3830. What is a controlled group of corporations?

The term controlled group is used to determine who makes up the group of employees that will be subject to the IRC’s coverage, nondiscrimination testing, and most qualification requirements. All employees of a single employer generally are included in this testing. The controlled group rules aggregate several entities (e.g., partnerships, sole proprietorships, and corporations) into a single employer for purposes of meeting various qualification requirements of the IRC. All employees of a group of employers that are members of a controlled group of corporations or, in the case of partnerships and proprietorships, are under common control will be treated as employed by a single employer.[[1]](#footnote-1) In general, the determination of whether a group is a controlled group of corporations or under common control is based on stock ownership by value or voting power.

A controlled group may be a parent-subsidiary controlled group, a brother-sister controlled group, or a combined group.[[2]](#footnote-2)

A parent-subsidiary controlled group is composed of one or more chains of subsidiary corporations connected through stock ownership with a common parent corporation. A parent-subsidiary group exists if at least 80 percent of the stock of each subsidiary corporation is owned by one or more of the other corporations in the group and the parent corporation owns at least 80 percent of the stock of at least one of the subsidiary corporations. When determining whether a parent owns 80 percent of the stock of a subsidiary corporation, all stock of that corporation owned directly by other subsidiaries is disregarded.

A brother-sister controlled group consists of two or more corporations in which five or fewer persons, individuals, estates, or trusts own stock consisting of 80 percent or more of each corporation and more than 50 percent of each corporation when taking into account each stockholder’s interest only to the extent he or she has identical interests in each corporation. For purposes of the 80 percent test, a stockholder’s interest is considered only if he or she owns some interest in each corporation of the group.[[3]](#footnote-3)

A combined group consists of three or more corporations, each of which is a member of a parent-subsidiary group or a brother-sister group and one of which is both a parent of a parent-subsidiary group and a member of a brother-sister group.[[4]](#footnote-4)

Special rules apply for determining stock ownership, including special constructive ownership rules, when determining the existence of a controlled group.[[5]](#footnote-5) Community property rules, where present, also apply.[[6]](#footnote-6) For purposes of qualification, the test for a controlled group is strictly mechanical; once the existence of a group is established, aggregation of employees is required and will not be negated by showing that the controlled group and plans were not created or manipulated for the purpose of avoiding the qualification requirements.[[7]](#footnote-7)

1. . IRC Secs. 414(b), 414(c). [↑](#footnote-ref-1)
2. . Treas. Reg. §1.414(b)-1. [↑](#footnote-ref-2)
3. *. U.S. v. Vogel Fertilizer Co.*, 455 U.S. 16 (1982); Treas. Reg. §1.1563-1(a)(3). [↑](#footnote-ref-3)
4. . IRC Secs. 414(b), 1563; Treas. Reg. §1.414(b)-1. [↑](#footnote-ref-4)
5. . IRC Sec. 1563(d); Treas. Reg. §1.414(b)-1. [↑](#footnote-ref-5)
6. *. Aero Indus. Co., Inc. v. Comm.*, TC Memo 1980-116. [↑](#footnote-ref-6)
7. *. Fujinon Optical, Inc. v. Comm.*, 76 TC 499 (1981). [↑](#footnote-ref-7)