knowledge they are unable to substantiate. Because of my constituents' interest in this legislation, I have read a good part of the hearings on this bill and am inclined to feel that the maximum impact would not exceed $100 million the first year.

Gentlemen, I am very definitely interested in keeping our economy in a healthy state, as are all the Members of this Congress. Surely the effect of the tax loss in the case of H.R. 10 is small compared with the favorable effect it will have on the 10 million self-employed of this country.

These people are not asking local, State, or Federal governments to take care of them in their retired years. They are asking simply for a postponement of tax liability so that they may be able to set something aside for their old age. They are willing to put up the money when they are able to spare it from the demands of their business. All they are asking of us, the Congress of the United States, is that we offer them the same tax consideration that 18 million corporate employees are receiving, so that they can provide for themselves.

In my opinion, it is imperative that H.R. 10 be enacted in this 86th Congress.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Moss. It is a pleasure to have you.

Are there any questions?

(No response.)

The CHAIRMAN. Thank you, sir.

Senator Moss. Thank you, sir.

The CHAIRMAN. The next witness is Mr. Harry A. Dower, of Perkin, Twining & Dower.

STATEMENT OF HARRY A. DOWER

Mr. DOWER. Mr. Chairman and members of the committee, I speak for myself. While I am a member of the American Bar Association, the Pennsylvania Bar Association, and the Lehigh County Bar Association, I am not here as a spokesman for any of them. No one sent me here. I volunteered to come, and came at my own expense. What I have to say is unprompted by any organization to which I belong, or any client that I represent. Unlike you, I have no constituents, no pressure groups, no governmental agency, and no political party urg-

ing me to act one way or another on this measure. The thoughts I express are my own and my statement has been prepared by me alone. I shall gain nothing from this except the benefits which I hope will flow from the adoption of this bill. Nonetheless, I believe I express the sentiments of millions of persons like me—self-employed individuals.

I am a lawyer, with two partners. We think of ourselves as country lawyers. We practice law in Allentown, Pa., a city of a little more than 110,000 people. We number among our clients people from nearly all walks of life: small businessmen, farmers, housewives, doctors, dentists, other lawyers, labor leaders, builders, plumbers—in short, people for whom the general practice of law is conducted. Many of our clients, frequently on our advice, conduct their business affairs in corporate form. For others, this is too cumbersome and too expensive a way to operate. The doctors and dentists, like us lawyers, are prohibited by law from doing so. Yet every one of our clients who conducts his business in the corporate form, as distinguished from the self-employed individual, can have the tax benefits of retirement plans, group insurance plans, sick-pay plans, widow's benefit plans, and a host of welfare and benefit plans. In addition, their distant cousins in the giant national corporations can have the benefits of restricted stock option plans (which have no practical application in the small closed corporation). But the man who stands alone, or the professional person not allowed to incorporate, has none of these.

Why this discrimination? Are our activities less morally and socially acceptable? No, I have never heard that suggested. Are we better able to prepare for retirement than employed persons? To anyone who suggests that I say, "Nonsense." Our expenses of operating our businesses or professions are just as high as anyone else's: We pay employees and buy our supplies or materials at the same price as anyone else. The cost of maintaining our families and educating our children is as high to us as it is to the employed person—and in many cases higher because we have no health and welfare plans to assist us.

Does the Treasury Department assert that it cannot afford the loss of tax revenue if H.R. 10 is adopted? I don't doubt for a moment that there will be a loss. But I don't hear anyone working for the Treasury suggesting that he lose the tax benefits of his pension plan. Further, the estimate of the loss of revenue from the adoption of H.R. 10 is a measure of the discrimination against us. If the burden of taxation is to fall fairly on all of us, and if the Treasury should lose $350 million in revenue through the adoption of the bill, then we self-employed persons are now paying $350 million too much in taxes.

I am not here to suggest that the tax benefits of all pensions be eliminated. I personally have observed the great social necessity and utility of pension plans, since a large part of my practice is devoted to this work. In many cases the plans would not or could not have been adopted without the favorable tax treatment accorded them under the existing provisions of the Internal Revenue Code. Everything that can be said in favor of pension plans for employed persons applies with equal force to self-employed persons. Our desires and needs for security in old age are just as strong and urgent as those of employed persons. Yet under existing tax law we pay a penalty for being self-employed if we try to prepare for retirement. I can

find no logical, ethical, moral, political, or practical justification for this discrimination. This disturbs me, and I hold this situation is unworthy of a democratic society.

H.R. 10 is a modest bill. The limitation on the annual and lifetime contributions which can be made to the restricted retirement annuity or fund is certainly not excessive and is not imposed on contributions to pension plans for employed persons. (I am informed that a stockholder's resolution to limit the pensions of persons employed by American Telephone & Telegraph Co. to $25,000 per year was recently defeated. There will be no $25,000 per year pensions under H.R. 10.) Restrictions on the investments of the contributions will prevent any abuses, real or fanciful, on the application of the funds. Basically, all that H.R. 10 will permit is to defer the payment of income taxes on earned income to a period in a taxpayer's lifetime when most of his family and social obligations, through the passage of time, will have otherwise been met. Existing tax law permits this for employed persons. Now permit it for us.

The CHAIRMAN. Thank you very much, Mr. Dower.

The next witness, then, will be Mr. Richard Taliaferro, of Investment Counsel Association of America, Inc.

Please proceed.

STATEMENT OF RICHARD N. TALIAFERRO, APPEARING ON BEHALF OF THE INVESTMENT COUNSEL ASSOCIATION OF AMERICA, INC.

Mr. TALIAFERRO. Mr. Chairman, I appreciate the opportunity to appear before your committee.

My name is Richard N. Taliaferro. I am a member of the firm of Loomis, Sayles & Co. of Washington, D.C. My firm is a member of the Investment Counsel Association of America, Inc., and I am on the legislation committee of that association. I am appearing today on behalf of the association. The association which I represent has member firms in various sections of the country.

At the outset, I wish to state that the association endorses the objectives of H.R. 10 to provide a means for self-employed individuals to make provision for their security in later life when there is a decline in their earning capacity.

The members of the association render investment counseling service to clients for a fee. In rendering this service we keep in mind that the aims of an investment counseling firm must be identical with those of the client. Our sole business income is derived from the fees we receive from our clients. We do not receive commissions of any kind from the purchase or sale of securities. Our fee is based upon the current value of the client's principal and not on income.

Accordingly, we gain no financial advantage by maintaining a high rate of income in a client's invested funds during those periods when safety should be the first consideration. Nor does the number of changes in investments which we recommend have any bearing on our fee. It has never been the practice of any investment counseling firm to take custody of a client's securities or cash. A client's relationship with his bank and broker is in no way affected by retaining one of our firms as his investment counsel.

We believe that we are qualified to protect our clients' investments by reason of many years of experience which is implemented by a

staff of qualified personnel who constantly review each client's financial needs from the standpoint of his individual requirements. The continued growth in the number of investment counseling firms throughout the country is the best evidence which we can submit of the place which we believe such advice has in the sound planning of individuals for their future.

To save the committee time, I would like to leave with the committee a short comment on the investment counseling work.

The CHAIRMAN. Thank you. It will be made a part of the official files of the committee.

Mr. TALIAFERRO. While we endorse the objectives of H.R. 10, the purpose of my appearance here is to offer a minor amendment which is administrative in nature.

Among the conditions proposed in H.R. 10 for qualification of a retirement plan is the rule in section 405(c)(1) which requires that the trustee of a retirement plan shall be a bank, as defined in section 581 of the Internal Revenue Code. Such a provision, without more, might be interpreted to imply that the exclusive power to select investments and reinvestments of the trust corpus must necessarily belong to the bank.

Earlier versions of H.R. 10 permitted retirement plan assets to be placed in a restricted custody account. Under this arrangement it was clear that the self-employed individual could exercise his own investment judgment or select investment management of his own choice.

The accompanying committee report does not explain why a bank must act as trustee. Assistant to the Secretary of the Treasury David A. Lindsay, in a letter to the Honorable Wilbur D. Mills, chairman of the Committee on Ways and Means, dated February 16, 1959, states that this requirement "would help to prevent abuses" but indicates that the Department would be willing to relax this requirement where trust investments are limited to obligations of the United States and shares in regulated investment companies.

The nature of these potential abuses is unexplained, but it appears reasonable to assume that the Department desires that the retirement plan trust be clearly separate and apart from an individual's other assets. We have no objection to the inclusion of appropriate rules to protect the revenue. The association submits that the revenue can be adequately protected by requiring that the corpus and income of a retirement plan trust be placed in the custody of a bank, without the formal requirement that the bank act in the capacity of trustee. Such a custodial arrangement could be supplemented by statutory provisions giving the Treasury Department regulatory power to require such reports concerning withdrawals of the funds, or other dealings therewith, as it considers appropriate.

If, however, the Treasury adheres to its position that a bank must act in the capacity of trustee of these retirement plans (with the exception for certain investments noted above), and if this committee accepts this Treasury view, it is further submitted that it would not be inconsistent with any rule safeguarding the revenue now contained in the bill to amend the bill so that participants in retirement plans may have the benefit of outside advice, if they so desire, notwithstanding the fact that a bank is acting as trustee. Thus, the bank will

continue to exercise the trustee's power and duty to take, segregate, and keep physical possession of the assets for certain well-defined purposes.

Control of investments of a trust is frequently lodged with, or shared with, cotrustees, trust advisers, or grantors of the trust. Accordingly, it would, at least be desirable to amend the rules of section 405(c)(1) to make it clear that such persons can continue to perform this function under the present version of H.R. 10.

It is possible to interpret present section 405 as preventing an individual, or group of individuals, establishing a retirement plan from using their own investment judgment, or from obtaining independent advice with respect to investments. Accordingly, it is respectfully requested that the bill be amended so that it is made clear that the opportunity for investment advice from these sources is not denied—within, of course, the limitations on investments contained in section 405(c)(3).

The amendment offered by the association which I represent assumes that there will be no change in the Treasury position and acceptance of this position by this committee. Under these circumstances, the language of the bill should be clarified to make certain that outside investment advice can nonetheless be obtained. The amendment is intended to accomplish this result by (1) stating that it is not necessary under the trust instrument that the bank exercise the fiduciary power to control investments and (2) clarifying the language of proposed section 405(c)(3), without changing its substance, to remove any inference that it is the trustee who necessarily controls the investments. The particular language which we suggest to accomplish this result is set forth on a page which I request be included in the record at the end of my statement.

The CHAIRMAN. Without objection.

(The amendment referred to follows:)

AMENDMENT TO H.R. 10, OFFERED BY THE INVESTMENT COUNSEL ASSOCIATION OF AMERICA, INC.

It is respectfully requested that subsection (c) of section 405, to be added to the Internal Revenue Code by section 4 of H.R. 10, be amended as follows:

(a) By striking paragraph (1) and by substituting in lieu thereof the following—

"(1) TRUSTEE MUST BE BANK.—The trustee is a bank (as defined in section 581), provided, however, that the power to control investment and reinvestment of the trust funds may be confined to the trustee, or may be shared, delegated, or otherwise controlled as the trust instrument shall provide."

(b) By striking in paragraph (3) all before subparagraph (A) and by inserting in lieu thereof the following—

"(3) PERMISSIBLE INVESTMENTS.—Under the trust instrument, the corpus or income of the trust may not be invested or reinvested other than in—."

Mr. TALIAFERRO. Thank you.

The CHAIRMAN. Thank you very much.

Are there any questions?

(No response.)

The CHAIRMAN. Thank you very much.

The next witness is a very good friend of mine, Mr. Marcellus Wright, Jr., of the American Institute of Architects.

Mr. Wright, will you come forward?

STATEMENT OF MARCELLUS WRIGHT, JR., APPEARING ON BEHALF OF THE AMERICAN INSTITUTE OF ARCHITECTS

Mr. WRIGHT. Thank you, Senator, for the introduction and the opportunity.

Gentlemen, my name is Marcellus Wright, Jr. I am a practicing architect with offices at 100 East Main Street, Richmond, Va. I am here today as the representative of the American Institute of Architects.

The AIA is the national organization of the architectural profession in the United States. Its 130 chapters and 11 statewide organizations are located in 49 States. With a membership of 13,000 registered architects, the institute represents the majority of the practicing architects in the Nation and is qualified to speak in behalf of the profession.

As a practitioner, and an employer, as well as a recent member of the board of directors of the institute, I am particularly well fortified to speak from personal experience and also from wide knowledge of the plight of my colleagues in the architectural profession.

We find it possible through appropriate and entirely proper laws, already enacted, to help our employed personnel to protection against the economic and physical ill winds through group hospitalization insurance, workmen's compensation insurance, accident insurance, group life insurance, and even loss-of-income insurance. All of these well conceived devices, including long-range pension plans, may be paid and often are paid by the employer and are deductible proper expense items in the operation of a professional office.

Obviously all these plans are not currently in existence in all architect's offices. To a large degree architecture is still a very personal service and recent surveys have indicated that the multitude of small offices spread throughout the country average only five persons.

Pension plans for very small groups of employees are still difficult to obtain, but our great national organization which has provided the means through which group life, group accident and group income protection plans for our employees have been provided is presently exploring means of obtaining for these many small offices an available pension plan for employees. Our insurance advisors report that a great and essential encouragement and an incentive to the successful implementation of any such plan would be some means of covering the employer.

The chairman of our committee on professional insurance, Mr. Harry D. Payne, of Houston, Tex., offers the pertinent observation that:

> This is one of those vicious circles; wherein we find a chink in our armor because there is not a current pension plan for architects and employees of architectural offices, and our committee encounters difficulties in the way of initiating such a plan or plans due to the lack of a favorable climate such as would be induced where the Keogh-Simpson bill in effect.

This favorable climate plus the normal course of interoffice competition for the best talent would soon spread this supplemental pension plan coverage to a vast group of persons not presently on a par with their counterparts who are employed by corporations.

If an architect could operate as a corporation he could include himself and his partners under many of these desirable and often necessary umbrellas against misfortune. It is a rare case when he can, due to the many existing statutes prohibiting corporate practice of a profession. So, the self-employed professional finds himself without any such natural shields except as he may be able to provide for same from his net residue after all his income is taxed at the time of receipt.

The architect's constant need to finance himself with the necessary operating capital for his working resources between his periodic payments and to continue to provide the salaries of his staff, in addition to the previously mentioned aids and assists to his employees, leaves him usually with no reserve to finance his own provisions for pension and other like insurance coverage.

I ask favorable consideration for H.R. 10 in the interest of equity with other taxpaying citizens. We ask no gifts, but only justice through means of income deferment for proper spread and balance.

We thank you for the privilege of being able to present these observations to you today.

The CHAIRMAN. Mr. Wright, thank you very much indeed, sir.

The next witness is Dr. Floyd W. Pillars, of the American Dental Association.

Doctor, will you take a seat, sir?

STATEMENT OF DR. FLOYD W. PILLARS; ACCOMPANIED BY HAL M. CHRISTENSEN, APPEARING ON BEHALF OF THE AMERICAN DENTAL ASSOCIATION

Dr. PILLARS. Mr. Chairman and members of the committee, I am Dr. Floyd W. Pillars, a practicing oral surgeon from Des Moines, Iowa. I am vice chairman of the Council on Legislation of the American Dental Association. With me is Mr. Hal M. Christensen, assistant secretary of the council. In behalf of the American Dental Association, which represents more than 80 percent of the Nation's practicing dentists, I urge this committee to report favorably on H.R. 10.

OBJECTIVE OF H.R. 10 AND S. 1979

H.R. 10 and S. 1979 would give a self-employed individual the right to make yearly deductions of a limited amount of earned income paid into a private retirement plan, in effect deferring the tax on those amounts until a distribution of them would be made from the retirement plan. Generally, the maximum annual deduction would be 10 percent of annual net earnings from self-employment up to a maximum of $2,500.

On regular distributions after age 65, taxable income would be not less than the amount distributed minus deductions for personal exemptions.

ASSOCIATION'S OFFICIAL POSITION

The American Dental Association in 1948 authorized the council on legislation to support Federal legislation directed toward removing income tax inequities imposed upon self-employed groups. Again, in 1954, the association emphatically endorsed the principle contained in

H.R. 10 and S. 1979 as indicated by the following resolution adopted in that year:

Resolved, That the council on legislation be authorized, seek, or support, legislation which, if enacted, will offer to dentists an opportunity to establish a retirement income plan or fund for themselves as individuals under the same tax equities as are now provided for the beneficiaries of company-sponsored plans (transactions, ADA 1954: 263).

The American Dental Association believes strongly that the considerations which led Congress to enact the legislation permitting tax deferments on funds paid into qualified pension plans by employers for the benefit of their employees apply with equal force to the legislation that is before this committee to accord the same tax treatment for similar arrangements made by the self-employed.

There would appear to be no sound reason for encouraging the establishment of pension plans for the employees of business organizations without providing the same encouragement for the establishment of plans for those who employ themselves.

It should be noted that with the country's general advances in living standards, in health care, and in the health sciences, the people are living longer, the segment of the population over age 65 is increasing at a constant rate. This trend will continue and will continue to pose serious problems. Many agencies, both public and private, currently are giving increased attention to these problems and are attempting to devise means of meeting them. In light of this, it would seem prudent and logical to act now to encourage additional people to provide for themselves the security they will need after they have reached retirement age and have lost all or part of their earning power. The substantial number of self-employed people in this country can be given this encouragement through enactment of the retirement incentive plan embodied in H.R. 10 and S. 1979.

It is believed that it would be wholly desirable to take this approach in inducing people to obtain for themselves the financial security they will need for their old age.

IMPORTANCE OF H.R. 10 TO DENTISTS

Approximately 80 percent of the practicing dentists in this country are self-employed. The dental profession, therefore, is greatly affected by those tax policies which discriminate against self-employed persons, particularly the professional practitioner who is a sole proprietor or member of a small partnership. The substantial majority of dentists in this country practice in one of those two ways.

A problem common to most individuals is that of providing a source of income for their later years related to the standard of living set during more productive years. A solution to this problem is not only in the individual's interest but in the interest of our economy as well. Congress has recognized the objective as a worthy one through its enactment of the provisions now contained in sections 401–404 of the Internal Revenue Code of 1954 which provide for the establishment of employee pension plans. The tax benefits in these sections, however, are preferential in that they apply only to employed persons.

The economic difficulties faced by a self-employed dentist in providing for his later years are in many respects more complex than those

encountered by employed persons. The dentist starts on his professional career relatively late in his youth after spending approximately 6 to 8 years in preprofessional and professional study. Thus, the typical dentist is almost 27 years of age when he first enters dental practice and begins to earn income, and he has expended many thousands of dollars in securing his education.

After he has completed his education and started his practice, the dentist's most economically productive years are also the years when his business and family costs are at their peak. At the very outset of his career he must make a very substantial investment in equipment and supplies; the cost of establishing a dental practice ranges from five to fifteen thousand dollars and is met ordinarily by a term financing arrangement which is amortized over several years. These and other costs are, of course, coincident with the high personal living expenses incurred initially in rearing a family, purchasing a home and acquiring the other necessities of life. It is during this period also, when he is relatively young, that the dentist can most advantageously inaugurate a retirement program but it also is the period when it is most difficult economically for him to do so. After he is established, the dentist has not a great many years of high income productivity, after which his earning power diminishes significantly. This cycle of dental income is graphically shown in a study made by the association's bureau of economic research and statistics in 1956. That study, utilizing income figures for 1955, shows that during the first 5 years of practice the average yearly net income of a self-employed dentist before taxes is $8,264; this increases to $11,701 per year during the second 5-year period of his practice. During the years of his greatest financial obligations, from age 35 to 50, the dentist reaches his peak earning capacity. For example, in the 5-year period from age 40 to 44, the average yearly net income of the self-employed dentist before taxes reaches a peak of $14,447. After age 50, his net income diminishes markedly. During the 5-year period from age 60 to 65, the average income is $10,372. Attached to this statement as appendix A is a complete development of this study.

If this cycle of income is viewed against the many financial responsibilities, both professional and personal, faced by a dentist over the course of his career, it can be seen that he has little opportunity under the present tax program to establish a suitable retirement program. Typically, the dentist is seldom encouraged at any stage of his career to allocate funds regularly for his later years. The tax incentives contained in H.R. 10 would enable the self-employed dentist, as sections 401–404 of the existing code have enabled the employed person, to provide adequately for retirement years.

THE SELF-EMPLOYED GROUPS

Experience has shown that the tax policies of the Federal Government can and do accomplish more than the production of needed revenue. Indirectly the taxing policy may encourage the institution or expansion of desirable social measures; the favorable tax treatment of so-called fringe benefits for employed groups is a noteworthy instance. The pension contribution advantages for employed persons under existing law, for example, are being highlighted at this hearing.

Unquestionably the favorably tax treatment of employed groups in the area of fringe benefits was considered a wholesome social and economic step. It might now be appropriate to consider whether the status of self-employed groups should be enhanced in the national interest.

I speak only for the dental profession. But I believe that the learned professions must remain predominantly a self-employed group. The dentist, the physician, the lawyer offer highly personalized services. The typical professional practitioner is devoted first to the interests, the welfare of his patients or clients; his service to them is much more than a job to be done. These and many other characteristics of professional endeavor can best be preserved through the so-called private practice system.

Whether the private practice system for professional endeavor continues to attract persons with the needed qualifications and skills may be a critical question in the near future. This Nation needs engineers, scientists, and teachers. Almost invariably their functions are performed as employees. In the future a great deal of effort will be spent to attract the top students to these pursuits; this is vital to our national interest. But it is from the same class of student that dentistry and medicine must draw their future practitioners.

This committee might well reflect upon the growing difficulty that is foreseen in attracting young, capable people to the self-employed professions. For example, the number of candidates applying for admission to dental schools has been declining at a rate that is beginning to cause concern. There were 6,469 applicants for the 1958 dental class compared with 7,286 in 1957 and 7,376 in 1956. While this decline has not yet resulted in a decrease in the quality of accepted dental students it might have this result if the downward trend continues.

It is believed that one of the reasons for this apparent trend away from selection of one of the other of the self-employed professions as a career is the economic uncertainty involved. There is, of course, no way of determining in advance whether a dentist, for example, establishing his practice, will have sufficient patients to assure him a reasonable income. In some instances he will not, and will have to relocate his practice. Most salaried persons on the other hand not only may be assured a definite income while they are working but usually the company by which they are employed has a plan for income after retirement.

The combination of employment security and the many inducements that are being initiated to attract students to engineering, science, and teaching will unquestionably have an effect upon the recruitment of qualified persons to dentistry and other professional endeavors. The American Dental Association does not, of course, expect this committee to resolve this problem completely. The association does urge the committee to consider the enactment of H.R. 10 not only as a desirable measure to equalize the tax treatment of the self-employed with the employed group, but also as an effective step toward preserving a strong and vital force of self-employed professional practitioners in the national interest.

The American Dental Association is a charter member of the American Thrift Assembly and supports the assembly's position on this legislation.

In behalf of the American Dental Association I wish to thank the committee for the opportunity to present the association's position in support of H.R. 10 and S. 1979.

(The appendix referred to follows:)

APPENDIX A

Average income of dentists by age, 1955

Age	Mean net income	Age	Mean net income
25 to 29	$8,264	55 to 59	$11,452
30 to 34	11,701	60 to 64	10,372
35 to 39	13,624	65 to 69	8,165
40 to 44	14,447	70 to 74	6,979
45 to 49	13,895	75	3,702
50 to 54	12,998		

The CHAIRMAN. Thank you very much, Dr. Pillars.

Are there any questions?

(No response.)

The CHAIRMAN. The next witness is Mr. William C. Renwick, of the American Society of Industrial Designers.

Mr. Renwick, will you please take a seat and proceed?

STATEMENT OF WILLIAM C. RENWICK, APPEARING ON BEHALF OF THE AMERICAN SOCIETY OF INDUSTRIAL DESIGNERS

Mr. RENWICK. Mr. Chairman, and members of the committee, my name is William Renwick. I am a member of the firm of Renwick & Thompson, a small industrial design business in New York. We have a total of five people in the office, including the two partners.

Senator COTTON. Would you speak just a little louder, please?

Mr. RENWICK. Yes, sir.

The American Society of Industrial Designers is made up of 230-some members, most of whom have very small offices, in the neighborhood of three or four people; some of them are one-man offices.

The American Society of Industrial Designers favors the passage of H.R. 10 for many reasons, many of them nonfinancial.

As industrial designers we are not prevented from incorporating by any laws. The thing that prevents many offices from incorporating is, No. 1, the economic advantages are small; and, No. 2, we are in a similar position to the architect in that we have a personal service to render, and we like to feel we are responsible for what we do. We don't want to give anybody the feeling we are trying to duck responsibility so there is a certain reluctance to incorporate.

Senator ANDERSON. What was the first reason again?

Mr. RENWICK. I forgot my first reason.

Senator ANDERSON. Well, you said it has a financial burden of incorporating.

Mr. RENWICK. I am not too familiar with the particulars in that case, but several of our members have looked into the problem of incorporating, and their advisers have told them they are in no posi-

tion to incorporate until making a great deal more money than they are making and have got a more beneficial position in a proprietorship, until they get to a certain tax bracket.

Senator ANDERSON. Are you familiar with some legislation passed a year or two ago that permits——

Mr. RENWICK. Yes; to be taxed as a partnership; yes, sir.

Senator ANDERSON. In which you could have more than 10 partners in one of these small places that employ three or four people?

Mr. RENWICK. No, sir.

Senator ANDERSON. Then why couldn't you incorporate?

Mr. RENWICK. I don't know, sir.

Senator ANDERSON. Don't you think it would be——

Mr. RENWICK. The advice has been from these advisers that even under the partnership taxation provisions it wouldn't be reasonable for these small offices to incorporate. Now, because we are so small, we haven't even looked into it.

This is just a matter of what other people have said, and I am sorry if I am not more familiar with the actual tax provisions.

Senator ANDERSON. I don't understand how you can testify that it is going to be bad if you don't know what it does to you.

Mr. RENWICK. Well, I thought I did, but apparently I don't. I am sorry if I said something that means nothing.

Actually, as I say, the incorporation is conceived of as being not quite in line with the responsibilities of personal service of industrial designers, and the bylaws of the society of the past have frowned upon incorporation in those States where incorporation of professionals such as engineers was not permitted.

However, one of the really important things, as we see it, is that the designer, for security, often does things for the wrong reasons. A young man was in my office a couple of months ago who had lost his job with a consultant designer, and he was all set to go to work as a designer for a large corporation simply for the reason that it would give him a pension. He was not suited, really, for this job, as I saw it, and he was staking the rest of his life as a professional on taking a job for completely the wrong reasons, as I saw them.

Now, I think the most important reason for keeping the self-employed person independent of the security attractions of joining a large corporation, is that the industrial designer particularly, to be most effective, must retain an independence of action.

The reason that manufacturers very often go outside to get people to design their products, even though they know the situation much better than any outside designer is that he is not blinded by the nearness of the problem. He is asked to take the consumers' viewpoint, and it is only by taking the consumers' viewpoint that he designs things intelligently. If he designs them from the company standpoint, they are obviously not going to suit the consumer.

The CHAIRMAN. Any further questions?

(No response.)

The CHAIRMAN. Have you concluded?

Mr. RENWICK. Yes.

The CHAIRMAN. Thank you very much, sir.

Our next witness is Mr. Robert I. Rudolph, chairman, Committee on National Legislation, Commercial Law League of America.

STATEMENT OF ROBERT I. RUDOLPH, CHAIRMAN, COMMITTEE ON NATIONAL LEGISLATION, COMMERCIAL LAW LEAGUE OF AMERICA

Mr. RUDOLPH. Mr. Chairman, and gentlemen of the Finance Committee, my name is Robert I. Rudolph, and I am actively engaged in the practice of law and maintain an office in the Woodward Building, Washington, D.C. I am a member of the bar of the District of Columbia and of the State of Maryland. I have been engaged in the practice of law for about 30 years.

I appear before you on behalf of the Commercial Law League of America, a nonprofit corporation, which was founded in 1895. It is a national organization comprising about 5,000 members and is devoted and engaged in elevating and improving the standards and practice of commercial law. It is dedicated to the maintenance and protection of the free and sound flow of commerce, in the enlargement of national distribution of goods, and in the extension of credit. The highest professional standards of business practices are maintained.

The vast majority of the members of the Commercial Law League of America are self-employed. This organization, by resolution of the board of governors, has endorsed the principles of H.R. 10, and supports the proposed legislation.

Present tax laws are inequitable in that they discriminate in favor of the employed person against the self-employed. Tax laws make no provision for the self-employed similar to the statutory aid to the pension plans for the employed. H.R. 10 would enable the self-employed to obtain tax deferment on savings for old age comparable to the pension shelter granted executives and employees of public and private corporations and associations. Small incorporated businesses now have tax deferred pension plans, and by a recent enactment of tax laws, such corporations having 10 or less stockholders may elect to be taxed upon an individual basis rather than a corporate basis. Thus, the discrimination is further highlighted especially as to the professional self-employed groups.

The bill to encourage voluntary pension plans by self-employed individuals would promote and encourage long-term savings. It will encourage thrift and further promote self-reliance.

Industrial growth required and essential to maintain our prosperity can be financed without inflation only when the supply of long-term savings equals or exceeds capital demands. Since 1950, capital demands for houses, factories, roads and public facilities have been far greater than the savings available for these purposes. Short-term financing has customarily been used, but this has added to inflationary pressures. It is to the best interests of this Nation that individuals be encouraged to save. Long-term savings act as a real deterrent to inflation by assuring a steady and stable growth of capital.

The Government, by its tax laws, is discouraging self-employment and individual self-reliance. By imposing heavy progressive income taxes, and by its failure to make any practical provision by which the self-employed can save money for catastrophic times, and for old age, it is denying a fair opportunity for the self-employed to succeed at their chosen work. Young professional men, by increasing numbers, are seeking employment rather than to try for themselves. For a pro-

gressive, well-rounded society, it is vital to have a large class of self-employed, strong, reliant individuals with initiative, spirit, vision and determination to try and succeed by their own efforts. This is the type which has made America and it is imperative that they receive a fair opportunity.

On behalf of the Commercial Law League of America, and its members, as well as other self-employed individuals and groups, it is respectfully urged that this committee favorably report H.R. 10, or such other legislation of substantially the same provisions so that the inequities which presently exist in our tax laws be corrected.

I am deeply appreciative of the opportunity which this committee has afforded the Commercial Law League of America, through their representative, to appear before you. I wish to thank the committee for the many courtesies and considerations which have been extended to me.

The CHAIRMAN. Thank you, Mr. Rudolph.

Our next witness is Mr. Walter F. Sheble, of Junior Bar Conference of American Bar Association.

Please proceed.

STATEMENT OF WALTER FRANKLIN SHEBLE, APPEARING ON BEHALF OF JUNIOR BAR CONFERENCE, AMERICAN BAR ASSOCIATION

Mr. SHEBLE. Mr. Chairman, and members of the committee, I am Walter Sheble. I am a young attorney, I am self-employed, and share office space in the District of Columbia with another self-employed attorney.

I am presently chairman of the junior bar section of the District of Columbia Bar, and today I have the privilege of representing the Junior Bar Conference of the American Bar Association.

This is an organization representing all the young lawyers under the age of 37.

My statement has been distributed, and I think I would just like to submit it here for the record and make just a few comments on it, if I may.

The CHAIRMAN. Without objection, it will be inserted.

Mr. SHEBLE. Our organization consists of 27,000 young lawyers under the age of 37, the majority of whom, I believe, are self-employed. The remainder work for law firms and, in general, most of them hope that some day they will be self-employed and be partners of law firms.

Actually, there aren't too many of us who can take advantage of this H.R. 10 at the present time. As many of you probably know, the lawyer, the young lawyer particularly—spends a great deal of his extra resources and piles it back into the law business.

However, we certainly hope to reach the stage where we could be able to take advantage of the provisions of this bill, so therefore, it is a financial incentive and an award that we look forward to be able to make use of.

You have heard a great deal about the advantages of corporate practice, and the fact that the fringe benefits and pension and retirement benefits offered to people employed by corporations have

been a great attraction to the self-employees, and has actually drained off some of the self-employed.

This is a true statement. I know from personal experience that 3 years ago the chairman of the Junior Bar of the District of Columbia was an officer for 2 months and he became a corporate employee. This man is a great advocate of the advantages of corporate practice and the pension plans offered by corporations.

There has been, as my statement shows, a decrease in the number of young men entering the practice of law and going to law school. I think it is safe to say that one of the reasons for this is the fact that the corporate practice and the other businesses and professions offer considerably more advantages.

In closing, I certainly—we of the junior bar are very grateful for the time and attention that you put into this legislation. It is not easy legislation, but we believe that at least for us it is good legislation, and that it is good legislation for the country.

If there are any questions that I could answer, I would be glad to do so.

The CHAIRMAN. Thank you very much, Mr. Sheble.

Mr. SHEBLE. Thank you.

(The prepared statement of Mr. Sheble is as follows:)

STATEMENT OF WALTER FRANKLIN SHEBLE, ON BEHALF OF JUNIOR BAR CONFERENCE, AMERICAN BAR ASSOCIATION

I am Walter Sheble, a young lawyer in the general practice of the law, sharing offices with another lawyer here in Washington. I am chairman of the junior bar section of the Bar Association of the District of Columbia.

Today, I am privileged to be before you in support of the Smathers-Keogh-Simpson legislation at the request of the Junior Bar Conference of the American Bar Association.

The Junior Bar Conference is an organization of some 27,000 young lawyers under the age of 37.

The vast majority of us are self-employed. We, like you, have no regular office hours. We work weekends and if we take a vacation, it's without pay. During office hours we represent indigents accused of crimes in the courts when the judges call us.

You know many of us pretty well because we are interested in government and politics and have helped in campaigns for you on all sides of the political fense. Many of us have written to you on this legislation.

Make no mistake about it—we enjoy the practice of the law as young lawyers. However, it's not a rich man's business, and if financial renumeration were the only incentive for us, there would not be many young lawyers. As Mr. Ross L. Malone, president of the American Bar Association, said yesterday, lawyers do not reach their good earning years until they are about 50 years old and until they have passed through a so-called starvation period while they work their way up the professional ladder.

To say that the money returns are small in the early years for a self-employed lawyer should not indicate that we do not respond to financial incentive, because we do. We are probably like any other group of Americans and naturally feel that when it comes to tax laws, we would like to be treated the same.

Obviously, if the Senate Finance Committee does not report this legislation favorably tomorrow or next week, or next month—there will still be young lawyers enjoying their profession and working away in the community and in politics. Not too many of us can take advantage of tax-deferment provisions in these young years, but we look forward to the years to come in which we might set aside some savings under this plan to use after retirement. That prospect is an attractive incentive to sustain us in the lean years.

This legislation is most important in its effect as a counterincentive balanced against the corporate pension plans and other fringe benefits which are so attractive to young people these days. It will help those who are lawyers already

to attract capable and qualified young people into a great profession. This is important to us because the number of those coming into the law practice is diminishing each year. In 1949, when our population was 150 million, there were 13,344 lawyers admitted to the bar, while in 1956, when our population was 167 million there were 9,450 admitted. What is happening?

Part of the story I can tell you from personal experience. Three years ago a very able self-employed young lawyer who had just been elected chairman of our junior bar section here in the District of Columbia and who had a good practice was hired away by a large corporation. He is presently a strong advocate of corporate practice and one of his most compelling arguments is the corporate pension plan. The same thing was repeated last year wih one of our very able committee chairmen. The corporate practice is increasingly difficult to resist because of the security offered by many fringe benefits.

We believe this is good tax legislation—it corrects an inequity now favoring corporate employees. The legislation is not tax evasion, but tax deferment. The funds accumulated do not lie sterile, but are pumped back into the economy by the various custodial institutions. In addition, in our case, it provides a needed incentive to sustain the growth of an important segment of the legal profession and of the community—the independent self-employed lawyer.

The CHAIRMAN. The next witness is Mr. Irwin Karp of the Authors League of America.

Please proceed, Mr. Karp.

STATEMENT OF IRWIN KARP, APPEARING ON BEHALF OF THE AUTHORS LEAGUE OF AMERICA

Mr. KARP. Mr. Chairman, and members of the committee, my name is Irwin Karp. I am counsel to the Authors League of America, an organization of professional writers whose membership includes many of the country's outstanding dramatists and authors.

The Authors League is grateful for the opportunity to submit this statement on behalf of its members, and other authors, who do not write as employees.

We respectfully urge that H.R. 10 be enacted; its provisions would extend to self-employed individuals the tax assistance which they require to provide for their retirement security; assistance which is now unavailable to them because they are "self-employed."

The deferment in taxes, proposed by the bill, would undoubtedly make it possible for large numbers of self-employed persons to invest in retirement plans; for many, the deduction would represent the margin of difference between being able, or unable, to live in modestly comfortable circumstances during retirement.

There is no reason why the deferment should not stimulate the development of retirement savings by self-employed individuals to a degree comparable to that long since reached by employee taxpayers. Its effectiveness as an aid to retirement financing is evidenced by the more than $33 billion now accumulated in retirement funds for millions of employee taxpayers; retirement funds, which have flourished under the aegis of Revenue Code provisions permitting employees to postpone income taxes on compensation paid into the funds for their account.

The retirement problems of self-employed individuals, which the bill's program would help to solve, are identical with those faced by employee taxpayers. "Self-employed," or "employed," an individual's social security benefits will scarcely provide him with enough to live at a bare subsistence level; "self-employed," or "employed," he can only assure additional retirement income if he can save and invest

some of his current earnings in an annuity or retirement fund; and "self-employed," or "employed," this is extremely difficult to accomplish unless taxes are postponed on the income thus invested.

A self-employed person enjoys no advantages in providing for retirement simply because he is self-employed; his lifetime earnings are not necessarily greater and may be the same or even less than those of another doing the same work as an employee. Indeed, there is persuasive evidence that he is, by virtue of his status, at a disadvantage in this area. For example, reporting to the 1959 annual meeting of General Electric Corp., Mr. Robert Paxton, its president, observed:

> The imposing list of benefits I cited does not adequately express the high level of benefits your company's employees enjoy. The value of our benefits is illustrated by the fact that a self-employed man aged 40 and earning $115 a week would have to increase his total weekly earnings by about 35 percent in order to provide himself with take-home pay and benefits equivalent to those your company makes available to an employee of the same age and income. In fact just two items on the list, insurance and pensions, would cost the self-employed man $1,061 annually, compared with $00 a year the General Electric employee pays direct as an addition to the payroll expense the company devotes to these two benefits.

This startling disparity in the cost of pensions and insurance is in large measure the result of the deductions allowed to employers and employees for compensation paid into retirement funds. The disparity would undoubtedly be even greater if the comparison were made between employees, and their self-employed counterparts, at higher executive levels.

Even though opposing the bill, the Treasury conceded to the Ways and Means Committee, that—

> the present law does not give self-employed taxpayers treatment for their retirement savings comparable to that now accorded to employees covered by employer financed pension plans.

In like vein, Representative Byrnes, registering his dissent from that committee's approval of the bill, sympathized with the plight of the self-employed taxpayer who does not possess "the tax advantages" granted to employees and who—

> must finance retirement savings out of income taxed currently, whereas employees, under pension plans, are allowed to postpone payment of the tax on contributions made by the employer until they are received in the form of pension benefits.

These diametrically opposed methods of dealing with the problem of retirement savings depend solely upon the classifications of "self-employed" and "employed"; the difference in treatment has no relation to the needs or financial circumstances of individual taxpayers.

No self-employed taxpayer, no matter how small his income, is aided. But the assistance of tax postponement is available to employees of every rank, in any occupation or profession, and no matter how large their incomes; payments are made into tax-exempt pension funds for the benefit of presidents of corporations as well as the lowest paid employees. Thus, the pension plan of Du Pont & Co. for all employees, including officers, provides for estimated pensions, after 30 years' service, ranging from $1,650 annually for the lowest salaried employee, to $66,000 annually for employees whose salaries average $200,000 a year for a 10-year period.

Opponents of H.R. 10, although conceding that self-employed individuals are not receiving tax assistance comparable to that which has been available to employees, contend that it would be too costly to give them fair and equal treatment; the cost of terminating the discrimination is estimated by the Treasury as $356 million for a full year's operation.

But loss of revenue of itself has never constituted a basis for rejecting or ending other deductions or allowances. Every existing tax advantage, deduction of allowance, has the same effect; some involve revenue losses in amounts far exceeding that projected by the Treasury under this measure——

Senator ANDERSON. Could I go back and ask you what you mean by that sentence: "But loss of revenue by itself has never constituted a basis for rejecting or ending other deductions or allowances"?

Mr. KARP. What I meant, Senator Anderson, is that every tax deduction——

Senator ANDERSON. Do you think this committee keeps the excise taxes on because they like them?

Mr. KARP. No.

Senator ANDERSON. Why don't they take them off?

Mr. KARP. Because the revenue is essential.

Senator ANDERSON. How do you square that with your sentence?

Mr. KARP. Well, I think—I thought my sentence or statement was consistent with the point just made.

The loss of revenue I speak of is the loss occasioned by any deduction which removed from the tax base income that would otherwise be taxable, whether it is a depreciation allowance or personal exemption or anything else.

Senator ANDERSON. Don't they keep from ending the excise taxes because of loss of revenue?

Mr. KARP. Yes.

Senator ANDERSON. Your sentence says——

But loss of revenue by itself has never constituted a basis for rejecting or ending other deductions or allowances.

Mr. KARP. Deductions or allowances, not taxes, Senator. What I was going to convey, apparently not clearly, was the thought that the objection stated by itself that the granting of this deduction by passage of the bill would remove taxable income from current taxation, was an objection that could be as validly applied to any other deduction or exemption now in effect, but that obviously stated only of itself that is not the reason for rejecting it or ending other deductions. It would be the social benefit, the benefit granted or created by the deduction that would also have to be taken into consideration.

Senator ANDERSON. We have a corporate income tax of 50 percent, don't we, that should drop to 47 percent about every year, but have you ever tried the chairman of this committee out on dropping it to 47 percent?

Mr. KARP. No, sir, I never have.

Senator ANDERSON. I may be wrong, but I have a feeling he worries about loss of revenue.

Mr. KARP. I realize that, sir, and I take that as an important consideration.

Senator ANDERSON. Why do you make that statement?

Mr. KARP. I simply say in and of itself, in fact I go on a bit later and try to qualify that.

Senator ANDERSON. How do you square that with this sentence, then?

Mr. KARP. Pardon?

Senator ANDERSON. How do you square that with this sentence, then?

Mr. KARP. I think I can square it by reading the next sentence, if I may, on the next page.

I wasn't being cavalier about $365 million; although my personal experience does not move on that level, I realize that is a lot of money.

Senator ANDERSON. I really have a hunch that the chairman of this committee does occasionally reject certain recommendations because of the loss of revenue. If he doesn't he has me fooled.

Go ahead.

Mr. KARP. Some of these other measures or exemptions involve revenue losses in amounts far exceeding that projected by the Treasury under this measure, and many of these result in absolute losses of revenue rather than the deferment of taxation. Judged by the social benefits involved and the number of taxpayers whose vital needs are affected, this proposed deferment holds its own in comparison with many of these deductions and allowances.

It has been estimated that contributions to employee pension funds, largely tax exempt, exceed $4.5 billion a year (Business Week, Jan. 31, 1959).

With respect to this compensation, otherwise largely taxable, the tax deferment permitted employees accounts for much greater revenue losses. Nonetheless, it is allowed because of the necessary retirement security which it permits for millions of employee taxpayers; the deferment proposed by H.R. 10 is warranted for precisely the same reason.

The risks and pressures of earning one's living independently are ever increasing; at the same time, as the president of General Electric graphically illustrated, the advantages of earning one's living in any profession or occupation—as an employee—increase because of the greater security and safety offered. A major aspect of this security is the opportunity to accumulate substantial retirement reserves in a pension plan, without paying taxes on the contributions.

For example, the Du Pont Co., in March of this year, noted that "the company's pension program, now in its 55th year, is a major factor in attracting and holding a competent employee force"; and the American Telephone & Telegraph Co., explaining recently why a $25,000 limitation should not be placed on pension benefits to individual officers, said:

> Your company must compete with all industry to obtain first-rate leadership. An arbitrary ceiling on officers' pensions would be a definite handicap in getting and keeping men who have the ability to manage business successfully.

Certainly, the Government should not underwrite those who choose to engage in businesses, or follow professions, independently; but it should at least permit them the same opportunity to provide for future security which has long since been available to their fellow taxpayers who work as employees.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator SMATHERS. Mr. Chairman, let me ask just two questions.

Mr. Karp, what is this Authors League? How many people do you represent, for example, how many authors are there in the league, and what are they authors of?

Mr. KARP. Well, Senator Long——

Senator ANDERSON. This is one of the authors of the bill. You want to be very respectful.

Senator SMATHERS. I am not one of the authors, but I have been fortunate in being associated with it.

Mr. KARP. I thought I learned my lesson doing that in court, addressing the judge by the wrong name.

Senator, there are approximately 4,000 authors in the Authors League. They are both dramatists, or they include dramatists, and authors of novels.

Senator SMATHERS. Both what?

Mr. KARP. Dramatists, playwrights.

Senator SMATHERS. Dramatists?

Mr. KARP. And also authors of fiction, nonfiction, history; among the members I might give some indication of the composition of the league.

The president of the Authors League is Moss Hart. Among our officers are Oscar Hammerstein, Rex Stout, Cleveland Amory, S. M. Behrman, Samuel Graton, Allen Reed, Lillian Hellman, John Hersey, Laura Hobson, Helen Howe, John Cain, Howard Lindsay, Frances Lockhart, Elmer Rice, Richard Rodgers, William L. Shirer, Victor Wolfson, and Stanley Young.

Senator SMATHERS. Have they written any articles with respect to this particular proposal?

Mr. KARP. No; they haven't.

Senator SMATHERS. What would you say would be the average income of these authors? Moss Hart and those fellows, they probably make $200,000 a year, and nobody can be too sympathetic with a fellow who makes $200,000 a year. But some of these authors, and a number of them are located in my State, are not doing very well financially.

What would you say would be the average income of these fellows?

Mr. KARP. Well, it is almost impossible to determine that, for one thing, because they are rather secretive and don't like to talk about their income. We have not been able to accumulate many figures, but of the 4,000 I would wager what I hope is a fairly educated guess that about 3,600 or 3,700 of them are not in the category of $200,000 or $50,000, or better than $10,000.

Senator ANDERSON. And doesn't it vary from year to year?

Mr. KARP. It varies considerably.

Senator ANDERSON. One book sells well, and another does not.

Mr. KARP. Which makes the exemption even more important to them. Because when the income does come to them in a big year as the author of a successful play or novel, it comes in in a concentrated period of a few months.

Senator SMATHERS. Have you made any studies as to what age it is that most authors write their best works?

Mr. KARP. I think it varies pretty considerably.

Senator SMATHERS. There is no——

Mr. KARP. No; there are some who write the one great novel at the age of 20, and never write another, and there are some who mature and write continuously throughout their lifetime.

Senator DOUGLAS. Would the Senator yield?

Senator SMATHERS. I would be delighted to yield to another author.

Senator DOUGLAS. Would you suggest a depletion allowance of authors, 27.5 depletion?

Mr. KARP. We did suggest that before the House Ways and Means Committee.

Senator DOUGLAS. You did?

Mr. KARP. Yes, sir.

Senator DOUGLAS. I think if you don't reduce the depletion allowance on gas and oil we should establish it for authors, for prizefighters, for professional sportsmen, or all of those whose skills and wages and earnings diminish as their lives go on.

The CHAIRMAN. Do you think Senators should be included?

Senator DOUGLAS. No; Senators seem to get better with age, Mr. Chairman.

The CHAIRMAN. Many of them get defeated, too.

Senator ANDERSON. Which way did he say that?

Senator SMATHERS. Mr. Karp, you said the "opponents of H.R. 10, although conceding that self-employed individuals are not receiving tax assistance comparable to that which has been available to employees, contend that it would be too costly to give them fair and equal treatment."

I find one of the principal arguments made against this bill is that there would be approximately 31 million employed people who are not now covered by pension programs and probably would not be, and if this particular program were adopted, the opponents are fearful of the charge that you are giving to the self-employed who are as a group usually better off than some of these employees who are not now under pension programs a tax break not applicable to some 31 million who are now employed but who do not come under a retirement program. I find that is the big argument against the pending proposal.

I don't know how valid it is to say that because some people do not get it that is a justification for keeping everybody from obtaining the benefits of retirement programs.

What is your comment on that?

Mr. KARP. Well, Senator, first of all the fact that there is one large segment of the population receiving already while others, including self-employed, are not, is somewhat, I think, of a rebuttal.

Secondly, it would seem to me that there is no reason why it could not be extended to everyone eventually. I doubt that a large element of the population would involve anything like the tax loss that is predicted here, for the simple reason that many people could not afford to take large deductions even if they had the privilege of doing so; so the extension to 31 million more people, or 39 million more people, wouldn't necessarily involve any tremendous costs.

I look at it as a means of supplementing social security, and probably the least costly means of doing it.

The CHAIRMAN. I think the Treasury estimated the costs of $1 billion on the basis of the 39 million who are not under the present system.

Mr. KARP. If it were extended to all, Senator. I had not seen it.

The CHAIRMAN. About $1.4 billion, if I remember correctly.

Senator SMATHERS. Your answer is this, if I understand it: That actually many of the self-employed do not make enough money to exist day by day, and at the same time put aside money for retirement programs; is that correct?

Mr. KARP. That is right.

Senator SMATHERS. And therefore there would not be all of the 8 million people who would actually take advantage of this program; is that correct?

Mr. KARP. Yes.

Senator SMATHERS. Then your other argument is that because these 31 million employed people are not now covered by pension programs you think eventually this should come about by the normal processes and developments of time. That is not in your view sufficient reason to be opposed to the self-employed having a pension program.

Mr. KARP. That is right, Senator.

Senator COTTON. Mr. Chairman.

The CHAIRMAN. Senator Cotton.

Senator COTTON. I am a little interested in asking you about the people you represent. I don't suppose there is any standard, but without talking about topflight authors, tremendously successful, famous authors, or the struggling authors that legend always has living in garrets, but the average of your groups, are they associated in groups or do they all work individually and do they employ aids? In other words, what percentage of them, as a guess, have researchers working for them, have stenographers and dictate their writing, and what extent is it a one-man or one-woman show?

Mr. KARP. I would say the vast proportion are a one-man or one-woman show. They earn their living entirely by their own efforts. Most of them do their own typing. Occasionally when an author has written a long manuscript, a novel play, the actual mechanical work, he may have transcription of the final manuscript and he may send out to a stenographer who does this type of work, but they, by and large, don't have employees, either stenographers, secretaries, or researchers.

Senator COTTON. So in the case of the group you represent, you don't have so much this question of allowing a self-employed person to have a deduction when that person is not providing for group insurance and some other means of taking care of his or her employees.

Mr. KARP. That is correct, sir.

Senator COTTON. Thank you, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

(No response.)

The CHAIRMAN. Thank you very much, Mr. Karp.

Mr. KARP. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness is Mr. S. H. Usry, of Mobile-home Dealers National Association.

Please proceed.

STATEMENT OF S. H. USRY, ACCOMPANIED BY BYRON SORRELL, APPEARING ON BEHALF OF MOBILEHOME DEALERS NATIONAL ASSOCIATION

Mr. USRY. Mr. Chairman, and members of the committee, I have with me Mr. Byron Sorrell of Washington, D.C., who represents our National Mobilehome Dealers Association.

My name is S. H. Usry, and I am engaged in the business of selling mobile homes in Richmond, Va. I am here to testify as a self-employed person as well as testifying on behalf of the Mobilehome Dealers National Association, an organization consisting of approximately 600 mobile-home dealers. The overwhelming majority of these are self-employed persons, that is, they are either proprietors or partners.

H.R. 10 and S. 1979, introduced by Senator Smathers, of Florida, would permit self-employed persons to deduct up to 10 percent of their incomes, but not to exceed $2,500 annually, which money would be required to be invested in certain restricted-type annuity funds.

Under existing law, corporations are permitted to take such deductions of contributions made to pension funds, profit-sharing funds, other deferred-compensation plans, as well as premiums for group life, health, and accident insurance. These are known as the fringe benefits of doing business as a corporation.

The partner or proprietor has none of these so-called fringe benefits. H.R. 10 would give him only one of these.

At the present time, a mobile-home dealer could set up a pension plan for his salesmen, bookkeeper, and secretary. However, for some strange reason, the dealer as a partner or proprietor, is not considered an employee; therefore, he cannot participate in the benefits of such pension plan.

H.R. 10 would remove this discrimination against the self-employed.

Under our present high progressive tax system there is little opportunity for the self-employed to accumulate capital for business expansion, much less retirement. Unless our tax system is rid of these inequities the inevitable trend will be toward the large corporation, concentration of economic power, and the discouragement of small business.

I have read that opposition to H.R. 10 by the Treasury Department is based upon probable loss of revenue. Yet the operation of our present tax law permits the creation of hundreds of corporate pension plans which involve loss in revenue. Also, the Congress last year approved a change in the law to permit partnerships to incorporate, set up a pension plan, and then be taxed as a partnership. Certainly, approval of these pension plans would involve loss in revenue.

Why then does loss in revenue become so all-powerful just because a self-employed person wants to establish a retirement fund with himself as the beneficiary?

If there is an inequity in the tax law—and the Treasury has conceded this point—then we ought to remove the inequity and make up the loss in revenue so that the burden of taxation falls on all equally.

In conclusion I want to state that approval of H.R. 10 would benefit the economy because it would increase real savings. I am

sure you will agree that we must close the dollar gap between the demand for investment and the savings of the American people.

H.R. 10 gives the Congress an opportunity to encourage the self-employed people in regenerating self-reliance, individual enterprise, and thrift, in addition to bolster a sound fiscal program through increased savings, and at the same time correct an inequity against the self-employed businessman.

Thank you very much, gentlemen.

The CHAIRMAN. Thank you, Mr. Usry.

Are there any questions?

(No response.)

The CHAIRMAN. Thank you, sir.

The next witness is Mr. Leonard F. Kiley, of National Association of Plumbing Contractors.

You may proceed.

STATEMENT OF LEONARD F. KILEY, APPEARING ON BEHALF OF NATIONAL ASSOCIATION OF PLUMBING CONTRACTORS

Mr. KILEY. Good morning, gentlemen.

My name is Leonard F. Kiley. I operate a plumbing and heating contracting business at 410 Jefferson Avenue in Salem, Mass., a suburb of Boston.

My business is limited to maintenance and repair work entirely in and about Salem, mostly on residences and small commercial establishments. I have a permanent staff of four people, one of whom is salaried, while three are paid on an hourly wage basis. I also do considerable plumbing work myself, and my wife and I handle the books and the office end of things.

Mine is a family business, which is typical of most plumbing and heating contracting businesses throughout the country. My gross amount of business annually is about $75,000. It is smaller than that of the average plumbing contractor in the United States, who does an annual gross business between $180,000 and $200,000, and employs between 8 and 11 persons. However, my business is quite representative of the typical plumbing and heating contractor in New England.

As a part of my plumbing and heating business, I devote some of my time to our trade association, the National Association of Plumbing Contractors, and my appearance here today is on behalf of my association.

NAPC has about 10,000 members who do about 80 percent of the total volume of plumbing contracting in the United States. Government estimates indicate there are about 80,000 plumbing contractors in the country doing a gross business of $2 billion annually. The vast majority of these contractors are small shops, employing only one or two men. More equitable tax treatment for them and for other self-employed persons, similarly situated, would reflect a great return to the Nation's economy.

There are, as a matter of fact, very few plumbing contractors who would be called big business. NAPC tells me that less than a dozen plumbing contractors employ 500 persons or more, and their opera-

tions are apparently highly seasonal in nature, so that few if any companies have 500 employees on their payrolls all year long.

Our association has 46 State associations and about 390 local affiliated groups. I have been a director of the National Association of Plumbing Contractors representing my region, and at the present time I am chairman of the NAPC Public Relations Committee. It is my belief that the points I wish to make will hold true for substantially all of the 10,000 contractors in our association as well as for all other self-employed small businessmen.

Self-employed people seldom have the same income year in and year out. In some years, especially in a business like mine, a self-employed person will have a very high income. It is not unusual for a plumbing and heating contractor to do twice as much business in one year as he does in another, because of the way business goes in the construction industry. When a contractor's income is up, he is pushed into a higher income tax bracket. When it is down, he goes into a lower bracket, but he can't average out his earnings, so to speak, to avoid the high bracket in his good years.

I realize that a good deal of opposition to S. 1979 and H.R. 10, most of it probably, comes from people who believe the bill would result in a serious loss to the Treasury. However, testimony before your committee has shown that such estimates have greatly exaggerated the possible loss in the years immediately ahead, and I might say that my New England conservatism is not welcome to deficits like everybody else but at the same time I think we should be somewhat considerate of any unfairness that we can rectify that is within our power.

Whatever the effect on the Treasury might be, though, I believe the present situation puts an unfair tax burden on the self-employed man, and penalizes him unfairly in his best years. S. 1979 and H.R. 10 would not get rid of all unfair aspects of taxes, but it would take care of one. In my good years, it would enable me to put funds aside for my retirement. It would provide equality of treatment for retirement income. Funds now are taxed as income before they may be set aside for retirement by the self-employed.

I feel that a measure like S. 1979 and H.R. 10 would help keep people like myself from incorporating to reduce their taxes. I know personally a number of plumbing and heating contractors who could have saved considerable money during the past few years on their income tax by incorporating their businesses. My own business fluctuates considerably from year to year. There are many contractors whose contract business can put them in the 60-percent bracket one year, and whose books show practically no profit the next year, so incorporation is not only a tax savings, it means actual survival in competition.

Now, gentlemen, I would like to quote you just two examples of how typical plumbing contractors have had to react to the existing tax laws.

One is a substantial Chicago contractor, whose business fluctuates from year to year as I have just described. This contractor has now incorporated and his business is running on a much smoother keel than it did before. But what made him incorporate was not this inconsistency in the tax law. It was another inconsistency.

It worked like this:

In Chicago, 85 percent of the plumbing contractors are self-employed. They average about 10 employees each. All these men are covered by a pension plan provided by the contractors, as fringe benefit, under an areawide labor-management agreement. Those employers who are self-employed plumbing contractors cannot provide similar protection for themselves except out of their income after taxes. In other words, my self-employed contractor friend was not eligible for the same pension benefits he had to pay his own employees.

Now, there is another Illinois contractor in our association, from downstate Illinois. His name is Arthur Weiskopf, from Springfield, and he is NAPC's legislative representative on the Smathers-Keogh-Simpson bill. He was supposed to testify before you today, but couldn't make it at the last minute. I am doing my best to substitute for him.

I do think the record should include just two paragraphs of Mr. Weiskopf's testimony, however, because they may give you some insight into the thinking of many of our people—all small businessmen working at the grassroots of our domestic economy.

Here is what Mr. Weiskopf was going to say in part:

> You probably wonder why I don't incorporate. Well, I have a lot of reasons, but the main one is that I am afraid that I would run the risk of losing control of the business. My father started our family business in 1925, and I have carried it on since 1937. Now, I have a son who has been with me for some 5 years. In another 2 years I think he will be ready to take the business over. If I incorporate, however, even just by giving stock to two or three outsiders, I feel that I would have to consider someone else's interest.

Senator ANDERSON. Would you explain to me there why he has to take in the outsiders?

Mr. KILEY. If he wants to incorporate?

Senator ANDERSON. Yes. He needs three incorporators. He and his son can be two of them, his wife can be the third. He can keep 98 percent of the stock and give them one certificate apiece. How does he lose the business?

Mr. KILEY. I believe you are right, sir, but I wouldn't know. I just simply say his idea is that apparently an incorporation means the taking in of outsiders rather than his own family. I don't know what his thinking is.

Senator ANDERSON. There are family corporations, aren't there?

Mr. KILEY. Pardon me?

Senator ANDERSON. There are such things as family corporations.

Mr. KILEY. That is right, sir.

Senator ANDERSON. I mean, I think there can be good arguments made for the bill, and plenty of other ones, it seems to me. I was just wondering if this was an argument for the bill.

Mr. KILEY. Well, that is to be considered, sir. I would hesitate in giving you an answer for him. I would say this, so far as I am concerned, in Massachusetts, actually according to law a plumbing contractor is not supposed to incorporate. It is a privilege of an individual, and while there are corporations, it is my understanding that technically they are not legal.

Senator ANDERSON. Service organizations.

Senator SMATHERS. Does this not demonstrate the fact that most of these people that we are talking about are small businessmen who

do not have the benefit of sophisticated and knowledgeable lawyers at their right hand to advise them at each moment as to what the law is and what they ought to do in order to take advantage of legitimate tax deductions?

Mr. KILEY. That is right, sir.

Senator ANDERSON. I am going to analyze that remark after awhile. [Laughter.]

Mr. KILEY (reading):

> There are also many reports and papers an incorporated business has to take care of that an unincorporated one does not have to bother with. A lot of people may think I am wrong, but I do not believe taxes should force me into carrying on my business in a way that I don't want to.

Possibly that is a valid reason.

> From my past years of experience in business and considering the tax problems the independent businessman has, I would not encourage a young man to start a new business on his own today. You may wonder why I say this and yet want my son to take over my business. Well, mine is already established. My son will not have to start with nothing and accumulate capital and equipment, and build his reputation. He will take over a going concern. I think it would be very hard for a young man to do today what my father did when he started almost 35 years ago, and I think a major part of this difficulty is due to the tax structure. S. 1979 and H.R. 10 would not take care of all the tax problems a young man would face in starting his own business. It would, however, encourage him to start saving for retirement.

Gentlemen, I ask your favorable action on this bill, and I thank you for letting me appear before you.

The CHAIRMAN. Thank you very much, Mr. Kiley.

Are there any questions?

(No response.)

The CHAIRMAN. Thank you very much.

The next witness is Mr. Don E. Mowry, of the National Wholesale Furniture Salesmen's Association.

Apparently he is not here.

The next witness is Mr. G. Norman Winder, National Live Stock Committee.

STATEMENT OF G. NORMAN WINDER, APPEARING ON BEHALF OF THE NATIONAL LIVE STOCK TAX COMMITTEE

Mr. WINDER. Mr. Chairman, my name is G. Norman Winder. I am a member of the National Live Stock Tax Committee, and I may say I have been all my life a livestock operator.

The National——

Senator ANDERSON. He has got sheep on a thousand hills, Mr. Chairman.

Senator SMATHERS. I thought we called Mr. Mowry. Did we skip him?

Senator FREAR. He is not here.

Senator SMATHERS. I see.

Mr. WINDER. The National Live Stock Tax Committee has requested me to make this statement in its behalf. The National Live Stock Tax Committee is sponsored by the great majority of livestock producers associations countrywide, as shown by the letterhead of the committee upon which this statement is written.

With your permission, Mr. Chairman, I would like to read into the record the names of the sponsoring associations. [Reading:]

American National Cattlemens' Association; National Wool Growers' Association; American Angus Association; American Brahman Breeders' Association; American Hereford Association; American Quarter Horse Association; American Shorthorn Breeders' Association; American Thoroughbred Breeders' Association, Inc.; Holstein-Friesian Association of America; Santa Gertrudis Breeders' International; Alabama Cattlemen's Association; Arizona Cattle Growers' Association; Arizona Wool Growers' Association; Arkansas Cattlemen's Association; California Cattlemen's Association; California Wool Growers' Association; Colorado Cattlemen's Association; Colorado-Nebraska Lamb Feeders' Association; Colorado Wool Growers' Association; Florida Cattlemen's Association; Georgia Livestock Association, Inc.; Idaho Cattlemen's Association; Idaho Wool Growers' Association; Kansas Livestock Association; Louisiana Cattlemen's Association; Maryland Beef Cattle Producers, Inc.; Mississippi Cattlemen's Association; Missouri Livestock Association; Montana Stockgrowers' Association; Montana Wool Growers' Association; Nebraska Stock Growers' Association; Nevada State Cattle Association; Nevada Wool Growers' Association; New Mexico Cattle Growers' Association; New Mexico Wool Growers' Association; New York Beef Cattlemen's Association; North Carolina Cattlemen's Association; North Dakota Stockmen's Association; Oklahoma Cattlemen's Association; Oregon Cattlemen's Association; Oregon Wool Growers' Association; South Dakota Stock Growers' Association; Tennessee Livestock Association; Territorial Cattlemens' Council of Hawaii; Texas and Southwestern Cattle Raisers' Association; Texas Sheep and Goat Raisers' Association; Utah Cattlemen's Association; Utah Wool Growers' Association; Virginia Beef Cattle Producers' Association; Washington Cattlemen's Association; Washington Wool Growers' Association; Western South Dakota Sheep Growers' Association; Wyoming Stock Growers' Association; and Wyoming Wool Growers' Association.

The CHAIRMAN. Thank you very much, sir.

Mr. WINDER. Our committee has represented these associations in Federal income tax matters for a period of some 18 years. The members of these associations represent a very large proportion of the livestock producers of this Nation and they constitute a very substantial segment of our country's self-employed persons.

As a rancher and member of the committee I have for many years been exposed to the peculiaries of the livestock industry and I am familiar with the tax problems which they raise. In particular, I am familiar with the tax inequities which the livestock industry faces by virtue of the fact that it is subject to constant and violent fluctuations in prices, together with unusual hardships occurring as a result of the industry's fixed costs. I am keenly aware of the unusual difficulties faced by the livestock producer in attempting to set aside money for his old age and consequently of the interest which the livestock producers have taken in proposed retirement legislation such as that presently being considered by your committee.

At the end of 1957 and the beginning of 1958, Mr. Stephen H. Hart, an attorney for the committee, had the privilege of testifying before Senator Sparkman's committee and before the House Committee on Ways and Means in connection with the proposed tax relief for small business, and amongst other measures he spoke in behalf of our committee in support of the Jenkins-Keogh Self-Employed Individuals Retirement Act of 1957.

The livestock producers' desire for such legislation was at that time great but it is even greater now. I believe that members of your committee have received ample evidence of this.

Among the various criticisms which have been leveled at this proposed legislation, one which our committee finds to be very disturb-

ing, is the criticism that this proposed legislation is sponsored only by doctors, lawyers, and a small group of businessmen. Why farmers and ranchers were not mentioned I cannot imagine, since they represent one of the largest groups of self-employed in our Nation and have been on record for some time, at least so far as the livestock producers are concerned, as being in favor of this legislation. For the purposes of this statement I will refer to farmers and ranchers collectively as "stockmen."

Statistics, compiled by the American Thrift Assembly (in collaboration with Frank Enge, Jr., public accountant, Washington, D.C.) show that in 1953 there were 7,714,512 sole proprietorships and that this involving agriculture, forestry, and fishery amount to 3,209,565, or approximately 42 percent. Of this 3,209,565 group, stockmen account for 3,125,511. And there were roughly 1,243,400 farms and ranches, 50 percent or more of the income from which was derived from dairy and livestock operations.

These figures were prepared from individual income tax returns filed for 1953 and cannot be brought up to date at this time. However, there is no reason to suppose there has been any substantial downward change over the past 6 years.

Stockmen represent one of the most important vertebra in the backbone of the Nation's economy. They are traditionally independent people and want to work for themselves rather than for others. Their occupation is a hazardous one financially. The history of farming and ranching is one of feast or famine, due to changes in weather and the tremendous difficulty inherent in the stabilizing of the national farm economy.

One year a stockman will make good profits, and the next year these profits can be wiped out by disease, drought or storm, or merely lower prices. In addition, it is a well-known fact that stockmen are saddled with many fixed-cost operations such as the payroll for hired hands, property taxes, and mortgage payments. Fixed costs, according to Department of Agriculture figures, have accounted for approximately 57.1 percent of gross farm income over the past 10 years.

Under these circumstances, it is very difficult for the stockman to save for his old age.

I might add there, Mr. Chairman, that due to the rigors of a rancher's life, he has to retire rather early in life, because he can't take it very long.

Hence in those years when a stockman does make a profit he should be allowed to put part of it away, tax free, and in so doing help accumulate a sum of money which he can draw down bit by bit in the low-income years after his retirement.

Another criticism leveled at this proposed legislation is that it may be used as a device for averaging income. Now, I believe it is of utmost importance to emphasize to you the problem which faces the stockman because of the fluctuations in income mentioned above. I do not believe that the tax inequities brought about by a fluctuating income is generally recognized by taxpayers and it is recognized only in part in the Internal Revenue Code. I think an example is helpful in illustrating this inequity.

Let us take a husband and wife who file a joint return and who have $4,000 taxable income in one year and $12,000 in the next year. This

couple pays nearly 5 percent more total tax than do similar persons who have $8,000 taxable income for each of the same 2 years.

This is a heavy penalty to pay for not having a stable annual income. A class of taxpayers to which this illustration is particularly germane consists of stockmen, whose annual income is notoriously unstable. There is no logical reason why stockmen should pay more taxes than do other taxpayers, particularly when, perhaps more so than any unit of our economy, they must conduct their profit-seeking activities in the face of external conditions over which they have little or no control.

As recent history has shown, cattle producers in particular have suffered from a violently fluctuating market.

I might say that is also true of the sheep producers, and I am sure that many of you are aware of the tremendous break in the cattle market which occurred about 7 years ago when the price of cattle plummeted down following a period of greatly increased production together with heavy marketing because of drought. Thus in 1952 cash receipts from farm marketings of cattle and calves and from sales of farm-slaughtered beef were $6,205,503,000, whereas in 1953 such receipts dropped to $4,877,805,000—a variation of over a billion dollars.

It now appears that a similar break in the market may well come to pass in the next 2 or 3 years with cattle numbers building to a new high—and, of course, the situation may again be aggravated by drought.

Thus it can be seen that the income of the stockman is irregular and unpredictable. In the good years, they may realize substantial profits. But in other years, they either fail to meet expenses, break even, or at best realize only a modest profit. To maintain a reasonable standard of living and to be able to set aside reasonable sums for capital investment, they must be able to save a portion of the profits of the good years. However, the progressive rate structure of the income-tax laws can result in the virtual confiscation of profits in good years, leaving little residue for savings or investment.

Congress has passed certain legislation designed to lessen some of the hardships caused by a progressive rate of structure. It has enacted provisions which permit professional persons, such as inventors and writers, under certain conditions, to spread over 3 or more years any lump sums received in a single year but attributable in part to activities of preceding years. The provisions permitting carryovers and carrybacks of net operating losses indicate a congressional conclusion that rigid adherence to a single-year theory of taxation can produce unjust results. There are other examples, but these suffice to show that Congress has recognized and acted upon some of the problems posed by the features of our tax laws which are being considered here.

Unfortunately, Congress has not yet enacted legislation which would significantly benefit all taxpayers with fluctuating annual incomes. However, since it is apparent that Congress recognizes the inequity of the tax laws in respect to fluctuating incomes, it would seem that if H.R. 10, in some collateral aspects, could be effective to remove the inequities caused by fluctuating income, at least in part,

that this attribute would be an added beneficial feature of this bill rather than a fault.

Thus we of the Live Stock Committee feel that a criticism of this bill based on the fact that it might be used as a device to average income is not a valid argument.

The National Live Stock Tax Committee believes that the livestock industry deserves the encouragement it would receive should the Self-Employed Individuals' Retirement Act be enacted into law, thereby enabling livestock producers to save up a little more in the good years without being taxed on these modest savings until they are drawn down.

In behalf of the committee, Mr. Chairman, I want to thank this committee for giving us this opportunity to appear.

The CHAIRMAN. Thank you very much, Mr. Winder.

Are there any questions?

(Discussion off the record.)

Senator SMATHERS. Mr. Chairman, may I ask just one or two questions?

The CHAIRMAN. Senator Smathers.

Senator SMATHERS. The impression is pretty well out, sir, that cattlemen and stockmen are well-to-do people, and of course we know, I guess, each of us, of an instance or two where that is the case.

From what actually has been told me about you, I don't presume you are in any immediate danger of going to the poorhouse or anything of that kind.

But do you have any information with respect to what is the average income of an ordinary rancher?

Mr. WINDER. No, sir; I do not have any information in respect to that. And I think it would be practically impossible to arrive at an average income for the livestock operators throughout the country.

Senator SMATHERS. How long have you been in this business?

Mr. WINDER. All my life, sir, and I am a little over 60 years old.

Senator ANDERSON. I was going to say we are about the same age.

Senator SMATHERS. From your observation, would you say that most of the people in the ranching business or cattle-raising business are affluent and well-to-do people?

Mr. WINDER. No, sir; I would not say that. Of course, there are some who have fared quite well over a period of time, but I am not sure that is all accountable to livestock raising. I think in a great many instances they have had other outside income to supplement it, such as an oil well or two on the ranch which is a wonderful adjunct to a livestock operation. [Laughter.]

Senator ANDERSON. Mr. Winder, you mentioned something that I have been very anxious to discuss and did discuss before a livestock group. That is the possibility that these cattle prices may have some trouble in the next year—I said the next year; you said the next 2 years. With cattle numbers up over a hundred million, and with normal cattle population about 90 million, something is going to have to give one of these days. And when it does, isn't it a pretty fair rule that these people who operated ranches all their lives and their fathers before them sometimes, are suddenly in tremendous financial distress?

Mr. WINDER. That is absolutely true, and——

Senator ANDERSON. I think it would be——

Mr. WINDER. And in those periods of time a great many people are eliminated from the livestock industry, and when the cycle turns again, somebody else comes along and takes over their operation.

Senator ANDERSON. I am thinking of, for instance, a ranch in New Mexico that has been sold three times at top, and people who have bought it have gone broke three times thereafter.

I am thinking of a man like Vic Culbertson in the old GOS outfit, one of the best cattlemen I know, who went just as broke as a dub. And this is a business that has extreme variations.

I am not sure that the doctors and lawyers who made the primary case have the fluctuations that the livestock business has. Don't you think they would not?

Mr. WINDER. I would think they wouldn't have the fluctuations nearly so much in income, and I don't think they have the outside influences to deal with such as drought and blizzards and other things that enter into a livestock operation.

Senator ANDERSON. With your experience in the sheep business, you are acquainted with a great many people who are sheep producers in the North Central States or Western States, whatever you want to call them.

Would you think this was something that was important to those people?

Mr. WINDER. I would think it would be immensely important to those people. It gives them an opportunity to remain independent, and, as is stated in the statement, most livestock people at least like to feel they are individualists. They like to operate on their own, but they would like to have an opportunity when they make a little money to put some aside for the future.

I know that I have wished that I could do it over the years. It is getting a little late for me now, Senator.

Senator GORE. It may not be as late as you think.

Mr. WINDER. I would intend, if this law was enacted, to take advantage of it myself.

Senator SMATHERS, Mr. Winder, in recent years a number of well-to-do people have gone into the cattle business. We had to finally pass what is called the hobby loss provision in the Federal tax law so that it did not become a tax avoidance operation.

You have given a figure here that there are some 3,209,000 stockmen—how many of those would you say are well-to-do people who have gone into this business in order to escape taxes?

Mr. WINDER. I would think that figure would be very small, relative to the total number of operators in the livestock business.

Senator SMATHERS. Is it your conclusion that the great bulk of these people who are longtime stockmen are not what we would consider in the higher income brackets?

Mr. WINDER. Yes; I would judge that they would very seldom get up into the 50-percent bracket.

Senator SMATHERS. All right, sir.

Mr. WINDER. They might in certain years when prices are good, when weather conditions are good, they might, especially in a family operation.

Senator SMATHERS. You would not then consider them anything other than, generally speaking, little businessmen or little stockmen, is that correct, the bulk of these people?

Mr. WINDER. The bulk of them, yes. The large operations are fast disappearing.

The CHAIRMAN. Thank you very much.

Mr. WINDER. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair recognizes the patron of the bill now before us, Congressman Keogh.

STATEMENT OF HON. EUGENE J. KEOGH, A REPRESENTATIVE IN CONGRESS FROM THE NINTH CONGRESSIONAL DISTRICT OF THE STATE OF NEW YORK

Mr. KEOGH. Mr. Chairman, permit me, at the outset, to express my deep personal and official appreciation to you and to the members of the committee for your obviously studied and intelligent consideration of this pending bill.

We are most grateful to you, and I am sure that I bespeak the appreciation, too, of the upward of 7 million people who are vitally interested in this bill.

Mr. Chairman, I would be obliged if I might add in the record at the end of my brief remarks this morning a statement of the Tax Foundation, Inc., of New York, with whose philosophy, perhaps, we are not always in agreement, but with whose facts we seldom can find too much disagreement.

The CHAIRMAN. Without objection.

Mr. KEOGH. I should like to take just a few moments, Mr. Chairman, to address myself to possible amendments to this bill that have been suggested before and that have come up in some of the colloquy between the members of the committee and the witnesses who have been heard.

The committee will, I am sure, recall that I indicated in my remarks earlier that the language on page 7, lines 17, 18, and 19, would seem to convey an inadvertence that I think should, in justice and fairness, be corrected.

The language as it appears in the pending bill would seem to limit the issuance of restricted retirement policies to domestic insurance companies. That was not the intent of the authors, nor, in my opinion, the intent of the Committee on Ways and Means when it ordered this bill reported.

What we had hoped would be accomplished would be that these restrictive retirement policies would be written by the companies authorized to do business in the United States. That, therefore, would permit foreign companies, authorized to do business in the United States, to participate in this, just as U.S. companies have been authorized to participate in similar business in Canada and Great Britain and in Australia.

The reference to section 801 was simply an attempt to make certain that all companies engaged in this business would have some tax accountability for the business that is done in this country.

Secondly, Mr. Chairman, you will——

Senator ANDERSON. Which lines are those, now?

Mr. KEOGH. Pardon me, Senator?

Senator ANDERSON. Which lines are those?

Mr. KEOGH. Page 7, lines 17, 18, and 19.

Senator ANDERSON. What about lines 3 and 4 and 5?

Mr. KEOGH. That would have to be corrected as this other would be. We can draft the necessary language rather simply, but it was not intended to limit it solely to American companies.

On page 18, Mr. Chairman, beginning on line 10 and following, there is the provision that imposes a penalty upon earlier withdrawals. A discussion of that was had before. It was not intended, as this bill presently would seem to indicate, that the 110 percent of the increase of taxes in the taxable year and the 4 preceding years should be not less than 110 percent of what they would have been, but would be 110 percent.

As the bill is presently drafted, it would seem to constitute a floor rather than the ceiling that was intended.

I would recommend that the committee give consideration to that technical amendment.

Now, Mr. Chairman, reference previously has been made to qualifying regulated investment companies, mutual funds, as authorized depositaries. My recollection is that the Treasury made some reference to that in its formal presentation to the committee.

As one of the authors of the bill, I would have no objection to enlarging the authority to include that type of investment for it would, in effect, take the place of what had originaly been hoped to be in the bill, namely, a custodian account, and that type of account, as we all know, entails a minimum of discretion, and a minimum of administrative costs.

I made reference previously to the advisability of enlarging the authority so that insured thrift institutions might be authorized depositaries. That would include the savings and loan associations and the mutual savings banks of the country. That is particularly important, I think, at this time with what, as we know, are the increasing rates of interest that are paid by those types of institutions.

Mr. Chairman, some discussion was made with respect to whether, if this bill were enacted, it should be conditioned upon the fact that the self-employed should, at the same time, be compelled to set up systems for their employees.

My reaction to that, Mr. Chairman, is simply this: It would be injecting into the private retirement systems of this country, for the first time, an element of compulsion. We have heretofore proceeded completely on the theory that the establishment of these section 401 and similar plans should be voluntary.

If the committee, in its wisdom, felt that fairness and justice should dictate that these self-employed should, as a condition to their setting up the plans contemplated in the pending bill, be required to include their own employees, I would suggest that the committee give serious consideration to establishing some minimum conditions by way of number of employees and minimum length of service by those employees. To do otherwise, you would burden the Treasury Department with administrative problems that would be almost insuperable. We know that many of the stockmen, to whom the prior witness referred, employ seasonal employees. It would be terrifically difficult, in fact it would probably be an impossible job, to regulate or to audit or to inspect those returns for such employees.

So, if the committee were to consider this condition, it might, in my opinion, give consideration to establishing a minimum number of employees, say five, and to qualify those employees after they have served with the self-employed a minimum length of time, say 2 or 3 years, so as to establish some degree of permanency and tenure.

Senator SMATHERS. Let me see, Mr. Congressman, what you have reference to is if—I think the Senator from New Hampshire indicated in his questioning that he thought that the bill should be amended so that those employees who are not now covered by a pending program would be covered if they were employed by a self-employed person.

Mr. KEOGH. That is right.

The CHAIRMAN. Senator Bennett.

Mr. KEOGH. Senator Bennett, of Utah, is more connected with it.

Senator SMATHERS. That is correct; Senator Bennett. So what you are suggesting is, if the committee should look upon that favorably, that it provide for these two conditions.

Mr. KEOGH. Precisely. So as to relieve the burden of the Treasury Department and the Internal Revenue Service of inspecting or auditing many of the returns of employees who are with the self-employed for such a relatively short time that they will never acquire any benefits of any substance.

The CHAIRMAN. Would it be your idea that the employee would contribute to this pension system?

Mr. KEOGH. That, Mr. Chairman, could be left precisely as it is in existing law.

As you and I well know, the trend in the private corporate 401 plans is in the direction of plans that are noncontributory on the part of the employees. That is borne out by the fact that of the approximatey $4.3 billion contributed to such 401 plans in the last available fiscal year, upward of $3.7 billion was contributed by the employers.

So the trend in those plans is, as I pointed out, noncontributory on the part of the employee. But I don't think that the condition, if you do consider laying this down in this group, should be fixed in any way. Rather, leave it to the self-employed employer and his employees to work out what in a particular instance is the fairest and most equitable arrangement.

The CHAIRMAN. Suppose the employer refused to put up the money for the employees, what then?

Mr. KEOGH. Well, there is no——

The CHAIRMAN. If you leave it to them to work it out. If you require them to do something you have got to require it under certain standards; in certain ways.

Mr. KEOGH. I am premising my suggestion on the hypothesis that your committee will lay down as a condition for the self-employed to set up a plan for themselves that they be required to include their employees, so that you have—you will not be faced with a situation where the self-employed will refuse to include those employees who might be qualified under the conditions that I have indicated.

The CHAIRMAN. In other words, the employer would pay the costs of the employees; is that it?

Mr. KEOGH. That would probably be the normal——

The CHAIRMAN. But you can't write a law in terms of what is probable; you have got to spell it out so there is no doubt as to what it means.

Mr. KEOGH. We have not spelled it out in section 401, Mr. Chairman. We have allowed the employers——

The CHAIRMAN. You haven't made it mandatory.

Mr. KEOGH. We have not made it mandatory.

The CHAIRMAN. But in this proposal it would be mandatory.

Mr. KEOGH. I am arguing against the proposal, Mr. Chairman. But I have indicated that if the committee feels that it should inject this note of compulsion with respect to the self-employed, that they handle it in the manner in which I have suggested.

Senator SMATHERS. Let me see if I understand it.

You are not now recommending, however, that this committee——

Mr. KEOGH. No, sir.

Senator SMATHERS. Put the condition in there that before a self-employed can set up a retirement program for himself, that he must at the same time set up a retirement program for his employees?

Mr. KEOGH. Precisely.

Senator SMATHERS. You merely are saying if the Bennett amendment is accepted by this committee, that the conditions be put into it?

Mr. KEOGH. Precisely.

The CHAIRMAN. But you are opposed to the Bennett amendment.

Mr. KEOGH. I am opposed to that suggestion because it is injecting into the voluntary retirement system of this country a note of compulsion that has never entered into it.

Now, Mr. Chairman, much has been said or brought out in the colloquy between the members of the committee and the witnesses with respect to the number of employees of the self-employed who are now covered by existing plans. I sought very strenuously to get that information for the help and assistance of this committee. I am informed there has been no such breakdown. But I can assure you, Mr. Chairman, that I have personal knowledge of an increased number of unincorporated self-employed employers who, by reason of the competition in the labor market and in the professional market, have been compelled and have been glad to set up plans for their employees.

I need point out, Mr. Chairman, that as of March 31 of this year, there were in existence 48,223 existing qualified plans, including stock options and profit-sharing plans.

Of that 48,000, 22,341, almost half, have been set up by the employers of this country in the 4 years between July 1, 1955, and March 31, 1959.

I have an increasing confidence, Mr. Chairman, that the 31 million pensionless employed will be reduced at the startling, astounding, and very encouraging rate that we have seen these plans set up in the last few years—and many whom, benefiting by those plans, are employees of the self-employed.

Now——

Senator ANDERSON. Do you have any figures on it at all?

Mr. KEOGH. Unfortunately, I am advised by the Treasury Department as late as yesterday that they have no further breakdown on the 401 plan other than what I have given you.

I have a feeling as to why those figures of the self-employed retirement systems for their employees are not available.

Senator ANDERSON. What is it?

Mr. KEOGH. Pardon me?

Senator ANDERSON. What is that reason?

Mr. KEOGH. My belief is that there are so many of them that have already been set up by self-employed who cannot do anything for themselves, that they don't want to reveal the figure.

Senator ANDERSON. The Treasury?

Mr. KEOGH. Yes, sir.

Senator ANDERSON. That is an indictment of the Treasury?

Mr. KEOGH. Well, it is not an indictment.

Senator ANDERSON. If it is true, it is an accusation of complete bad faith and dishonesty on their part.

Mr. KEOGH. Well, Senator Anderson, you and I know that countless stock brokerage firms, law firms, even groups of doctors have set up these plans for their employees, and they cannot include the partners of those firms.

Senator ANDERSON. I know it, because a firm that I have some connections with has just done it; but there is nothing secret about it; nobody is going to send me to the penitentiary about it.

Mr. KEOGH. Maybe, Mr. Chairman, I should ask your kind indulgence for me to withdraw that statement. I don't mean to indict them; of course not.

Senator ANDERSON. No, but you just did.

Mr. KEOGH. It is interesting to me that they have indicated that they have not made a breakdown of the existing 401 plans between corporate and unincorporated employers since 1944. Now, I think that that is a rather curious revelation for them to make.

Senator SMATHERS. Have you written them and asked them to do it?

Mr. KEOGH. Well, I did it through the very able clerical professional staff of the Committee on Ways and Means.

Senator SMATHERS. And they still didn't make it?

Mr. KEOGH. And this is the information that we got from the Chief Counsel of the Internal Revenue Service. But they have no breakdown as to the types of employers since 1944. Well, we only permitted these plans to be created in 1941 or 1942.

Senator ANDERSON. Can we go back to the question of the banks and the mutual savings institutions and so forth?

The bill says "the trustees of bank as defined in section 581." What was your proposal on that?

Mr. KEOGH. My proposal would be to qualify as an authorized depository of the funds permitted to be deposited under the bill thrift institutions that are insured, either by the Federal Deposit Insurance Corporation or the Savings & Loan Insurance League, or in the case of three States, I think it is, that still have their own State guarantee funds for their mutual thrift institutions.

Now, the purpose of my making that suggestion, Mr. Chairman, is that it is perfectly possible for an individual to want simply to deposit the funds permitted under this bill in what he considers to be an adequately supervised, regulated, and solvent thrift institution, and let the fund accumulate there so as to avoid the hazards of the stock mar-

ket or even of the bond market, and it is intended to take partially the place of what originally was suggested, namely, the establishment of a custodian account, where the trustee is simply a custodian, and where he is not vested with any investment discretion such as the corporate trustees here have been given.

Senator ANDERSON. Does this have anything to do with the mutual banks and the banks in New York City?

Mr. KEOGH. No; on the contrary, it should tend to end that squabble, because it will qualify all kinds of institutions to participate in the very constructive work contemplated in this pending bill.

Senator ANDERSON. But the mutual savings banks were the ones who would want it—wouldn't they?

Mr. KEOGH. I think the savings and loan associations would like it, too. As a matter of fact, the suggestion for that amendment came to me through a recognized expert in the savings and loan field, and I have no hesitancy to tell you who it is, George Bliss, of the Century Federal Savings & Loan, who has made a great and deep and thoughtful study of the problem of the self-employed while they exist in the vacuum that the pending bill seeks to pierce.

Mr. Chairman, there is one other suggestion that I would like to discuss with you very briefly.

I recognize the seriousness of the threat to the fiscal soundness of the Government of what I am pleased to consider are illogical, and I will content myself with that, demands on the part of members of existing private and public retirement systems for the tax deductibility of their own individual contributions.

As I have pointed out, the trend in the private pension system field is definitely in the direction of noncontributory systems. The employees pay nothing.

With respect to those employees, this problem is of decreasing importance, and as I pointed out in my testimony earlier, with respect to the members of the public retirement systems, they stand to be what are virtually tax-free beneficiaries of gifts on the part of their employers equal to their own contributions plus accrued interest.

But if this committee in its wisdom—

The CHAIRMAN. At that point they are not permitted to deduct their own contributions from their individual taxes.

Mr. KEOGH. That is my point. That is a fact. The theory, of course, is that they are making deposits for their own benefit that will be matched by their employers if they are States or Federal Government.

The CHAIRMAN. Mr. Keogh, could I ask you a question?

Now, the self-employed, under social security, a great many of them——

Mr. KEOGH. Yes, sir.

The CHAIRMAN. Are under social security. Doctors are excepted. They have refused to go under it.

Mr. KEOGH. That is right.

The CHAIRMAN. They have refused to deduct their contributions for income tax purposes.

Mr. KEOGH. No, sir; not contributions for social security, and the self-employed, as you well know, pay 50 percent more than any other employee member of the social system.

The CHAIRMAN. But the self-employed under your plan are permitted to deduct their contributions for income tax purposes. Why shouldn't the self-employed who contribute to the social security contribute to it?

Mr. KEOGH. Mr. Chairman, that is a matter of policy for the Congress to decide.

The CHAIRMAN. A matter of policy? It seems to me a matter of justice between the two classes.

Mr. KEOGH. If you will forgive my saying so, I don't see the relationship between the social security system and the private pension system contemplated by the pending bill. For we have, as I have pointed out, invited all the employers of this country to set up retirement systems for their employees and to deduct from their——

The CHAIRMAN. Wait a minute. Confine the discussion to the self-employed under the social security system. They have no employers. They are self-employed, just as the people you want to deal with are self-employed, yet they are not permitted——

Mr. KEOGH. They are the same people.

The CHAIRMAN. To deduct their contributions for income tax purposes.

I ask you whether, by the same line of reasoning, the social security payments by self-employed should be deductible for income tax purposes?

Mr. KEOGH. If you establish a policy to accord deductibility to the employees contributions to the social security system, you will a fortiori extend that deductibility to the contributions made by the self-employed.

The CHAIRMAN. That is exactly the point.

Mr. KEOGH. Well, you will have to treat them all alike.

The CHAIRMAN. That is right.

Mr. KEOGH. Well, you are treating them all alike now.

The CHAIRMAN. Why shouldn't we treat them all alike? If we establish the system giving tax deductible contributions under your bill, why should all the others who contribute to social security and civil service and all the other retirement plans have tax deductions?

Mr. KEOGH. Because under existing law their employers, corporate or otherwise, have the right to set up retirement systems for their employees, and need not even call upon the employees for contributions.

The CHAIRMAN. Mr. Keogh, the civil service haven't got any right to set up any system.

Mr. KEOGH. But the civil service——

The CHAIRMAN. The Senators contribute to their retirement fund, the Congressmen do. They can't take it off of their taxes.

Mr. KEOGH. I have undertaken to attempt to——

The CHAIRMAN. I want to get it clear, because I am——

Mr. KEOGH. I have tried to make it clear that the rationale of that provision is in my opinion perfectly sound, because those who are members of existing private or public retirement systems are the beneficiaries of tremendous amounts of money for which they make no contributions.

Now, all we are asking for here——

The CHAIRMAN. Mr. Keogh, I am anxious about inequalities that I think may be created by your bill. I want you to explain to me why

the self-employed under social security will not be permitted to take their payments off the income taxes, but a self-employed not under social security, under your bill, would be given this privilege.

Mr. KEOGH. Because we are directing your attention to the establishment on the part of self-employed of what are the equivalent of the section 401 plans that we have permitted all employers of the country to set up——

The CHAIRMAN. But they are not employers, they are self-employed. These people I referred to, they are not employers at all——

Mr. KEOGH. As a supplement to social security, not in substitution therefor. Every one of the 19 million people covered by existing qualified plans is entitled to his benefits under the private plan, plus his social security benefits.

Now, if you talk about the deductibility of the individual's contributions to the social security system, Mr. Chairman, you are talking about something completely different, apart, and distinct from the retirement systems, whether private or public.

If you want to consider adopting the policy of according deductibility for social security contributions, do it, but you will have to do it for all, including the self-employed.

The CHAIRMAN. You are complaining of a discrimination, aren't, you?

Mr. KEOGH. Yes, sir.

The CHAIRMAN. Well, now, why wouldn't the social security people, especially those who are self-employed, have the same complaint if we allow others this deduction under your bill? I am seeking information.

Mr. KEOGH. I am undertaking, Mr. Chairman, as ably as I can, to give you information.

Those individuals covered by social security are the beneficiaries of a tax-deducted sum paid by their employers, and tax free to themselves of sums, equal to their social security contributions.

The CHAIRMAN. A self-employed one does not have that.

Mr. KEOGH. That is the basis for the schedule of benefits. All of them, except the doctors, but including the other self-employed, are all the beneficiaries of the social security system, and 19 million of them have benefits going up to $100,000 a year to which they have made no contributions, but the taxpayers of this country, including the 8 million self-employed, have made their proportionate contributions to 52 cents of every dollar drawn, and you stand here or sit here and consider the plight of the 8 million professional self-employed, courageous, individual Americans, and draw the comparison with the social security system that was intended only to be a basic subsistence level of benefits.

I cannot follow the reasoning, Mr. Chairman; I am sorry to say that to you.

The CHAIRMAN. It is your contention, then, that the social security contributes then to the general fund to the self-employed under social security?

Mr. KEOGH. They are all in social security except the doctors. They are all making their contributions——

The CHAIRMAN. You know as well as I do the self-employed under social security pay a much higher rate than where the employer pays one-half and the employee pays one-half. And that rate was estab-

lished to be sufficient to pay the pensions that will finally be paid to the self-employed.

Mr. KEOGH. That is right.

The CHAIRMAN. And the general fund was not supposed, and I don't think it does or will be called upon for a single dollar——

Mr. KEOGH. That is right.

The CHAIRMAN. To pay the self-employed.

Mr. KEOGH. That is right.

The CHAIRMAN. But you keep talking about those where they contribute.

Mr. KEOGH. When we established the social security system in 1935, and when we have perfected it and enlarged it and the benefits pretty regularly every 2 years since 1950, we, in addition to that, invited the employers of the country to avail themselves of the benefits of section 165 of the 1939 code, and now section 401 of the 1954 code. 48,000 employers of this country have availed themselves of these benefits, supplementing for their officers and employees the subsistence benefits of social security, and we have failed and refused to amend the law so as to permit 8 million who, because by law they cannot, or as you have heard this morning, by choice do not act as corporations to do anything similar for themselves. It is as simple as that, Mr. Chairman, and social security coverage has absolutely nothing to do with the consideration of the issue in this bill.

The CHAIRMAN. I am just trying to get from you an answer that I, as chairman of this committee, must have to act intelligently on this bill.

If this bill is passed, and a man who is self-employed under social security writes me and asks me why it is that those who are able to put up $2,500 a year can deduct it, while he, the self-employed, under social security, is not allowed the same privilege for his social security payments——

Mr. KEOGH. Well, I lose you, Mr. Chairman, when you talk only about the self-employed in social security. The self-employed are in social security. They occupy precisely a similar position to all the employees of the country who are covered by social security, but they pay 50 percent more social security taxes. None of them gets a deduction for that, whether he is an employee or whether he is self-employed.

But they all get deductions——

The CHAIRMAN. Mr. Keogh, I don't want to get into an argument with you; I just want to get the facts. You are an expert on this thing.

I am talking about the self-employed under social security. Nobody helps them pay the tax——

Mr. KEOGH. No, and——

The CHAIRMAN. Wait a minute, just let me finish.

I was on the committee when the social security was established. When we fixed the rate for self-employed under social security it was made much higher than for employees under social security. We did this to be sure that the provision would be self-supporting, that there would be no requirements on the general fund for the final social security benefits for the self-employed. And you are talking about other things.

I want to ask you the plain question: On your line of reasoning in support of this bill, do you think self-employed who are under social security should be entitled to deduct their social security contributions for income tax purposes?

Mr. KEOGH. No; I am not here advocating that.

The CHAIRMAN. I am not saying you are advocating it, but do you think as a matter of justice they are entitled to it?

Mr. KEOGH. I don't believe so, Mr. Chairman. I do not believe so.

The CHAIRMAN. Thank you. I just wanted to get your opinion.

Mr. KEOGH. I do not believe so.

Senator SMATHERS. Congressman, let me see if I understand what you are saying.

Is what you are saying—and we are talking now about only the self-employed——

Mr. KEOGH. Let's confine our discussion to that.

Senator SMATHERS. The self-employed who are by voluntary programs or, we will say involuntary, I don't know how many there are in those, if any.

Senator FREAR. Some preachers.

Senator SMATHERS. Yes. Those who are under social security, everybody is treated alike; is that not correct?

Mr. KEOGH. Precisely. They pay their rate on their first $4,800 of self-employed income.

Senator SMATHERS. And everybody is treated alike, and nobody, so far as I know, is complaining about that to a great extent at the moment.

Mr. KEOGH. Well, at the moment there is, as you and I well know, increasing complaints from the medical profession for the failure of the Congress to broaden the coverage of social security to include them.

Senator SMATHERS. That is right.

Mr. KEOGH. And when that is done, then all the self-employed in this country will be compulsorily covered by social security with the exception of those clergymen who availed themselves of the right we gave them voluntarily to come in or stay out, and the felons of the country, and Federal civil service not meaning to include them in either of the two classes I mentioned.

Senator SMATHERS. All of the self-employed we are talking about who pay into social security now, none of them is permitted a tax deduction for his payments and your bill in no way contemplates changing that particular part of this program at all.

Mr. KEOGH. Not at all.

Senator SMATHERS. As I understand it, the sense of your bill is that actually there are those outside the social security program who have certain advantages to set up private pension programs, and it is in this area the proposal provides a supplement to this coverage under social security.

Such an advantage exists now under corporate private pension plans. An employer, for example, can in fact deduct under a private pension plan the money that he puts into it for his own retirement program.

Mr. KEOGH. Precisely, and in fact does deduct $6 out of every $7 contributed.

Senator SMATHERS. That is distinct from social security.

Mr. KEOGH. Precisely.

Senator SMATHERS. We are not talking about social security, but of the private pension plan.

Mr. KEOGH. Precisely.

Senator SMATHERS. What you are saying is, as I understand it, as long as certain of these employers—and there are many, many of them—who have such an advantage that there is no reason why other self-employed people should not have the same privileges extended to them as your proposal provides.

Mr. KEOGH. That is right.

Senator SMATHERS. Distinguished from social security.

Mr. KEOGH. That is right.

Senator SMATHERS. No change in the social security, but as long as we are giving to some corporate private pension trusts the right to deduct from their income tax the contributions which they make to a private pension plan, we are now saying that others should be given the same rights and privileges, and that is where, as you say, the inequity results in the field of private pension plans.

Mr. KEOGH. It is as simple as that; precisely.

Senator SMATHERS. Now, with respect to social security, everybody pays the same tax.

Mr. KEOGH. Precisely.

Senator SMATHERS. And we are not asking for any change in that field there.

Mr. KEOGH. It is a matter of congressional policy as to what we do with social security. But this, unfortunately, and in my opinion, is an unjust, inequitable, and virtually immoral situation with which the self-employed are faced, and it is due mainly to the fact they have been held not to be (1) employers who can set up plans for themselves nor (2) employees.

Senator SMATHERS. That is right.

Mr. KEOGH. They are between the dark and the daylight.

Senator SMATHERS. Now, going back to the illustration that the chairman used when he said a man from Virginia wrote him and said, "Why, if you are going to let these people over here in the private field deduct, why don't you let me deduct my social security?"

Is not the answer to that that we are not permitting anybody to deduct their social security?

Mr. KEOGH. Precisely.

Senator SMATHERS. If this self-employed person from Virginia under your proposal wishes not only to have his social security but to set up a private retirement program for himself, as a supplement to his social security, he will be treated just like everybody else.

Mr. KEOGH. Precisely. As a matter of fact, you and I would have to know a little more about the letterwriter from Virginia before we could give a full, complete and apparently intelligent answer, for he is one of several things: He is either an employee of a self-employed unincorporated employer, or he is an employee of a corporation, or he is self-employed.

Now, if he is an employee of a corporation and that corporation has not availed itself of the rights of existing law, he has no right to say to us, "You must deny the same privileges that my corporate employer has today but fails to exercise to the 8 million people who cannot do it for themselves."

Senator SMATHERS. That is right. Just one more development——

Mr. KEOGH. Excuse me, may I then finish this?

Senator SMATHERS. Yes.

Mr. KEOGH. If the letterwriter from Virginia is the employee of a self-employed, he will be benefited if the committee favorably considers the element of compulsion to which I addressed myself earlier.

Senator SMATHERS. As I understand, the letterwriter from Virginia was a self-employed person.

Senator FREAR. With no employees.

Senator SMATHERS. With no employees.

The CHAIRMAN. Self-employed under social security.

Mr. KEOGH. Well, he has to have an employer to be in social security, unless he is his own employer.

The CHAIRMAN. He doesn't have to have an employer to be under social security.

Mr. KEOGH. If he is self-employed he will benefit under the pending bill.

The CHAIRMAN. He does not have to be an employee to have social security. Self-employed people are under social security. The Congressman knows that, he helped to write the law.

Senator SMATHERS. Let's don't get off this again.

What the Senator from Virginia is saying, that here we have a person who works for himself, he may be a lawyer, and has no employees working for him. He does it himself. He pays, under the present law for social security, a certain amount of money for which he cannot deduct anything, and the question was from the chairman, and I think a proper question, Why cannot I deduct this money which I put into social security if you are going to allow these other people under your bill to deduct amounts contributed for a retirement program. I think the answer is as you have so ably stated, that nobody gets any deduction under social security. If, however, this gentleman from Virginia wants to set up an additional retirement program for himself, then he will be able to take advantage of allowable deductions as everybody else will in like circumstances.

Mr. KEOGH. Precisely.

Senator SMATHERS. We don't want to put him in a different position than we put everybody else.

The CHAIRMAN. Let me remark the gentleman from Virginia would have to put up $2,500 a year to qualify under this bill, and this gentleman does not have $2,500 a year to put up under this new system.

Mr. KEOGH. My answer to that is my bill provided it may equal 10 percent of unearned income or $2,500, whichever is the lesser.

Now, the imposition of that dollar maximum is in fact placing a penalty upon those relatively few who, by reason of their astuteness, their ability or their good fortune, earn from self-employment more than $25,000 a year, but for approximately 90 percent of the self-employed people the maximum effective control will be the 10 percentage points and not the dollar amount.

Senator SMATHERS. In other words, if the gentleman from Virignia didn't make but $3,000 a year, he could only put up $300.

Mr. KEOGH. Precisely.

Senator SMATHERS. So he doesn't have it, he still is protecting himself to the extent of $300 a year.

Mr. KEOGH. Precisely.

Senator SMATHERS. There is no requirement to put up $2,500.

Mr. KEOGH. And notwithstanding the fact that the present day trend in the corporate 401 plans is to set aside up to approximately 30 percent of one's annual salary, and mindful of the questions elicited by this side of the committee in the hearings about those plans having to be fair for everybody, well, the rule of fairness under the 401 section is a rather loose rule of fairness, and it does not have any jurisdiction with respect to fairness or equity among classes of officers or employees of a corporation, with respect to "key executive employees stock options." All you have to do is to pick up any one of countless annual reports of the corporations and see where the principal executive officers have enriched themselves a great deal under a third supplementary plan of deferred compensation over and above (*a*) their social security; (*b*) their retirement plan; that is, (*c*) their stock option plan.

I am not here quarreling with that. Those are incentives that made the country great. But I am simply saying to you do a modicum, for 8 million equally courageous professional and self-employed people that you are permitting the others today and we, in my opinion, have imposed limitations in this bill that are unreasonably unjust, but I am perfectly willing to take it as it is.

Mr. Chairman, you have been more than kind and have been more than patient. But you interrupted my making a statement that I hope will help you, and that is simply this: If you are afraid that the civil service, the railroad retirement, and those relatively few employees of 401 plans making contributions of their own will come in, following the enactment of this bill, and say, "Do for us as individuals what you have let the self-employed do," then I suggest you give a partial deferment to the self-employed of, say, 75 percent of their contributions, but if you do that I would recommend that the 10-percent maximum now in the pending bill, which admittedly is the effective maximum for 90 percent of those coming within the bill, be raised to 15 percent.

Now, Mr. Chairman, if you were to do all these things you would, in my opinion, have a fair and and improved measure, but my final and prayerful hope is that this great committee in its wisdom neither dilutes the provisions of this bill nor so loads them with amendments that the fathers of it will have difficulty in recognizing their child.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Keogh.

Senator SMATHERS. Mr. Chairman; First I want to thank the able Congressman for his statement. I have been in some ways the beneficiary of his labors. I think that only good conscience and fair play require me to acknowledge that the bill now being referred to as the Smathers-Keogh-Jenkins bill is the product of his labor; I am only an adopted father, twice removed.

The real originator of this bill is the Congressman from New York. It is his language, his idea. Mr. Simpson, I presume, has had a great deal to do with it also.

I am delighted, however, to have been referred to as having a part of it, but I must in all candor confess that the Congressman who sits before us is the author of the bill, and I would not want people to think that I deserve any credit in a fashion which he deserves.

Mr. KEOGH. You are typically gracious and obviously generous, but I say this to you, Mr. Chairman, that the bill is, in my opinion, of such inherent importance to the economy of this country that we are delighted when obviously astute and admittedly capable Senators like the Senator from Florida comes with us, and I say to you, Mr. Chairman, that there is room in the field for everybody's help—for justice can be done when we have the good will and the cooperation of good men, and I am sure that the people who are depending upon us for this legislation will receive just that at your fine hands.

Senator FREAR. Mr. Chairman, I don't believe the Senator from Florida wants to be known as the stepson of this bill. [Laughter.]

Mr. KEOGH. I must say, it would be impossible for me to recall the long list of distinguished Members of both Houses of Congress who have associated themselves in this venture, and I would hesitate to do so lest I leave some out.

But the late Representative Reed of New York was an original cosponsor. Former Representative Jenkins of Ohio, approximately 26 or upward of 30 Members of the House in this Congress have introduced the bills, and a number of Senators have introduced the same or similar bills.

Senator SMATHERS. I hope that it will pass before they have to change the names again. [Laughter.]

Mr. KEOGH. Thank you very much. I hope it passes for the benefit of the 8 million people who are intended to benefit under its reasonable provisions.

The CHAIRMAN. Thank you, Mr. Congressman.

Mr. KEOGH. Mr. Chairman, you are very kind, and I appreciate your hearing me.

The CHAIRMAN. We are pleased to have you before this committee.

(The statement of the Tax Foundation, Inc., is as follows:)

STATEMENT OF THE TAX FOUNDATION, INC., ON REVENUE DEFERRAL FROM ALLOWING DEDUCTIONS FOR TAX PURPOSES OF AMOUNTS PAID BY SELF-EMPLOYED FOR RETIREMENT FUNDS OR AS "RETIREMENT DEPOSITS" UNDER H.R. 10, "SELF-EMPLOYED INDIVIDUALS' RETIREMENT ACT OF 1957"

With minor qualifications, this bill defines a self-employed individual as any individual who is subject to the self-employment tax. In 1955, total earnings of self-employed subject to the self-employed tax was $27.5 billion (Social Security Bulletin, Annual Statistical Supplement 1955, p. 7).

The bill defines a "retirement deposit" as a payment in money to a restricted retirement fund (trust or custodian account established under a retirement plan for self-employed individuals) or to a life insurance company as premiums under a restricted retirement policy. A restricted retirement policy "means an annuity, endowment, or life insurance contract, or combination thereof, other than a term insurance contract, issued by a life insurance company on the life of * * * a self-employed individual * * * [subject to certain specified limitations]." The bill provides that "* * * if the policy provides for life insurance protection, that portion of such premiums which (under regulations prescribed by the Secretary or his delegate) is properly allocable to the cost of such life insurance protection shall not be deductible. * * *"

To estimate the revenue effect of this bill requires first determining the amounts that might be deductible under existing conditions and second determining any increase in payments to retirement plans as a result of the stimulus of deductibility. Such deductibility might be regarded as equivalent to a higher interest rate on this particular form of savings.

First, as to amounts that currently might become available for deductibility disregarding the stimulus of deductibility to this kind of savings. In 1955, life insurance and annuity premiums amounted to 3.8 percent of disposable personal income. Payments for annuities, both group and individual, amounted

to only $1.3 billion out of total life and annuity premiums of $10 billion (1956 Life Insurance Fact Book, p. 50). Of course, part of the premiums for life insurance would also be eligible for deductibility as retirement deposits. But even if as much as half of life insurance premiums might become eligible, total deductible payments could hardly exceed 2 percent of disposable personal income.

The stimulus provided by a higher effective rate of interest on such savings would produce some increase in this form of savings. However, past evidence suggests the conclusion that a shifting in the form of savings on this account, and an increase in total savings, would be relatively small. Thus higher rates of interest in recent years seem to have had relatively little effect on the rate of aggregate personal savings. It has been shown by Butters, Thompson & Bollinger in "Effects of Taxation on Investments by Individuals" (Harvard Graduate School of Business Administration, 1953) that exemption of interest on State and local government securities has had a relatively small effect on holdings of these securities even by individuals at high income levels.

It may be concluded that on the average the self-employed would put no more than 2 or 3 percent of their incomes into deductible retirement deposits. With a total income of $27.5 billion this would mean at a maximum added deductions of $500 to $800 million.

The average tax rate on taxable income (after deductions and exemptions) in 1955 was 23.5 percent (percentage of total tax to taxable income—"Fiscal Facts for 1957," p. 22). This average somewhat understates an average rate applicable to changes in income. But it is notable that nearly 80 percent of all Federal income taxpayers are subject only to the first bracket rate. A marginal rate on adjusted gross income would be about 90 percent of a marginal rate on taxable income (exemptions do not affect changes in income and tax). As a result, we can use 20 percent as an average rate applicable to changes in adjusted gross income. At this rate, a change of $500 million to $800 million in allowable deductions would mean a revenue deferment of from $100 million to $160 million.

This represents the ultimate loss after several years when taxpayers have adjusted to the deductibility of retirement deposits. In the first year or two after the bill is enacted, the revenue deferment will probably be much less than $100 million.

On the basis of the above rate, it can also be said that a revenue loss of as much as $400 million would imply an increase of $2 billion in deductions of the self-employed, an amount greater than 1956 saving by all individuals in the form of State and local government securities under the stimulus of tax exemption of interest on these securities. Indeed, total saving by all individuals in the form of private insurance and pension reserves in 1956 amounted to $7.7 billion (SEC data). It is therefore hardly conceivable that self-employed persons alone would divert to retirement deposits as much as $2 billion even under the stimulus of deductibility.

TABLE 1.—*Expenditures for insurance as a percentage of money income and other money receipts before taxes for 1950, by income class* [1]

Income class	Money income [1]	Expenditures for insurance	
		Amount	Percent of income
Under $1,000	$678	$12	1.77
$1,000 to $2,000	1,589	45	2.83
$2,000 to $3,000	2,679	103	3.84
$3,000 to $4,000	3,759	159	4.23
$4,000 to $5,000	4,956	209	4.22
$5,000 to $6,000	6,067	254	4.19
$6,000 to $7,500	7,310	294	4.02
$7,500 to $10,000	9,251	436	4.71
$10,000 and over	19,731	854	4.33

[1] Includes money income plus other money receipts (inheritances, large gifts, lump sum settlements from accident or health policies, which were not considered current income).

Source: "Characteristics of the Low-Income Population and Related Federal Programs": selected materials assembled by the Staff of the Subcommittee on Low-Income Families, Joint Committee on the Economic Report, p. 36.

TABLE 2.—*Estimated adjusted gross income on returns with self-employment tax income year 1953*

Adjusted gross income class:	*Adjusted gross income* [1] *(millions)*
Under $2,000	$1,273
$2,000 to $5,000	6,428
$5,000 to $10,000	6,147
$10,000 to $20,000	3,798
$20,000 to $50,000	2,825
$50,000 to $100,000	927
$100,000 or more	634
Total	22,032

[1] Estimated by multiplying the number of returns with self-employment tax by the average adjusted gross income on all taxable returns by income classes.

Source: "Statistics of Income," pt. I, 1953.

The CHAIRMAN. Mr. Chumbris, representing Senator Langer.

STATEMENT OF PETER CHUMBRIS, SPECIAL ASSISTANT TO SENATOR WILLIAM LANGER

Mr. CHUMBRIS. Thank you, Mr. Chairman, and members of the committee.

Senator Langer wanted to be here today but he is in North Dakota due to Mrs. Langer's death, and I shall be very brief.

The amendment of Senator Langer is entitled "Allowances Received by Members of State Legislatures."

Gross income does not include any amount received by a member of the legislature of a State or territory as an allowance to defray expenses incurred in the conduct of his office.

Section (b). No deduction shall be allowed under any provision of this chapter for expenses paid or incurred by a member of the legislature of a State or territory in the conduct of his office in respect of which he has received an allowance to which subsection (a) applies, except to the extent such expenses exceed the amount of such allowance.

Senator Langer has 21 letters from members——

The CHAIRMAN. What does that mean exactly?

Mr. CHUMBRIS. In North Dakota the State legislators receive $300 salary. They also receive an allowance of $20 a day for the 60 days that they are in the State legislature.

A recent bill passed by the State of North Dakota acknowledges that it is a presumption of an expense and is not to be considered as income, and therefore it is not stated as gross income in the State income tax return.

However, the Federal Government has not classified that as an expense, and has required the State legislators to place that $1,200 as a gross income, and the purpose of this bill would be to place it in the category of an expense and to exclude it from the gross income in the Federal income tax return.

The CHAIRMAN. That is for all members of the legislature?

Mr. CHUMBRIS. Yes, and it would apply to all 50 State legislatures if they have the same system of salary plus an allowance for traveling expenses.

I would like to read briefly from several of the letters which would give the reasons for this.

Now, Representative Sophus From states:

In North Dakota, legislators receive $300 salary for a 60 day session of the legislature. They also receive a $20 a day expense allowance for living expenses. This amounts to $1,200.

Nearly every legislator has to hire extra help at home to take of his or her regular job. The allowance given legislators during the 60 days they are in session can in no way compensate them for the time and expenses they incur. The result is that most legislators have to dig down in their pockets to make up the difference.

Senator FREAR. Isn't that a deductible item, however, for any expense that they pay while they are in office to another person, Federal? You said that the Federal Government charges them, or makes them include this in their gross income, this $1,200, but it also allows as an offset or a deduction the amount that they would pay to any other person in performing duties that they might otherwise perform themselves.

Mr. CHUMBRIS. That is right, Senator Frear, except for this point that Representative Loewen makes in his statement as to what happened to him.

He states:

The district director at Fargo has ruled, for example, in my case to allow a mere $9 per day for 60 days as the total sum to be deducted from income tax.

Now, they have traveling expenses, long distance telephone calls during the 10 months they are not in session. Those are not permitted as deductions as far as the Internal Revenue has ruled especially at Fargo, N. Dak.

One other letter from Representative Byron Knutson. He states:

Expenses of a legislator occur not only during the time which is served in actual session, but continue on through the 2 years for which one is elected. Quite frequently one is asked for assistance, just as we do of you so often, on various matters. Very possibly it involves telephone usage and auto travel and rather than to have to keep accurate records of these minor expenses, which they are one by one, but in their entirety become surprisingly large, it is my hope that your amendment to H.R. 10 will get favorable support from the Members of the U.S. House and Senate.

I ask that these letters be made a part of the record, and Senator Langer urges favorable consideration of this amendment.

The CHAIRMAN. Please tell Senator Langer we will give the matter our best consideration.

(The letters referred to are as follows:)

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Casselton, N. Dak., March 31, 1959.

U.S. Senator WM. LANGER,
Washington, D.C.

DEAR BILL: Thank you for your letter regarding S. 779 and H.R. 10 which would exempt allowances received by members of the State legislatures from Federal income tax.

In North Dakota, legislators receive $300 salary for a 60-day session of the legislature. They also receive a $20 a day expense allowance for living expenses. This amounts to $1,200.

Nearly every legislator has to hire extra help at home to take care of his or her regular job. The allowance given legislators during the 60 days they are in session, can in no way compensate them for the time and expenses they incur. The result is that most legislators have to dig down in their pockets to make up the difference.

It would certainly be a great help if they did not have to pay a Federal income tax on the allowances they receive.

I would appreciate very much, anything that you may be able to do for the legislators in this way.

Sincerely,

SOPHUS FROM, *Representative.*

C. B. LOEWEN & SONS,
Hazen, N. Dak., March 31, 1959.

HON. WILLIAM A. LANGER,
Senate Building, Washington, D.C.

DEAR SENATOR LANGER: Thank you for your leter of March 26 relative to the amendment H.R. 10 which you now have pending before the Senate Committee on Finance.

I believe it would be well to point out to this committee that the expense allowance to the State legislator is the total expense allowed for a 2-year term. The district director at Fargo has ruled, for example, in my case to allow a mere $9 per day for 60 days as the total sum to be deducted from income tax. I am sure that you and the committee will recognize that this is absurd. We are all aware that a great deal of time is spent during the interim attending meetings, consulting constituents, etc. However, perhaps the greatest harm that comes from this ruling is that by not allowing the expense allowance to be deductible many young people are discouraged and cannot afford to take their place in State government. In my case I am certain that being away from my business for 2 months, along with all the other demands, results in a loss to me of about $1,000 each term I serve. In spite of this I am very happy to assume my responsibility to society and do all in my power to improve State government. However, I am very emphatically opposed to being additionally penalized by the Internal Revenue Department because of my interest in the affairs of government.

I sincerely hope these suggestions will be of assistance to you and I thank you very kindly for your interest in this matter.

Will you please keep me informed as to the progress of this bill?

Sincerely yours,

C. P. LOEWEN, *North Dakota Representative.*

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Harlow, N. Dak., April 1, 1959.

DEAR HON. SENATOR LANGER: Was very happy to hear you are continuing your fight to have the expense allowances for State legislators exempt from Federal income tax.

Thank you very kindly for your letter so informing.

It is my understanding that it is the portion of expense allowance that is not used, or receipts of expenditure of same are not available for, that must be reported on the return. Now this I feel is rather ridiculous as in the first place the daily salary is so small that if one is fortunate enough to be able to get by without going through the allowed expense account he should be entitled to the remainder of it without having to pay tax on it.

In the second place, expenses of a legislator occur not only during the time which is served in actual session, but continue on through the 2 years for which one is elected. Quite frequently one is asked for assistance, just as we do of you so often, on various matters. Very possibly it involves telephone usage and auto travel and rather than to have to keep accurate records of these minor expenses, which they are one by one, but in their entirety become surprisingly large, it is my hope that your amendment to H.R. 10 will get favorable support from the Members of the U.S. House and Senate.

Thanking you again for your good efforts, I remain,

Sincerely yours,

BYRON KNUTSON, *Representative.*

VALLEY CITY, N. DAK., *March 30, 1959.*

Hon. WM. LANGER,
Washington, D.C.

DEAR SENATOR LANGER: Your letter of March 26 relative to exempt allowance has been received. While the item is not a large one, nevertheless, it seems to me the service that the average State senator must perform during the interim runs into considerable and it would appear to me only reasonable to remove this little from any further consideration as an income taxable item.

During the 20 years that I have served as a State senator I can truthfully state that the moneys expended in behalf of the welfare of my State far exceed any income that I have derived as allowed by law. I am not complaining and if I had it all to do over again I would gladly serve my State without any compensation whatsoever, but, of course, others would not agree with me and it would not be the correct plan. Just a little encouragement to those who do give of their time for good government should not be out of line.

Trusting your health is good and that future work will continue sound and stable for our people and Nation.

Very sincerely,

P. S. FOSS, *Senator.*

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Dickinson, N. Dak., March 29, 1959.

Hon. WILLIAM LANGER,
U.S. Senate, Washington, D.C.

DEAR SENATOR LANGER: This will acknowledge receipt of your letter of the 26th relative to allowances received by members of State legislatures to be exempt from Federal income tax.

Personally I have always reported my salary in my income tax return, but never reported any expense allowances.

I believe that members of our Legislature of North Dakota serve more from a standpoint of service to the State and Federal Government rather than from any money-making means. Therefore, it is not asking for any special favor in asking exemption for allowances allotted.

In my opinion, your amendment is well taken and I commend you for your efforts on the part of our State legislators.

Thanking you kindly.

Yours very truly,

AMOS FREED.

P.S.—Kind personal regards.

AMOS.

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Velva, March 30, 1959.

Hon. WILLIAM LANGER,
Senate Office Building, Washington, D.C.

DEAR SENATOR LANGER: Thank you for your continued interest in North Dakota and her legislators.

As you probably already know, H.B. 707, which was passed by the house and senate and signed by the Governor, provides that attendance of legislators at assembly shall be conclusive presumption of expenditures of $1,200 expense allowance.

This, of course, excludes this allowance from State income tax and I certainly feel we should have the same exclusion from Federal income tax.

With best wishes for you and Mrs. Langer, I am,

Sincerely yours,

ISAK HYSTAD.

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Kindred, March 30, 1959.

Hon. WILLIAM LANGER,
Washington, D.C.

DEAR SENATOR LANGER: Received your letter today concerning amendment to H.R. 10 which would allow exemption from Federal income tax on expenses while at the legislature. This would be a great lift and a big help for me as these last years it has been rough for us farmers.

Anything that you can do for us will be appreciated by us here in North Dakota and have to congratulate you an your ability to get things done for the common man.

Sincerely,

Representative J. MILTON MYHRE.

VINJE DEPARTMENT STORE,
Bottineau, N.Dak., March 30, 1959.

Hon. WILLIAM LANGER,
Washington, D.C.

DEAR SENATOR LANGER: Having served several sessions in the North Dakota Legislature I think that it is only fair that some consideration be given to the members in the matter of exempting the small pay that we get, from income tax payments.

During the past two sessions we have received $5 per day as salary and $20 per day for expenses. With living costs as they are and the need to keep two places of residence, I know that you realize that it takes good management to break even. Many of us also need to have replacements in our line of work during the time that we are gone. It creates a real hardship to many farmers where they must hire a man to do their work while they are gone.

As the pay varies greatly between States, I presume that some reasonable amount should be exempt in all cases.

Your efforts to correct this situation will be greatly appreciated.

Yours very truly,

M. E. VINJE.

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Bismarck, March 30, 1959.

Senator WILLIAM LANGER.
Senate Office Building, Washington, D.C.

DEAR BILL: This will acknowledge your letter of March 26 advising that you introduced an amendment to H.R. 10 which is now pending before the Committee of Finance regarding the exemption of allowances for members of the legislatures. There is very little that I can do to help the committee except to tell you that the $1,200 allowance for the 60-day session is just about enough to pay Mrs. Patterson and eat with a reasonable degree of satisfaction and not have to be too dependent upon the lobbyists.

Thank you very kindly for your interest.

Yours very truly,

K. A. FITCH, *Representative.*

BOWMAN, N. DAK., *April 2, 1959.*

Hon. WILLIAM LANGER,
Washington, D.C.

DEAR SENATOR LANGER: I wish to thank you for the work you are doing in behalf of the legislatures as to expense accounts and income tax. I am sure you are aware of all the facts involved and will present them in a way that will be the most beneficial to our cause when you go before the committee.

I sincerely appreciate your efforts on our behalf.

Sincerely,

STANLEY J. MAIXNER,
Representative, 39th District.

ANDERSON IMPLEMENT CO.,
Upham, N. Dak., April 10, 1959.

Hon. WILLIAM LANGER,
U.S. Senate, Washington, D.C.

DEAR SENATOR LANGER: In regard to S. 779 and H.R. 10 I feel at times like we have now and living costs the way they are at the present that anybody representing the State of North Dakota in the house or senate should be exempt of allowances while serving in the legislature from Federal income tax.

With kind regards,
Sincerely,

EMIL ANDERSON.

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Bismarck, March 31, 1959.

Hon. WILLIAM LANGER,
U.S. Senate, Washington, D.C.

DEAR SENATOR LANGER: In reply to your letter of March 26 regarding the bill you introduced to exempt the State legislators from Federal income tax, I certainly want to commend you on introducing this bill as I think it is a fine thing for all concerned, and should get some consideration. Anything you can do to help put this bill through will certainly be appreciated.

Thanks very much for writing me.
Respectfully yours,

CHAS. F. KARABENSH,
Representative.

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Harvey, N. Dak., April 8, 1959.

Hon. WILLIAM LANGER,
U.S. Senate, Washington, D.C.

DEAR SENATOR LANGER: I appreciate the opportunity extended by you to voice my opinion in regard to S. 779, which would exempt allowances received by members of State legislatures from Federal income tax, and amends H.R. 10.

Past experience has pointed up the fact that the Members of Congress have problems, which are somewhat similar, such as operating two homes and offices while in session, and voted themselves a tax-exempt allowance. No more should it be expected that members of legislatures, who spend their time and effort in the cause of government, pay Federal income tax on the expense allowance received by them.

We here in North Dakota have a fine group of its citizenry in the legislature, irrespective of party affiliation. They would be proud and happy to serve even though an expense to them personally. Yet government should not be based upon that factor, nor should it be expected.

I can say from actual experience that the expense payment made to members of the Legislature of North Dakota meet only their daily operating needs, and the vast majority of them, because they are good citizens, pay out of their pockets to attend legislatives sessions.

Thus a minimum request of this nature ought to be given every possible consideration.

Yours very respectfully,

ALOYS WARTNER, Jr.

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Kenmare, N. Dak., April 1, 1959.

Hon. WILLIAM LANGER,
Washington, D.C.

DEAR SENATOR LANGER: Your letter of March 26 at hand where you stated that you had introduced S. 779 and that now you were going to introduce this as an amendment to H.R. 10.

We are very much interested in this and I feel I can speak for the many that this would help as you well know that it costs plenty as a member of the legislature.

With kindest regards,
Sincerely,

WALTER DAHLUND.

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Buxton, N. Dak., March 31, 1959.

Hon. WILLIAM LANGER,
U.S. Senate, Washington, D.C.

DEAR SENATOR LANGER: Received your letter in regard to income tax exemptions on legislative allowances. We receive $5 per day salary, plus $20 per day expense allowance for 60 days every 2 years. This is the entire amount received for services during the 2-year period.

During this 2-year period it is necessary, as a State senator, to attend various meetings and conferences pertaining to the welfare of the people and the State, for which we receive no additional compensation.

For this reason I believe that the $1,200 expense allowance should be deductible, preferably in the year it is paid or split $600 a year for 2 years.

Thank you for your interest.

With best personal regards to you and Mrs. Langer.
Sincerely,

JEROME NESVIG.

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Bowman, N. Dak., March 31, 1959.

Senator WILLIAM LANGER,
Washington, D.C.

DEAR SENATOR LANGER: I was most happy to receive your letter and to learn that you have again introduced legislation to exempt allowances received by members of State legislatures from Federal income tax.

I know you went to bat for us before and I am sure you are aware perhaps better than anyone else, the problems one has in serving in government on State and local levels. What with our inflated dollar and all.

I am sure you will do what you can for us and I would express my appreciation to you for your efforts.

I have another problem that I am asking you to help me with and I think you can do me some good. As you may not know, I have just returned from California where I sang on the Welk show again 2 weeks ago. While visiting with members of the band one of the members; namely, Pete Lofthouse, asked me because I am in the State senate to contact you in regard to Government lands in California which might be available for homesteads. I believe that the Government has made some lands available to veterans in certain areas. I

mentioned to Mr. Lofthouse that he might contact his own Senators but he insisted that I ask you if you could help him in this matter. Of course you will contact whomever you wish. This gentleman is interested in seacoast lands anywhere in California preferably in Ventura County. I know this is quite a favor to ask you but you can refer this letter to whomever you wish. This gentleman's name again is Pete Lofthouse, 8111 Varna Avenue, Van Nuys, Calif.

Thank you and best personal regard to you.

Very truly,

LELAND ROEN.

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Willow City, N. Dak., April 6, 1959.

Hon. WILLIAM LANGER,
U.S. Senator,
Senate Office Building, Washington, D.C.

DEAR SENATOR LANGER: Appreciated receiving your letter regarding your Senate bill 779 and your amendment to H.R. 10 which deal with exempting allowances received by members of State legislatures from Federal income tax.

I certainly hope that the Senate will see fit to act favorably on these two measures. I have no suggestions to offer you on this matter. I only wish to say "Thanks for your work and consideration in behalf of the members of the North Dakota Legislature."

Am very busy at this time making preparations for seeding my 1959 crop. The crop outlook is not too bright. The lack of fall rains and winter snow have made this area about as dry as it has ever been.

Again, thanks for your letter and your help on the above legislative matter.

Sincerely,

EDWIN C. BECKER, Jr.

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Bismarck, February 2, 1959.

Hon. WILLIAM LANGER,
U.S. Senator,
Senate Office Building, Washington, D.C.

DEAR SENATOR BILL: I was most happy to receive your wire of this a.m. and want you to know that I read it to the house assembly.

All of us are anxiously awaiting the arrival of a copy of the bill, and I am sure that you will hear from the majority of this body. As usual, I knew that when I called upon you that it would get your immediate attention, and I know that you will pursue it to the very end.

I trust that Mrs. Langer is resting as comfortably as possible under her condition, and that God in His infinite wisdom will spare her undue suffering.

Many thanks and my kindest personal regards.

Sincerely,

R. FAY BROWN, *Representative.*

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Bismarck, N. Dak., April 1, 1959.

Hon. WILLIAM LANGER,
U.S. Senator,
Senate Office Building, Washington, D.C.

DEAR SENATOR: Please accept my thanks for your letter of March 26, 1959, in which you informed me the steps you have taken in the matter of asking for legislation which would exempt allowances for expenses received by State legislators from Federal income tax.

In the past legislators were not exempted from such expense allowance. Naturally legislators have a great deal of expense in connection with their duties as legislators, which I feel should be exempt from Federal tax. Thanking you for the interest shown in this matter.

Sincerely,

FRED KRAUSE, Jr.

HOUSE OF REPRESENTATIVES,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Dazey, N. Dak., April 1, 1959.

HON. SENATOR LANGER: Have here your letter of March 26, in reference to legislators' expense allowance exemptions.

I am in full accordance with any legislation which would exempt allowances from Federal income tax. I have already found in my first term that a legislator is sacrificing valuable time at all times and has to put out cash the year around in fulfilling the duties and responsibilities of the work involved by a legislator.

I am a farmer and find myself working long hours to be able to devote some time in the interest of legislation to my constituents. Many times sacrifices have to be made at home, in behalf of civil as well as farm groups. You have my full support.

With kindest regards,

ERNEST N. JOHNSON, *Representative.*

SENATE CHAMBER,
36TH LEGISLATIVE ASSEMBLY,
STATE OF NORTH DAKOTA,
Alice, N. Dak., April 2, 1959.

Hon. Senator WILLIAM LANGER.

DEAR BILL: Thank you very much for your letter of March 26 in regard to legislative allowances for expenses during the session. I am very glad that you are working on this for us as of the Federal income tax on that expense allowance.

Last year the office at Fargo did not allow me exemptions on all of my board-and-room expenses and nothing for laundry and drycleaning. I think that the Internal Revenue Department should make the legislative expense allowance tax exempt when we have had a hard time to come out even during those sessions. You know, Bill, what it costs to live in Bismarck.

Thanks a lot for all the good work you are doing for North Dakota people in the U.S. Senate. I hope to be able to thank you personally one of these days.

Sincerely,

HARRY WADESON.

(By direction of the chairman, the following is made a part of the record:)

CAMPBELL, MCNEER, WOODS & BAGLEY,
Huntington, W. Va., August 6, 1959.

Hon. HARRY FLOOD BYRD,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: As cochairman for West Virginia of American Thrift Assembly and on behalf of lawyers of this State, I urge you and the other members of the Senate Finance Committee to vote in favor of H.R. 10.

Passage of this much needed relief to the self-employed who are permitted to save only after-tax dollars has already been too long delayed.

I would greatly appreciate your making this letter part of the printed record of the hearings on H.R. 10.

With high regards,

Sincerely,

ROLLA D. CAMPBELL.

AMERICAN LIFE CONVENTION,
Chicago, Ill.,
LIFE INSURANCE ASSOCIATION OF AMERICA,
New York, N.Y., August 11, 1959.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR: Enclosed is a statement submitted by the American Life Convention and the Life Insurance Association of America regarding H.R. 10, the Self-Employed Individual's Retirement Act of 1959.

We should deeply appreciate the inclusion of this statement in the permanent record of the hearings on H.R. 10.

Yours very truly,

AMERICAN LIFE CONVENTION,
CLARIS ADAMS,
Executive Vice President and General Counsel.
LIFE INSURANCE ASSOCIATION
OF AMERICA,
EUGENE M. THORÉ,
Vice President and General Counsel.

STATEMENT ON H.R. 10 SUBMITTED BY THE AMERICAN LIFE CONVENTION AND THE LIFE INSURANCE ASSOCIATION OF AMERICA BEFORE THE COMMITTEE ON FINANCE, U.S. SENATE, AUGUST 11, 1959

The American Life Convention and the Life Insurance Association of America are two life insurance company organizations with a combined membership of 280 companies domiciled in the United States and Canada, having in force 95 percent of all legal reserve life insurance in the United States and Canada.

Our two associations have examined the provisions of H.R. 10 respecting the use of life insurance and annuities as savings mediums for self-employed individuals. It is the view of our two associations that pensions should properly be provided through the individual initiative of our citizens, and that legislation to accomplish this purpose is in the public interest. As this legislation is designed to encourage that concept for certain of our self-employed citizens, by affording income tax incentives similar to those presently granted under employee welfare and pension plans, we basically favor the principles of this legislation. To carry out these purposes more effectively, we make the suggestions which follow.

Although these recommendations are for the most part technical in nature, we believe that they are important.

1. *Limitation of restricted retirement policies to contracts of domestic life insurance companies should be removed.*—At section 217 (e) and (f) of the bill, the terms "retirement deposit" and "restricted retirement policy" are limited with respect to insurance and annuity contracts to contracts which have been issued by domestic life insurance companies.

The only foreign life insurance companies of any size engaged in the business of life insurance in the United States are Canadian companies. Many U.S. life insurance companies do business in Canada. Canada has already enacted this type of legislation and U.S. companies are eligible to underwrite retirement contracts thereunder. A restriction to domestic life insurance companies serves no valid purpose and would create an unfortunate precedent for discriminating between life insurance companies based on their country of domicile.

It appears that the word "domestic" was an inadvertent error in the original bill and that it would very likely have been removed had there been opportunity for amendment when the bill was before the House. The parliamentary situation in the House, however, did not permit amendments. Sponsors of the bill in the House have stated that they are agreeable to the deletion of the word "domestic."

We urge that the word "domestic," which serves no valid purpose, be deleted from the bill and that the language thereof be changed to read at section 217(e)(2):

"* * * a [domestic] life insurance company (as defined in section 801) *authorized to do business in the United States*, as premiums under a restricted retirement policy issued on the life of a taxpayer, * * *"

and at section 217(f)(1)(A):

"* * * issued by a [domestic] life insurance company (as defined in section 801), *authorized to do business in the United States*, on the life of the taxpayer, * * *"

2. *Inclusion of certain group annuities and group permanent coverages within the meaning of restricted retirement policies.*—The bill is clear in allowing a deduction with respect to payment of premiums attributable to the savings element in a life insurance policy or for the payment of consideration for an annuity contract. No distinction is made by the terms of the bill with respect to the method of purchasing this coverage, whether it be purchased individually or through an association of persons similarly situated through the device of a group annuity contract or a group insurance policy. Some doubt, however, is thrown upon the use of group purchases of insurance by the terms of section 217(f)(3)(A)(i). This section provides, with respect to restricted retirement policies, that they must be nonassignable "and no person other than the insured shall have any of the incidents of ownership." It is possible that the holder of a group contract, a trustee for example, might be considered to have an incident of ownership, thereby disqualifying the individual's coverage as a "restricted retirement policy."

The use of group insurance and group annuity coverage for associations of professional people has had a steady growth in popularity in many areas throughout the country. Usually in such cases the contract holder is a trustee, foundation, or association but all of the premiums are paid by the individual members and all of the rights are exercised by them. The rights under the policy include the right to designate the beneficiary and to elect modes of payment.

The position of the trustee or association is purely administrative. However, under some points of view the trustee or association could be regarded as having some incidents of ownership and, in fact, title to the policy or contract does rest in the trustee or association. We believe that an amendment to permit the use by self-employed individuals of group coverages within the meaning of a restricted retirement policy would conform with the purposes of the bill. We therefore recommend that section 217(f)(3)(A)(i) be amended to read:

"* * * shall be nonassignable, and no person other than the insured shall have [any of the incidents of ownership] *the right to exercise any rights, options, designations, privileges or elections* * * *"

3. *Apparent double inclusion, in gross income, of amounts paid out with respect to deductions previously allowed under section 217 but not received as annuities.*—Section 78(b)(2)(B) specifically provides that amounts received under a restricted retirement policy before the annuity starting date shall be included in the recipient's gross income to the extent that they represent deductions which have previously been allowed under section 217. Section 78(b)(2)(C) provides, indirectly, for the same inclusions in gross income, by providing for the subtraction of such deductions previously allowed under section 217 from the "aggregate premiums or other considerations paid" determination for purposes of section 72(e)(1)(B).

Ordinarily, it would seem that this duplication of provisions could be interpreted merely as a redundancy of drafting, and that its elimination would be desirable only in the interest of conciseness. However, the duplication might not be quite so evident with respect to amounts received before the annuity starting date under contracts identified as restricted retirement policies only after they had been in force for some time (recognized by section 217(g)(1), and thus might be adversely construed in such cases. If so construed, amounts paid out under such policies before the annuity starting date with respect to deductions previously allowed under section 217 would be taxed once pursuant to section 78(b)(2)(B), and again (through subtraction from premiums not deducted under section 217) pursuant to section 78(b)(2)(C).

Therefore, one or the other of the two provisions should be omitted. Taking into account the fact that section 78(b)(2)(C) serves a double purpose under its subheadings (i) and (ii), perhaps the easiest way to effect such an omission is to delete entirely section 78(b)(2)(B), renumbering section 78(b)(2)(C) as 78(b)(2)(B).

4. *Cost or consideration attributable to values in a policy or contract in addition to amounts deductible under section 217.*—Section 217(g)(1) expressly recognizes the possibility that previously outstanding life insurance policies and annuity contracts may be designated or identified as restricted retirement policies, in which case no deduction is allowed under section 7 with respect to premiums paid for periods prior to such designation or identification. Presumably

these prior premiums, as well as later premiums to the extent that they are paid in excess of limits provided in section 217(b), are to be included in "the aggregate amount of premiums or other consideration" referred to in section 78(b)(2)(C). By being so included, they act to reduce the taxable portions of annuity benefits and of amounts received other than as annuities, except to the extent that they are found to be "properly allocable to other than the cost of restricted retirement benefits."

It appears, however, that this concept is not set forth with complete clarity in section 78(b)(2)(C) or in the House report on the bill. We therefore recommend that either section 78(b)(2)(C) or the Senate Finance Committee report specifically recite these and other special items of inclusion in, as well as the items of exclusion from, "the aggregate amount of premiums or other consideration" for the policy.

Specific reference to prior premiums is especially indicated by the dependence of section 78(b)(3)(A) upon section 78(b)(2)(C). Section 78(b)(3)(A) provides that amounts received under a life insurance contract by reason of the death of the insured shall, to the extent that they exceed the cash surrender value, be treated for tax purposes as provided in section 101. It appears that sections 78(b)(1) and (2) therefore apply to the cash surrender value. In so applying, the whole cash surrender value of the policy, including any portion thereof which may have existed at the time the policy became a restricted retirement policy, should be measured against the whole amount of premiums or considerations paid including any paid before the policy became a restricted retirement policy. Unfortunately, this is not clear in the bill as it passed the House. It would seem therefore that clarifying reference should be made in section 72(b)(2)(C) or in the Senate Finance Committee report, to the fact that aggregate premiums or consideration include amounts paid before the policy became a restricted retirement policy.

5. *Assignability for policy loans of restricted retirement policies.*—Section 78(b)(3)(B)(i), as proposed, would make clear that in a case of a restricted retirement policy if the policyholder needed to borrow on the policy in order to pay a current premium, he may do so without subjecting himself to tax on distribution at that time if he repays the loan in 12 months, and also that a policyholder may borrow from the insurer other portions of the value of his policy, subject to a tax only where the amount so borrowed exceeds the cash surrender value at the time the policy became a restricted retirement policy (see secs. 78(b)(3)(B)(i), and 78(b)(3)(B)(iii)). Thus the right to obtain a policy loan is recognized. However, proposed section 217(f)(3)(A)(i) states:

"(A) To meet the requirements of this paragraph, a policy—

"(i) shall be nonassignable, etc. * * * "

Many policies by their terms provide that the policy must be assigned to the issuing company in connection with a policy loan and, in fact, some State laws require that the policy loan be made "on proper assignment or pledge of the policy" (see e.g., New York insurance law, sec. 155.1(g)).

It is quite possible that a reading of the entire bill might convince those who will interpret and administer it that the requirement of section 217, that the policy not be assignable, must be read with the provisions of section 78(b)(3)(B) permitting policy loans and be limited thereby so that section 78(b)(3)(C) would not apply to assignments in connection with such loans. However, it seems most desirable that this language be clarified in order to eliminate any ambiguity and to avoid what is obviously an unintended conflict with standard policy provisions. We recommend that section 217(f)(3)(A)(i) (previously referred to in item 2 above) be further amended to read:

"(A) To meet the requirements of this paragraph, a policy—

"(i) shall be nonassignable *except to the insurer as security for a policy loan, etc.* * * *"

6. *Treatment of life insurance on termination of plan or disqualification of policy.*—In the event of ordinary savings program, money which is set aside may be simply left on account in the event the self-employed person becomes employed and is no longer entitled to use the benefits provided under H.R. 10. In the case of life insurance or annuities, however, there is a continuing obligation

to make payments if benefits are not to be lost. In other words, a restricted retirement policy would be a program of savings which could not simply be abandoned at the time of loss of eligibility and resumed at some later date. It seems desirable therefore that the bill should clearly provide for some means of dequalification of a life insurance contract so that a policy purchased for retirement purposes might be utilized for other purposes in the event the right to deduct the premiums has been lost, and should also make clear what treatment is to be accorded a "dequalified" policy. We urge that consideration be given to this point prior to enactment of the bill.

7. *Income on reserves held for restricted retirement policies.*—We also call the committee's attention to section 4(b) of the bill which provides that: "A restricted retirement fund * * * shall be exempt from tax under this subtitle * * *." Under this provision, the income from money held by banks as trustees of restricted retirement funds will not be taxed as corporate income. On the other hand, the income from money deposited with life insurance companies as premiums for restricted retirement policies will be taxed as income to the companies. The result will be to discriminate against those self-employed who choose to provide for their retirement through life insurance policies or annuities. Also, it will place life insurance companies at a competitive disadvantage. The problem here is similar to that which formerly existed in the employee pension field, and for like reasons is of concern to many of the companies. For a number of years, the income on reserves held by life insurance companies for insured employee pension plans was taxed as corporate income, although the income on such plans when funded through a bank or trustee was not so taxed. After a thorough study, Congress adopted provisions designed to correct this inequity in the recently enacted Life Insurance Company Income Tax Act of 1959. It would therefore appear that the committee should consider treating the income from reserves held by life insurance companies on resticted retirement policies in the same manner as section 4(b) of the bill would treat the income from money held by banks as trustees of restricted retirement funds.

HOUSE OF REPRESENTATIVES,
Washington, D.C., July 13, 1959.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The Wyoming State Dental Association has long been one of the ardent supporters of the Keogh-Simpson bill. They have asked that I convey this support to your committee so that it might be made a matter of record. I would appreciate this being done.

Thanking you, I am,
Very truly yours,

KEITH THOMSON.

ASSOCIATED RETAIL BAKERS OF AMERICA,
Chicago, Ill., July 20, 1959.

Hon. HARRY FLOOD BYRD,
Chairman, Committee on Finance,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: We respectfully submit for the record of your hearings on H.R. 10 the following declaration of policy which was adopted at the annual convention of the Associated Retail Bakers of America on April 15, 1959:

Retirement plans

"We favor legislation to provide for income tax deductions for amounts paid into retirement plans by unincorporated businessmen and other self-employed persons."

It will be appreciated if you will include this letter in the record.

Respectfully submitted.

WM. A. QUINLAN,
General Counsel and Washington Representative.

VIRGINIA VETERINARY MEDICAL ASSOCIATION,
Richmond, Va., July 28, 1959.

Hon. HARRY F. BYRD,
U.S. Senate,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: At a regular meeting of the Virginia Veterinary Medical Association held at Old Point July 19, 20, and 21, 1959, considerable debate was entered into regarding the Keogh-Simpson bill, H.R. 10, and a similar bill, S. 1979, introduced into the Senate by Mr. Smathers. The veterinary profession, and our association in particular, is keenly interested in both of these bills; and, as a result, the enclosed resolution was unanimously adopted.

We respectfully request your support for these bills and further request that the resolution enclosed be included in the record of the hearings dealing with this matter.

Thanking you for your consideration, I am,
Very truly yours,

GEORGE B. ESTES, D.V.M.,
Secretary-Treasurer.

RESOLUTION

Whereas under authority of the Internal Revenue Code millions of employees are permitted tax relief through creation of qualified pension funds; and

Whereas the extension of this tax-deferment benefit is denied numerous veterinarians and other self-employed persons, who instead must endeavor to obtain financial security in retirement out of earned income already seriously depleted by high tax rates; and

Whereas the Keogh-Simpson bipartisan bill H.R. 10, which passed the House of Representatives on March 16, 1959, and a similar bill, S. 1979, introduced by Senator Smathers, would alleviate this tax inequity by permitting the self-employed person to defer taxes each year on a limited amount of earned income paid by him into a retirement fund; and

Whereas the proposed legislation, H.R. 10 and S. 1979, is under consideration by the Senate Finance Committee: Now, therefore, be it

Resolved, That the Virginia Veterinary Medical Association in annual meeting assembled, July 19, 1959, endorses the proposed legislation and respectfully but strongly urges enactment by the Senate of the United States of this needed measure of tax justice; and be it further

Resolved, That a copy of this resolution be sent to the Honorable Harry Flood Byrd, chairman, Committee on Finance, U.S. Senate, and the Honorable A. Willis Robertson, Senators from Virginia.

HOUSE OF REPRESENTATIVES,
Washington, D.C., July 28, 1959.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Will you please accept this as my request that the enclosed copies of letters I have received from the Wyoming Stock Growers Association and the Wyoming Wool Growers Association, stating the enthusiastic support of these organizations for the Self-Employed Individuals' Retirement Act of 1959, be entered in the record in connection with your committee's consideration of this measure.

I should also like to ask at this time that the full support of the following other Wyoming associations and organizations for this legislation be made a matter of record for the committee's consideration: Wyoming Society of Professional Engineers; Wyoming State Medical Society; Wyoming Society of Certified Public Accountants; Wyoming State Bar Association; Wyoming Optometric Association; Wyoming Automobile Dealers' Association; Wyoming Real Estate Board; Wyoming Veterinary Medical Association; Wyoming State Bureau for Lathing and Plastering; Wyoming Pharmaceutical Association; Wyoming Chapter, American Institute of Architects; and Wyoming Funeral Directors' Association.

Thank you for your consideration.
Very truly yours,

KEITH THOMSON.

WYOMING WOOL GROWERS ASSOCIATION,
Rawlins, Wyo., July 21, 1959.

Hon. E. KEITH THOMSON,
House Office Building, Washington, D.C.

DEAR MR. THOMSON: In behalf of our association I wish to thank you for the effective support which you have given to the Self-Employed Individuals' Retirement Act of 1959. As you know, our association is much in favor of this legislation and we were very pleased when the House gave it such splendid backing.

We would appreciate it very much if you would have a copy of this letter entered in the record of the present proceedings before the Senate Finance Committee as evidence of the fact that our association is enthusiastically in favor of enactment of the Self-Employed Individuals' Retirement Act of 1959 and wholeheartedly urges that the members of the Senate Finance Committee give it their approval.

Sincerely,

J. NORMAN STRATTON.

WYOMING STOCK GROWERS ASSOCIATION,
Cheyenne, Wyo., July 21, 1959.

Hon. E. KEITH THOMSON,
House Office Building, Washington, D.C.

DEAR KEITH: May I take this opportunity to express the thanks and appreciation of the members of the Wyoming Stock Growers Association for the effective support you have given to the Self-Employed Individuals' Retirement Act of 1959. As you know, the association is very much in favor of this legislation and your assistance in the House is much appreciated.

May I suggest that you have a copy of this letter entered in the record of the present proceedings before the Senate Finance Committee as evidence of the of the fact that our association is enthusiastically in favor of enactment of the Self-Employed Individuals' Retirement Act of 1959 and wholeheartedly urges that the members of the Senate Finance Committee give it their approval.

Kindest regards,

FRANK C. MOCKLER, *President.*

ARKANSAS BAR ASSOCIATION,
OFFICE OF THE PRESIDENT,
July 30, 1959.

Hon. HARRY F. BYRD,
Senate Office Building, Washington, D.C.

DEAR SENATOR BYRD: I am writing you as president of the Arkansas Bar Association with reference to the Keogh-Simpson bill, H.R. 10. It is my understanding that this bill is to be discussed by your committee at an early date. It is needless for me to give you the details of the bill, because after 2 or 3 years' discussion it is certainly familiar to you.

It is hoped that you will give favorable consideration to a favorable report on this measure as early as possible. The bill enables a segment of our population to prepare for their old-age financial security, not given them under the present laws. It removes an inequality that presently exists. It appears to be a generous and democratic way of protecting those individuals eligible for it without further use of socialistic means to further their financial security.

Even though I am not a voter in your fair State of Virginia, I follow with pride your accomplishments in the Senate.

With my best wishes for your continued success, I am,

Yours sincerely,

WILLIS B. SMITH.

STATEMENT BY U.S. SENATOR JENNINGS RANDOLPH (DEMOCRAT, WEST VIRGINIA), TO SENATE COMMITTEE ON FINANCE IN SUPPORT OF H.R. 10 (KEOGH-SIMPSON BILL) AND S. 1979 BY SENATOR SMATHERS, BOTH TO EXCHANGE THE ESTABLISHMENT OF VOLUNTARY PENSION PLANS BY SELF-EMPLOYED INDIVIDUALS (JULY 30, 1959)

Mr. Chairman, and gentlemen of the Committee on Finance, I am grateful for the opportunity to add my endorsement for H.R. 10—the Keogh-Simpson bill to encourage the establishment of voluntary pension plans by self-employed individuals.

Similar meritorious and well-considered legislation has twice passed the House of Representatives. It now comes before your committee with the support of some 60 national business and professional associations and such nonprofessional organizations as the U.S. Chamber of Commerce and the American Farm Bureau Federation.

H.R. 10 provides for a much-needed step in the direction of a more equitable tax structure. It would offer to approximately 7 million independent business and professional people the right to set aside a portion of their earnings for retirement and security in their old age. This is substantially what already has been done for the 18 million employees who now are covered by voluntary payment plans.

In fiscal 1957 a total of $3.7 billion was contributed—largely by corporate employers—to private pension programs for the benefit of employees. This money was tax deductible to the employers and tax free to the employees. The pending measure is simply a long-overdue effort to redress the balance. It is an effort to provide more equitable tax treatment for self-employed men and women who are now precluded by law from participating in qualified pension plans.

There are three main arguments used against this bill, none of which seems to me to be on firm foundation in either logic or economics. The first is the old canard used in opposing constructive legislation during this session, namely, that it is inflationary. The effect of H.R. 10 would, in all likelihood, be a deterrent to inflation because the money put aside by individuals under the provisions of this legislation would go into savings and capital investment.

Secondly, it is argued that this measure would give preferred treatment to the self-employed professional and business persons over others not yet covered by such a program. This is the ill-advised concept that we must have a whole loaf or nothing at all, and it is simply an obstructionist gambit by those who oppose the bill. The pending plan is not an effort to revise the entire tax structure of the United States, but, rather, is an attempt to provide more equitable treatment for a large segment of our population.

Finally, it is argued by some persons that the loss of revenue involved will unbalance the budget. I suggest that a balanced budget is not the final touchstone of all administrative justice, and I suggest further that the administration and the Congress should look to means to hold the fiscal line other than by perpetuating inequities upon a large segment of the population.

In addition to the arguments of equity and the inducement toward savings which would result from the pending measure, there is yet another and more enduring factor indicating a need for passage of this bill. We have long acknowledged the independent business and professional person as one of the chief sources of strength and vitality in a democratic system. Yet, with the growing centralization of our economy, the increasing corporate mergers, and the inducements of corporate employment, we find many talented young professional and business people unwilling to accept the hazards of economic independence. In making possible some provision for their retirement, H.R. 10 would thus offer a genuine contribution to strengthening the position of constructive and creative segments of our population.

I trust that this committee will therefore make prompt and favorable report on H.R. 10.

MEMORANDUM ON BEHALF OF STANDARD & POOR'S CORP., RE H.R. 10 AND S. 1979, JULY 30, 1959

This organization, a New York corporation of 345 Hudson Street, New York, N.Y., is registered as an investment adviser with the Securities and Exchange Commission and in various States.

The foregoing bills would amend the Internal Revenue Code to permit the creation of pension plans by self-employed individuals. In their present form these bills are identical in content, the only difference being that H.R. 10 and S. 1979 would apply to taxable years beginning after December 31, 1958 and 1960, respectively.

Contributions to such plans would be deductible for tax purposes within certain defined limitations.

If these proposals are to be adopted, we urge that the public interest requires a change, quite simple in language, in the provisions applicable to those plans which involve "restricted retirement funds."

As presently worded, section 4 of each bill, headed "Restricted Retirement Funds," would amend section 405 of the Internal Revenue Code as follows (p. 24, lines 3 to 8, of both bills):

"(c) REQUIREMENTS FOR RETIREMENT PLAN.—A plan described in subsection (b) shall be treated as a retirement plan only if the requirements of paragraphs (1), (2), and (3) of this subsection are met:

"(1) TRUSTEE MUST BE BANK.—The trustee is a bank (as defined in section 581)."

Our suggestion is that the above paragraph (1) be eliminated and in lieu thereof there be substituted the following:

(1) CUSTODIAN MUST BE BANK.—The custodian is a bank (as defined in section 581), acting as such custodian in accordance with such regulations as the Secretary or his delegate shall prescribe."

This would also require a technical change in section 5 of the bills so as to amend proposed new section 6047(a), relating to information requirements, so that the same shall read as follows:

"(a) BANKS AND INSURANCE COMPANIES.—Every bank which is a [trustee] *custodian* of a restricted retirement fund (as defined in section 405), and every insurance company which is the issuer of a policy which is a restricted retirement policy (as defined in section 217(f)), shall file such returns (in such form and at such times), keep such records, make such identification of policies and funds (and accounts within such funds), and supply such information, as the Secretary or his delegate shall by forms or regulations prescribe."

We urge these changes for the following reasons:

1. The language now embodied in the above bills seems to leave open the questions whether a bank trustee, in addition to being the custodian, must also exercise advisory functions as well.

(*a*) We respectfully submit that the public interest requires that an individual contributor should not be restricted solely to the use of a bank as his investment adviser. He should be permitted as free a choice in that regard as in the selection of his own attorney to prepare his trust indenture.

(*b*) If the requirement remains that a bank must be the trustee, then the great number of banks who have not and cannot afford an advisory or research department would be excluded from participating in such service. The net result would be an accelerated concentration of management of pension funds in relatively few banks. Any bank, large or small, should be given the opportunity to act as a custodian and not be debarred from that activity merely because it does not have its own investment advisory or research department.

2. As we understand it, the reason for the present provision that the trustee must be a bank, is to assure appropriate recordkeeping, information, and segregation of funds for the protection of the Treasury Department. We respectfully urge that such requirements are fully met by making a bank the custodian without the necessity of making a bank also the trustee.

Our suggestion has ample precedent in the corporate pension field, where the popular vehicle of a self-administered plan usually has a bank as custodian, but very often designate trustees and/or advisers outside the banking field. There is nothing in the corporate pension field which requires that sole and entire authority as to investments must be in the hands of any single institution. Given a bank as custodian, there seems to be no valid reason why similar principles should not apply to the trust indentures of self-employed individuals.

We therefore respectfully urge that if either H.R. 10 or S. 1979 are to be adopted, our proposals should be incorporated therein.

Submitted by Standard & Poor's Corp., George C. Baron, Counsel.

MEMORANDUM

To Committee on H.R. 10, U.S. Senate, Senate Office Building, Washington, D.C.

HONORABLE SIRS: This memorandum is respectfully submitted to set forth a plan under which any program to permit individuals to establish their own pension funds would operate through U.S. Government bond channels, to the benefit of the United States.

THE PLAN

That Congress establish a U.S. Government retirement bond, at normal (or slightly below normal) interest rates.

That the purchase of these bonds would entitle the purchaser to an exemption from current year's income taxes in the amount purchased, so long as the bonds remained in force, and the purchase did not exceed 10 percent of income, or $3,000 for the year, or $50,000 total to the individual. The deduction would have to be accompanied by a slip attached to the bond when purchased, carrying the necessary certifications.

That these retirement bonds would be redeemable only at age 65, or in the event of certified complete disability.

That upon attaining the age of 65, or becoming disabled, the owner of U.S. Government retirement bonds may elect to cash his bonds held all at once, wherein the entire difference between his payments and receipts would be treated as a capital gain; or by cashing no more than 20 percent in any one year, wherein the enhancement would be treated as ordinary income. The cashing agency would be required to make a withholding deduction and would send a copy of the receipt to the proper taxing authority to insure against tax loss.

It would probably be sufficient penalty to hold that a purchaser of retirement bonds found ineligible to have them (i.e., already a member of a pension fund—purchase over allowed limits, etc.) would forfeit all interest and receive only the amount paid for the bond.

COMMENT

The purpose of this plan is to join any individual pensioning plan (H.R. 10, or 109, or 110) with a benefit to the U.S. Government in funding its long-term debt. Since several billions of dollars per year would be so invested at an average of approximately 25 years, the sum involved would be enormously beneficial. As you know, our Treasury has been having difficulty in this field.

For this reason, I have suggested the possibility of a slightly lower than normal interest rate. At the present time, for example, a 3-percent retirement bond would probably be sufficiently attractive.

There is no reason regular series bonds cannot be used for this purpose. However, I would think that it would avoid confusion and would have more appeal to the public to make a special retirement issue.

The basic plan would hold, no matter what interest rate, term, retirement age, or other element suggested would be used. I have presented what seems to me feasible, but these details are not generic to the idea.

While this would hardly be a reason for so doing, I am sure that the Government would accrue a considerable gain in uncollected bonds. I think that such gain belongs to the Government.

I wish to close with the statement that I am a private citizen, with no interest in this matter except insofar as such a plan can be helpful. I am covered by my company's pension and profit-sharing plan and would not be eligible for the bonds I propose.

Sincerely,

ARTHUR GARSON,
180 Madison Avenue, New York City.

STATEMENT SUBMITTED BY HENRY LAVIN, CHAIRMAN, LEGISLATIVE COMMITTEE, ELECTRONIC REPRESENTATIVES ASSOCIATION, CHICAGO, ILL., ON H.R. 10 AND S. 1979

This statement is submitted on behalf of the Electronic Representatives Association which is composed of some 600 manufacturers' representative firms in the electronics field, numbering well over 2,000 employees. Because of the technical nature of our chosen field, it is mandatory that most of us have a high degree of technical and engineering knowledge, and that we invest substantial capital, both in manpower and in supporting equipment. While a number of our members are incorporated, the majority are not, and would thus benefit greatly from the passage of this legislation.

Because you have had a mountain of testimony of the merits of this legislation, we shall not take the committee's time to repeat them. We wish only to make two important points.

The first of these concerns the valid question raised by Senator Bennett in the hearings on July 15, at which time he expressed his concern that the passage of H.R. 10 (or S. 1979) would create an inequity, as well as eliminate one. Properly, we feel, the Senator pointed to the fact that the bill does not contain any provision making it mandatory that retirement income benefits must be extended to all employees if the self-employed employer wishes to have this benefit. He pointed out that this situation was quite unlike the case of corporations, where all employees (in general) must be offered the chance to participate in the retirement plan before it will be qualified by the Internal Revenue Service.

We want to go on record here and now as definitely favoring an amendment to H.R. 10 which would require that any moneys set aside for retirement purposes under this legislation must be invested in a pension plan which makes provision for the retirement needs of the employees of the self-employed employer (providing he has employees). Perhaps it would be wise to impose the same requirement applicable to corporation retirement plans—qualification through the Internal Revenue people—or whatever other method the committee might deem adequate. Regardless of the method, we want you to know that we too, are concerned about the 32 million employees who are neither covered by retirement plans, nor are among the 7 million self-employed. Many of these employees, we are sure, work for nonincorporated businesses, and it is in our best interest that we broaden retirement coverage as widely as possible. We are in high hopes that Senator Bennett will introduce an appropriate amendment to bring about this situation.

Secondly, we are convinced that the revenue estimated to be lost under this legislation—some $600 million, says the Treasury Department—is actually a sound investment in the future economic health of this country, and one which will yield great dividends. As the chairman of the committee has said, the problem of retirement is an increasing one, and it seems to us that any measures taken now which will pay benefits later, when the problem is even more acute, is genuinely in the public interest. Certainly this was the thinking of the Congress in 1942 when it authorized the corporate plans, and these have already proven their worth. We respectfully submit that a measure which will supplement social security benefits, and provide more of the fullness of life to at least a part of the 39 million not covered by corporate plans, is worth many times its present cost in terms of future dividends for our citizens, and our economy.

If this short-term revenue loss is viewed instead as a capital investment in America's future, we think the statistics will show that it will appreciate considerably over a 10-year period, and longer, and that it will afford substantial benefits to those who can take advantage now of compounded interest and appreciation on a long-term basis. Immediate revenue loss is important, of course, but we submit that its significance pales when viewed in the light of an adequate living standard for our growing numbers of senior citizens.

We thank you for the opportunity to present this testimony and will be happy to provide any statistical or other data which the committee might desire.

STATEMENT OF DON E. MOWRY, NATIONAL WHOLESALE FURNITURE SALESMEN'S ASSOCIATION, FOR THE RECORD OF THE HEARINGS BEFORE THE SENATE FINANCE COMMITTEE ON SMATHERS, KEOGH, AND SIMPSON BILLS

The National Wholesale Furniture Salesmen's Association appreciates this opportunity to submit a statement in support of the Smathers-Keogh-Simpson bills.

Our office is located in Chicago, Ill., which is centrally located because our members travel the width and breadth of the country. Our membership consists of 6,000 salesmen whose average income varies between $6,000 and $7,000. I am certain that you will agree that we definitely are not in the upper income bracket.

With an income like this our members would not be able to put aside large amounts. They would be inclined, however, to develop the habit of thrift and a serious interest in planning for their retirement years. We should keep in mind that these men as a result of ambition, future experience, etc., should eventually improve on their income and having been able to develop the thrift habit they could be in a position to allocate a larger sum toward retirement programs—which will make it possible for them to rely on their savings rather than the Government in their later years.

Our association has been earnestly looking forward to the passage of this legislation for a number of years. It has been discouraging to us and I am certain to many other self-employed who realize that they are not receiving tax treatment comparable to that given corporation employees.

I hope that the members of this committee will consider the effect on the morale of the self-employed who comprise a very important part of this country's citizenry. It is our feeling that passage of this bill will show an act of faith on the part of Members of the Congress in the well-being of their constituents who are self-employed and an integral part of the backbone of America.

STATEMENT OF JAMES F. REILLY, NATIONAL ASSOCIATION OF THE LEGITIMATE THEATRE, INC.

My name is James F. Reilly. I am executive director of the National Association of Legitimate Theatres, Inc., with offices at 137 West 48th Street, New York, N.Y., and as such represent the largest segment of the living theater in the United States. This organization numbers among its active members practically all the producers of legitimate plays and operators of legitimate theaters throughout the land.

In addition to producers and operators, others whose livelihood is gained from the legitimate theater, including authors, directors, designers, lyricists, choreographers, are largely self-employed, and as such are vitally interested in legislation to establish individual voluntary pension plans.

In the theater all those who contribute to the production and display of a show are self-employed, save the few individuals who are on a flat salary basis. However, the means of livelihood, to all concerned, would be denied were it not for the ingenuity, determination, and initiative of the true entrepreneurs of the theatrical industry—the producers. They are in every sense self-reliant businessmen, in most cases small, and must assume all the risks in an industry whose hazards are without peer. Operating mainly through the vehicle of a limited partnership agreement (Uniform Limited Partnership Act), this small group of undaunted businessmen make possible an American legitimate theater, which has given so much enjoyment to millions throughout the world, and of which the country can be justly proud.

It has been my privilege to appear before this committee, and the Committee on Ways and Means of the House of Representatives, on several prior occasions for the purpose of seeking equitable tax treatment for the living theater. On such occasions I have sought the removal of excise taxes, as they apply to the legitimate theater, and in support thereof have described the declining economic well-being of the theater. While the purview of this bill does not extend to excise taxes, I believe that a brief review of financial conditions is germane to an understanding of why the self-employed of the theater support this measure.

In 1953 Dr. O. Glenn Saxon, professor of economics, Yale University, prepared an economic survey which accurately detailed the then current conditions and economic trends within the theater. It should be noted that in the intervening years there has been a very modest increase for the better in certain phases of

the theatrical industry. Such resurgence was largely attributable to a 10-percent tax reduction, granted in recognition by Congress of the industry's plight. However, with minor exceptions, the situation in the theater today parallels that depicted by Dr. Saxon in 1953. A few highlights of Dr. Saxon's report indicate that the annual number of shows on Broadway had declined by 68 percent since 1932, and that Broadway production showed an overall net loss in the years 1951 and 1952, which totaled nearly $3 million per year.

While in the past several years Broadway losses have been cut to less than $2 million, there is very obviously still room for a great deal of improvement. It should be noted that the outstanding hits now playing on Broadway create a popular conception of prosperity in the theater, whereas in fact these shows are in the definite minority from the standpoint of their realizing financial profit. Other factors which have contributed to the theater's unstable economic position are the competition with free radio and television entertainment, competition with the now almost tax free and lower priced movies and, lastly, skyrocketing union wages, production, and operating costs.

The end result of these conditions is the ever-increasing scarcity of employment for the individuals for whom I speak today. The problem the living theater faces is in securing and keeping talented persons who are willing to be the employers of their own talents and energies, in maintaining the high state which this particular type of performing art has achieved in this country. However, we find ourselves in competition with radio, TV, and movies, where the individual can enjoy the security of corporate employment with all its attendant benefits and retirement safeguards. We honestly believe that if this legislation were passed, it would encourage the creators of theater to remain self-employed—the only state of existence completely conducive to free expression.

The story of the aged, impoverished theater personality eking out a bare existence, which has been the subject of books, plays, and movies, is repeated in real life more times than we wish to admit. However, given the opportunity and incentive by this legislation, the self-employed of the stage could provide for a safe and secure old age on the basis now available only to his employed counterpart. It is submitted that the deduction for retirement allowed by this bill would in many cases represent the margin of difference between being able, or unable, to live in modest circumstances after their stage careers were concluded.

Another consideration which cannot be overlooked in encouraging the continued quality and vigor of the theater is its unquestioned contributions to our national culture, and our reputation abroad as a whole society, interested not only in things material, but also in expressions of the spirit. It is paradoxical that the legitimate theater, the natural fountainhead of actors and artists through the entertainment world, should be the one media least favored by a Government obviously interested in the protection and encouragement of the arts. I trust that this committee will find in the pending legislation an equitable, logical, and eminently reasonable means by which to aid and assist those who are striving to assure that the American theater shall lose no ground, either qualitatively or quantitatively in its efforts to create an even more perfect state of the art.

In passing, I would like to note that there is another inequity under which the self-employed of the theater labor, which is the problem of widely fluctuating incomes. There have in the past been introduced bills which would allow persons faced with this problem to average their income over a period of years for purposes of calculating the amount of tax thereon. Probably in no industry outside the theater is the problem of widely fluctuating income more acute. We trust that in the future this committee will give its most serious consideration to ameliorating this difficulty which is so peculiar to the theater.

We honestly hope that this committee, recognizing that the existing revenue statutes blatantly discriminate against our self-reliant citizens vis-a-vis his employed neighbor, will remove this long existing inequity. We make these comments in the interest of millions of self-employed Americans, including not only those associated with the theater, but the farmers, druggists, ranchers, real estate men, lawyers, salesmen, doctors, dentists—in short, independent people of every kind and description.

We in the National Association of the Legitimate Theatre have followed this legislation with great interest from the first days when a similar bill was introduced by the late Congressman Daniel Reed to the present measure now before this committee. Personally and on behalf of those for whom I speak, I would

like to record our admiration for the work of these determined legislators who have made this measure possible, namely, Congressman Reed, Congressmen Eugene Keogh and Richard Simpson, and Senators George Smathers and Thruston Morton.

I express the sincere gratitude of the hundreds of self-employed in the legitimate theater for the opportunity which this committee has afforded us to record our sentiments on this important legislation.

The CHAIRMAN. This concludes the hearing.

(Whereupon, at 12:45 p.m., the committee adjourned.)