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Retirement Benefit Plan for Lawyers

Dicta Editorial Board

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RETIREMENT BENEFIT PLAN FOR LAWYERS

Upon the recommendation of the Committee on Taxation, the Board of Governors of the Colorado Bar Association unanimously adopted a resolution favoring the enactment of pending bills in Congress providing for a retirement benefit plan for professional and other persons having earned income and who are not employed by a corporation. The members of the Denver Bar Association have adopted a similar resolution.

There is a great need for tax legislation permitting a professional man to provide a retirement fund for himself similar to those now available to employees and executives of corporations under various pension plans. Support in the last two years has gained momentum for the enactment of such legislation. The Keogh and Reed Bills H.R. 4371 and H.R. 4374, respectively, were introduced in Congress last year. These two bills are presently being considered by the Ways and Means Committee.

These two bills have been approved in substance by many professional associations including, in addition to the American Bar Association, the American Medical Association, the American Institute of Accountants, the American Dental Association, the Authors League of America, Inc. and many others.

It is stated in the report of the Special Committee on Retirement Benefits of the American Bar Association:

"The Internal Revenue Code by Section 165 now encourages stockholders to provide retirement benefits for the officers and employees of corporations by permitting tax deductions for the contributions made by the corporations and by permitting income of qualified pension plans to be tax exempt. No such tax benefits in any form are granted by the law to professional men or the other recipients or earned income.

It is becoming increasingly difficult for professional men and other members of this group to save enough to provide adequate retirement benefits and protection on death. This difficulty unquestionably will be increased as income tax rates increase.

Your Committee believes that, from the standpoint of society, it is of the utmost importance to encourage young men to enter into the professions and into self-employed work. Yet the policy of society, as shown by the acts of Congress, instead of granting encouragement to this group, tends to do exactly the reverse and to make more attractive the employment by large corporations. This, we believe to be against public interest."

The gist of these bills is to permit a taxpayer who is a member of a *bona fide* agriculture, labor, business, industrial or professional association to pay into a trust fund forming a part of

a retirement plan, an amount in any one year not to exceed 10% of his earned net income (but in no event more than \$7,500.00 per year) which would be deductible for income tax purposes. The trustee must be a bank which is a member of the Federal Reserve System. The trustee would invest the funds in securities legal for trust fund investment. The earnings and income of the trust fund would be exempt from Federal Income Tax. On retirement or death of the beneficiary, the amount invested by a taxpayer together with the earnings would be paid out according to several alternative plans. The interest of a taxpayer in the fund may not be distributed to him before age 60 except in case of total or permanent disability. Upon reaching age 60 the taxpayer may elect distribution in either:

1. A lump sum;
2. Annual installments over a period of years, or
3. The purchase by the trustee in the name of the member of one or more singular premium, non-commutable life annuity contracts.

Upon distribution, the fund would be subject to Federal Income Tax. If the taxpayer elects to take his interest in a lump sum, the entire sum would be taxed as a long term capital gain. Any other method of distribution would be fully taxable as ordinary income.

This legislation is vitally necessary for professional men who cannot be covered by pension plans. Congressmen should be contacted by everyone so that this legislation may be reported out of the Ways and Means Committee with or without a hearing. The Committee on Taxation earnestly requests that each reader of "Dicta" write his Congressmen today.

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