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## Affiliated Service Groups (IRC §414(m))

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The term "affiliated service group" involves two (or more) organizations. The service organization (the one providing the services) is commonly called the "first service organization" (or FSO). The second organization (the one receiving the services) is any one meeting the definitions of 1, 2, or 3, as follows:

1. Any service organization which:
  - a. is a shareholder or partner in the FSO, and
  - b. regularly performs services for the FSO or is regularly associated with the FSO in performing services for third persons.
2. Any other organization, if:
  - a. a significant portion of the business of such organization involves the performance of services (for the first organization, for organizations described in the Controlled Group section, or for both) of a type historically performed in such service field by employees, and
  - b. 10% or more of the interests (in the aggregate) in such organization is held by Highly Compensated Employees of the FSO or an organization described in the Controlled Group section.<sup>1</sup>
3. Certain other groups performing management functions, including
  - a. an organization the principal business of which is performing, on a regular and continuing basis, management functions for one organization (or for one organization and other organizations related to the one organization), together with
  - b. the organization (and related organizations) for which such functions are performed by the organization.

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1. Reg. 1.414(m)-2(c)(1)

By "organization", the IRS means a corporation, partnership, or other organization. By "service organization", the IRS means an organization principally providing services in certain fields (law, health, etc), or if capital is not a material income-producing factor for the organization.<sup>2</sup>

Family Attribution rules apply in determining Affiliated Service Groups.

Because part of the Affiliated Service Group determination is subjective, an attorney is nearly always needed in order to make an accurate determination.

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2. Proposed Reg. 1.414(m)-2(f), which taxpayers may rely on until final regulations are published. Also see Rev. Rul. 81-105, 1981-1 C.B. 256.