

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

www.irs.gov/newsroom

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IRS Releases Final Draft Schedules M-3 for 2006

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WASHINGTON — The Internal Revenue Service today released final drafts of Schedules M-3 and Form 8916 for the 2006 tax year, and a new Form 8916-A, “Reconciliation of Cost of Goods Sold Reported on Schedule M-3.” The final draft Schedules M-3, dated 6/27/06, are for Forms 1120, 1120-L, 1120-PC, 1120S and 1065. Draft instructions for the forms were also released.

The final drafts incorporate additional suggestions and recommendations offered by stakeholders in response to the last set of drafts issued in April, 2006. Among the changes:

- The new Form 8916-A provides a uniform and consistent manner for taxpayers to reconcile cost of goods sold that they report in Part II of Schedule M-3 for Forms 1120, 1120S and 1065.
- Form 8916, “Reconciliation of Schedule M-3 Taxable Income with Tax Return Taxable Income for Mixed Groups,” has a new line for dual consolidated losses disallowed.
- The first date for reportable entity partners to report to the partnership has been changed to September 15, 2006, from June 30, 2006. A reportable entity partner is required to report to the partnership the fact that it is a reportable entity partner and certain other information detailed in the Schedule M-3 instructions for Form 1065, 1120, 1120-L, 1120-PC and 1120S. A reportable entity partner is a partner that has itself filed a Schedule M-3 and that owns or is deemed to own, directly or indirectly, a 50% or greater interest in the income, loss or capital of the partnership on any day of the partnership tax year on or after June 30, 2006.
- Schedule M-3, Part I, line 10 (for Forms 1120, 1120-L and 1120-PC) now provides for reporting other adjustments of financial statement income in more detail, with line 10a for inter-company dividend adjustments, line 10b for other statutory accounting adjustments, and line 10c for other adjustments.
- Schedule M-3, Part I, for Form 1120S and Form 1065 has been renumbered so that all the Schedules M-3 are consistent with reporting worldwide consolidated financial net income on line 4 and consolidated net income for the tax group on line 11.
- Cooperative associations filing the new, previously announced Form 1120-C will file Schedule M-3 for Form 1120 if they report total assets of \$10 million or more. The instructions for Form 1120 Schedule M-3 provide details.

“Schedule M-3 will enable the IRS to focus more quickly on high risk issues and taxpayers requiring our attention, and reduce our time spent with compliant taxpayers,” said Deborah M. Nolan, IRS Large and Mid-Size Business Division Commissioner. “The level of external feedback and collaboration in helping develop this suite of forms helped us address our mutual interests.”

Schedule M-3 is filed by corporations and partnerships that have \$10 million or more in assets, and certain other partnerships. Filers of Forms 1120-PC, 1120-L, 1120S and 1065 will begin filing Schedule M-3 with their 2006 tax returns. Form 1120 corporate filers started filing Schedule M-3 with their 2004 returns.

The final drafts of Schedules M-3, Form 8916 and Form 8916-A, and instructions can be found on IRS.gov. The drafts are located on the “corporations” page, which can be accessed from the Web site section that provides information for businesses. The Web site also offers interested taxpayers a subscription to the Schedule M-3 email news service so they can automatically receive future information about Schedule M-3.