§1.414(r)-4 Qualified separate line of business—fifty-employee and notice requirements.

(a) In general. This section sets forth the rules for determining whether a separate line of business (as determined under §1.414(r)-3) satisfies the 50-employee and notice requirements of §1.414(r)-1(b)(2)(iv)(B) and (C), respectively.

(b) Fifty-employee requirement. A separate line of business satisfies the 50-employee requirement of §1.414(r)-1(b)(2)(iv)(B) for a testing year only if on each day of the testing year there are at least 50 employees who provide services to the separate line of business for the testing year and do not provide services to any other separate line of business of the employer for the testing year within the meaning of §1.414(r)-3(c)(3). For this purpose, all employees of the employer are taken into account (including collectively bargained employees), except employees described in §1.414(q)-1, Q&A-9(g)(i.e., the same employees, subject to certain modifications, who are excluded in determining the number of employees in the top-paid group under section 414(q)(4)).

(c) Notice requirement—(1) General rule. A separate line of business satisfies the notice requirement of §1.414(r)-1(b)(2)(iv)(C) for a testing year only if the employer notifies the Secretary that it treats itself as operating qualified separate lines of business for the testing year in accordance with §1.414(r)-1(b). The employer’s notice for the testing year must specify each of the qualified separate lines of business operated by the employer and the sections or sections of the Code to be applied on a qualified-separate-line-of-business basis. See §1.414(r)-1(c). The employer’s notice must take the form, must be filed at the time and the place, and must contain any additional information prescribed by the Commissioner in revenue procedures, notices, or other guidance of general applicability. No other notice, whether actual or constructive, satisfies the requirement of this paragraph (c).

(2) Effect of notice. Once an employer has provided the notice prescribed in this paragraph (c) for a testing year, and the time for filing the notice for the testing year has expired without its being modified, withdrawn, or revoked, the employer is deemed to have irrevocably elected to apply the requirements of the section or sections of the Code specified in the notice separately with respect to the employees of each qualified separate line of business.

§1.414(r)-3 Fifty-employee requirement.

(a) In general. This section sets forth the rules for determining whether a separate line of business (as determined under §1.414(r)-3) satisfies the 50-employee and notice requirements of
Internal Revenue Service, Treasury

§ 1.414(r)–5 Qualified separate line of business—administrative scrutiny requirement—safe harbors.

(a) In general. A separate line of business (as determined under §1.414(r)–3) satisfies the administrative scrutiny requirement of §1.414(r)–1(b)(2)(iv)(D) for a testing year if the separate line of business satisfies any of the safe harbors in paragraphs (b) through (g) of this section for the testing year. The safe harbor in paragraph (b) of this section implements the statutory safe harbor of section 414(r)(3). The safe harbors in paragraphs (c) through (g) of this section constitute the guidelines provided for under section 414(r)(2)(C).

A separate line of business that does not satisfy any of the safe harbors in this section nonetheless satisfies the requirement of administrative scrutiny if the employer requests and receives an individual determination from the Commissioner under §1.414(r)–6 that the separate line of business satisfies the requirement of administrative scrutiny.

(b) Statutory safe harbor—(1) General rule. A separate line of business satisfies the safe harbor in this paragraph (b) for the testing year only if the highly compensated employee percentage ratio of the separate line of business is—

(i) At least 50 percent; and

(ii) Non more than 200 percent.

(2) Highly compensated employee percentage ratio. For purposes of this paragraph (b), the highly compensated employee percentage ratio of a separate line of business is the fraction (expressed as a percentage), the numerator of which is the percentage of the employees of the separate line of business who are highly compensated employees, and the denominator of which is the percentage of all employees of the employer who are highly compensated employees.

(3) Employees taken into account. For purposes of this paragraph (b), the employees taken into account are the same employees who are taken into account for purposes of applying section 410(b) with respect to the first testing day. For this purpose, employees described in section 410(b)(3) and (b)(4) are excluded. However, section 410(b)(4) is applied with reference to the lowest minimum age requirement applicable under any plan of the employer, and with reference to the lowest service requirement applicable under any plan of the employer, as if all the plans were a single plan under §1.410(b)(6)(2). The employees of the separate line of business are determined by applying §1.414(r)–7 to the employees taken into account under this paragraph (b)(3). An employee is treated as a highly compensated employee for purposes of this paragraph (b) if the employee is treated as a highly compensated employee for purposes of applying section 410(b) with respect to the first testing day. For the definition of “first testing day,” see §1.414(r)–11(b)(7).

(4) Ten-percent exception. A separate line of business is deemed to satisfy paragraph (b)(1)(i) of this section for the testing year if at least 10 percent of all highly compensated employees of the employer provide services to the separate line of business during the testing year and do not provide services to any other separate line of business of the employer during the testing year within the meaning of §1.414(r)–3(c)(5).

(5) Determination based on preceding testing year. A separate line of business that satisfied this safe harbor for the immediately preceding testing year (without taking into account the special rule in this paragraph (b)(5)) is deemed to satisfy the safe harbor for the current testing year. The preceding sentence applies to a separate line of business only if the employer designated the same line of business in the immediately preceding testing year as in the current testing year and either—

(i) The highly compensated employee percentage ratio of the separate line of business for the current testing year


§ 1.414(r)–5

967