

## **Plan Definitions**

### **CONTROLLED GROUP**

The Internal Revenue Code requires that all employees of employers that are members of a "controlled group" of employers are to be treated as a single employer for purposes of plan qualification, coverage, and participation, vesting, and benefits and contributions.

Generally, a controlled group exists when owner(s) of one employer also own a controlling interest in another employer. The employers can be corporations, partnerships and sole proprietorships.

A "controlling interest" for a corporation is 80% of the voting power or value of the stock of the corporation. For a partnership, a controlling interest is ownership of at least 80% of the profits of capital interest. For a sole proprietorship, it is 100% ownership of the business.

There are several types of controlled groups:

- a) Parent: subsidiary (control through organizations)
- b) Brother: sister (control by the same 5 or fewer individuals): and
- c) Combined groups: control involving three or more employees as a combination of a) and b).

### **AFFILIATED SERVICE GROUP**

For the same purpose as are listed above for controlled groups, the Code requires that all employees of employers who are members of an Affiliated Service Group (ASG) be treated as employed by a single employer.

As ASG consist of a service organization (see definition below) and one or more of the following:

- a) Any other service organization which is a shareholder or partner in the first organization and which regularly associated with the first organization or is regularly associated with the first organization in performing services for third parties.
- b) Any other organization if (a) a significant portion of the business of the organization is the performance of services for the first organization, for a service organization described in (1), or both, of a type historically performed in the service field by employees, and (b) at least 10% of the interests of the organization is held by persons who are officers, highly compensated employees or owners of the first organization described in (1).

A service organization is a corporation, partnership or other organization the principal business of which is the performance of services.

THIS IS NOT A COMPLETE DISCUSSION OF THE CONTROLLED GROUP AND ASG RULES. SINCE THE RULES GOVERNING CONTROLLED GROUPS AND AFFILIATED SERVICE GROUPS ARE COMPLEX, PLEASE CONTACT US IF YOU SUSPECT THAT THE EMPLOYER IS A MEMBER OF EITHER A CONTROLLED GROUP OR AN ASG.