**8788. How is the treatment of transactions between corporations impacted by membership in a controlled group? How are corporate members of a controlled group taxed?**

IRC Section 482 allows the IRS to distribute, apportion or allocate income, deductions, credits or allowances among a controlled group of corporations (see Q 8787) in order to prevent tax evasion or to more accurately reflect the actual income of the entity. While the provision applies to all entities, it is especially relevant in the context of a corporation that may engage in transactions with other corporations in the controlled group that are not considered to be arm’s length. In such a situation, special rules may govern transactions that take place between members of the controlled group.

To reflect the fact that such a sale or exchange between members of a controlled group may not have resulted from arm’s length negotiations, loss on a sale or exchange (other than of inventory) between two corporations that are members of the same controlled group (using a 50 percent test instead of 80 percent, see Q 8787), though generally not denied, is deferred until the property is transferred outside the controlled group.[[1]](#footnote-1)

Further, the controlled group rules prevent a single business owner from taking advantage of the graduated rate schedule that applies to corporations through use of multiple corporations that would spread taxable income among corporations in order to cause all income to become subject to the low 15 percent corporate tax rate.[[2]](#footnote-2) Similarly, a controlled group of corporations is entitled to only one accumulated earnings tax credit (Q 8783) and only one $40,000 AMT exemption (Q 8785).[[3]](#footnote-3)

1. . IRC Sec. 267(f). [↑](#footnote-ref-1)
2. . IRC Sec. 1561(a)(1). [↑](#footnote-ref-2)
3. . IRC Sec. 1561(a)(2), (3). [↑](#footnote-ref-3)