A First Look at 2005 Schedule M-3 Corporate Reporting

By Charles E. Boynton, Portia DeFilippes, and Ellen J. Legel

Charles E. Boynton (charles.e.boynton@irs.gov) is a program manager and senior program analyst with the IRS Large and Midsize Business Division Office of Research and Workload Identification. From September 2000 through May 2006, he was a Surrey Senior Research Fellow for the Treasury Office of Tax Analysis. He has been a member of the joint Treasury-IRS Schedule M-3 team from its formation in 2003.

Portia DeFilippes (portia.defilippes@do.treas.gov) is a financial economist in Treasury's Office of Tax Analysis Economic Modeling and Computer Application Division. She and Boynton have explored comparisons of corporate financial statement and tax return data, book income and tax income differences, and tax return consolidation anomalies as part of their research.

Ellen J. Legel (ellen.j.legel@irs.gov) is a senior staff economist and management official with the IRS Statistics of Income Division's Corporation Tax Branch. She has been a lead analyst for the Corporation Tax Program, and is the senior analyst for Schedule M-1, Schedule M-2, Schedule M-3, the 1120-RIC, and the 1120-REIT.

Boynton, DeFilippes, and Legel have previously published two papers analyzing Schedule M-1 data for the period 1990-2003 (the 14 years immediately before the introduction of Schedule M-3 for large corporations) and a third paper analyzing initial 2004 Schedule M-3 data using advanced file data available in spring 2006.

The authors thank the Statistics of Income Division for making data from the 2004 and 2005 SOI final corporate file available for this research. The authors thank the managements of their respective agencies for the support of their current and past research into Schedule M-1 and Schedule M-3 book income and tax income data: LMSB Office of Research and Workload Identification; Treasury Office of Tax Analysis; and the IRS Statistics of Income Division. The authors also thank Robert Adams, Petro Lisowsky, Bunn Martin, Don McPartland, and Kenneth Szeflinski for comments, suggestions, and review assistance. All errors and omissions are solely those of the authors.

The opinions expressed are those of the authors and do not necessarily represent positions of Treasury or the IRS.

The full 2004 and 2005 data sets for this study are available in an Excel format by e-mail. Table names containing an asterisk (*) have been excluded from this publication (but are available by request). To request the data set, e-mail charles.e.boynton @irs.gov. Please indicate in the e-mail how the data set will be used.

Table of Contents

I. Introduction

A. Overview

This is the fourth part in a series of reports by the authors researching the differences between book income and tax income as reported on U.S. corporate income tax returns. The first two reports analyze corporate Form 1120 Schedule M-1 reporting for tax years 1990-2003. Before tax year 2004, corporate taxpayers reported on Schedule M-1; however, for tax years 2004 and later, Schedule M-3 replaces Schedule M-1 for corporate tax returns reporting total assets of $10 million or more, with smaller companies still reporting on Schedule M-1. The third report analyzes advance file data for the 2004 corporate Schedule M-3. This fourth report analyzes final data for the 2005 corporate Schedule M-3 and updates the prior 2004 report using final 2004 data.

There are several questions we would like to address here in the second year of Schedule M-3 reporting. What are the major changes between 2004 and 2005? Are there differences between corporate taxpayers that reported tax income below book income compared with corporate taxpayers that reported tax income above book income? If tax income is below book income in one year, is it likely to be below in the following year? If tax income is above book income in one year, is it likely to be above in the following year? Have corporate taxpayers, as required, begun to report book income and tax income amounts in columns (a) and (d) of parts II and III for all detail lines? How good is compliance with the gross reconciliation requirements of Schedule M-3? Do the descriptions and amounts reported for the catchall lines (other items with differences) meet the requirements to ''separately state and adequately disclose?'' What patterns are present in pretax book income versus tax income differences for corporations reporting or not reporting stock options and equity compensation? In general, what patterns are present in book income versus tax income differences by financial statement type, asset size, and industry? Does inclusion or exclusion of loss corporations (tax net income of zero or less than zero) in the aggregate data affect findings? What differences by subpopulations are present in proxies for pretax book income return on assets and pretax book income effective tax rate?

The goal for Schedule M-3 is to encourage general tax compliance by all corporate taxpayers by promoting transparency with the IRS and assisting the IRS in identifying returns and issues for possible audit when tax compliance risk is present. As part of that goal and without discussing any current Schedule M-3 IRS audit filters, we seek to identify specific Schedule M-3 line components that appear linked to whether tax income is less than or greater than book income.

B. Summary Findings

Pretax book income in 2005 was $1,345,161 million compared with $772,138 million in 2004, an increase of $573,023 million. Tax income in 2005 was $1,329,579 million compared with $625,773 million in 2004, an increase of $703,806 million. Tax income increased $130,783 million more than pretax book income. Tax income was less than pretax book income in 2005 by -$15,440 million compared to -$146,411 million in 2004, a change of $130,971. The difference between $130,783 and $130,971 represents a change of -$189 million in reconciliation errors.

The increase between 2004 and 2005 in Schedule M-3 Part I worldwide consolidated income of $229,589 million is largely matched by the increase in the nonincludable foreign entity income removed of $218,608 million. Recognition of foreign dividend income probably contributes heavily to the increase of $410,939 million in elimination adjustments and to the increase in Part II, lines 1 through 5 pretax differences of $114,147 million from income from foreign corporations.

The 38,516 corporations we analyze had in 2005 a net aggregate pretax difference of -$15,440 million. The 17,134 corporations that reported tax income below pretax book income (negative pretax difference) reported pretax book income of $932,340 million compared with tax income of $496,131 million. Pretax difference for those corporations is -$436,094 million. The return on assets proxy is 5.1 percent and the effective tax rate proxy is 12.1 percent. The 21,382 corporations that reported tax income above pretax book income (positive pretax difference) reported pretax book income of $412,820 million compared with tax income of $833,448 million. Pretax difference for those corporations is $420,654 million. The return on assets proxy is 1.7 percent and the effective tax rate proxy is 36.5 percent.

The 30,901 corporations we analyze had in 2004 a net aggregate pretax difference of -$146,411 million. The

17,127 corporations that reported tax income below pretax book income (negative pretax difference) reported pretax book income of $678,078 million compared with tax income of $284,320 million. Pretax difference for these corporations is -$393,772 million. The return on assets proxy is 3.5 percent and the effective tax rate proxy is 14.1 percent. The 13,774 corporations that reported tax income above pretax book income (positive pretax difference) reported pretax book income of $94,060 million compared with tax income of $341,453 million. Pretax difference for these corporations is $247,361 million. The return on assets proxy is 0.6 percent and the effective tax rate proxy is 72.6 percent.

The 27,601 corporations that in 2005 reported tax net income greater than zero reported pretax book income of $1,456,185 million compared with tax income of $1,461,073 million. The return on assets proxy is 3.7 percent and the effective tax rate proxy is 18 percent. The exclusion of loss corporations increases the return on assets proxy (3.7 percent versus 3.2 percent) and decreases the effective tax rate proxy (18 percent versus 19.5 percent).

In 2004 the 20,641 corporations that reported tax net income greater than zero reported pretax book income of $876,281 million compared with tax income of $771,827 million. The return on assets proxy is 2.9 percent and the effective tax rate proxy is 18.7 percent. The exclusion of loss corporations increases the return on assets proxy (2.9 percent versus 2.3 percent) and decreases the effective tax rate proxy (18.7 percent versus 21.2 percent).

For 2005 the return on assets proxy for SEC 10K/Public is higher than for audited not SEC 10K/Public (3.4 percent versus 2.5 percent), and the effective tax rate proxy is lower (17.6 percent versus 29.1 percent). For 2004 the return on assets proxy for SEC 10K/Public is approximately the same as that shown for audited not SEC 10K/Public (2.4 percent versus 2.5 percent), and the effective tax rate proxy is lower (19.5 percent versus 23.5 percent).

We identify 15 lines or summary lines in Schedule M-3 parts II and III that contribute $20 billion or more in absolute amount to pretax differences, to differences in pretax differences between 2004 and 2005, or to differences in pretax differences between corporations that reported tax income below pretax book income, and those that reported tax income equal to or above tax income:

- Part II, summary lines 1-5: income from foreign corporations;
- Part II, summary lines 6-8: income from U.S. corporations;
- Part II, summary lines 9-11: income from passthroughs;
- Part II, line 12: reportable transactions;
- Part II, line 13: interest income;
- Part II, line 17: cost of goods sold;
- Part II, line 18: sale versus lease;
- Part II, summary lines 23a-25: asset disposition;
- Part II, line 26: other income (loss) with difference;
- Part III, summary lines 5 and 6: foreign income tax expense;
- Part III, summary lines 9 and 10: stock options and equity compensation;
- Part III, summary lines 16 through 18: pension, profit-sharing, other benefits;
- Part III, summary lines 23 through 25: acquisition and reorganization costs;
- Part III, summary lines 26 through 31: depreciation, amortization, and impairments; and
- Part III, line 35: other expense/deductions with difference.

We note that 53 corporations in 2005 reported total assets on their Schedule L balance sheets of $100 billion or more. We classify 41 corporations as SEC 10K/Public, 8 as audited but not SEC 10K/Public, and 4 as unaudited or books and records (no financial statements or no answer to Part I, line 1). We also note that corporate total asset amounts on tax returns may be overstated in some cases because of missing consolidation eliminations on some Schedule L balance sheets.

The reporting of column (a) book income amounts and column (d) tax income amounts in parts II and III are optional in the first year a corporation is required to file Schedule M-3. Approximately 0.9 percent of second-year filers reported blank columns (a) and (d). Approximately 0.3 percent of second-year filers that were SEC 10K/Public reported blank columns (a) and (d) compared with approximately 1 percent for audited not SEC 10K/Public and 1.4 percent for unaudited or books and records.

Approximately 5 percent of reconcilable 2005 Schedule M-3 returns reported in Part I, line 2 a financial accounting income restatement for the current year or within the prior five years. Approximately 45 percent of restatements reported are by filers that are SEC 10K/Public.

Corporations that had a negative total pretax difference in 2004 (tax income below pretax book income) are likely (63 percent) to have a negative pretax difference in 2005. Corporations that had a positive pretax difference (tax income above pretax book income) in 2004 are likely (67.2 percent) to have a positive pretax difference in 2005. A chi-square test finds the lack of independence between years significant ($p < .001$).

The top 250 returns in terms of negative pretax permanent difference for the stock option (that is, stock options pretax difference reduces tax income in 2005) reported 72 percent of the stock option negative pretax permanent differences of the Schedule M-3 population compared with 45 percent of the total assets, 35 percent of the total tax after credits, 58 percent of the total foreign tax credit, 41 percent of net pretax book income, 42 percent of the net tax income, 24 percent of negative total pretax difference, and 27 percent of positive total pretax difference. The 250 returns reported net total pretax differences of positive $11,149 million compared with -$15,440 for the Schedule M-3 population and compared with -$8,464 million for the SEC 10K/Public subpopulation.

Three manufacturing industries (petroleum refining, pharmaceuticals, and computers/electronics) reported 9 percent of assets (5 percent, 2 percent, and 2 percent, respectively); 32 percent of pretax book (10 percent, 13 percent, 9 percent); 29 percent of tax income (11 percent, 11 percent, 7 percent); 33 percent of negative pretax difference (6 percent, 14 percent, 13 percent); and 19 percent of positive pretax (7 percent, 6 percent, 6 percent) difference. They reported 16 percent of tax less credits (8 percent, 5 percent, 3 percent), in part because they reported 47 percent of the foreign tax credit (32 percent, 9 percent, 6 percent). They reported 29 percent of the pretax difference from foreign corporation income on Part II, lines 1-5 (10 percent, 3 percent, 16 percent), and 25 percent of pretax difference from equity compensation (4 percent, 7 percent, 14 percent).

One of the authors reviewed Schedule M-3 reporting documentation for approximately 100 large tax returns reporting either positive or negative amounts of over $1 billion in absolute value on three catchall lines: (1) Part I, line 10, other adjustments; (2) Part II, line 26, other income (loss) items with differences; and (3) Part III, line 35, other expense/deduction items with differences. The 2005 Schedule M-3 still allows all differences for insurance subsidiary companies to be included on Part II, line 26. Many, but not all, of the large differences on ''other'' lines could be ascribed to insurance subsidiary companies. Nonetheless, several large items reported on the ''other'' lines in fact should have been reported on more specific Schedule M-3 lines. Lastly, there are recurring large dollar items that are correctly reported on ''other'' lines but that could usefully be reported on possibly new Schedule M-3 lines.

The failure to report Schedule M-3 data (''No Data Part I, II'' in Table A2*) is largely a problem with smaller corporations and is decreasing. In 2004 (December 2004 through June 2005), approximately 7 percent of corporations subject to Schedule M-3 failed to report data. These corporations reported only approximately 1 percent of tax after credits. In 2005 the number fell to approximately 4 percent of corporations reporting less than 1 percent of tax after credits.

The failure to report Schedule M-3 data that reconciles Part II, line 30 and line 28 (''Line 30 Fails'' or ''Line 28 Fails'') is largely a problem with smaller corporations and a few larger corporations and is decreasing. For 2004 approximately 8 percent of tax returns subject to Schedule M-3 are eliminated for ''Line 30 Fails'' or ''Line 28 Fails,'' but these tax returns reported only approximately 5 percent of tax after credits. In 2005 the number fell to approximately 6 percent of tax returns reporting approximately 1 percent of tax after credits.

C. Organization of This Report

Part I.A. above presents the questions addressed in this report. Part I.B. above summarizes our findings.

In Part II we discuss the history and general structure of Schedule M-3. In Part III we make our general presentation of 2005 Schedule M-3 data, including breakouts by sign of total pretax difference and type of financial statement (SEC 10K/Public, audited not SEC 10K/Public, unaudited or books and records). We discuss the lines on Schedule M-3 reporting the largest differences between tax income and pretax book income and differences that appear linked to whether tax income is less or greater than book income. In Part IV we analyze Schedule M-3 distributional data for 2005 by asset size and type of financial statement, by the sign of the total pretax difference on the Schedule M-3, the reporting of pretax book income and tax income amounts on individual Schedule M-3 lines, the reporting of stock option and equity compensation data, and the reporting by industry. In Parts III and IV, comparisons are made to corresponding 2004 Schedule M-3 data as appropriate. Part V discusses the attachments to the catchall lines: (1) Part I, line 10, other adjustments; (2) Part II, line 26, other income (loss) with differences; and (3) Part III, line 35, other expense/deductions with differences. The discussion focuses on the requirement to ''separately state and adequately disclose.'' Part V.E. suggests changes to Schedule M-3 requirements based on the review of these attachments.

Appendix A1 contains the technical discussion of our 2004 and 2005 Schedule M-3 data selection for this report.

Our discussion is followed by our references, Appendix A1, Summary Tables 1 through 6, and Exhibit I, a blank 2005 Form 1120 Schedule M-3, a selection of the 2005 Schedule M-3 form tables and a distribution table addressed in the discussion. Our Schedule M-3 form tables are large and detailed. In Part III we introduce several summary tables to facilitate discussion.

II. The 2004 and 2005 Schedule M-3

A. Introduction of Schedule M-3 in 2004

For most publicly traded and many privately held corporations with assets of $10 million or more, the Schedule M-3 book income versus tax income reconciliation replaced the four-decade-old Schedule M-1 reconciliation effective December 2004. We present 2005 Schedule M-3 data and other tax data for corporations filing the 2004 or 2005 Form 1120, ''U.S. Corporate Income Tax Return,'' for tax years ending within the period July 2005 through June 2006, and reporting end-of-year total assets of $10 million or more on the Form 1120 Schedule L balance sheet.[1] We compare this 2005 data to similar 2004 data for tax years ending within the period December 2004 through June 2005, the initial tax

[1]The current paper repeats some material from Boynton, DeFilippes, and Legel (2005, 2006a, and 2006b) and from Boynton and Wilson (2006), used with permission. Our tax return table values may not add and may differ from official 2005 SOI *Publication 16* values because of rounding. The SOI corporate data file for year t includes all tax years ending between July of calendar year t and June of calendar year t+1. Effective for tax years ending on or after December 31, 2004, Schedule M-3 replaced Schedule M-1 for corporations filing Form 1120 and reporting total assets of $10 million or more on Form 1120 Schedule L. Effective for tax years ending on or after December 31, 2006, for corporations with total assets of $10 million or more, Schedule M-3 will apply to Form 1120-S for S corporations, to Form 1120-C for cooperative associations, and to Form 1120-L and Form-PC for life and property and casualty insurance companies. Effective for tax years ending on or after December 31, 2006, Schedule M-3 will also apply to Form 1065 for partnerships with total assets of $10 million or more and to certain other partnerships. Effective for tax years ending on or after December 31, 2007, Schedule M-3 will apply to Form 1120-F for foreign corporations with effectively connected U.S. income and total assets of $10 million or more. Schedule M-1 continues to apply to Form 1120-RIC for regulated investment companies, to Form 1120-REIT for real estate investment trusts, and to all corporations with total assets of less than $10 million.

years for Schedule M-3 reporting. We note that the reporting of some book income and tax net income amounts was optional for tax years ending within the December 2004 to June 2005 and July 2005 to November 2005 periods.

B. Dissatisfaction With Schedule M-1

A Treasury report in 1999 and testimony in 2000 by Treasury Assistant Secretary for Tax Policy Jonathan Talisman noted the growing difference from 1991 to 1997 between pretax book income on Schedule M-1 and tax net income on page 1 of Form 1120. Both the report and the testimony viewed the 1990's widening difference between book income and tax income as a possible indicator of corporate tax shelter activity, but also noted the difficulty in interpreting Schedule M-1 book-tax difference data.[2] Mills-Plesko (2003) proposed a redesign of Schedule M-1 to increase the transparency of the corporate tax return book-tax reconciliation and to improve data interpretability.[3] The Mills-Plesko (2003) Schedule M-1 recommendations are largely reflected in Schedule M-3, particularly in Part I.[4]

C. The Structure of Schedule M-3

Exhibit I is the 2005 Form 1120 Schedule M-3.

Part I reconciles worldwide consolidated financial statement income with income per income statements of includable corporations (members of the tax return consolidation group listed on Form 851), also known as book income. Parts II and III reconcile income per income statement of includable corporations (book income) with tax net income on Form 1120, page 1, line 28. Differences between book income and tax income are characterized as temporary or permanent. In brief, temporary differences are items of income or expense that are recognized for both financial and tax reporting, but appear in different time periods. Permanent differences are items of income or expense that are recognized for either financial or tax reporting, but not both. A more detailed discussion of temporary and permanent differences follows below.

The goal of Schedule M-3 is greater transparency and uniform organization in the comparison of book income and tax income data made at the time of return filing so that the data may be used to determine what returns will and will not be audited and to determine what issues will and will not be examined on the returns selected for audit.

Part I of Schedule M-3 is important. It defines the starting point for the book-tax reconciliation for the first time in corporate tax history. On Schedule M-1 we know where the reconciliation ends (tax net income), but not where it begins (book income). Schedule M-3 Part I, line 11, the financial income for the tax consolidated group, is what Schedule M-1 line 1 should have been. Schedule M-3 Part I is one of the revisions proposed by Mills-Plesko (2003).

Parts II and III reconcile financial net income of includible corporations (book income) to taxable income reported on Form 1120, page 1, line 28. Part II generally reconciles items of income, gain and loss. Part III deals with expense and deduction items.

Parts II and III contain four columns to identify and differentiate the book and tax aspects of each line item. Column (a) represents financial statement income or expense amounts maintained in the corporation's books and records, using the income statement source determined in Part I. Column (d) represents amounts as reflected in the tax return. For each line item, the difference between the amount shown in column (a) and the amount shown in column (d) is shown either as a temporary difference in column (b) or as a permanent difference in column (c). The clear statement of both the book and tax amounts, as well as the reconciling differences, aids the IRS in setting materiality thresholds for the reconciling differences shown.

The reporting of column (a) book income amounts and column (d) tax income amounts is optional for the first year a corporation is required to file Schedule M-3.

The detail required by parts II and III is enhanced by the differentiation of temporary and permanent differences. Temporary (timing) differences occur because tax laws require the recognition of some items of income and expense in different periods than are required for book purposes. There are four basic categories of temporary differences:

- income recognized in financial statements before it is taxable;
- income reported as taxable before it is recognized in financial statements;
- expenses recognized in financial statements before they are deducted on the tax return; and
- expenses deductible on the tax return before they are recognized on financial statements.

By their very nature, temporary differences involve issues regarding the correct year under book rules and tax rules for the item's inclusion in income or deduction (expense).[5]

---

[2]*See* U.S. Department of the Treasury (1999) and Talisman (2000). *See also* Mills (1998) cited by Treasury (1999, p. 32, note 118): ''Mills finds evidence that the IRS is more likely to assert deficiencies on firms with large book-tax disparities, indicating that such disparities are correlated with aggressive tax planning.''

[3]*See* Mills and Plesko (2003) for the proposed redesign of Schedule M-1. For discussions of problems in interpreting Schedule M-1 book-tax reconciliation data and problems with the related Schedule L book balance sheet data, see Boynton, Dobbins, DeFilippes, and Cooper (2002), Mills, Newberry, and Trautman (2002), Boynton, DeFilippes, Lisowsky, and Mills (2004), Boynton, DeFilippes, and Legel (2005, 2006a, and 2006b), and Boynton and Wilson (2006). For discussions of the problems in reconciling financial accounting income and tax income, see McGill and Outslay (2002), Hanlon (2003), Plesko (2003), McGill and Outslay (2004), Plesko (2004), Hanlon and Shevlin (2005), and Lisowsky and Trautman (2007). For a summary of the research through May 2007 on book-tax differences and on schedules M-1 and M-3, see Weiner (2007). For a discussion of the relationship between financial accounting current federal income tax expense and Form 1120 tax liability, see Lisowsky (2008).

[4]For a discussion of the development of Schedule M-3, see Boynton and Mills (2004).

[5]Temporary differences are important in tax administration because they may identify that an item is being included in the

(Footnote continued on next page.)

In contrast to temporary differences, permanent differences are adjustments that arise as a result of fundamental permanent differences in financial and tax accounting rules. These differences result from transactions that will not reverse in subsequent periods. In financial statement reporting under generally accepted accounting principles, permanent differences are not considered in the Statement of Financial Accounting Standards No. 109 computation of deferred tax assets and liabilities, but do have a direct impact on the effective tax rate. Therefore, permanent differences may substantially influence reported financial earnings per share computations, and, in the case of public companies, stock prices. Accordingly, permanent differences of a given size may represent a greater audit risk than temporary differences of the same size.

Schedule M-3's introduction of detailed reporting requirements for temporary and permanent differences is another significant improvement over Schedule M-1 as well as an important enhancement to overall transparency.

III. Aggregate 2005 Schedule M-3 Data

A. 2005 vs. 2004: Summary Table 1

Summary Table 1 compares summary data in Panel 1 of Schedule M-3 Table F1.1* for 2005 with that in Panel 1 of Table F1.1 (04) for 2004 and calculates the difference in those amounts. The structure of form tables is more fully discussed in Part III.B.

Note that on Schedule M-3, a negative pretax difference means that tax income is below book income.[6]

The first column of Summary Table 1 indicates for 2005 that we have 38,516 tax returns with reconcilable Schedule M-3 data.[7] The 38,516 tax returns reported aggregate worldwide consolidated net income of $850,050 million, nonincludable foreign entity income removed of $447,265 million, nonincludable U.S. entity income removed of $103,094 million, other includable entity losses included of -$2,163 million, elimination adjustments (because of the exclusions and inclusions) of $609,080 million (probably largely the recognition of foreign dividend income related to the nonincludable consolidated foreign income removed from worldwide income above), other adjustments of $141,825 million, book income for tax purposes of $1,054,842 million, federal income tax expense of $290,337 million added back to obtain pretax book income, and a reconciling to pretax book income of $1,345,161 million. Pretax difference reported in parts II and III net to a total pretax difference of -$15,440 million, which after reconciliation errors of -$142 million results in net tax income of $1,329,579 million. This is adjusted further to reconcile to tax net income of $1,242,862 reported by SOI. Tax net income is further adjusted by net operating loss deductions and dividends received deductions (special deductions) to reconcile to taxable income of $1,029,280 million. Tentative tax before credits based on taxable income is $361,856, adjusted to $262,897 million tax less credits after foreign tax credit, general business credits, and other credits.

The second column of Summary Table 1 indicates for 2004 that 30,901 tax returns with reconcilable Schedule M-3 data reported worldwide consolidated net income of $620,461 million, pretax book income of $772,138 million, total pretax difference of -$146,411 million, reconciliation errors of $47 million, net tax income of $625,773 million, taxable income of $635,667 million, and tax less credits of $163,606 million.

The reduction in the negative amount of net total pretax difference from -$146,411 million in 2004 to -$15,440 million in 2005, a change of $130,971 million, reflects that net tax income increased by $703,806 million, $130,783 million more than the $573,023 million increase in book income plus a change of -$189 million in reconciliation errors.

The increase between 2004 and 2005 in worldwide consolidated income of $229,589 million is largely matched by the increase in the nonincludable foreign entity income removed of $218,608 million. Recognition of foreign dividend income probably contributes heavily to the increase of $410,939 million in elimination adjustments and to the increase in Part II, lines 1 through 5 pretax differences of $114,147 million in income from foreign corporations.

Pretax difference is summarized by temporary and permanent amounts for income and expense and for 15 key Schedule M-3 lines or summary lines. We identify 15 lines or summary lines in Schedule M-3 parts II and III that contribute $20 billion or more in absolute amount to pretax differences or to differences in pretax differences between 2004 and 2005 or to differences in pretax differences between corporations that reported tax income below pretax book income and those that reported tax income equal to or above tax income.

Ignoring changes in reconciliation errors, the $130,971 million change in pretax differences from 2004 to 2005 includes a change of $80,694 million in pretax temporary differences in income, $48,493 million in pretax temporary differences in expense, $29,271 million in pretax permanent differences in income, and -$27,598 million in pretax permanent differences in expense.

The most dramatic change on the 15 key lines or summary lines is the $114,147 million change in pretax difference on Part II, lines 1 through 5 in income from foreign corporations.

In Summary Table 1, the 2004 and 2005 aggregate book income and tax income data are examined both in dollar amount and as a percentage of aggregate total pretax book income, a financial statement analysis proxy for relative magnitude of income and expense component items. The asset data are expressed both in dollar amounts and in terms of the ratio of aggregate pretax book income to aggregate assets, a proxy for return on

---

wrong tax year. For example, deferring the recognition of $1 billion of income for 30 years (or accelerating the recognition of $1 billion of deductions by 30 years) involves a substantial time value of money change in the value of the tax due.

[6]*See* Appendix A1.C. for a discussion of sign conventions for the difference between tax income and pretax book income.

[7]Our classification of a return as having or not having minimally reconcilable Schedule M-3 data is solely for the purposes of this report and does not affect classification of the return for audit purposes.

assets. The aggregate tax data are expressed both in dollar amount and as a percentage of aggregate pretax book income, a proxy for effective tax rate.

The differences between 2004 and 2005 are percentage point differences. The return on assets proxy increases 0.9 percentage points from 2.3 percent to 3.2 percent. The effective tax rate proxy falls 1.6 percentage points from 21.2 percent to 19.5 percent.

Part III.B. discusses the structure of Table F1.1*. All our form tables for 2005 and 2004 follow that structure.

Part III.C. compares summary data for corporations with tax income below pretax book income with that for those with tax income equal to or above pretax book income. Part III.D. compares summary data for corporations with tax net income greater than zero to that for those with tax net income equal to or less than zero (loss corporations). Part III.E. compares summary data for corporations by financial statement type. Part III.F. compares summary data for corporations that are second-year filers.

Part III.G. analyzes the pretax difference contributed by key lines or summary lines in Schedule M-3 parts II and III.

B. The Structure of Table F1.1* and Schedule M-3

Table F1.1* for 2005 presents aggregate Schedule M-3 data for the 38,516 tax returns with minimally reconcilable Schedule M-3 data and tax year-ends of July 2005 through June 2006.[8] The data are presented in a table that follows the general structure of Schedule M-3, but also expands that structure.

The data in Table F1.1* are presented in three one-page panels. Panel 1 provides population overview data, including several Schedule M-3 returns and total assets; reconciling data for Schedule M-3 Part I, lines 4 through 11; and data reconciling Part I, line 11 book income with Part II, line 30 book income; Part II, line 30 tax income; SOI tax net income; and taxable income after NOL deductions and dividends received deductions. Reconciling data are presented for tax before credit, foreign tax credit, general business credit, all other credits, and tax after credits.

In Panel 1, pretax difference is summarized by temporary and permanent amounts for income and expense and for 15 key Schedule M-3 lines or summary lines. We identify 15 lines or summary lines in Schedule M-3 parts II and III that contribute $20 billion or more in absolute amount to pretax differences, or to differences in pretax differences between 2004 and 2005, or to differences in pretax differences between corporations that reported tax income below pretax book income and those that reported tax income equal to or above tax income.

Panel 2 presents aggregate data for each line of Schedule M-3 Part II.

Panel 3 presents aggregate data for each line of Schedule M-3 Part III.

In Panel 1 of Table F1.1*, each line amount in the income reconciliation is stated both as a dollar amount (in millions) and as a percentage of total pretax book income for the population, a financial statement analysis proxy for relative magnitude of income and expense component items.

Panel 1 of Table F1.1* also reports, at the top, the total number of returns (weighted) and total assets (Form 1120, Schedule L). The ratio of pretax book income to total assets is stated as a proxy for return on assets.

At the bottom of Panel 1 of Table F1.1*, the aggregate tax data are expressed both as a dollar amount and as a percentage of aggregate pretax book income, a proxy for effective tax rate. Further, the tax net income reconciliation with taxable income after NOL deductions and dividends received deductions are also expressed as a percentage of tax net income, and tax before credits, foreign tax credits, general business credits, and other credit reconciliations with tax less credits are also expressed as a percentage of taxable income. In general, the percentage rate shown for tax is close to the 35 percent statutory rate for large corporations only when tax before credits is expressed as a percentage of taxable income.

In parts II and III of Table F1.1*, the total pretax difference on each line is stated both as a dollar amount and as a percentage of total pretax book income for the population, a financial statement analysis proxy for relative magnitude of income and expense component items.

Some Schedule M-3 Part II and Part III line captions are different on the 2005 Schedule M-3 form from the captions for the same line numbers on the 2004 form. For example, Part III, line 8 reads ''interest expense'' in 2005 but ''incentive stock option'' in 2004. In Table F1.1*, panels 2 and 3 present both the 2004 line caption and the 2005 line caption adjacent with the 2005 caption listed first. The 2004 M-3 form applies for year-ends of July 2005 through November 2005. The 2005 form applies for year-ends of December 2005 through June 2006. If a caption changes meaning between 2004 and 2005, each caption is separately aggregated.[9] The caption for Part II, line 17 changed to ''cost of goods sold'' in 2005 from ''inventory valuation adjustment'' in 2004, but did not change meaning. Part II, line 17 is shown as a single line for both 2005 and 2004 in our tables, and the aggregated amount shown is the sum of the values of the two data mnemonics.

Summary Table 1 discussed in Part III.A. compares summary data in Panel 1 of Schedule M-3 Table F1.1* for 2005 with that in Panel 1 of Table F1.1* (04) for 2004 and

[8]Our classification of a return as having or not having minimally reconcilable Schedule M-3 data is solely for the purposes of this report and does not affect classification of the return for audit purposes.

[9]Because of low return counts, the data for Part III, line 8 (incentive stock option), line 9 (nonqualified stock option), line 21 (charitable contribution limitation), and line 22 (charitable contribution carryforward used) are all suppressed to ensure taxpayer confidentiality in tables F1.4, F2.4, F3.4, and F4.4, the aggregate Schedule M-3 tables for second-year filers. Because of low return counts, the data for Part III, line 14 (parachute payment) and line 15 (compensation with section 162(m) limitations) are all suppressed to ensure taxpayer confidentiality in tables F3.2-F3.4, and F4.2-F4.4.

calculates the difference in those amounts, both dollar differences and pretax book income percentage point differences.

Panel 1 of Table F1.1* for 2005 presents aggregate Schedule M-3 Part I, lines 4 through 11 data for the 38,516 returns. Part I, line 4 reports aggregate worldwide financial statement income of $850,050 million. Part I, lines 5 through 10 adjusts that to $1,054,842 million on line 11 as aggregate book income of includable corporations. Part I, line 5 removes $447,265 million for foreign entities and $103,094 million for U.S. entities included in the financial statement consolidation but not in the tax consolidation. Part I, line 7 adds -$2,163 million of net losses for certain off-balance-sheet U.S. corporations (and U.S. or foreign disregarded entities) not included as entities in the financial statement consolidation for whatever reason but included as entities in the tax group consolidation. The income or loss of those entities is not reported as part of worldwide consolidated income or loss on Part I, line 4, but is reported as part of book income for the tax consolidated group on Part I, line 11. Part I, line 8 adds $609,080 million as adjustments to eliminations because of lines 5 through 7, usually the recognition of dividend income and adjustment to minority interest income. The combined effect of Part I, lines 5 through 8 (shown on a summary line we have added) is to add $56,558 million. Part I, line 9 adds adjustments of $1,572 million for the difference between financial statement year and tax return year. Part I, line 10 adds other adjustments of $141,825 million. Part I, line 10 will generally be used by corporations with insurance subsidiaries to reflect adjustments required by the use of statutory accounting for subsidiary book income. Statutory accounting for insurance subsidiaries differs from GAAP accounting for financial statements, in particular, in the inclusion of some intercompany dividends.[10] Finally, Part I, line 11 includes $6,347 million not reflected in Part I, lines 4 through 10 for corporations with only books and records using the 2004 Schedule M-3.[11]

Panel 1 of Table F1.1* for 2005 reconciles aggregate Schedule M-3 Part I, line 11 book income with Part II, line 30 book income, pretax temporary and permanent book-tax differences, and tax income, and, finally, reconciles Part II, line 30 tax income with SOI reported tax net income for the 38,516 returns. SOI editing removes identified intercompany dividends (ICD) from tax net income and makes other corrections in arriving at tax net income data to be published.[12]

Panel 2 of Table F1.1* for 2005 presents aggregate Schedule M-3 Part II data for the 38,516 returns. For each line of Part II, we present aggregate net taxpayer data for book income amount (column (a)), temporary difference (column (b)), permanent difference (column (c)), tax income amount (column (d)), net total difference (sum of columns (b) and (c)), total difference as a percentage of pretax book income, the total aggregate positive and negative reported differences for columns (b) and (c) that determined the net total difference, and the aggregate positive and negative total difference (sum of columns (b) and (c)) for corporations reporting a negative or positive total difference.[13] We also present the frequency with which any nonzero amount was reported on the line.

We note that the net aggregate pretax temporary and permanent difference amounts are the net differences between relatively large aggregate positive and negative temporary and permanent difference amounts and that the net differences are often small in comparison.

At the foot of Panel 2 we present the necessary correction of the Schedule M-3 reconciliation totals to a pretax basis (before federal income tax expense). Mechanically, Schedule M-3 compares book income after tax with pretax income and includes federal income tax expense as a book expense in Part III. For analysis, it is necessary to correct the Schedule M-3 data to a consistent pretax basis (before federal income tax expense). This has been the approach since Talisman (2000). To do this, we back out federal income tax expense from book income.[14]

We know federal income tax expense from Part III, lines 1 and 2 even without column (a) data. Since column (d) is zero by definition, column (a) must be the negative of the sums of columns (b) and (c).

The total pretax difference in Table F1.1* is -$15,440 million, of which $37,140 million is temporary and -$52,580 million is permanent.

Note that on Schedule M-3, a negative total pretax difference, here -$15,440 million, means that tax income is below book income.

Panel 3 of Table F1.1* presents aggregate Schedule M-3 Part III data for the 38,516 returns. In Part III, we have changed the sign of all data to agree with Part II. We

[10]*See* the discussion of intercompany dividends and insurance subsidiaries in Appendix A1.2

[11]Schedule M-3 instructions for 2004 permitted Part I, lines 4 through 10 to be skipped by corporations with only books and records. The instructions for 2005 require all corporations to enter income on both lines 4 and 11, but to skip lines 5 through 10 as appropriate. The amounts on Part I, lines 4 through 10 plus the amounts entered only on line 11 (without any other entry on lines 4 through 10) do not add to line 11 because of reconciliation errors of -$1,510 million present in the Part I data.

[12]*See* the discussion of intercompany dividends and insurance subsidiaries in Appendix A1.B. On the SOI corporate file, SOI removes all ICD that it identifies from Form 1120 data (Footnote continued in next column.) included on page 1, line 28, whether or not the tax consolidation group contains an insurance company subsidiary. *See* the discussion of the history of ICD editing by SOI for tax years 1990-2003 in Boynton, DeFilippes, and Legel (2005 and 2006a). Note that changes on the SOI corporate file do not change the amounts on the tax return and do not affect IRS audits (or lack of audits) for corporate tax returns.

[13]Because a positive temporary difference may be reported together with a negative permanent difference, or vice versa, the aggregate negative total difference for corporations reporting a negative total difference may be less in absolute value than the sum of the aggregate negative temporary difference and aggregate negative permanent difference, and, similarly, the aggregate positive total difference for corporations reporting a positive total difference may be less in absolute value than the sum of the aggregate positive temporary difference and aggregate positive permanent difference.

[14]*See* the discussion of a pretax benchmark for Schedule M-3 difference and sign conventions in Appendix A1.C.

show deductions in Part III as negative amounts. Schedule M-3 Part III shows deductions as positive amounts and changes the sign for the totals carried over to Part II, line 28.[15] The signs of the differences we show in Part III indicate the effect of that expense or deduction on the net difference between pretax book and tax income.

Summary lines have been added to show the net effect of some related lines. In Part II, summary lines are provided for lines 1 through 5 for income (loss) from foreign corporations, lines 6 through 8 for income (loss) from U.S. corporations, lines 9 through 11 for income (loss) from partnerships and other passthroughs, lines 1 through 11 income (loss) from other entities, lines 23a through 23g for asset disposition (book income) and capital gain transactions (tax income) before carrybacks and carryforwards, and lines 23a through 25 for asset disposition (book income) and capital gain transactions (tax income) after carrybacks and carryforwards.

Following Part II, line 13 interest income, we have inserted a line showing the tax-exempt interest income reported on Form 1120 Schedule K, line 9 and have calculated as a second additional line the balance of the interest income that is not tax-exempt.[16]

In Part III, summary lines are provided for lines 1 and 2 for U.S. income tax expenses, lines 3 and 4 for state and local income tax expenses, lines 5 and 6 for foreign income tax expenses, lines 1 through 6 for all income tax expenses, lines 8 and 9 for stock option expenses (incentive and nonqualified), lines 8 through 10 for equity compensation (stock option and other equity compensation), lines 16 through 18 for pensions profit sharing and other benefits, lines 19 through 22 for charitable contributions after carryforward and carryback, lines 23 through 25 for current-year acquisitions and reorganization costs, and lines 26 through 31 for depreciation, amortization, and impairment expenses.

In 2004 and 2005, corporations with a Form 1120 parent and insurance subsidiaries were permitted to report all insurance subsidiary differences on Part II, line 26 other income (loss) items with difference. This may limit our ability to interpret aggregate data for this line.[17]

Table F1.1* (04) for 2004 presents aggregate Schedule M-3 data for the 30,901 tax returns with reconcilable Schedule M-3 data and tax year-ends of December 2004 through June 2005.

C. Tax Income vs. Pretax Book: Summary Table 2

We have a particular interest in the subpopulation of Schedule M-3 tax returns for which tax income is less than pretax book income, and an interest in determining how that subpopulation may differ from the subpopulation for which tax income is greater than pretax book income.

Summary Table 2 compares 2004 and 2005 summary data in Panel 1 of Schedule M-3 Table F1.1* with that in Panel 1 of Table F1.2* for corporations with tax income below pretax book income and with that in Panel 1 of Table F1.3* for those with tax income equal to or above pretax book income. Comparable data for 2004 are presented.

In 2005 the 17,134 corporations that report tax income below pretax book income (negative pretax difference) report pretax book income of $932,340 million compared with tax income of $496,131 million. Pretax difference for these corporations is -$436,094 million. The return on assets proxy is 5.1 percent and the effective tax rate proxy is 12.1 percent.

The 21,382 corporations that report tax income above pretax book income (positive pretax difference) report pretax book income of $412,820 million compared with tax income of $833,448 million. Pretax difference for these corporations is $420,654 million. The return on assets proxy is 1.7 percent and the effective tax rate proxy is 36.5 percent.

The 17,127 corporations that in 2004 reported tax income below pretax book income (negative pretax difference) reported pretax book income of $678,078 million compared with tax income of $284,320 million. Pretax difference for these corporations is -$393,772 million. The return on assets proxy is 3.5 percent and the effective tax rate proxy is 14.1 percent.

The 13,774 corporations that reported tax income above pretax book income (positive pretax difference) reported pretax book income of $94,060 million compared with tax income of $341,453 million. Pretax difference for these corporations is $247,361 million. The return on assets proxy is 0.6 percent and the effective tax rate proxy is 72.6 percent.

D. Tax Income More Than Zero: Summary Table 3

Summary Table 3 compares 2004 and 2005 summary data in Panel 1 of Schedule M-3 Table F1.1* with those in Panel 1 of Table F1.4* for corporations with tax net income greater than zero and with that in Panel 1 of Table F1.5* for those with tax net income equal to or less than zero (loss corporations). Comparable data for 2004 is presented.

In 2005 the 27,601 corporations that reported tax net income greater than zero reported pretax book income of $1,456,185 million compared with tax income of $1,461,073 million. The return on assets proxy is 3.7 percent and the effective tax rate proxy is 18 percent. The exclusion of loss corporations increases the return on assets proxy (3.7 percent versus 3.2 percent) and decreases the effective tax rate proxy (18 percent versus 19.5 percent).

The 10,915 corporations that reported tax net income equal to or less than zero reported pretax book income of -$111,025 million compared with tax income of -$131,494 million. The return on assets proxy is -3.4 percent and the effective tax rate proxy is -0.1 percent.

---

[15]*See* the discussion of the sign of Part III and Part III, line 36 and Part II, line 28 sign tests in Appendix A1.E.

[16]Tax-exempt interest is a major component of the permanent difference reported on Schedule M-3, Part II, line 13, interest income. It was previously reported separately on Schedule M-1 but not on Schedule M-3. It will be separately reported in the supporting detail for Part II, line 13 in Form 8916-A Part II in tax years ending December 2007 and later. Form 8916-A will also ask for details on intercompany interest income and expense and hybrid securities interest income and expense.

[17]*See* the discussion of insurance subsidiaries in Appendix A1.B.

In 2004 the 20,641 corporations that reported tax net income greater than zero reported pretax book income of $876,281 million compared with tax income of $771,827 million. The return on assets proxy is 2.9 percent and the effective tax rate proxy is 18.7 percent. The exclusion of loss corporations increases the return on assets proxy (2.9 percent versus 2.3 percent) and decreases the effective tax rate proxy (18.7 percent versus 21.2 percent).

The 10,260 corporations that reported tax net income equal to or less than zero reported pretax book income of -$104,144 million compared to tax income of -$146,054 million. The return on assets proxy is -2.8 percent and the effective tax rate proxy is 0.1 percent.

E. Financial Statement Type: Summary Tables 4, 5

Tables F2.1*, F3.1*, and F4.1* for 2005 separate the 38,516 returns with reconcilable Schedule M-3 data in Table F1.1* by financial statement type based on the answers to Schedule M-3 Part I lines 1a, 1b, 1c, and 3a. The three types are: (1) SEC 10K/Public, presented in Table F2.1*; (2) audited but not SEC 10K/Public, presented in Table F3.1*; and (3) unaudited or books and records (no financial statements or no answer to Part I, line 1), presented in Table F4.1*. We classify a return as SEC 10K/Public if Part I, line 1a indicates that it files an SEC 10-K financial statement or if Part I, line 3a indicates that it has publicly traded common stock.[18]

Summary Table 4 compares 2004 and 2005 summary data in Panel 1 of Schedule M-3 Table F2.1* (SEC 10K/Public), F3.1* (audited but not SEC 10K/Public), and F4.1* (unaudited or books and records). Comparable data for 2004 are presented.

For 2005 the return on assets proxy for SEC 10K/Public is higher than for audited not SEC 10K/Public (3.4 percent versus 2.5 percent) and the effective tax rate proxy is lower (17.6 percent versus 29.1 percent). For 2004 the return on assets proxy for SEC 10K/Public is approximately the same as that shown for audited not SEC 10K/Public (2.4 percent versus 2.5 percent), and the effective tax rate proxy is lower (19.5 percent versus 23.5 percent).

Summary Table 5 compares 2005 summary data in Panel 1 of Schedule M-3 tables F2.2* and F2.3* (SEC 10K/Public), F3.2* and F3.3* (audited but not SEC 10K/Public), and F4.2* and F4.3* (unaudited or books and records). In particular, we compare Table F2.2* for SEC 10K/Public corporation with tax income below pretax book income with that in Panel 1 of Table F2.3* for those with tax income equal to or above pretax book income. The same comparison is made for the other two financial statement groups.

F. Second-Year Filers: Summary Table 6

Table F1.6* presents aggregate 2005 Schedule M-3 data for 12,410 reconcilable 2005 Schedule M-3 returns for corporations with: (1) tax years ending December 2005 through June 2006; (2) total assets in 2005 of more than $50 million; and (3) reconcilable 2004 Schedule M-3 returns for tax years ending December 2004 through June 2005. The 12,410 corporations are second-year filers in 2005. Because they have total assets of more than $50 million in 2005, they are weighted essentially at 1 in both 2005 and 2004; that is, they are large enough to represent only themselves in both 2005 and 2004.[19] Tables F.2.6*, F3.6*, and F4.6* for 2005 separates the 12,410 second-year returns in Table F1.6* by financial statement type: (1) SEC 10K/Public, presented in Table F2.6*; (2) audited but not SEC 10K/Public, presented in Table F3.6*; and (3) unaudited or books and records (no financial statements or no answer to Part I, line 1) presented in Table F4.6*.

Summary Table 6 compares 2004 and 2005 summary data in Panel 1 of Schedule M-3 Table F2.6* (SEC 10K/Public), F3.6* (audited but not SEC 10K/Public), and F4.6* (unaudited or books and records). Comparable data for 2004 are presented.

G. Pretax Differences by Key Lines

We identify 15 lines or summary lines in Schedule M-3 parts II and III that contribute $20 billion or more in absolute amount to pretax differences or to differences in pretax differences between 2004 and 2005 or to differences in pretax differences between corporations that report tax income below pretax book income and those that report tax income equal to or above tax income. We highlight the contribution of these 15 lines to total pretax differences in Panel 1 of our form tables and in our summary tables 1 through 6. We identify seven additional lines or summary lines that contribute $5 billion to $20 billion in pretax difference or difference in pretax difference. We include all 22 lines as data columns in our Distribution Tables D1* through D7*.

At the $50 billion or more level for the maximum absolute value for line differences or difference in pretax differences, we identify nine lines or summary lines, six in Part II and three in Part III:[20]

- Part II, summary lines 1 through 5: income from foreign corporations;
- Part II, summary lines 6 through 8: income from U.S. corporations;
- Part II, summary lines 9 through 11: income from passthroughs;

[18]We did not supplement the Schedule M-3 Part I, line 1a SEC 10K data with line 3a publicly traded stock data in our definition of "SEC 10K/Public" in our prior study of 2004. *See* Appendix A1.D.

[19]*See* the discussion of the SOI weighted sample in Appendix A1.E. In 2004, SOI essentially selected all corporate tax returns with assets of $10 million or more and sampled smaller corporation return. In 2005, SOI essentially selected all corporate returns with assets of $50 million or more and sampled smaller corporation returns.

[20]For this analysis, we ignore two of the available summary lines. We ignore the summary line for Part II, lines 1 through 11, income from other entities, because we are interested in the individual summary lines for lines 1 through 5 for income from foreign corporations, lines 6 through 8, income for U.S. corporations, and lines 9 through 11, income from passthroughs. We ignore the summary line for Part III, lines 1 through 6, income tax expense, because we are interested in the individual summary line for lines 5 and 6, foreign income tax expense, and because the summary line for lines 1 and 2, U.S. income tax expense, are excluded from our reference total pretax differences by construction and therefore from this analysis.

- Part II, line 17: cost of goods sold;
- Part II, summary lines 23a through 25: asset disposition;
- Part II, line 26: other income (loss) with difference;
- Part III, summary lines 9 and 10: stock options and equity compensation;
- Part III, summary lines 26 through 32: depreciation, amortization, and impairments; and
- Part III, line 35: other expense/deductions with difference.

At the $20 billion to $50 billion level, there are six additional lines or summary lines, three in Part II and three in Part III:

- Part II, line 12: reportable transactions;
- Part II, line 13: interest income;
- Part II, line 18: sale versus lease;
- Part III, summary lines 5 and 6: foreign income tax expense;
- Part III, summary lines 16 and 18: pension, profit sharing, and other benefits; and
- Part III, summary lines 23 and 25: current-year acquisition and reorganizations.

At the $10 billion to $20 billion level, there are two additional lines from Part III lines or summary lines:

- Part III, line 8: interest expense; and
- Part III, line 32: bad debt expense.

At the $5 billion to $10 billion level, there are five additional lines, three in Part II and two in Part III:

- Part II, line 15: hedging;
- Part II, line 16: mark-to-market;
- Part II, line 19: section 481(a) adjustment;
- Part III, line 11: meals and entertainment; and
- Part III, line 22: domestic activities production deduction.

We use the above line analysis to select lines or summary lines for further analysis in the distribution tables in Part IV of this report.

IV. Distribution of Schedule M-3 Data

A. Asset Size, Financial Statement Type (Table D1*)

Distribution Table D1* for 2005 separates the 38,516 returns with minimally reconcilable Schedule M-3 data by asset size and financial statement class.[21] The financial statement class is based on the answers to Schedule M-3 Part I, lines 1a, 1b, 1c, and 3a.[22] The three classes are: (1) SEC 10K/Public, (2) audited but not SEC 10K/Public, and (3) unaudited or books and records (no financial statements or no answer to Part I, line 1). We classify a return as SEC 10K/Public if Part I, line 1a indicates that it files a SEC 10-K financial statement or if Part I, line 3a indicates that it has publicly traded common stock.

We note that 53 corporations in 2005 reported total assets of $100 billion or more. We classify 41 as SEC 10K/Public, 9 as audited but not SEC 10K/Public, and 4 as unaudited or books and records (no financial statements or no answer to Part I, line 1). We also note that corporate total asset amounts on tax returns may be overstated in some cases because of missing consolidation eliminations on some tax return Schedule L balance sheets.[23]

Distribution Table D1* (04) for 2004 separates the 30,901 returns with reconcilable Schedule M-3 data by asset size and financial statement class.

The 5,546 returns in 2005 that we classify as SEC 10K/Public (approximately 14 percent of 38,516) account for approximately 75 percent of total assets of corporations with reconcilable Schedule M-3 data ($31,756,963 million out of $42,456,789 million); approximately 72 percent of tax less credits ($190,567 million out of $262,897 million); approximately 87 percent of the foreign tax credit ($67,337 million out of $77,462); approximately 80 percent of the net pretax book ($1,082,003 million out of $1,345,161 million); approximately 81 percent of the net tax income ($1,073,405 million out of $1,329,579 million); approximately 55 percent of the net total pretax difference (-$8,484 million out of -$15,440 million); approximately 73 percent of the negative net total pretax difference of corporations reporting a net total pretax difference (-$320,470 million out of -$436,094 million); and approximately 74 percent of the positive net total pretax difference of corporations reporting a positive or zero net total pretax difference ($312,006 million out of $420,654 million).

The 4,751 returns in 2004 that we classify as SEC 10K/Public (approximately 15 percent of 38,516) account for approximately 75 percent of total assets of corporations with reconcilable Schedule M-3 data ($25,510,331 million out of $33,981,247 million); approximately 74 percent of tax less credits ($121,317 million out of $163,606 million); approximately 87 percent of the foreign tax credit ($41,350 out of $47,630); approximately 81 percent of the net pretax book ($622,211 million out of $772,138 million); approximately 80 percent of the net tax income ($499,539 million out of $625,773 million); approximately 84 percent of the net total pretax difference (-$122,716 million out of -$146,411 million); approximately 73 percent of the negative net total pretax difference of corporations reporting a negative net total pretax difference (-$287,764 million out of -$393,772 million); and approximately 67 percent of the positive net total pretax difference of corporations reporting a positive or zero net total pretax difference ($165,048 million out of $247,361 million).

B. Restatements, Columns A & D Data (Table D2*)

Distribution Table D2* presents the distribution of the reporting of financial accounting income restatements in Part I, line 2 and the reporting of nonzero values in columns (a) and (d) of parts II and III.

---

[21]Our classification of a return as having or not having minimally reconcilable Schedule M-3 data is solely for the purposes of this report and does not affect classification of the return for audit purposes.

[22]We did not supplement the Schedule M-3 Part I, line 1a SEC 10K data with line 3a publicly traded stock data in our definition of SEC 10K/Public in our prior study of 2004. *See* Appendix A1.D.

[23]*See* Boynton, DeFilippes, Lisowsky, and Mills (2004).

Approximately 5 percent of reconcilable 2005 Schedule M-3 returns report in Part I, line 2 a financial accounting income restatement for the current year or within the prior five years (1,973 out of 38,516). Approximately 45 percent of restatements reported are by filers that are SEC 10K/Public (878 out of 1,973).

The reporting of columns (a) and (d) in parts II and III are optional in the first year a corporation is required to file Schedule M-3. There are 12,410 reconcilable 2005 Schedule M-3 returns for corporations with tax years ending December 2005 through June 2006 with 2005 total assets of more than $50 million that also had reconcilable 2004 Schedule M-3 returns with tax years ending December 2004 through June 2005. These 12,410 corporations are second-year filers in 2005 with a weight of essentially 1 in both 2005 and 2004; that is, they are large enough to essentially represent only themselves.[24] Approximately 0.9 percent of second-year filers reported blank columns (a) and (d) (114 out of 12,410). Approximately 0.3 percent of second-year filers that were SEC 10K/Public reported blank columns (a) and (d) (11 out of 3,638), compared to approximately 1 percent for audited not SEC 10K/Public (58 out of 5,528) and 1.4 percent for unaudited or books and records (45 out of 3,244).

C. Negative or Positive Total PTD (Table D3*)

Distribution Table D3* segments the Schedule M-3 population based on the reporting of positive and negative total pretax difference for 2005. Negative total pretax difference on Schedule M-3 means that tax income is less than pretax book income. In 2005 the corporations that report negative total pretax difference report a share of pretax income that is disproportionately high and a share of tax income that is disproportionately low compared with the reported share of assets and tax less credits.

D. Negative or Positive: 2004 vs. 2005 (Table D4*)

Distribution Table D4* focuses on the 12,410 reconcilable 2005 Schedule M-3 returns for corporations with tax years ending December 2005 through June 2006 with 2005 total assets of more than $50 million that also had reconcilable 2004 Schedule M-3 returns with tax years ending December 2004 through June 2005. Those 12,410 corporations were second-year filers in 2005 with a weight of essentially 1 in both 2005 and 2004; that is, they were large enough to essentially represent only themselves.[25]

Corporations that had a negative total pretax difference in 2004 were likely (2,882 out of 7,779, or 63 percent) to have a negative pretax difference in 2005. Corporations that had a positive pretax difference in 2004 were likely (3,114 out of 4,631, or 67.2 percent) to have a positive pretax difference in 2005. A chi-square test finds the lack of independence between years significant (p. < .001).

E. Stock Option Differences (Table D5*)

Distribution Table D5* for 2005 focuses on the distribution of -$58,697 million in stock option negative (in terms of the effect on tax net income) pretax permanent differences on Part III, line 9 column (c).[26] The top 250 returns in terms of negative pretax permanent difference for stock options in 2005 reported 72 percent of the stock option negative permanent differences of the Schedule M-3 population compared with 45 percent of the total assets, 35 percent of the total tax after credits, 58 percent of the total foreign tax credit, 41 percent of net pretax book, 42 percent of the net tax income, 24 percent of negative total pretax difference, and 27 percent of positive total pretax difference. The 250 returns report net total pretax differences of positive $11,149 million compared with -$15,440 for the Schedule M-3 population and compared with -$8,464 million for the SEC 10K/Public subpopulation.

The top 250 returns in terms of negative pretax permanent difference for stock options in 2004 reported 75 percent of the stock option negative permanent differences of the Schedule M-3 population compared with 45 percent of the total assets, 39 percent of the total tax after credits, 72 percent of the total foreign tax credit, 52 percent of net pretax book, 54 percent of the net tax income, 37 percent of negative total pretax difference, and 33 percent of positive pretax difference. The 250 returns reported net total pretax differences of -$66,212 million compared with -$146,411 for the Schedule M-3 population and compared with -$128,579 million for the SEC 10K/Public subpopulation.

F. Differences by Industry (Table D6*)

Distribution Table D6* sorts the Schedule M-3 population by industry and by the sign of pretax difference within industry. Three manufacturing industries (petroleum refining, pharmaceuticals, and computers/electronics) reported 9 percent of assets (5 percent, 2 percent, and 2 percent, respectively); 32 percent of pretax book (10 percent, 13 percent, 9 percent); 29 percent of tax income (11 percent, 11 percent, 7 percent); 33 percent of negative pretax difference (6 percent, 14 percent, 13 percent); and 19 percent of positive pretax (7 percent, 6 percent, 6 percent) difference. They report 16 percent of tax less credits (8 percent, 5 percent, 3 percent), in part because they report 47 percent of the foreign tax credit (32 percent, 9 percent, 6 percent). They report 29 percent of the pretax difference from foreign corporation income on

---

[24]*See* the discussion of the SOI weighted sample in Appendix A1.E. In 2004, SOI essentially selected all corporate tax returns with assets of $10 million or more and sampled smaller corporation returns. In 2005, SOI essentially selected all corporate returns with assets of $50 million or more and sampled smaller corporation returns.

[25]*See* the discussion of the SOI weighted sample in Appendix A1, section A1.E. In 2004, SOI essentially selected all corporate tax returns with assets of $10 million or more and sampled smaller corporation returns. In 2005, SOI essentially selected all corporate returns with assets of $50 million or more and sampled smaller corporation returns.

[26]On the 2005 Schedule M-3 form, incentive stock options are combined with nonqualified stock options as simply stock options on Part III, line 9. In determining, for Distribution Table D5 for 2005 and 2004, the top 250 firms in terms of permanent reduction of book income in determining net tax income, we combine the 2004 Part III, line 8, column c and line 9, column c values for consistency with the values reported on the 2005 form.

Part II, lines 1 through 5 (10 percent, 3 percent, 16 percent), and 25 percent of pretax difference from equity compensation (4 percent, 7 percent, 14 percent).[27]

G. Reporting of Total PTD (Table D7*)

Loss firms are variously defined. Distribution Table D7* presents data breakouts by sign of tax net income and by zero or nonzero tax less credits by financial statement type. It also presents data breakouts for companies reporting nonzero amounts on Schedule M-3 Part I for nonincludable income from foreign entities (line 5), nonincludable income from U.S. entities (line 6), other includable entity income (line 7), and other adjustments (line 10). Finally, it analyzes the joint occurrence of adjustments on Part I, line 10 and intercompany dividends identified by SOI editing.

V. Supporting Documentation for Catchall Lines

A. Identifying Documentation for Review

One of the authors reviewed Schedule M-3 reporting documentation for approximately 100 large tax returns reporting either positive or negative amounts of more than $1 billion in absolute value on: (1) Part I, line 10, other adjustments; (2) Part II, line 26, other income (loss) items with differences; and (3) Part III, line 35, other expense/deduction items with differences. In aggregate, those tax returns comprise more than 250,000 pages.

The search used the secure IRS Employee User Portal (EUP) for attachments to the Schedule M-3 for the ''other'' lines on parts I, II, and III. Those attachments were filed sometimes with the consolidated Schedule M-3 and sometimes with the subsidiary companies' Schedules M-3. The review included finding the supporting documentation for the ''other'' line, finding the specific descriptions for any more than $1 billion differences in the ''other'' lines attachments, categorizing those large differences by type, and then collating the results. It should be noted that the 2005 Schedule M-3 still allows all differences for insurance subsidiary companies to be included on Part II, line 26. Many of the large differences on ''other'' lines could be ascribed to insurance subsidiary companies.

Nonetheless, several large items reported on the ''other'' lines in fact should have been reported on more specific Schedule M-3 lines. The authors suggest future instructions for the Schedule M-3 ''other'' lines should note some of these reporting errors as examples of things not to do. Lastly, there are recurring large-dollar items that are correctly reported on ''other'' lines, but that could usefully be reported on possibly new Schedule M-3 lines. The authors recommend those additional new lines should be given consideration in future Schedule M-3 revisions.

B. Large Differences on Part I, Line 10

Identified items in the reviewed supporting attachments to Part I, line 10 with absolute values of $1 billion or more account for approximately 75 percent of the aggregate positive differences of $161,710 million and 68 percent of the aggregate negative differences of -$19,885 million, reported for Part I, line 10 on Table F1.1* for all corporations with reconcilable Schedules M-3.

Part I, line 10 was generally used appropriately to report the addition of intercompany dividends if required by statutory accounting for insurance subsidiaries. This will be reported on new line 10a for 2006. Intercompany dividends for consolidated companies without insurance subsidiaries were also reported on line 10. For 2006, new line 10c will separately report adjustments not required by statutory accounting including intercompany dividend adjustments not required by statutory accounting. The instruction for Part I, line 10 clearly states that normally, and except where statutory accounting for insurance subsidiaries applies, intercompany dividends should be eliminated and not reported.

Part I, line 10 was also used to report eliminations, equity earnings, and reorganization costs. These should have been reported on Part I, line 8, or within parts II and III.

Numerous tax return attachments for Part I, line 10 reported a large adjustment item but did not adequately describe the item. There were fewer tax returns with inadequately described adjustments items for Part I, line 10 in 2005 than in 2004.

C. Large Differences on Part II, Line 26

Identified items in the reviewed supporting attachments to Part II, line 26 with absolute values of $1 billion or more account for approximately 61 percent of the negative temporary differences of -$149,904 million, and 40 percent of the positive temporary differences of $60,813 million, reported for Part II, line 26 on Table F1.1* for all corporations with reconcilable Schedules M-3.

Identified items in the reviewed supporting attachments to Part II, line 26 with absolute values of $1 billion or more account for approximately 53 percent of the negative permanent differences of -$102,943 million, and 27 percent of the positive permanent differences of $26,912 million, reported for Part II, line 26 on Table F1.1* for all corporations with reconcilable Schedules M-3.

Part II, line 26 reported large amounts of miscellaneous income not adequately described. Some companies reported intercompany dividends on line 26 that should have been reported on Part II, line 7. Mark-to-market expenses reported on line 26 should have been reported on line 16.

---

[27]The industries listed in Table D6* are listed in SOI publications in the following industries, major codes, and sector codes: (A) Petroleum Refineries: Ind. 324110; (B) Pharmaceuticals: Ind. 325410; (C) Computers/Electronics: Major code 334; (D) Electrical Equipment: Major code 335; (E) Transportation Equipment: Major code 336; (F) Fabricated Metal and Machinery: Major codes 332 and 333; (G) Food/Beverage Manufacturing: Major codes 311 and 312; (H) Other Manufacturing: Major codes 313, 315, 316, 321, 322, 323, 325, 326, 327, 331, 337, 339, and Ind. 325125; (I) NonBank Holding companies Ind. 551112; (J) Bank & Bank Holding Company: Ind.551111 and Major code 521; (K) Securities/Commodities: Major code 523; (L) Other Financial: Major codes 522, 524, 525, and sector 53; (M) Trade: Sector code 41; (N) Information: Sector code 51; (0) Utilities: Sector code 22; (P) Transport/Warehousing: Sector code 48; (Q) Mining: Sector code 21; (R) Construction: Sector code 23; (S) Agriculture: Sector code 11; (T) Service/Other: the remainder of the industries not listed above.

Annuities and premiums reported on Part II, line 26 were insurance subsidiary reporting, which was separately reported on the 2006 consolidated M-3 for mixed groups on Part II, line 29 for either Form 1120-L or 1120-PC. Other items reported on line 26 were gross sales, rental income, lease income, swap income, equity in earnings of subsidiaries, and statutory accounting differences.

D. Large Differences on Part III, Line 35

Identified items in the reviewed supporting attachments to Part III, line 35 with absolute values of $1 billion or more account for approximately 20 percent of the negative temporary differences of -$121,068 million, and 36 percent of the positive temporary differences of $78,207 million reported for Part III, line 35 on Table F1.1* for all corporations with reconcilable Schedules M-3.

Identified items in the reviewed supporting attachments to Part III, line 35 with absolute values of $1 billion or more account for approximately 10 percent of the negative permanent differences of -$44,282 million and 92 percent of the positive permanent differences of $23,045 million, reported for Part III, line 35 on Table F1.1* for all corporations with reconcilable Schedules M-3.

For 2005, interest expense was reported on Part III, line 35. That amount should have been reported on Part III, line 8. Fixed asset impairment was also reported and should have been reported on Part III, line 28. Adjustments to cost of goods should have been reported on Part II, line 17 as an adjustment item. Mark-to-market reported on Part III, line 35 should have been reported in Part II, line 16. Tax expenses should have been reported on Part III, lines 1 through 7.

Extraterritorial income exclusions reported for insurance subsidiaries for 2005 should have been reported on Part II, line 26. Separate lines will apply in 2006 for insurance subsidiaries on Schedules M-3 of forms 1120-L and 1120-PC.

Recurring items reported on Part III, line 35 include research expenses, cost-sharing payments (possibly transfer pricing items), and foreign exchange items.

Finally, there were large attachment items not separately stated or adequately described. Some were simply labeled as miscellaneous deductions or intercompany expenses.

E. Suggested Changes

The authors suggest Schedule M-3 lines should be added for recurring items found on the ''other'' lines, including research and development, foreign exchange, and cost-sharing payments (possible transfer pricing items). Based on the authors' experience, searching attached supporting documentation would be faster if the attached schedules were attached to the consolidated Schedule M-3, not to the subsidiary Schedules M-3 with the consolidated amount for the ''separately stated and adequately disclosed'' item shown followed by the allocation to appropriate subsidiaries.

Note: Summary findings for this report are presented in Part I.B., "Summary Findings."

References

Boynton, Charles, Portia DeFilippes, and Ellen Legel, ''Prelude to Schedule M-3: Schedule M-1 Corporate Book-Tax Difference Data 1990-2003,'' *Tax Notes*, Dec. 19, 2005, p. 1579, *Doc 2005-23937, 2005 TNT 243-30*.

Boynton, Charles, Portia DeFilippes, and Ellen Legel, ''Distribution of Schedule M-1 Corporate Book-Tax Difference Data 1990-2003 for Three Large-Size and Three Industry Groups,'' *Tax Notes*, Apr. 10, 2006 (2006a), p. 177, *Doc 2006-5433, 2006 TNT 69-17*.

Boynton, Charles, Portia DeFilippes, and Ellen Legel, ''A First Look at 2004 Schedule M-3 Reporting by Large Corporations,'' *Tax Notes*, Sept. 11, 2006 (2006b), p. 943, *Doc 2006-15859, 2006 TNT 176-135*.

Boynton, Charles, Portia DeFilippes, Petro Lisowsky, and Lillian Mills, ''Consolidation Anomalies in Form 1120 Corporate Tax Return Data,'' *Tax Notes,* July 26, 2004, p. 405, *Doc 2004-13689, 2004 TNT 144-32*.

Boynton, Charles, Paul Dobbins, Portia DeFilippes, and Michael Cooper, ''Consolidation Issues in SOI 1997 Form 1120 Book Data Compared to Matched COMPUSTAT Data,'' Unpublished Working Paper. Washington: Office of Tax Analysis, U.S. Department of the Treasury, May 2002.

Boynton, Charles, and Judith A. McNamara, ''Reporting of Intercompany Dividends (ICD) on Tax Returns of Corporations With and Without Insurance Subsidiaries,'' Unpublished working paper (2008).

Boynton, Charles, and Lillian Mills, ''The Evolving Schedule M-3: A New Era of Corporate Show and Tell?'' *National Tax Journal* 57, no. 3 (Sept. 2004): 757-772.

Boynton, Charles, and William Wilson, ''A Review of Schedule M-3, The Internal Revenue Service's New Book-Tax Reconciliation Tool,'' *Petroleum Accounting and Financial Management Journal* 25, no. 1 (Spring 2006): 1-6.

Hanlon, Michelle, ''What Can We Infer About a Firm's Taxable Income From its Financial Statements?'' *National Tax Journal* 56, no. 4 (Dec. 2003): 831-863.

Hanlon, Michelle, and Terry Shevlin, ''Book-Tax Conformity for Corporate Income: An Introduction to the Issues,'' in *Tax Policy and the Economy*, no. 19, edited by James M. Poterba, National Bureau of Economic Research, Cambridge, MA (2005).

Lisowsky, Petro, ''Inferring U.S. Tax Liability From Financial Statement Information,'' *Journal of the American Taxation Association* (forthcoming), 2008.

Lisowsky, Petro, and William B. Trautman, ''Book-Tax Consolidation, Rates of Return, and Capital Structure,'' *Tax Notes*, Dec. 10, 2007, p. 1043, *Doc 2007-25903, 2007 TNT 238-32*.

McGill, Gary, and Edmund Outslay, ''Did Enron Pay Taxes? Using Accounting Information to Decipher Tax Status,'' *Tax Notes,* Aug. 19, 2002, p. 1125, *Doc 2002-19158, 2002 TNT 161-50*.

McGill, Gary, and Edmund Outslay, ''Lost in Translation: Detecting Tax Shelter Activity in Financial Statements,'' *National Tax Journal* 57, no. 3 (Sept. 2004): 739-756.

Mills, Lillian, ''Book-Tax Differences and Internal Revenue Service Adjustments,'' *Journal of Accounting Research* 36, no. 2 (Autumn 1998): 343-356.

Mills, Lillian, and George Plesko, "Bridging the Gap: A Proposal for More Informative Reconciling of Book and Tax Income," *National Tax Journal* 56, no. 4 (Dec. 2003): 865-893.

Mills, Lillian, Kaye Newberry, and William Trautman, "Trends in Book-Tax Income and Balance Sheet Differences," *Tax Notes,* Aug. 19, 2002, p. 1109, *Doc 2002-19155, 2002 TNT 161-49*.

Plesko, George A. "Reconciling Corporate Book and Tax Net Income, Tax Years 1996-1998," *Statistics of Income Bulletin* 21, no. 4 (Spring 2002): 1-16.

Plesko, George A. "An Evaluation of Alternative Measures of Corporate Tax Rates," *Journal of Accounting and Economics* 35 (2003): 201-226.

Plesko, George A. "Corporate Tax Avoidance and the Properties of Corporate Earnings," *National Tax Journal* 57, no. 3 (Sept. 2004): 729-737.

Plesko, George A., and Nina L. Shumofsky, "Reconciling Corporate Book and Tax Net Income, Tax Years 1995-2001," Data Release. *Statistics of Income Bulletin* 24, no. 4 (Spring 2005): 103-108.

Talisman, Jonathan, "Corporate Tax Shelters and the Corporate Tax Base," pp. 4-6, in "Penalty and Interest Provisions, Corporate Tax Shelters," Testimony of Jonathan Talisman, Assistant Secretary (Tax Policy), U.S. Department of the Treasury, Before the U.S. Senate, Committee on Finance, Washington, Mar. 8, 2000.

U.S. Department of the Treasury, "Evidence of Growth in Corporate Tax Shelters," *The Problem of Corporate Tax Shelters: Discussion, Analysis, and Legislative Proposals.* Washington, D.C.: Government Printing Office, July 1999: 31-33

Weiner, Joann M., "Closing the Other Tax Gap: The Book-Tax Income Gap," *Tax Notes,* May 28, 2007, p. 849, *Doc 2007-11679, 2007 TNT 104-46*.

Appendix A1: Technical Description of M-3 Data

A. Source of 2004 and 2005 Tax Return Data

A statistical sample of tax return data is electronically encoded annually by the IRS Statistics of Income Division for the use of the Treasury Office of Tax Analysis (OTA) and the Joint Committee on Taxation. The Office of Research and Workload Identification (RWI) within the Large and Midsize Business Division of the IRS also receives a copy of the file.[28] Those data include Schedule M-1 data and, beginning with 2004, Schedule M-3 data. The annual SOI corporate file is issued to the OTA, JCT, and LMSB in three versions in the second calendar year following the July-June tax year (in calendar 2007 for tax year 2005, that is, for corporate tax years ending July 2005 to June 2006). The advance file is prepared May 1, the preliminary file is prepared September 1, and the final file is prepared December 1. The advance file contains a small number of large placeholder records (Critical Case in Table A1) together with a larger but still small number of small placeholder records and uses tentative weights. The preliminary file has far fewer placeholders and uses revised weights. The final file has very few placeholders and uses final weights. Placeholder records are generally data from the prior tax year for a few large complex returns (critical case) that may still be undergoing SOI editing, and for a larger number of small returns desired for statistical purposes but not yet received as of the file issuance.[29]

Researchers using SOI data may report only aggregate tax data for a minimum of three taxpayers to protect taxpayer confidentiality. For statistical reasons, SOI prefers that aggregate data are reported for 10 or more taxpayers whenever possible.

SOI annually summarizes selected tax return data from the final corporate file in Publication 16, *Corporate Income Tax Returns*. Corporate tax data in the 2005 final file prepared December 2007 is summarized in the 2005 SOI Publication 16 published in 2008. Our tax return table values may not add and may differ from official 2005 SOI Publication 16 values because of rounding.[30]

SOI Publication 16 data may be downloaded at http://www.irs.gov/taxstats/bustaxstats/article/0,,id=112834,00.html.

B. Tax Net Income and ICD

Form 1120 Schedule M-3 Part II, line 30, column (d) must equal Form 1120, page 1, line 28 when prepared by the corporate taxpayer. *Some taxpayers improperly include U.S. intercompany dividends in tax net income on Form 1120, page 1, line 28, the reconciliation target for Schedule M-3.*[31] The taxpayer then removes the same ICD amount as a 100 percent dividends received deduction on line 29b so

[28]Use of the SOI file by RWI and LMSB is limited under a formal memorandum of understanding between SOI and LMSB to research studies. SOI file data is not used for IRS audit case building.

[29]Placeholder data is commonly the edited return data from the prior tax year, but may also be current-year data from the IRS Business Master File (limited return data tabulated by the IRS when the return is first received and processed) or, in the case of returns not yet received, current-year survey data collected by SOI directly from the taxpayer on a voluntary basis on a limited number of critical variables.

[30]SOI Publication 16 tables have not presented Schedule M-1 data to date. Currently, it is not planned for Publication 16 to present Schedule M-3 data. Before the publication of Boynton, DeFilippes, and Legel (2005 and 2006a), only Plesko (2002) (for 1996-1998) and Plesko-Shumofsky (2005) (for 1995-2001) presented Schedule M-1 data for the Publication 16 population.

[31]It is improper to include intercompany dividends in tax net income if a consolidated tax group does not contain an insurance company subsidiary. Schedule M-3 instructions recognize that consolidated tax groups containing insurance company subsidiaries (mixed groups) for book income accounting (under statutory accounting rules for insurance companies), and tax income accounting (under federal income tax consolidation rules for insurance companies) may be required to include certain intercompany dividends in book income and in tax income. *See* the 2004, 2005, 2006, and 2007 Form 1120 instructions for Schedule M-3 Part I, lines 10 and 11 and Part II, lines 7 and 26. In April 2006, Form 8916 was announced to supplement Schedule M-3 for mixed groups, including, in particular, tax consolidation groups, with a Form 1120 parent and an insurance subsidiary. Effective for tax years ending on or after December 31, 2006, Form 8916 is used by mixed groups to reconcile tax net income on Schedule M-3 with taxable income on the tax return.

that it does not increase final income subject to tax on line 30. If the taxpayer includes ICD on Form 1120, page 1, line 28, it must also include it on Schedule M-3 Part II, line 30, column (d).

Any accounting adjustment that makes an increase to tax net income on Part II, line 30, column (d) that is not balanced by a similar increase to book income on Part II, line 30, column (a) will *decrease* the reported difference between book income and tax income on Schedule M-3 if book income is higher than tax income before the adjustment.[32] The reduction in such reported differences may be a motivation for improperly including ICD in tax net income when it is not included in book income.[33] Distribution Table D7* includes rows analyzing ICD reporting by corporations with and without insurance subsidiaries.[34]

In general, ICD should be eliminated in determining tax net income. SOI removes all ICD amounts that it identifies in tax net income in the SOI corporate file.[35] If the taxpayer includes ICD in tax net income on Schedule M-3 Part II, line 30, column (d) and on Form 1120, page 1, line 28, the tax net income reported on Schedule M-3 Part II, line 30, column (d) will be larger than tax net income on Form 1120, page 1, line 28 in the SOI corporate file by the amount of the ICD removed by SOI from line 28.[36]

SOI has included information on the ICD adjustment on the 1999-2003 files and the 2005 file as the variable DIV_AFFIL_ADJ. The ICD information was not included for the Schedule M-3 population on the 2004 file. We estimate the ICD adjustment for 2004 as the (unedited) Schedule M-3 Part II, line 30, column (d) amount minus the (edited) Form 1120, page 1, line 28 (if it is a positive difference) for corporations filing a consolidated return.

C. Pretax Benchmark and Sign Conventions

We calculate all book income versus tax income differences as pretax differences — that is, as the difference between the *pretax* book (measured before federal income tax expense) and the tax amounts (also pretax) reported on Schedule M-3. We do this so that we are always comparing pretax amounts — that is, book income before the recognition of federal income tax expense compared with tax income for federal income tax — consistent with the book income versus tax income differences literature since Talisman (2000). To do this for the total amounts and differences reported on Part II, line 30 and Part III, line 36, we must back out federal income tax expense from the columns (a), (b), and (c) reconciliation amounts reported by taxpayers on Part II, line 30 and Part III, line 36.

The literature through 2003 defines the sign of a pretax book income versus tax income difference as *positive* if the book amount is *higher* than the tax amount. Schedule M-3 effectively reverses this convention by the nature of its reconciliation rules. The sum of columns (a), (b), and (c) must equal column (d). A *positive* total difference in columns (b) and (c) of Schedule M-3 parts II and III means that the tax amount is *higher* than the book amount. A *negative* total difference in columns (b) and (c) of Schedule M-3 parts II and III means that the tax amount is *lower* than the book amount.

References to negative pretax differences in this paper and in table captions in all cases mean that the effect on Part II, line 30 is to reduce book income in determining tax net income.

In the aggregate M-3 tables F1.1*-F4.6*, the sign of Part III has been changed to agree with the effect on Part II, line 30.

D. Changes in 2004 Data Previously Reported

The 2004 data we present here for tax years ending December 2004 through June 2005 differ slightly from that previously presented publicly in 2006 because that earlier presentation used the 2004 SOI advanced file.[37] The data also differ slightly from data presented within Treasury and the IRS in 2007 internal reports using the 2004 SOI final file because we have refined our reconciliation requirements for retention of tax returns in our study sample and refined our classification of returns as SEC 10K/Public.

Distribution tables A1* and A2* reflect our current reconciliation requirements and are discussed in detail in the next section, Section A1.5. The balance of Section A1.4 discusses how our reconciliation requirements for this report differ from the earlier reconciliation requirements.

Distribution Table A1* for 2005 and 2004 each identifies nonplaceholder returns potentially subject to Schedule M-3. Distribution Table A2* for 2005 and 2004 each starts with the nonplaceholder tax returns subject to Schedule M-3 identified in Distribution Table A1* and identifies the population of tax returns for which we have minimally reconcilable Schedule M-3 data.[38] We eliminate returns as "No Data Parts I, II" for a lack of any

---

[32]A similar effect exists on Schedule M-1. *See* Boynton, DeFilippes, and Legel (2005 and 2006a).

[33]Corporations with insurance subsidiaries are subject to statutory accounting rules for book income and special rules for tax income for those insurance subsidiaries that include ICD in both book income and tax income.

[34]Boynton and McNamara (2008 working paper) analyze ICD reporting by corporations with and without insurance subsidiaries.

[35]On the SOI corporate file, SOI removes all intercompany dividends that it identifies from Form 1120 data, including from page 1, line 28, even if the tax consolidation group contains an insurance company subsidiary. *See* the discussion of the history of ICD editing by SOI for tax years 1990-2003 in Boynton, DeFilippes, and Legel (2005 and 2006a). Note that changes on the SOI corporate file do not change the amounts on the tax return and do not affect IRS audits (or lack of audits) for corporate tax returns.

[36]SOI also corrects some taxpayer errors it finds on Form 1120, page 1. The observed difference between Schedule M-3 Part II, line 30, column (d) and Form 1120, page 1, line 28 on the SOI corporate file is the net effect of the SOI ICD adjustment and any other SOI error adjustments made on the SOI corporate file.

[37]*See* Boynton, DeFilippes, and Legel (2006b).

[38]Our classification of a return as having or not having minimally reconcilable Schedule M-3 data is solely for the purposes of this report and does not affect the classification of the return for audit purposes.

Schedule M-3 data.[39] We eliminate tax returns with some Schedule M-3 data as ''Line 30 Fails'' because either: (1) Part II, line 30 contains no nonzero amount; (2) Part II, line 30 columns (a), (b), and (c) do not reconcile with column (d) within 1 percent of the maximum nonzero absolute value amount on Part II, line 30; or (3) Part II, line 30, column (a) does not reconcile with Part I, line 11 within 1 percent of the maximum nonzero absolute value amount on Part II, line 30.[40] Finally, we eliminate tax returns as ''Line 28 Fails'' because either: (1) Part II, line 28 contains no nonzero amount; (2) Part III, line 36 contains no nonzero amount; or (3) Part II, line 28 and Part III, line 36 do not reconcile after the required sign change within 1 percent of the maximum nonzero absolute value amount on Part II, line 28.

In prior reports of 2004 Schedule M-3 data, we required that both book income on Part II, line 30, column (a) and tax net income on Part II, line 30, column (d) be nonzero. We now only require that a nonzero amount be on line 30. We previously required that reconciliation be within a tolerance of 0.1 percent of the absolute value of book income on Part II, line 30, column (a). We now require only that reconciliation be within 1 percent of the maximum nonzero absolute value amount on line 30. We now accept a zero book income on Part I, line 11 if and only if Part II, line 30, column (a) is also zero. We previously required that columns (b) and (c) of Part II, line 28 and Part II, line 36, respectively, agree after taking the sign change into account within 0.1 percent of book income. We now require that both Part II, line 28 and Part III, line 36 have some nonzero amount, that any zero amount in any column on one be matched by a zero amount in the other, and that nonzero amounts match within a tolerance of 1 percent of the maximum nonzero absolute value amount on Part II, line 28.

The net effect of the changes in reconciliation requirements is to increase the number of larger tax returns deemed to be minimally reconcilable and to eliminate smaller tax returns, particularly those reporting no Part III expense/deduction detail and those reporting zero for either Part I, line 11 or Part II, line 30, column (a) but not for both. Overall we report slightly fewer reconcilable tax returns reporting slightly larger aggregate dollar amounts than previously.

Because of the combined effect of the change in reconciliation requirements, we report both a lower number of 2004 reconcilable tax returns (30,901 now versus 31,298 in 2007 internal reports) with higher total assets ($33,981,247 million now versus $33,579,111 million in 2007 internal reports), higher total tax after credits ($163,606 million now versus $161,149 million in 2007 internal reports), less net total pretax difference (-$146,411 million now versus -$139,176 million in 2007 internal reports), and less stock option (tax net income reducing) pretax permanent difference on Part III, line 9, column (c) -$47,898 million now versus -$47,084 million in 2007 internal reports).

We also refined our definition of SEC 10K/Public to include any tax return on which (1) Part I, line 1a indicated that an SEC 10K financial statement was prepared, or (2) Part I, line 3a indicated that the corporation had publicly traded common stock. Previously, we only used the Part I, line 1a indicator for classification. Some firms indicate the first without the second, which may mean publicly traded debt or a reporting error. Other firms report the second without the first, suggesting a reporting error. We now make use of the presence of either indicator.

Because of the combined effect of the classification and reconciliation changes, we report both a higher number of 2004 SEC 10K/Public firms (4,751 now versus 4,454 in 2007 internal reports) with higher total assets ($25,510,331 million now versus $23,074,003 million in 2007 internal reports), higher total tax after credits ($121,317 million now versus $114,070 in 2007 internal reports), and less net total pretax difference (-$122,716 million now versus -$117,490 million in 2007 internal reports).

E. Data Availability

Distribution Table A1* for 2005 and 2004 each identifies the population of tax returns on the 2005 or 2004 SOI final corporate file potentially subject to the requirement to include the 2005 or 2004 Form 1120 Schedule M-3. The first requirement is that the corporation files a Form 1120 and reports assets of $10 million or more on Form 1120 Schedule L.[41] The second requirement is that the tax year ends December 2004 or later. The 2005 SOI final file contains 27,451 records statistically representing 43,476 tax returns for corporations filing Form 1120 with total assets of $10 million or more and tax years ending July 2005 through June 2006.[42] Those 43,476 tax returns include 51 tax returns that are large critical-case placeholder returns and 382 smaller non-critical-case

[39]We tested Part I, lines 4 through 11 and Part II, lines 26 through 30 for any nonzero amount. In particular, a book amount for the tax group should be reported on Part I, line 11 and a reconciliation between that amount and tax net income should be reported on Part II, line 30.

[40]We do not test the reconciliation between Part II, line 30, column (d) and Form 1120 page 1 line 28. Rather, if Part II, line 30, column (d) is not zero, we treat any positive difference with page 1, line 28 for a consolidated return as the measure of the ICD removed by SOI from page 1, line 28.

[41]Some companies with assets of less than $10 million voluntarily filed Schedule M-3. We did not analyze that data.

[42]The SOI corporate file is a statistical sample. The record for a smaller tax return (usually measured by total assets) may be weighted to represent more than one tax return. Generally, tax returns for corporations with $50 million or more in assets have a weight of one — that is, the record represents only itself. The record for a smaller tax return generally has a weight greater than one (for example, five) — that is, the record represents several similar tax returns (for example, five tax returns). In 2004, SOI essentially selected all corporate tax returns with assets of $10 million or more and sampled smaller corporation returns. In 2005, SOI essentially selected all corporate returns with assets of $50 million or more and sampled smaller corporation returns. The total 2005 SOI final corporate file contains 110,003 records representing 5,671,257 corporate tax returns reporting aggregate total assets of $66,445,429 million and aggregate tax after credits of $312,086 million. That total includes S corporations, regulated investment companies, and

(Footnote continued on next page.)

placeholder returns. Data for a placeholder return are from an earlier tax return or from other sources for a tax return for which a current return is missing or for which editing is not complete at the time the file is issued.[43]

The 2005 SOI final file includes 43,043 nonplaceholder returns for tax years ending July 2005 through June 20006. Of those tax returns, 5,734 are for tax years ending June through November 2004 and use the 2004 Schedule M-3 form; 37,309 are nonplaceholder tax returns for tax years ending December 2005 through June 2006 and use the 2005 Schedule M-3 form.

The 2004 SOI final file contains 41,887 records statistically representing 42,004 tax returns for corporations filing Form 1120 with total assets of $10 million or more. These 42,004 tax returns include 24 tax returns that are large critical-case placeholder returns and 282 smaller non-critical-case placeholder returns. The 2004 final file includes 41,698 nonplaceholder returns for tax years ending July 2005 through June 2006. Of these 41,698 tax returns, 5,601 are for tax years ending July through November 2004 and are not subject to the 2004 Schedule M-3 form; 36,097 are nonplaceholder tax returns for tax years ending December 2005 through June 2006 and use the 2005 Schedule M-3 form.

For our 2005 and 2004 Schedule M-3 study, placeholder returns on the 2005 and 2004 SOI final corporate file represent missing Schedule M-3 data if the tax year ends in December 2004 or later for a corporation with $10 million or more in assets. We estimate the possible importance to our study of placeholder returns (in Distribution Table A1*) and other returns that we eliminate for lack of reconciliation (in Distribution Table A2*) as missing data by determining the estimated tax after credits associated with those returns.

The 43,476 tax returns with which Distribution Table A1* for 2005 begins (corporations on the 2005 final file filing Form 1120 with assets of $10 million or more) have an aggregate tax after credits of $271,021 million. The 43,043 nonplaceholder tax returns on the 2005 final file report $267,509 million tax after credits, approximately 99 percent of the total. The 5,734 nonplaceholder tax returns for tax years ending July through November 2005 represent approximately 8 percent of the tax after credits ($22,844 million). The 37,309 nonplaceholder tax returns for tax years ending December 2004 through June 2005 represent approximately 90 percent of the tax after credits ($244,665 million).

The 42,004 tax returns with which Distribution Table A1* for 2004 begins have an aggregate tax after credits of $188,450 million. The 41,698 nonplaceholder tax returns on the 2004 final file report $186,169 million tax after credits, approximately 99 percent of the total. The 5,601 nonplaceholder tax returns for tax years ending July through November 2004 (and therefore not subject to Schedule M-3) represent approximately 8 percent of the tax after credits ($15,385 million). The 36,097 nonplaceholder tax returns for tax years ending December 2004 through June 2005 (subject to Schedule M-3) represent approximately 91 percent of the tax after credits ($170,783 million).

Distribution Table A2* for 2005 starts with the 43,043 nonplaceholder tax returns for tax years ending July 2005 through June 2006 on the 2005 SOI final corporate file identified in Distribution Table A1* and identifies the population of 38,516 tax returns (approximately 89 percent of the total) for which we have minimally reconcilable Schedule M-3 data.[44] We eliminate 1,751 returns (approximately 4 percent) as ''No Data Parts I, II'' for a lack of any Schedule M-3 data.[45] We eliminate 2,776 returns (approximately 6 percent) that do present Schedule M-3 data as ''Line 30 Fails,'' ''Line 28 Fails,'' or ''Line 30 Fails'' if either: (1) Part II, line 30 contains no nonzero amount; (2) Part II, line 30, columns (a), (b), and (c) do not reconcile with column (d) within 1 percent of the maximum nonzero absolute value amount on Part II, line 30; or (3) Part II, line 30, column (a) does not reconcile with Part I, line 11 within 1 percent of the maximum nonzero absolute value amount on Part II, line 30.[46] ''Line 28 Fails'' if either: (1) Part II, line 28 contains no nonzero amount; (2) Part III, line 36 contains no nonzero amount; (3) Part II, line 28 and Part III, line 36 do not reconcile after the required sign change within 1 percent of the maximum nonzero absolute value amount on Part II, line 28.

Part III is designed to report expenses and deductions as positive amounts. The column sums on Part III, line 36 are then carried over to Part II, line 28 with a sign change and added on Part II in determining Part II, line 30 column amounts. For 2005, 86 returns that initially failed our tests on Part II, line 28 and Part III, line 36 are corrected by us. For 76 of the corrected returns, we

real estate investment trusts. These do not normally pay corporate income tax. Excluding S corporations, RICs, and REITs, the 2005 SOI final file contains 59,898 records representing 1,974,961 corporate tax returns reporting aggregate total assets of $51,892,807 million and aggregate tax after credits of $311,358 million. The 27,451 records representing 43,476 corporation tax returns filed on Form 1120 each reported assets of $10 million or more (2.2 percent of all corporate returns, excluding S corps, RICs, and REITs), had aggregate total assets of $43,836,223 million (84.5 percent of all corporate returns excluding S corps, RICs, and REITs), and had aggregate tax after credits of $271,021 million (87 percent of all corporate returns excluding S corps, RICs, and REITs).

[43]*See* Appendix A1.A. for a more detailed discussion of the sources of placeholder data.

[44]Our classification of a return as having or not having minimally reconcilable Schedule M-3 data is solely for the purposes of this report and does not affect classification of the return for audit purposes.

[45]We tested Part I, lines 4 through 11 and Part II, lines 26 through 30 for any nonzero amount. In particular, a book amount for the tax group should be reported on Part I, line 11, and a reconciliation between that amount and tax net income should be reported on Part II, line 30.

[46]We do not test the reconciliation between Part II, line 30, column (d) and Form 1120, page 1, line 28. Rather, if Part II, line 30, column (d) is not zero, we treat any positive difference with page 1, line 28 for a consolidated return as the measure of the ICD removed by SOI from page 1, line 28.

determined that the taxpayer reported expenses and deductions on Part III as negative amounts and carried those amounts to Part II, line 28 without a sign change when those amounts could appropriately be added (''L28 Sign_ADD'' in Distribution Table A2*). Some of the 76 returns are very large returns. For aggregation purposes, we changed the sign of amounts on Part III of these 76 returns so that expenses and deductions were reported as positive amounts. For 10 of the corrected returns, we determined that the taxpayer reported expenses and deductions on Part III as positive amounts and carried those amounts to Part II, line 28 without a sign change when the taxpayer then *subtracted* the Part II, line 28 column amounts to determine Part II, line 30 (''L28 Sign_SUB'' in Table D2*). For aggregation purposes, we changed the sign of amounts on Part II, line 28 so that those amounts could be added.[47]

Distribution Table A2* for 2004 starts with the 36,097 nonplaceholder tax returns for tax years ending December 2004 through June 2005 on the 2005 SOI final corporate file identified in Distribution Table A1* and identifies the population of 30,901 tax returns (approximately 86 percent of the total) for which we have reconcilable Schedule M-3 data. We eliminated 2,413 tax returns (approximately 7 percent) as ''No Data Parts I, II'' for a lack of any Schedule M-3 data. We eliminated 2,783 tax returns (approximately 8 percent) that do present Schedule M-3 data as ''Line 30 Fails'' or ''Line 28 Fails.''[48]

The 38,516 tax returns that Distribution Table A2* for 2005 identifies as reconcilable data are the starting point for distribution tables D1*-D7* and for tables F1.1*-F4.6* for 2005. The 38,516 tax returns for 2005 with reconcilable data (with Schedule M-3 data for which both Part II, lines 30 and 28 pass our reconciliation tests) have an aggregate tax after credits of $262,897 million (approximately 98 percent of the $267,509 million for the 43,043 nonplaceholders in Distribution Table A1*). In other words, while only approximately 89 percent of the 2005 tax returns have reconcilable data, they are the larger returns reporting approximately 98 percent of the tax after credits. The 1,751 tax returns eliminated for no M-3 data are approximately 4 percent of the returns but report an aggregate tax after credits of $630 million (less than 1 percent of the total). The 2,776 tax returns eliminated as Part II ''Line 30 Fails'' or ''Line 28 Fails'' are approximately 6 percent of the tax returns but report an aggregate tax after credits of $3,982 million (approximately 1 percent of the total).

The 30,901 tax returns for December 2004 through June 2005 that Distribution Table A2* for 2004 identifies as reconcilable data are the starting point for distribution tables D1*-D7* and form tables F1.1*-F4.6* for 2004. The 30,901 tax return for 2004 with reconcilable data (with Schedule M-3 data for which both Part II, lines 30 and 28 pass our reconciliation tests) have an aggregate tax after credits of $163,606 million (approximately 96 percent of the $170,783 million for the 36,097 nonplaceholders in Distribution Table A1*). In other words, while only approximately 86 percent of the 2004 (December 2004 through June 2005) tax returns have reconcilable data, they are the larger returns reporting approximately 96 percent of the tax after credits. The 2,413 tax returns eliminated for no M-3 data (approximately 7 percent) have an aggregate tax after credits of $928 million (approximately 1 percent of the total). The 2,783 tax returns (approximately 8 percent) eliminated for Part II ''Line 30 Fails'' or ''Line 28 Fails'' have an aggregate tax after credits of $6,250 million (approximately 4 percent of the total).

F. Minimum Compliance Levels

We test only the most minimum compliance levels in reporting Schedule M-3 with our required data reconciliation tests for Distribution Table A2* for 2005 and 2004.[49] Other tests not made here are tests of the general reconciliation down columns and across rows, tests comparing attachment to the Schedule M-3 lines supported by the attachments, and tests of the attachments regarding the required standard of ''separately stated and adequately disclosed.''

The failure to report Schedule M-3 data (''No Data Part I, II'') is largely a problem with smaller corporations and is decreasing. In 2004 (December 2004 through June 2005), approximately 7 percent of tax returns subject to Schedule M-3 failed to report data, but those tax returns reported only approximately 1 percent of tax after credits. In 2005 the number fell to approximately 4 percent of tax returns reporting less than 1 percent of tax after credits.

The failure to report Schedule M-3 data that reconciles Part II, lines 30 and 28 (''Line 30 Fails'' or ''Line 28 Fails'') is largely a problem with smaller corporations and a few larger corporations, and is decreasing. In 2004 approximately 8 percent of tax returns subject to Schedule M-3 are eliminated for ''Line 30 Fails'' or ''Line 28 Fails,'' but those tax returns report only approximately 4 percent of tax after credits. In 2005 the number fell to approximately 6 percent of tax returns reporting approximately 1 percent of tax after credits.

(Tables and figures begin on following page.)

[47]After all sign corrections described here were made, an additional sign change was made for the presentation of data in tables 1.1-F4.6*. Negative income (loss) differences in Part II reduce Part II, line 30, column (d), tax net income. We change the sign of all Part III data reported in tables F1.1-F6.4* to show expense/deduction differences that reduce Part II, line 30, column (d), tax net income, as negative differences consistent with the sign convention in Part II.

[48]In 2004 Distribution Table A2*, we correct the sign of 204 returns based on our Part II, line 28, and Part III, line 36 tests, 174 as L28 Sign_ADD, and 30 as L28 Sign_SUB.

[49]Our classification of a return as having or not having minimally reconcilable Schedule M-3 data is solely for the purposes of this report and does not affect classification of the return for audit purposes.

Summary Table 1. Corporations With Schedule M-3 Data: 2005 versus 2004

Dollar amounts in millions. Table amounts may not reflect exact totals due to rounding.

	2005		2004		Change	
	F1.1*		F1.1*(04)		F1.1*-F1.1*(04)	
Returns	38,516		30,901		7,615	
Population overview	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A
Total assets	42,456,769	3.2%	33,981,247	2.3%	8,475,522	0.9%
Part I Financial Information	Income	%PTB	Income	%PTB	Income	%PTB
4 Worldwide consolidated net income (loss)	**850,050**	**63.2%**	**620,461**	**80.4%**	**229,589**	**-17.2%**
5 (Income) Loss from nonincludible foreign entities	**-447,265**	**-33.2%**	**-228,657**	**-29.6%**	**-218,608**	**-3.6%**
6 (Income) Loss from nonincludible U.S. entities	-103,094	-7.7%	-87,373	-11.3%	-15,721	3.7%
7 (Income) Loss of other includible corporations	-2,163	-0.2%	3,653	0.5%	-5,816	-0.6%
8 Adjustments to eliminations (because of lines 5-7)	609,080	45.3%	198,141	25.7%	410,939	19.6%
** Summary of lines 5 through 8	56,558	4.2%	-114,236	-14.8%	170,794	19.0%
9 Adjustment to reconcile income statement period to tax year	1,572	0.1%	5,671	0.7%	-4,099	-0.6%
10 Other adjustments to reconcile to amount on line 11	141,825	10.5%	34,802	4.5%	107,023	6.0%
11 Line 11 only (books and records)	6,347	0.5%	15,807	2.0%	-9,460	-1.6%
** Subtotal	1,056,352	78.5%	562,505	72.9%	493,847	5.7%
** Amount to reconcile	-1,510	-0.1%	-587	-0.1%	-923	0.0%
11 Net income per income statement of includible corporations	**1,054,842**	**78.4%**	**561,918**	**72.8%**	**492,924**	**5.6%**
** Amount to reconcile	-19	0.0%	1	0.0%	-20	0.0%
** Net income per Part II Line 30 Column A	1,054,823	78.4%	561,919	72.8%	492,904	5.6%
** Reverse Federal tax expense	290,337	21.6%	210,219	27.2%	80,118	-5.6%
**** Pretax book income**	**1,345,161**	**100.0%**	**772,138**	**100.0%**	**573,023**	**0.0%**
** Temporary difference before federal tax expense — income/loss	85,941	6.4%	5,247	0.7%	80,694	5.7%
** Temporary difference before federal tax expense — expense/deduction	-48,814	-3.6%	-97,307	-12.6%	48,493	9.0%
** Amount to reconcile	14	0.0%	-422	-0.1%	436	0.1%
** Temporary difference before federal tax expense — total	37,140	2.8%	-92,482	-12.0%	129,622	14.7%
** Permanent difference before federal tax expense — income/loss	-21,087	-1.6%	-50,358	-6.5%	29,271	5.0%
** Permanent difference before federal tax expense — expense/deduction	-31,529	-2.3%	-3,931	-0.5%	-27,598	-1.8%
** Amount to reconcile	36	0.0%	361	0.0%	-325	0.0%
** Permanent difference before federal tax expense — total	-52,580	-3.9%	-53,929	-7.0%	1,349	3.1%
P2 PreTaxDif: Lines 1-5 foreign corporation income/loss	168,781	12.5%	54,634	7.1%	114,147	5.5%
P2 PreTaxDif: Lines 6-8 U.S. corporation income/loss	-80,767	-6.0%	-23,657	-3.1%	-57,110	-2.9%
P2 PreTaxDif: Lines 9-11 Partner/pass-through income/loss	32,288	2.4%	19,060	2.5%	13,228	-0.1%
P2 PreTaxDif: Line 12 Reportable transactions	-30,598	-2.3%	-47,049	-6.1%	16,451	3.8%
P2 PreTaxDif: Line 13 Interest income	-26,753	-2.0%	-15,966	-2.1%	-10,787	0.1%
P2 PreTaxDif: Line 17 Cost of goods sold	102,478	7.6%	47,300	6.1%	55,178	1.5%
P2 PreTaxDif: Line 18 Sale versus lease	35,075	2.6%	30,939	4.0%	4,136	-1.4%

Summary Table 1. Corporations With Schedule M-3 Data: 2005 versus 2004

P2 PreTaxDif: Lines 23-25 Asset disposition gain/loss	29,769	2.2%	15,572	2.0%	14,197	0.2%
P2 PreTaxDif: Line 26 Other inc/loss with differences	-165,120	-12.3%	-122,534	-15.9%	-42,586	3.6%
P3 PreTaxDif: Lines 5-6 foreign income tax expense	23,138	1.7%	15,628	2.0%	7,510	-0.3%
P3 PreTaxDif: Lines 8, 9-10 Stock options and equity compensation	-65,344	-4.9%	-52,654	-6.8%	-12,690	2.0%
P3 PreTaxDif: Lines 16-18 Pension, profit sharing, etc.	-383	0.0%	-13,204	-1.7%	12,821	1.7%
P3 PreTaxDif: Lines 23-25 Acquisition/reorganization costs	21,483	1.6%	1,097	0.1%	20,386	1.5%
P3 PreTaxDif: Lines 26-31 Depreciation, amortization, and impairment	11,683	0.9%	-72,478	-9.4%	84,161	10.3%
P3 PreTaxDif: Line 35 Other expenses/deductions with differences	-64,035	-4.8%	16,164	2.1%	-80,199	-6.9%
** PreTaxDif: All other	-7,133	-0.5%	737	0.1%	-7,870	-0.6%
**** Total pretax difference before federal tax expense**	**-15,440**	**-1.1%**	**-146,411**	**-19.0%**	**130,971**	**17.8%**
** Amount to reconcile	-142	0.0%	47	0.0%	-189	0.0%
**** Net tax income per Part II Line 30 Column D**	**1,329,579**	**98.8%**	**625,773**	**81.0%**	**703,806**	**17.8%**
** SOI removed ICD	-135,085	-10.0%	-58,402	-7.6%	-76,683	-2.5%
** Other SOI adjustments	48,369	3.6%	-1,867	-0.2%	50,236	3.8%
**** Tax net income reported by SOI**	**1,242,862**	**92.4%**	**565,504**	**73.2%**	**677,358**	**19.2%**
** Reverse negative tax net income	133,419	9.9%	149,635	19.4%	-16,216	-9.5%
** Positive tax net income	1,376,281	102.3%	715,139	92.6%	661,142	9.7%
** Net operating loss deduction	-100,526	-7.5%	-63,382	-8.2%	-37,144	0.7%
** Special deductions	-252,564	-18.8%	-17,510	-2.3%	-235,054	-16.5%
** Amount to reconcile	6,088	0.5%	1,420	0.2%	4,668	0.3%
**** Taxable income**	**1,029,280**	**76.5%**	**635,667**	**82.3%**	**393,613**	**-5.8%**
Tax before credits	361,856	26.9%	223,944	29.0%	137,912	-2.1%
Foreign tax credit	-77,462	-5.8%	-47,630	-6.2%	-29,832	0.4%
General business credit	-12,269	-0.9%	-8,567	-1.1%	-3,702	0.2%
Other tax credits	-9,229	-0.7%	-4,141	-0.5%	-5,088	-0.1%
Tax less credits	**262,897**	**19.5%**	**163,606**	**21.2%**	**99,291**	**-1.6%**

Summary Table 2. Corporations With Schedule M-3 Data: 2005 versus 2004: Tax Net Income Below or Above Pretax Book Income

Dollar amounts in millions. Table amounts may not reflect exact totals due to rounding.

	2005		2005		2005		2004		2004		2004	
	ALL		TNI < PBI		TNI ≥ PBI		ALL		TNI < PBI		TNI ≥ PBI	
	F1.1*		F1.2*		F1.3*		F1.1*(04)		F1.2*(04)		F1.3*(04)	
Returns	38,516		17,134		21,382		30,901		17,127		13,774	
Population overview	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A
Total Assets	42,456,769	3.2%	18,275,000	5.1%	24,181,769	1.7%	33,981,247	2.3%	19,334,397	3.5%	14,646,851	0.6%
Part I Financial Information	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB
4 Worldwide consolidated net income (loss)	**850,050**	**63.2%**	**526,296**	**56.4%**	**323,753**	**78.4%**	**620,461**	**80.4%**	**478,223**	**70.5%**	**142,238**	**151.2%**
5 (Income) Loss from nonincludible foreign entities	**-447,265**	**-33.2%**	**-246,219**	**-26.4%**	**-201,046**	**-48.7%**	**-228,657**	**-29.6%**	**-151,272**	**-22.3%**	**-77,385**	**-82.3%**
6 (Income) Loss from nonincludible U.S. entities	-103,094	-7.7%	-37,897	-4.1%	-65,196	-15.8%	-87,373	-11.3%	-37,710	-5.6%	-49,663	-52.8%
7 (Income) Loss of other includible corporations	-2,163	-0.2%	2,450	0.3%	-4,613	-1.1%	3,653	0.5%	4,176	0.6%	-523	-0.6%
8 Adjustments to eliminations (because of lines 5-7)	609,080	45.3%	394,298	42.3%	214,782	52.0%	198,141	25.7%	162,346	23.9%	35,795	38.1%
** Summary of lines 5 through 8	56,558	4.2%	112,632	12.1%	-56,074	-13.6%	-114,236	-14.8%	-22,460	-3.3%	-91,776	-97.6%
9 Adjustment to reconcile income statement period to tax year	1,572	0.1%	1,084	0.1%	488	0.1%	5,671	0.7%	5,289	0.8%	382	0.4%
10 Other adjustments to reconcile to amount on line 11	141,825	10.5%	128,565	13.8%	13,260	3.2%	34,802	4.5%	44,982	6.6%	-10,180	-10.8%
11 Line 11 only (Books and Records)	6,347	0.5%	3,310	0.4%	3,037	0.7%	15,807	2.0%	18,376	2.7%	-2,569	-2.7%
** Subtotal	1,056,352	78.5%	771,888	82.8%	284,465	68.9%	562,505	72.9%	524,410	77.3%	38,095	40.5%
** Amount to reconcile	-1,510	-0.1%	-1,955	-0.2%	444	0.1%	-587	-0.1%	-33	0.0%	-554	-0.6%
11 Net income per income statement of includible corps	**1,054,842**	**78.4%**	**769,933**	**82.6%**	**284,909**	**69.0%**	**561,918**	**72.8%**	**524,377**	**77.3%**	**37,541**	**39.9%**
** Amount to reconcile	-19	0.0%	1	0.0%	-19	0.0%	1	0.0%	1	0.0%	-1	0.0%
** Net income per Part II Line 30 Column A	1,054,823	78.4%	769,934	82.6%	284,890	69.0%	561,919	72.8%	524,379	77.3%	37,540	39.9%
** Reverse federal tax expense	290,337	21.6%	162,407	17.4%	127,931	31.0%	210,219	27.2%	153,699	22.7%	56,520	60.1%
**** Pretax book income**	**1,345,161**	**100.0%**	**932,340**	**100.0%**	**412,820**	**100.0%**	**772,138**	**100.0%**	**678,078**	**100.0%**	**94,060**	**100.0%**
** Temporary difference before federal tax expense — income/loss	85,941	6.4%	-49,916	-5.4%	135,857	32.9%	5,247	0.7%	-47,232	-7.0%	52,479	55.8%
** Temporary difference before federal tax expense — expense/deduction	-48,814	-3.6%	-117,764	-12.6%	68,950	16.7%	-97,307	-12.6%	-169,254	-25.0%	71,947	76.5%
** Amount to reconcile	14	0.0%	14	0.0%	0	0.0%	-422	-0.1%	-118	0.0%	-304	-0.3%
** Temporary difference before federal tax expense — total	37,140	2.8%	-167,666	-18.0%	204,807	49.6%	-92,482	-12.0%	-216,604	-31.9%	124,122	132.0%
** Permanent difference before federal tax expense — income/loss	-21,087	-1.6%	-200,377	-21.5%	179,290	43.4%	-50,358	-6.5%	-131,900	-19.5%	81,542	86.7%
** Permanent difference before federal tax expense — expense/deduction	-31,529	-2.3%	-68,068	-7.3%	36,540	8.9%	-3,931	-0.5%	-45,129	-6.7%	41,198	43.8%
** Amount to reconcile	36	0.0%	18	0.0%	18	0.0%	361	0.0%	-139	0.0%	500	0.5%
** Permanent difference before federal tax expense - total	-52,580	-3.9%	-268,428	-28.8%	215,848	52.3%	-53,929	-7.0%	-177,168	-26.1%	123,239	131.0%
P2 PreTaxDif: Lines 1-5 Foreign corporation income/loss	168,781	12.5%	1,439	0.2%	167,341	40.5%	54,634	7.1%	11,733	1.7%	42,902	45.6%
P2 PreTaxDif: Lines 6-8 U.S. corporation income/loss	-80,767	-6.0%	-107,455	-11.5%	26,687	6.5%	-23,657	-3.1%	-61,222	-9.0%	37,565	39.9%

Summary Table 2. Corporations With Schedule M-3 Data: 2005 versus 2004: Tax Net Income Below or Above Pretax Book Income

P2 PreTaxDif: Lines 9-11 Partner/pass-through income/loss	32,288	2.4%	-10,647	-1.1%	42,935	10.4%	19,060	2.5%	-7,231	-1.1%	26,291	28.0%
P2 PreTaxDif: Line 12 Reportable transactions	-30,598	-2.3%	-15,940	-1.7%	-14,658	-3.6%	-47,049	-6.1%	-29,313	-4.3%	-17,737	-18.9%
P2 PreTaxDif: Line 13 Interest income	-26,753	-2.0%	-11,027	-1.2%	-15,726	-3.8%	-15,966	-2.1%	-12,614	-1.9%	-3,352	-3.6%
P2 PreTaxDif: Line 17 Cost of goods sold	102,478	7.6%	33,884	3.6%	68,594	16.6%	47,300	6.1%	41,156	6.1%	6,145	6.5%
P2 PreTaxDif: Line 18 Sale versus lease	35,075	2.6%	11,589	1.2%	23,486	5.7%	30,939	4.0%	25,108	3.7%	5,831	6.2%
P2 PreTaxDif: Lines 23-25 Asset disposition gain/loss	29,769	2.2%	-20,939	-2.2%	50,708	12.3%	15,572	2.0%	-8,924	-1.3%	24,496	26.0%
P2 PreTaxDif: Line 26 Other income/loss with differences	-165,120	-12.3%	-117,576	-12.6%	-47,544	-11.5%	-122,534	-15.9%	-127,479	-18.8%	4,946	5.3%
P3 PreTaxDif: Lines 5-6 Foreign income tax expense	23,138	1.7%	2,376	0.3%	20,762	5.0%	15,628	2.0%	3,166	0.5%	12,462	13.2%
P3 PreTaxDif: Lines 8, 9-10 Stock options & equity compensation	-65,344	-4.9%	-46,716	-5.0%	-18,628	-4.5%	-52,654	-6.8%	-40,874	-6.0%	-11,780	-12.5%
P3 PreTaxDif: Lines 16-18 Pension, profit sharing, etc.	-383	0.0%	-12,208	-1.3%	11,825	2.9%	-13,204	-1.7%	-16,365	-2.4%	3,160	3.4%
P3 PreTaxDif: Lines 23-25 Acquisitions/reorganization costs	21,483	1.6%	327	0.0%	21,156	5.1%	1,097	0.1%	-567	-0.1%	1,665	1.8%
P3 PreTaxDif: Lines 26-31 Depreciation, amortization, and impairment	11,683	0.9%	-22,195	-2.4%	33,878	8.2%	-72,478	-9.4%	-112,451	-16.6%	39,973	42.5%
P3 PreTaxDif: Line 35 Other expenses/deductions with differences	-64,035	-4.8%	-94,587	-10.1%	30,552	7.4%	16,164	2.1%	-48,278	-7.1%	64,442	68.5%
** PreTaxDif: All other	-7,133	-0.5%	-26,420	-2.8%	19,287	4.7%	737	0.1%	-9,615	-1.4%	10,353	11.0%
**** Total pretax difference before federal tax expense**	**-15,440**	**-1.1%**	**-436,094**	**-46.8%**	**420,654**	**101.9%**	**-146,411**	**-19.0%**	**-393,772**	**-58.1%**	**247,361**	**263.0%**
** Amount to reconcile	-142	0.0%	-115	0.0%	-27	0.0%	47	0.0%	15	0.0%	32	0.0%
**** Net tax income per Part II Line 30 Column D**	**1,329,579**	**98.8%**	**496,131**	**53.2%**	**833,448**	**201.9%**	**625,773**	**81.0%**	**284,320**	**41.9%**	**341,453**	**363.0%**
** SOI removed ICD	-135,085	-10.0%	-52,189	-5.6%	-82,896	-20.1%	-58,402	-7.6%	-13,272	-2.0%	-45,130	-48.0%
** Other SOI adjustments	48,369	3.6%	14,771	1.6%	33,597	8.1%	-1,867	-0.2%	188	0.0%	-2,055	-2.2%
**** Tax net income reported by SOI**	**1,242,862**	**92.4%**	**458,712**	**49.2%**	**784,150**	**189.9%**	**565,504**	**73.2%**	**271,236**	**40.0%**	**294,268**	**312.9%**
** Reverse negative tax net income	133,419	9.9%	80,594	8.6%	52,824	12.8%	149,635	19.4%	103,491	15.3%	46,145	49.1%
** Positive tax net income	1,376,281	102.3%	539,307	57.8%	836,974	202.7%	715,139	92.6%	374,727	55.3%	340,412	361.9%
** Net operating loss deduction	-100,526	-7.5%	-45,300	-4.9%	-55,226	-13.4%	-63,382	-8.2%	-32,202	-4.7%	-31,180	-33.1%
** Special deductions	-252,564	-18.8%	-104,140	-11.2%	-148,424	-36.0%	-17,510	-2.3%	-6,999	-1.0%	-10,511	-11.2%
** Amount to reconcile	6,088	0.5%	3,217	0.3%	2,871	0.7%	1,420	0.2%	1,076	0.2%	344	0.4%
**** Taxable income**	**1,029,280**	**76.5%**	**393,084**	**42.2%**	**636,195**	**154.1%**	**635,667**	**82.3%**	**336,602**	**49.6%**	**299,065**	**318.0%**
Tax before credits	361,856	26.9%	138,744	14.9%	223,112	54. 0%	223,944	29.0%	118,566	17.5%	105,378	112.0%
Foreign tax credit	-77,462	-5.8%	-16,488	-1.8%	-60,974	-14.8%	-47,630	-6.2%	-16,155	-2.4%	-31,475	-33.5%
General business credit	-12,269	-0.9%	-5,055	-0.5%	-7,214	-1.7%	-8,567	-1.1%	-4,407	-0.6%	-4,160	-4.4%
Other tax credits	-9,229	-0.7%	-4,796	-0.5%	-4,433	-1.1%	-4,141	-0.5%	-2,675	-0.4%	-1,465	-1.6%
Tax less credits	**262,897**	**19.5%**	**112,404**	**12.1%**	**150,493**	**36.5%**	**163,606**	**21.2%**	**95,329**	**14.1%**	**68,278**	**72.6%**

Summary Table 3. Corporations With Schedule M-3 Data: 2005 versus 2004: Tax Net Income Greater Than or Less Than Zero

Dollar amounts in millions. Table amounts may not reflect exact total due to rounding.

	2005		2005		2005		2004		2004		2004	
	ALL		TNI > 0		TNI ≤ 0		ALL		TNI > 0		TNI ≤ 0	
	F1.1*		F1.4*		F1.5*		F1.1*(04)		F1.4*(04)		F1.5*(04)	
Returns	38,516		27,601		10,915		30,901		20,641		10,260	
Population overview	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A
Total assets	42,456,769	3.2%	39,152,111	3.7%	3,304,658	-3.4%	33,981,247	2.3%	30,233,829	2.9%	3,747,418	-2.8%
Part I Financial Information	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB
4 Worldwide consolidated net income (loss)	**850,050**	**63.2%**	**954,927**	**65.6%**	**-104,877**	**94.5%**	**620,461**	**80.4%**	**660,473**	**75.4%**	**-40,012**	**38.4%**
5 (Income) Loss from nonincludible foreign entities	**-447,265**	**-33.2%**	**-436,367**	**-30.0%**	**-10,898**	**9.8%**	**-228,657**	**-29.6%**	**-215,660**	**-24.6%**	**-12,998**	**12.5%**
6 (Income) Loss from nonincludible U.S. entities	-103,094	-7.7%	-98,390	-6.8%	-4,704	4.2%	-87,373	-11.3%	-89,735	-10.2%	2,362	-2.3%
7 (Income) Loss of other includible corporations	-2,163	-0.2%	2,186	0.2%	-4,349	3.9%	3,653	0.5%	4,974	0.6%	-1,321	1.3%
8 Adjustments to eliminations (because of lines 5-7)	609,080	45.3%	603,452	41.4%	5,628	-5.1%	198,141	25.7%	197,813	22.6%	328	-0.3%
** Summary of lines 5 through 8	56,558	4.2%	70,882	4.9%	-14,324	12.9%	-114,236	-14.8%	-102,607	-11.7%	-11,629	11.2%
9 Adjustment to reconcile income statement period to tax year	1,572	0.1%	2,332	0.2%	-760	0.7%	5,671	0.7%	4,566	0.5%	1,105	-1.1%
10 Other adjustments to reconcile to amount on line 11	141,825	10.5%	129,738	8.9%	12,087	-10.9%	34,802	4.5%	81,866	9.3%	-47,065	45.2%
11 Line 11 only (books and records)	6,347	0.5%	6,786	0.5%	-438	0.4%	15,807	2.0%	23,451	2.7%	-7,644	7.3%
** Subtotal	1,056,352	78.5%	1,164,664	80.0%	-108,312	97.6%	562,505	72.9%	667,750	76.2%	-105,245	101.1%
** Amount to reconcile	-1,510	-0.1%	-1,918	-0.1%	408	-0.4%	-587	-0.1%	614	0.1%	-1,201	1.2%
11 Net income per income statement of includible corps	**1,054,842**	**78.4%**	**1,162,746**	**79.8%**	**-107,904**	**97.2%**	**561,918**	**72.8%**	**668,364**	**76.3%**	**-106,446**	**102.2%**
** Amount to reconcile	-19	0.0%	-18	0.0%	0	0.0%	1	0.0%	0	0.0%	1	0.0%
** Net income per Part II Line 30 Column A	1,054,823	78.4%	1,162,728	79.8%	-107,904	97.2%	561,919	72.8%	668,364	76.3%	-106,445	102.2%
** Reverse federal tax expense	290,337	21.6%	293,458	20.2%	-3,120	2.8%	210,219	27.2%	207,918	23.7%	2,301	-2.2%
**** Pretax book income**	**1,345,161**	**100.0%**	**1,456,185**	**100.0%**	**-111,025**	**100.0%**	**772,138**	**100.0%**	**876,281**	**100.0%**	**-104,144**	**100.0%**
** Temporary difference before federal tax expense — income/loss	85,941	6.4%	114,725	7.9%	-28,784	25.9%	5,247	0.7%	23,480	2.7%	-18,233	17.5%
** Temporary difference before federal tax expense — expense/deduction	-48,814	-3.6%	-60,725	-4.2%	11,910	-10.7%	-97,307	-12.6%	-91,962	-10.5%	-5,344	5.1%
** Amount to reconcile	14	0.0%	12	0.0%	2	0.0%	-422	-0.1%	-354	0.0%	-68	0.1%
** Temporary difference before federal tax expense — total	37,140	2.8%	54,012	3.7%	-16,871	15.2%	-92,482	-12.0%	-68,836	-7.9%	-23,646	22.7%
** Permanent difference before federal tax expense — income/loss	-21,087	-1.6%	-7,131	-0.5%	-13,957	12.6%	-50,358	-6.5%	-36,649	-4.2%	-13,709	13.2%
** Permanent difference before federal tax expense — exp/ded	-31,529	-2.3%	-41,883	-2.9%	10,355	-9.3%	-3,931	-0.5%	463	0.1%	-4,394	4.2%
** Amount to reconcile	36	0.0%	35	0.0%	1	0.0%	361	0.0%	518	0.1%	-157	0.2%
** Permanent difference before federaleral tax expense — total	-52,580	-3.9%	-48,979	-3.4%	-3,601	3.2%	-53,929	-7.0%	-35,668	-4.1%	-18,261	17.5%
P2 PreTaxDif: Lines 1-5 foreign corporation income/loss	168,781	12.5%	164,273	11.3%	4,508	-4.1%	54,634	7.1%	51,163	5.8%	3,471	-3.3%
P2 PreTaxDif: Lines 6-8 U.S. corporation income/loss	-80,767	-6.0%	-79,954	-5.5%	-814	0.7%	-23,657	-3.1%	-24,995	-2.9%	1,337	-1.3%

Summary Table 3. Corporations With Schedule M-3 Data: 2005 versus 2004: Tax Net Income Greater Than or Less Than Zero												
P2 PreTaxDif: Lines 9-11 Partner/pass-through income/loss	32,288	2.4%	43,178	3.0%	-10,890	9.8%	19,060	2.5%	23,147	2.6%	-4,087	3.9%
P2 PreTaxDif: Line 12 Reportable transactions	-30,598	-2.3%	-23,112	-1.6%	-7,486	6.7%	-47,049	-6.1%	-30,384	-3.5%	-16,665	16.0%
P2 PreTaxDif: Line 13 Interest income	-26,753	-2.0%	-25,674	-1.8%	-1,079	1.0%	-15,966	-2.1%	-15,954	-1.8%	-12	0.0%
P2 PreTaxDif: Line 17 Cost of goods sold	102,478	7.6%	100,538	6.9%	1,941	-1.7%	47,300	6.1%	47,716	5.4%	-415	0.4%
P2 PreTaxDif: Line 18 Sale versus lease	35,075	2.6%	34,999	2.4%	75	-0.1%	30,939	4.0%	30,495	3.5%	444	-0.4%
P2 PreTaxDif: Lines 23-25 Asset disposition gain/loss	29,769	2.2%	37,005	2.5%	-7,237	6.5%	15,572	2.0%	16,426	1.9%	-854	0.8%
P2 PreTaxDif: Line 26 Other inc/loss with differences	-165,120	-12.3%	-147,714	-10.1%	-17,406	15.7%	-122,534	-15.9%	-112,342	-12.8%	-10,192	9.8%
P3 PreTaxDif: Lines 5-6 Foreign income tax expense	23,138	1.7%	22,753	1.6%	384	-0.3%	15,628	2.0%	15,747	1.8%	-119	0.1%
P3 PreTaxDif: Lines 8, 9-10 Stock options and equity compensation	-65,344	-4.9%	-57,968	-4.0%	-7,376	6.6%	-52,654	-6.8%	-43,182	-4.9%	-9,473	9.1%
P3 PreTaxDif: Lines 16-18 Pension, profit sharing, etc.	-383	0.0%	-10,884	-0.7%	10,500	-9.5%	-13,204	-1.7%	-11,354	-1.3%	-1,851	1.8%
P3 PreTaxDif: Lines 23-25 Acquisition/reorganization costs	21,483	1.6%	1,766	0.1%	19,717	-17.8%	1,097	0.1%	232	0.0%	866	-0.8%
P3 PreTaxDif: Lines 26-31 Depreciation, amortization, and impairment	11,683	0.9%	11,640	0.8%	43	0.0%	-72,478	-9.4%	-55,747	-6.4%	-16,731	16.1%
P3 PreTaxDif: Line 35 Other expenses/deductions with differences	-64,035	-4.8%	-55,951	-3.8%	-8,084	7.3%	16,164	2.1%	-1,066	-0.1%	17,230	-16.5%
** PreTaxDif: All other	-7,133	-0.5%	-9,863	-0.7%	2,730	-2.5%	737	0.1%	5,593	0.6%	-4,855	4.7%
**** Total pretax difference before federal tax expense**	**-15,440**	**-1.1%**	**5,032**	**0.3%**	**-20,472**	**18.4%**	**-146,411**	**-19.0%**	**-104,504**	**-11.9%**	**-41,907**	**40.2%**
** Amount to reconcile	-142	0.0%	-145	0.0%	3	0.0%	47	0.0%	51	0.0%	-4	0.0%
**** Net tax income per Part II Line 30 Column D**	**1,329,579**	**98.8%**	**1,461,073**	**100.3%**	**-131,494**	**118.4%**	**625,773**	**81.0%**	**771,827**	**88.1%**	**-146,054**	**140.2%**
** SOI removed ICD	-135,085	-10.0%	-132,603	-9.1%	-2,482	2.2%	-58,402	-7.6%	-54,789	-6.3%	-3,613	3.5%
** Other SOI adjustments	48,369	3.6%	47,811	3.3%	558	-0.5%	-1,867	-0.2%	-1,900	-0.2%	32	0.0%
**** Tax net income reported by SOI**	**1,242,862**	**92.4%**	**1,376,281**	**94.5%**	**-133,419**	**120.2%**	**565,504**	**73.2%**	**715,139**	**81.6%**	**-149,635**	**143.7%**
** Reverse negative tax net income	133,419	9.9%	0	0.0%	133,419	-120.2%	149,635	19.4%	0	0.0%	149,635	-143.7%
** Positive tax net income	1,376,281	102.3%	1,376,281	94.5%	0	0.0%	715,139	92.6%	715,139	81.6%	0	0.0%
** Net operating loss deduction	-100,526	-7.5%	-100,526	-6.9%	0	0.0%	-63,382	-8.2%	-63,382	-7.2%	0	0.0%
** Special deductions	-252,564	-18.8%	-251,348	-17.3%	-1,216	1.1%	-17,510	-2.3%	-16,749	-1.9%	-761	0.7%
** Amount to reconcile	6,088	0.5%	4,342	0.3%	1,747	-1.6%	1,420	0.2%	658	0.1%	762	-0.7%
**** Taxable income**	**1,029,280**	**76.5%**	**1,028,749**	**70.6%**	**531**	**-0.5%**	**635,667**	**82.3%**	**635,666**	**72.5%**	**1**	**0.0%**
Tax before credits	361,856	26.9%	361,589	24.8%	268	-0.2%	223,944	29.0%	223,875	25.5%	69	-0.1%
Foreign tax credit	-77,462	-5.8%	-77,317	-5.3%	-145	0.1%	-47,630	-6.2%	-47,629	-5.4%	-1	0.0%
General business credit	-12,269	-0.9%	-12,268	-0.8%	-1	0.0%	-8,567	-1.1%	-8,565	-1.0%	-1	0.0%
Other tax credits	-9,229	-0.7%	-9,204	-0.6%	-25	0.0%	-4,141	-0.5%	-4,137	-0.5%	-4	0.0%
Tax less credits	**262,897**	**19.5%**	**262,800**	**18.0%**	**97**	**-0.1%**	**163,606**	**21.2%**	**163,543**	**18.7%**	**63**	**-0.1%**

Summary Table 4. Corporations With Schedule M-3 Data: 2005 versus 2004: By Financial Statement Type

Dollar amounts in millions. Table amounts may not reflect exact total due to rounding.

	2005		2005		2005		2004		2004		2004	
	Section 10K/Public		Audited Not SEC		Unaudited		Section 10K/Public		Audited Not SEC		Unaudited	
	F2.1*		F3.1*		F4.1*		F2.1*(04)		F3.1*(04)		F4.1*(04)	
Returns	5,546		16,223		16,746		4,751		13,466		12,684	
Population overview	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A
Total assets	31,756,963	3.4%	6,294,046	2.5%	4,405,760	2.4%	25,510,331	2.4%	4,969,618	2.5%	3,501,299	0.8%
Part I Financial Information	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB
4 Worldwide consolidated net income (loss)	**672,553**	**62.2%**	**105,139**	**66.4%**	**72,359**	**69.1%**	**499,993**	**80.4%**	**81,322**	**66.3%**	**39,146**	**143.5%**
5 (Income) Loss from nonincludible foreign entities	**-424,418**	**-39.2%**	**-10,970**	**-6.9%**	**-11,877**	**-11.3%**	**-219,347**	**-35.3%**	**-8,606**	**-7.0%**	**-704**	**-2.6%**
6 (Income) Loss from nonincludible U.S. entities	-83,450	-7.7%	-13,154	-8.3%	-6,489	-6.2%	-82,789	-13.3%	-7,289	-5.9%	2,706	9.9%
7 (Income) Loss of other includible corporations	-3,032	-0.3%	193	0.1%	676	0.6%	1,932	0.3%	690	0.6%	1,031	3.8%
8 Adjustments to eliminations (because of lines 5-7)	594,721	55.0%	7,641	4.8%	6,718	6.4%	191,427	30.8%	6,617	5.4%	97	0.4%
** Summary of lines 5 through 8	83,820	7.7%	-16,290	-10.3%	-10,973	-10.5%	-108,777	-17.5%	-8,588	-7.0%	3,129	11.5%
9 Adjustment to reconcile income statement period to tax year	1,214	0.1%	355	0.2%	4	0.0%	5,006	0.8%	554	0.5%	112	0.4%
10 Other adjustments to reconcile to amount on line 11	105,250	9.7%	27,461	17.3%	9,114	8.7%	64,784	10.4%	16,181	13.2%	-46,163	-169.3%
11 Line 11 only (books and records)	336	0.0%	196	0.1%	5,815	5.6%	170	0.0%	118	0.1%	15,519	56.9%
** Subtotal	863,173	79.8%	116,861	73.7%	76,318	72.9%	461,176	74.1%	89,586	73.0%	11,743	43.1%
** Amount to reconcile	405	0.0%	-68	0.0%	-1,848	-1.8%	-708	-0.1%	-1	0.0%	122	0.4%
11 Net income per income statement of includible corporations	**863,578**	**79.8%**	**116,794**	**73.7%**	**74,470**	**71.1%**	**460,468**	**74.0%**	**89,585**	**73.0%**	**11,865**	**43.5%**
** Amount to reconcile	-18	0.0%	0	0.0%	0	0.0%	2	0.0%	0	0.0%	-1	0.0%
** Net income per Part II Line 30 Column A	863,560	79.8%	116,793	73.7%	74,470	71.1%	460,470	74.0%	89,585	73.0%	11,864	43.5%
** Reverse federal tax expense	218,443	20.2%	41,665	26.3%	30,230	28.9%	161,741	26.0%	33,066	27.0%	15,411	56.5%
**** Pretax book income**	**1,082,003**	**100.0%**	**158,458**	**100.0%**	**104,700**	**100.0%**	**622,211**	**100.0%**	**122,651**	**100.0%**	**27,275**	**100.0%**
** Temporary difference before federal tax expense — inc/loss	59,264	5.5%	23,527	14.8%	3,151	3.0%	3,054	0.5%	7,752	6.3%	-5,559	-20.4%
** Temporary difference before federal tax expense — exp/ded	-37,596	-3.5%	-2,106	-1.3%	-9,112	-8.7%	-87,797	-14.1%	-23,267	-19.0%	13,757	50.4%
** Amount to reconcile	25	0.0%	-30	0.0%	18	0.0%	-317	-0.1%	-99	-0.1%	-6	0.0%
** Temporary difference before federal tax expense — total	21,693	2.0%	21,391	13.5%	-5,943	-5.7%	-85,060	-13.7%	-15,614	-12.7%	8,192	30.0%
** Permanent difference before federal tax expense — inc/loss	8,039	0.7%	-23,683	-14.9%	-5,443	-5.2%	-23,053	-3.7%	-26,100	-21.3%	-1,205	-4.4%
** Permanent difference before fed tax expense — exp/ded	-38,212	-3.5%	4,574	2.9%	2,110	2.0%	-14,930	-2.4%	5,993	4.9%	5,005	18.4%
** Amount to reconcile	16	0.0%	0	0.0%	19	0.0%	327	0.1%	35	0.0%	-1	0.0%
** Permanent difference before federal tax expense — total	-30,157	-2.8%	-19,109	-12.1%	-3,314	-3.2%	-37,656	-6.1%	-20,073	-16.4%	3,799	13.9%
P2 PreTaxDif: Lines 1-5 Foreign corp income/loss	153,805	14.2%	9,398	5.9%	5,577	5.3%	49,873	8.0%	2,239	1.8%	2,523	9.3%
P2 PreTaxDif: Lines 6-8 U.S. corporation income/loss	-51,800	-4.8%	-25,442	-16.1%	-3,525	-3.4%	-6,150	-1.0%	-19,692	-16.1%	2,184	8.0%

Summary Table 4. Corporations With Schedule M-3 Data: 2005 versus 2004: By Financial Statement Type

P2 PreTaxDif: Lines 9-11 Partner/pass-through income/loss	26,140	2.4%	4,987	3.1%	1,161	1.1%	15,096	2.4%	3,528	2.9%	435	1.6%
P2 PreTaxDif: Line 12 Reportable transactions	-23,673	-2.2%	-2,141	-1.4%	-4,784	-4.6%	-38,414	-6.2%	-3,532	-2.9%	-5,103	-18.7%
P2 PreTaxDif: Line 13 Interest income	-20,618	-1.9%	-3,918	-2.5%	-2,217	-2.1%	-13,340	-2.1%	-1,409	-1.1%	-1,217	-4.5%
P2 PreTaxDif: Line 17 Cost of goods sold	46,044	4.3%	52,207	32.9%	4,228	4.0%	2,964	0.5%	44,702	36.4%	-365	-1.3%
P2 PreTaxDif: Line 18 Sale versus lease	27,958	2.6%	4,427	2.8%	2,690	2.6%	26,924	4.3%	2,254	1.8%	1,761	6.5%
P2 PreTaxDif: Lines 23-25 Asset disposition gain/loss	20,326	1.9%	7,537	4.8%	1,906	1.8%	7,533	1.2%	6,563	5.4%	1,476	5.4%
P2 PreTaxDif: Line 26 Other income/loss with differences	-111,987	-10.3%	-45,504	-28.7%	-7,630	-7.3%	-61,996	-10.0%	-52,377	-42.7%	-8,160	-29.9%
P3 PreTaxDif: Lines 5-6 Foreign income tax expense	20,911	1.9%	2,187	1.4%	40	0.0%	13,543	2.2%	1,423	1.2%	661	2.4%
P3 PreTaxDif: Lines 8, 9-10 stock options and equity compensation	-58,427	-5.4%	-2,455	-1.5%	-4,462	-4.3%	-50,153	-8.1%	-1,147	-0.9%	-1,354	-5.0%
P3 PreTaxDif: Lines 16-18 Pension, profit sharing, etc.	573	0.1%	179	0.1%	-1,135	-1.1%	-13,536	-2.2%	200	0.2%	132	0.5%
P3 PreTaxDif: Lines 23-25 Acquisition/reorganization costs	20,805	1.9%	231	0.1%	446	0.4%	837	0.1%	-337	-0.3%	597	2.2%
P3 PreTaxDif: Lines 26-31 Depreciation, amortization, and impairmentment	9,222	0.9%	326	0.2%	2,135	2.0%	-40,992	-6.6%	-21,106	-17.2%	-10,380	-38.1%
P3 PreTaxDif: Line 35 Other expenses/deductions with differences	-58,243	-5.4%	1,909	1.2%	-7,701	-7.4%	-16,484	-2.6%	3,485	2.8%	29,163	106.9%
** PreTaxDif: All other	-9,501	-0.9%	-1,645	-1.0%	4,013	3.8%	1,578	0.3%	-480	-0.4%	-361	-1.3%
**** Total pretax difference before federal tax expense**	**-8,464**	**-0.8%**	**2,282**	**1.4%**	**-9,258**	**-8.8%**	**-122,716**	**-19.7%**	**-35,686**	**-29.1%**	**11,991**	**44.0%**
** Amount to reconcile	-134	0.0%	0	0.0%	-9	0.0%	44	0.0%	2	0.0%	1	0.0%
**** Net tax income per Part II Line 30 Column D**	**1,073,405**	**99.2%**	**160,740**	**101.4%**	**95,433**	**91.1%**	**499,539**	**80.3%**	**86,967**	**70.9%**	**39,267**	**144.0%**
** SOI removed ICD	-127,698	-11.8%	-2,277	-1.4%	-5,111	-4.9%	-52,574	-8.4%	-1,717	-1.4%	-4,111	-15.1%
** Other SOI adjustments	47,655	4.4%	945	0.6%	-231	-0.2%	165	0.0%	47	0.0%	-2,079	-7.6%
**** Tax net income reported by SOI**	**993,362**	**91.8%**	**159,408**	**100.6%**	**90,092**	**86.0%**	**447,130**	**71.9%**	**85,297**	**69.5%**	**33,077**	**121.3%**
** Reverse negative tax net income	72,753	6.7%	26,796	16.9%	33,870	32.3%	90,725	14.6%	27,455	22.4%	31,455	115.3%
** Positive tax net income	1,066,115	98.5%	186,204	117.5%	123,961	118.4%	537,856	86.4%	112,751	91.9%	64,532	236.6%
** Net operating loss deduction	-56,915	-5.3%	-16,752	-10.6%	-26,860	-25.7%	-36,036	-5.8%	-12,524	-10.2%	-14,822	-54.3%
** Special deductions	-233,600	-21.6%	-10,799	-6.8%	-8,164	-7.8%	-11,213	-1.8%	-2,439	-2.0%	-3,858	-14.1%
** Amount to reconcile	4,864	0.4%	526	0.3%	698	0.7%	938	0.2%	254	0.2%	227	0.8%
**** Taxable income**	**780,465**	**72.1%**	**159,180**	**100.5%**	**89,635**	**85.6%**	**491,545**	**79.0%**	**98,043**	**79.9%**	**46,079**	**168.9%**
Tax before credits	274,307	25.4%	55,736	35.2%	31,814	30.4%	173,188	27.8%	34,424	28.1%	16,331	59.9%
Foreign tax credit	-67,337	-6.2%	-6,199	-3.9%	-3,926	-3.7%	-41,350	-6.6%	-3,860	-3.1%	-2,420	-8.9%
General business credit	-9,511	-0.9%	-2,029	-1.3%	-730	-0.7%	-7,459	-1.2%	-791	-0.6%	-316	-1.2%
Other tax credits	-6,893	-0.6%	-1,430	-0.9%	-906	-0.9%	-3,063	-0.5%	-905	-0.7%	-173	-0.6%
Tax less credits	**190,567**	**17.6%**	**46,078**	**29.1%**	**26,252**	**25.1%**	**121,317**	**19.5%**	**28,868**	**23.5%**	**13,421**	**49.2%**

Summary Table 5. Corporations With Schedule M-3 Data: 2005: By Financial Statement Type: Tax Net Income Below or Above Pretax Book Income

Dollar amounts in millions. Table amounts may not reflect exact total due to rounding.

	Section 10K/Public				Audited Not SEC				Unaudited			
	TNI < PBI		TNI ≥ PBI		TNI < PBI		TNI ≥ PBI		TNI < PBI		TNI ≥ PBI	
	F2.2*		F2.3*		F3.2*		F3.3*		F4.2*		F4.3*	
Returns	2,859		2,687		6,956		9,268		7,319		9,427	
Population overview	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A
Total assets	13,621,874	5.4%	18,135,089	1.9%	2,622,437	4.0%	3,671,609	1.4%	2,030,689	4.4%	2,375,071	0.7%
Part I Financial Information	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB
4 Worldwide consolidated net income (loss)	**393,979**	**53.4%**	**278,573**	**81.0%**	**64,943**	**61.4%**	**40,196**	**76.3%**	**67,374**	**76.1%**	**4,985**	**30.7%**
5 (Income) Loss from nonincludible foreign entities	**-230,537**	**-31.2%**	**-193,881**	**-56.4%**	**-5,869**	**-5.5%**	**-5,100**	**-9.7%**	**-9,813**	**-11.1%**	**-2,065**	**-12.7%**
6 (Income) Loss from nonincludible U.S. entities	-25,962	-3.5%	-57,489	-16.7%	-7,802	-7.4%	-5,352	-10.2%	-4,134	-4.7%	-2,355	-14.5%
7 (Income) Loss of other includible corporations	1,911	0.3%	-4,943	-1.4%	312	0.3%	-119	-0.2%	227	0.3%	449	2.8%
8 Adjustments to eliminations (because of lines 5-7)	382,212	51.8%	212,510	61.8%	6,261	5.9%	1,380	2.6%	5,826	6.6%	892	5.5%
** Summary of lines 5 through 8	127,624	17.3%	-43,803	-12.7%	-7,098	-6.7%	-9,191	-17.4%	-7,894	-8.9%	-3,079	-19.0%
9 Adjustment to reconcile income statement period to tax year	547	0.1%	666	0.2%	529	0.5%	-174	-0.3%	7	0.0%	-4	0.0%
10 Other adjustments to reconcile to amount on line 11	89,902	12.2%	15,348	4.5%	28,237	26.7%	-776	-1.5%	10,426	11.8%	-1,312	-8.1%
11 Line 11 only (books and records)	330	0.0%	6	0.0%	144	0.1%	53	0.1%	2,837	3.2%	2,978	18.4%
** Subtotal	612,382	83.0%	250,790	72.9%	86,754	82.0%	30,107	57.2%	72,751	82.2%	3,567	22.0%
** Amount to reconcile	-168	0.0%	574	0.2%	-3	0.0%	-65	-0.1%	-1,783	-2.0%	-65	-0.4%
11 Net income per income statement of includible corporations	**612,214**	**82.9%**	**251,364**	**73.1%**	**86,751**	**82.0%**	**30,042**	**57.0%**	**70,968**	**80.2%**	**3,503**	**21.6%**
** Amount to reconcile	1	0.0%	-19	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
** Net income per Part II Line 30 Column A	612,215	82.9%	251,345	73.1%	86,751	82.0%	30,042	57.0%	70,968	80.2%	3,502	21.6%
** Reverse federal tax expense	125,862	17.1%	92,581	26.9%	19,029	18.0%	22,636	43.0%	17,516	19.8%	12,714	78.4%
**** Pretax book income**	**738,077**	**100.0%**	**343,926**	**100.0%**	**105,780**	**100.0%**	**52,678**	**100.0%**	**88,484**	**100.0%**	**16,216**	**100.0%**
** Temporary difference before federal tax expense — income/loss	-24,524	-3.3%	83,788	24.4%	-5,326	-5.0%	28,852	54.8%	-20,066	-22.7%	23,217	143.2%
** Temporary difference before federal tax expense — expense/deduction	-83,235	-11.3%	45,639	13.3%	-13,328	-12.6%	11,222	21.3%	-21,201	-24.0%	12,089	74.5%
** Amount to reconcile	15	0.0%	10	0.0%	-3	0.0%	-27	-0.1%	1	0.0%	17	0.1%
** Temporary difference before federal tax expense — total	-107,743	-14.6%	129,436	37.6%	-18,657	-17.6%	40,048	76.0%	-41,266	-46.6%	35,323	217.8%
** Permanent difference before federal tax expense — income/loss	-151,694	-20.6%	159,733	46.4%	-35,076	-33.2%	11,393	21.6%	-13,607	-15.4%	8,164	50.3%
** Permanent difference before federal tax expense — expense/deduction	-61,035	-8.3%	22,823	6.6%	-1,790	-1.7%	6,364	12.1%	-5,243	-5.9%	7,353	45.3%
** Amount to reconcile	3	0.0%	13	0.0%	1	0.0%	0	0.0%	14	0.0%	5	0.0%
** Permanent difference before federal tax expense — total	-212,726	-28.8%	182,570	53.1%	-36,866	-34.9%	17,756	33.7%	-18,836	-21.3%	15,522	95.7%
P2 PreTaxDif: Lines 1-5 Foreign corporation income/loss	1,184	0.2%	152,622	44.4%	-270	-0.3%	9,668	18.4%	525	0.6%	5,052	31.2%
P2 PreTaxDif: Lines 6-8 U.S. corp income/loss	-75,884	-10.3%	24,085	7.0%	-27,451	-26.0%	2,008	3.8%	-4,119	-4.7%	594	3.7%

Summary Table 5. Corporations With Schedule M-3 Data: 2005: By Financial Statement Type: Tax Net Income Below or Above Pretax Book Income

P2 PreTaxDif: Lines 9-11 Partner/pass-through income/loss	-2,593	-0.4%	28,733	8.4%	-591	-0.6%	5,578	10.6%	-7,462	-8.4%	8,624	53.2%
P2 PreTaxDif: Line 12 Reportable transactions	-11,139	-1.5%	-12,534	-3.6%	-1,240	-1.2%	-900	-1.7%	-3,560	-4.0%	-1,224	-7.5%
P2 PreTaxDif: Line 13 Interest income	-7,398	-1.0%	-13,219	-3.8%	-1,732	-1.6%	-2,186	-4.1%	-1,897	-2.1%	-320	-2.0%
P2 PreTaxDif: Line 17 Cost of goods sold	33,605	4.6%	12,438	3.6%	-1,906	-1.8%	54,113	102.7%	2,185	2.5%	2,042	12.6%
P2 PreTaxDif: Line 18 Sale versus lease	9,239	1.3%	18,719	5.4%	1,258	1.2%	3,169	6.0%	1,092	1.2%	1,598	9.9%
P2 PreTaxDif: Lines 23-25 Asset disposition gain/loss	-12,834	-1.7%	33,160	9.6%	-1,830	-1.7%	9,367	17.8%	-6,275	-7.1%	8,181	50.5%
P2 PreTaxDif: Line 26 Other income/loss with differences	-100,979	-13.7%	-11,007	-3.2%	-3,447	-3.3%	-42,057	-79.8%	-13,149	-14.9%	5,520	34.0%
P3 PreTaxDif: Lines 5-6 Foreign income tax expenses	1,958	0.3%	18,953	5.5%	581	0.5%	1,606	3.0%	-163	-0.2%	203	1.3%
P3 PreTaxDif: Lines 8, 9-10 stock options and equity compensation	-41,153	-5.6%	-17,274	-5.0%	-2,018	-1.9%	-438	-0.8%	-3,546	-4.0%	-916	-5.6%
P3 PreTaxDif: Lines 16-18 Pension, profit sharing, etc.	-8,855	-1.2%	9,428	2.7%	-1,553	-1.5%	1,732	3.3%	-1,800	-2.0%	665	4.1%
P3 PreTaxDif: Lines 23-25 Acquisition/reorganization costs	141	0.0%	20,664	6.0%	86	0.1%	145	0.3%	100	0.1%	346	2.1%
P3 PreTaxDif: Lines 26-31 Depreciation, amortization, and impairment	-8,865	-1.2%	18,087	5.3%	-6,294	-6.0%	6,620	12.6%	-7,037	-8.0%	9,172	56.6%
P3 PreTaxDif: Line 35 Other expenses/deductions with differences	-74,447	-10.1%	16,205	4.7%	-5,017	-4.7%	6,926	13.1%	-15,122	-17.1%	7,422	45.8%
** PreTaxDif: All other	-22,447	-3.0%	12,946	3.8%	-4,098	-3.9%	2,453	4.7%	125	0.1%	3,888	24.0%
**** Total pretax difference before federal tax expense**	**-320,470**	**-43.4%**	**312,006**	**90.7%**	**-55,522**	**-52.5%**	**57,804**	**109.7%**	**-60,102**	**-67.9%**	**50,844**	**313.5%**
** Amount to reconcile	-116	0.0%	-18	0.0%	0	0.0%	0	0.0%	1	0.0%	-9	-0.1%
**** Net tax income per Part II Line 30 Column D**	**417,491**	**56.6%**	**655,914**	**190.7%**	**50,258**	**47.5%**	**110,482**	**209.7%**	**28,382**	**32.1%**	**67,051**	**413.5%**
** SOI removed ICD	-48,849	-6.6%	-78,848	-22.9%	-1,802	-1.7%	-474	-0.9%	-1,538	-1.7%	-3,573	-22.0%
** Other SOI adjustments	13,712	1.9%	33,943	9.9%	1,043	1.0%	-99	-0.2%	16	0.0%	-247	-1.5%
**** Tax net income reported by SOI**	**382,354**	**51.8%**	**611,008**	**177.7%**	**49,499**	**46.8%**	**109,909**	**208.6%**	**26,860**	**30.4%**	**63,232**	**389.9%**
** Reverse negative tax net income	43,867	5.9%	28,886	8.4%	14,406	13.6%	12,390	23.5%	22,322	25.2%	11,548	71.2%
** Positive tax net income	426,221	57.7%	639,895	186.1%	63,904	60.4%	122,300	232.2%	49,181	55.6%	74,780	461.1%
** Net operating loss deduction	-29,255	-4.0%	-27,659	-8.0%	-6,617	-6.3%	-10,135	-19.2%	-9,428	-10.7%	-17,432	-107.5%
** Special deductions	-97,979	-13.3%	-135,621	-39.4%	-3,285	-3.1%	-7,515	-14.3%	-2,876	-3.3%	-5,288	-32.6%
** Amount to reconcile	2,796	0.4%	2,069	0.6%	192	0.2%	334	0.6%	229	0.3%	468	2.9%
**** Taxable income**	**301,782**	**40.9%**	**478,683**	**139.2%**	**54,195**	**51.2%**	**104,984**	**199.3%**	**37,107**	**41.9%**	**52,528**	**323.9%**
Tax before credits	106,479	14.4%	167,828	48.8%	19,010	18.0%	36,726	69.7%	13,255	15.0%	18,558	114.4%
Foreign tax credit	-14,671	-2.0%	-52,665	-15.3%	-1,056	-1.0%	-5,144	-9.8%	-761	-0.9%	-3,165	-19.5%
General business credit	-4,151	-0.6%	-5,359	-1.6%	-510	-0.5%	-1,519	-2.9%	-395	-0.4%	-335	-2.1%
Other tax credits	-3,419	-0.5%	-3,474	-1.0%	-863	-0.8%	-567	-1.1%	-514	-0.6%	-392	-2.4%
Tax less credits	**84,237**	**11.4%**	**106,330**	**30.9%**	**16,581**	**15.7%**	**29,496**	**56.0%**	**11,586**	**13.1%**	**14,667**	**90.4%**

Summary Table 6. Corporations With Two Years of Schedule M-3 Data: 2005 versus 2004: By Financial Statement Type

Dollar amounts in millions. Table amounts may not reflect exact total due to rounding.

	Section 10K/Public				Audited Not SEC				Unaudited			
	2005		2004		2005		2004		2005		2004	
	F2.6		F2.6(04)		F3.6		F3.6(04)		F4.6		F4.6(04)	
Returns	3,638		3,642		5,528		5,533		3,244		3,236	
Population overview	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A	Amount	PTB/A
Total assets	27,231,778	3.4%	24,979,003	2.5%	5,514,289	2.6%	4,587,734	2.5%	3,337,083	2.2%	3,021,366	0.5%
Part I Financial Information	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB	Income	%PTB
4 Worldwide consolidated net income (loss)	**600,922**	**65.4%**	**491,435**	**80.1%**	**95,513**	**67.0%**	**76,979**	**66.5%**	**51,921**	**72.2%**	**36,914**	**228.8%**
5 (Income) Loss from nonincludible foreign entities	**-267,378**	**-29.1%**	**-213,379**	**-34.8%**	**-10,302**	**-7.2%**	**-7,922**	**-6.8%**	**-10,991**	**-15.3%**	**-456**	**-2.8%**
6 (Income) Loss from nonincludible U.S. entities	-77,297	-8.4%	-81,072	-13.2%	-9,601	-6.7%	-4,941	-4.3%	-5,517	-7.7%	2,833	17.6%
7 (Income) Loss of other includible corporations	-3,089	-0.3%	2,010	0.3%	169	0.1%	677	0.6%	2,138	3.0%	956	5.9%
8 Adjustments to eliminations (because of lines 5-7)	371,811	40.4%	187,011	30.5%	5,221	3.7%	5,451	4.7%	2,834	3.9%	94	0.6%
** Summary of lines 5 through 8	24,046	2.6%	-105,430	-17.2%	-14,513	-10.2%	-6,735	-5.8%	-11,535	-16.0%	3,427	21.2%
9 Adjustments to reconcile income statement period to tax year	1,589	0.2%	4,993	0.8%	715	0.5%	412	0.4%	36	0.1%	54	0.3%
10 Other adjustments to reconcile to amount on line 11	96,014	10.4%	62,169	10.1%	27,255	19.1%	16,002	13.8%	9,261	12.9%	-46,156	-286.1%
11 Line 11 only (books and records)	322	0.0%	166	0.0%	40	0.0%	107	0.1%	2,792	3.9%	11,400	70.7%
** Subtotal	722,893	78.6%	453,333	73.9%	109,011	76.5%	86,765	75.0%	52,475	73.0%	5,639	34.9%
** Amount to reconcile	571	0.1%	-889	-0.1%	-23	0.0%	-32	0.0%	715	1.0%	369	2.3%
11 Net income per income statement of includible corporations	**723,464**	**78.7%**	**452,444**	**73.7%**	**108,988**	**76.5%**	**86,732**	**74.9%**	**53,190**	**74.0%**	**6,008**	**37.2%**
** Amount to reconcile	-6	0.0%	2	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
** Net income per Part II Line 30 Column A	723,458	78.7%	452,445	73.7%	108,988	76.5%	86,732	74.9%	53,190	74.0%	6,008	37.2%
** Reverse federal tax expense	195,970	21.3%	161,324	26.3%	33,536	23.5%	29,000	25.1%	18,724	26.0%	10,127	62.8%
**** Pretax book income**	**919,428**	**100.0%**	**613,769**	**100.0%**	**142,524**	**100.0%**	**115,732**	**100.0%**	**71,914**	**100.0%**	**16,135**	**100.0%**
** Temporary difference before federal tax expense — income/loss	56,263	6.1%	1,767	0.3%	22,105	15.5%	7,704	6.7%	5,481	7.6%	-3,476	-21.5%
** Temporary difference before federal tax expense — expense/deduction	-46,729	-5.1%	-94,355	-15.4%	-2,677	-1.9%	-21,528	-18.6%	-10,517	-14.6%	14,049	87.1%
** Amount to reconcile	21	0.0%	-317	-0.1%	-31	0.0%	-72	-0.1%	17	0.0%	0	0.0%
** Temporary difference before federal tax expense — total	9,556	1.0%	-92,904	-15.1%	19,397	13.6%	-13,896	-12.0%	-5,020	-7.0%	10,573	65.5%
** Permanent difference before federal tax expense — income/loss	31,578	3.4%	-22,642	-3.7%	-24,714	-17.3%	-25,435	-22.0%	2,325	3.2%	-1,232	-7.6%
** Permanent difference before federal tax expense — expense/deduction	-11,114	-1.2%	-13,753	-2.2%	3,058	2.1%	5,062	4.4%	2,339	3.3%	4,963	30.8%
** Amount to reconcile	16	0.0%	327	0.1%	1	0.0%	27	0.0%	14	0.0%	0	0.0%
** Permanent difference before federal tax expense — total	20,480	2.2%	-36,068	-5.9%	-21,656	-15.2%	-20,346	-17.6%	4,678	6.5%	3,731	23.1%
P2 PreTaxDif: Lines 1-5 Foreign corporation income/loss	146,935	16.0%	45,283	7.4%	8,439	5.9%	1,966	1.7%	4,181	5.8%	2,131	13.2%
P2 PreTaxDif: Lines 6-8 U.S. corporation income/loss	-33,893	-3.7%	-4,094	-0.7%	-25,133	-17.6%	-19,432	-16.8%	-407	-0.6%	2,390	14.8%

Summary Table 6. Corporations With Two Years of Schedule M-3 Data: 2005 versus 2004: By Financial Statement Type

P2 PreTaxDif: Lines 9-11 Partner/pass-through income/ loss	23,871	2.6%	14,810	2.4%	5,037	3.5%	3,448	3.0%	-1,418	-2.0%	929	5.8%
P2 PreTaxDif: Line 12 Reportable transactions	-22,004	-2.4%	-37,612	-6.1%	-1,418	-1.0%	-3,502	-3.0%	-3,038	-4.2%	-4,817	-29.9%
P2 PreTaxDif: Line 13 Interest income	-13,792	-1.5%	-13,303	-2.2%	-3,908	-2.7%	-1,283	-1.1%	-1,882	-2.6%	-1,135	-7.0%
P2 PreTaxDif: Line 17 Cost of goods sold	39,165	4.3%	2,737	0.4%	51,745	36.3%	44,760	38.7%	3,173	4.4%	-269	-1.7%
P2 PreTaxDif: Line 18 Sale versus lease	26,914	2.9%	26,913	4.4%	4,080	2.9%	2,120	1.8%	1,745	2.4%	1,756	10.9%
P2 PreTaxDif: Lines 23-25 Asset disposition gain/loss	18,601	2.0%	8,708	1.4%	6,313	4.4%	5,899	5.1%	4,338	6.0%	1,337	8.3%
P2 PreTaxDif: Line 26 Other inc/loss with differences	-99,751	-10.8%	-61,366	-10.0%	-45,545	-32.0%	-51,062	-44.1%	366	0.5%	-6,688	-41.5%
P3 PreTaxDif: Lines 5-6 Foreign income tax expense	20,125	2.2%	13,421	2.2%	2,103	1.5%	1,345	1.2%	-42	-0.1%	626	3.9%
P3 PreTaxDif: Lines 8, 9-10 stock options and equity compensation	-46,587	-5.1%	-47,466	-7.7%	-2,300	-1.6%	-954	-0.8%	-2,995	-4.2%	-1,054	-6.5%
P3 PreTaxDif: Lines 16-18 Pension, profit sharing, etc.	-1,704	-0.2%	-14,165	-2.3%	110	0.1%	117	0.1%	-1,342	-1.9%	87	0.5%
P3 PreTaxDif: Lines 23-25 Acquisition/reorganization costs	20,678	2.2%	763	0.1%	96	0.1%	-362	-0.3%	124	0.2%	426	2.6%
P3 PreTaxDif: Lines 26-31 Depreciation, amortization, and impairment	13,179	1.4%	-48,850	-8.0%	-252	-0.2%	-19,055	-16.5%	1,567	2.2%	-8,835	-54.8%
P3 PreTaxDif: Line 35 Other expenses/deductions with differences	-52,641	-5.7%	-15,903	-2.6%	1,713	1.2%	2,569	2.2%	-9,016	-12.5%	28,161	174.5%
** PreTaxDif: All other	-9,060	-1.0%	1,153	0.2%	-3,337	-2.3%	-814	-0.7%	4,303	6.0%	-742	-4.6%
**** Total pretax difference before federal tax expense**	**30,036**	**3.3%**	**-128,972**	**-21.0%**	**-2,258**	**-1.6%**	**-34,242**	**-29.6%**	**-342**	**-0.5%**	**14,304**	**88.7%**
** Amount to reconcile	-142	0.0%	44	0.0%	0	0.0%	1	0.0%	-9	0.0%	0	0.0%
**** Net tax income per Part II Line 30 Column D**	**949,322**	**103.3%**	**484,841**	**79.0%**	**140,265**	**98.4%**	**81,491**	**70.4%**	**71,563**	**99.5%**	**30,439**	**188.7%**
** SOI removed ICD	-120,503	-13.1%	-51,688	-8.4%	-2,155	-1.5%	-1,637	-1.4%	-4,428	-6.2%	-2,305	-14.3%
** Other SOI adjustments	48,218	5.2%	161	0.0%	908	0.6%	32	0.0%	-260	-0.4%	-2,110	-13.1%
**** Tax net income reported by SOI**	**877,038**	**95.4%**	**433,314**	**70.6%**	**139,018**	**97.5%**	**79,886**	**69.0%**	**66,875**	**93.0%**	**26,024**	**161.3%**
** Reverse negative tax net income	50,522	5.5%	84,021	13.7%	13,376	9.4%	18,000	15.6%	13,414	18.7%	19,467	120.7%
** Positive tax net income	927,560	100.9%	517,335	84.3%	152,394	106.9%	97,886	84.6%	80,289	111.6%	45,491	281.9%
** Net operating loss deduction	-46,829	-5.1%	-32,693	-5.3%	-11,165	-7.8%	-9,810	-8.5%	-16,717	-23.2%	-11,167	-69.2%
** Special deductions	-194,460	-21.2%	-8,395	-1.4%	-9,556	-6.7%	-2,109	-1.8%	-6,521	-9.1%	-2,742	-17.0%
** Amount to reconcile	3,949	0.4%	922	0.2%	497	0.3%	245	0.2%	540	0.8%	113	0.7%
**** Taxable income**	**690,220**	**75.1%**	**477,169**	**77.7%**	**132,170**	**92.7%**	**86,212**	**74.5%**	**57,590**	**80.1%**	**31,695**	**196.4%**
Tax before credits	242,576	26.4%	168,023	27.4%	46,330	32.5%	30,316	26.2%	20,572	28.6%	11,341	70.3%
Foreign tax credit	-60,996	-6.6%	-40,041	-6.5%	-5,741	-4.0%	-3,725	-3.2%	-2,986	-4.2%	-1,680	-10.4%
General business credit	-8,288	-0.9%	-7,304	-1.2%	-1,801	-1.3%	-718	-0.6%	-376	-0.5%	-264	-1.6%
Other tax credits	-5,367	-0.6%	-2,993	-0.5%	-1,131	-0.8%	-839	-0.7%	-460	-0.6%	-134	-0.8%
Tax less credits	**167,926**	**18.3%**	**117,685**	**19.2%**	**37,656**	**26.4%**	**25,034**	**21.6%**	**16,749**	**23.3%**	**9,264**	**57.4%**

Exhibit I:

SCHEDULE M-3 (Form 1120)

Department of the Treasury
Internal Revenue Service

Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More

► Attach to Form 1120.
► See separate instructions.

OMB No. 1545-0123

2005

Name of corporation (common parent, if consolidated return) | Employer identification number

Part I **Financial Information and Net Income (Loss) Reconciliation**

1a Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☐ **No.** Go to line 1b.

b Did the corporation prepare a certified audited income statement for that period?
☐ **Yes.** Skip line 1c and complete lines 2a through 11 with respect to that income statement.
☐ **No.** Go to line 1c.

c Did the corporation prepare an income statement for that period?
☐ **Yes.** Complete lines 2a through 11 with respect to that income statement.
☐ **No.** Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4.

2a Enter the income statement period: Beginning ___/___/___ Ending ___/___/___

b Has the corporation's income statement been restated for the income statement period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☐ **No.**

c Has the corporation's income statement been restated for any of the five income statement periods preceding the period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☐ **No.**

3a Is any of the corporation's voting common stock publicly traded?
☐ **Yes.**
☐ **No.** If "No," go to line 4.

b Enter the symbol of the corporation's primary U.S. publicly traded voting common stock . . . . ☐☐☐☐☐

c Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock . . . . ☐☐☐☐☐☐☐☐☐

4	Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1	**4**	
5a	Net income from nonincludible foreign entities (attach schedule)	**5a**	( )
b	Net loss from nonincludible foreign entities (attach schedule and enter as a positive amount) . .	**5b**	
6a	Net income from nonincludible U.S. entities (attach schedule)	**6a**	( )
b	Net loss from nonincludible U.S. entities (attach schedule and enter as a positive amount) . . .	**6b**	
7a	Net income of other includible corporations (attach schedule)	**7a**	
b	Net loss of other includible corporations (attach schedule)	**7b**	( )
8	Adjustment to eliminations of transactions between includible corporations and nonincludible entities (attach schedule)	**8**	
9	Adjustment to reconcile income statement period to tax year (attach schedule)	**9**	
10	Other adjustments to reconcile to amount on line 11 (attach schedule)	**10**	
11	**Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10	**11**	

For Privacy Act and Paperwork Reduction Act Notice, see the Instructions for Forms 1120 and 1120-A. Cat. No. 37961C **Schedule M-3 (Form 1120) 2005**

Schedule M-3 (Form 1120) 2005 Page 2

Name of corporation (common parent, if consolidated return)	Employer identification number

If consolidated return, check applicable box: (1) ☐ Consolidated group (2) ☐ Parent corporation (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corporation

Name of subsidiary (if consolidated return)	Employer identification number

Part II **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return**

	Income (Loss) Items	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
1	Income (loss) from equity method foreign corporations				
2	Gross foreign dividends not previously taxed				
3	Subpart F, QEF, and similar income inclusions				
4	Section 78 gross-up				
5	Gross foreign distributions previously taxed				
6	Income (loss) from equity method U.S. corporations				
7	U.S. dividends not eliminated in tax consolidation				
8	Minority interest for includible corporations				
9	Income (loss) from U.S. partnerships (attach schedule)				
10	Income (loss) from foreign partnerships (attach schedule)				
11	Income (loss) from other pass-through entities (attach schedule)				
12	Items relating to reportable transactions (attach details)				
13	Interest income				
14	Total accrual to cash adjustment				
15	Hedging transactions				
16	Mark-to-market income (loss)				
17	Cost of goods sold				
18	Sale versus lease (for sellers and/or lessors)				
19	Section 481(a) adjustments				
20	Unearned/deferred revenue				
21	Income recognition from long-term contracts				
22	Original issue discount and other imputed interest				
23a	Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities				
23b	Gross capital gains from Schedule D, excluding amounts from pass-through entities				
23c	Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
23d	Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
23e	Abandonment losses				
23f	Worthless stock losses (attach details)				
23g	Other gain/loss on disposition of assets other than inventory				
24	Disallowed capital loss in excess of capital gains				
25	Utilization of capital loss carryforward				
26	Other income (loss) items with differences (attach schedule)				
27	**Total income (loss) items.** Combine lines 1 through 26				
28	**Total expense/deduction items** (from Part III, line 36)				
29	Other income (loss) and expense/deduction items with no differences				
30	**Reconciliation totals.** Combine lines 27 through 29				

Note. Line 30, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

Schedule M-3 (Form 1120) 2005

Schedule M-3 (Form 1120) 2005 Page 3

Name of corporation (common parent, if consolidated return)	Employer identification number

If consolidated return, check applicable box: (1) ☐ Consolidated group (2) ☐ Parent corporation (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corporation

Name of subsidiary (if consolidated return)	Employer identification number

Part III **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items**

	Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1	U.S. current income tax expense				
2	U.S. deferred income tax expense				
3	State and local current income tax expense				
4	State and local deferred income tax expense				
5	Foreign current income tax expense (other than foreign withholding taxes)				
6	Foreign deferred income tax expense				
7	Foreign withholding taxes				
8	Interest expense				
9	Stock option expense				
10	Other equity-based compensation				
11	Meals and entertainment				
12	Fines and penalties				
13	Judgments, damages, awards, and similar costs				
14	Parachute payments				
15	Compensation with section 162(m) limitation				
16	Pension and profit-sharing				
17	Other post-retirement benefits				
18	Deferred compensation				
19	Charitable contribution of cash and tangible property				
20	Charitable contribution of intangible property				
21	Charitable contribution limitation/carryforward				
22	Domestic production activities deduction				
23	Current year acquisition or reorganization investment banking fees				
24	Current year acquisition or reorganization legal and accounting fees				
25	Current year acquisition/reorganization other costs				
26	Amortization/impairment of goodwill				
27	Amortization of acquisition, reorganization, and start-up costs				
28	Other amortization or impairment write-offs				
29	Section 198 environmental remediation costs				
30	Depletion				
31	Depreciation				
32	Bad debt expense				
33	Corporate owned life insurance premiums				
34	Purchase versus lease (for purchasers and/or lessees)				
35	Other expense/deduction items with differences (attach schedule)				
36	**Total expense/deduction items.** Combine lines 1 through 35. Enter here and on Part II, line 28				

Schedule M-3 (Form 1120) 2005

Printed on recycled paper