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Reconciliation of Income (Loss) and Analysis of
Unappropriated Retained Earnings per Books

Department of the Treasury
Internal Revenue Service

Attach to Form 1120-F.

2024

Go to www.irs.gov/Form1120F for the latest information.

Name of corporation

Employer identification number

Schedule M-1

Reconciliation of Income (Loss) per Books With Income per Return

Note: The corporation may be required to file Schedule M-3 (see instructions).

Table with 10 rows and 2 columns. Left column: 1 Net income (loss) per books, 2 Federal income tax per books, 3 Excess of capital losses over capital gains, 4 Income subject to tax not recorded on books this year (itemize), 5 Expenses recorded on books this year not deducted on this return (itemize) with sub-rows a-d, 6 Add lines 1 through 5. Right column: 7 Income recorded on books this year not included on this return (itemize) with sub-rows a-b, 8 Deductions on this return not charged against book income this year (itemize) with sub-rows a-c, 9 Add lines 7 and 8, 10 Income—line 6 less line 9.

Schedule M-2

Analysis of Unappropriated Retained Earnings per Books

Table with 8 rows and 2 columns. Left column: 1 Balance at beginning of year, 2 Net income (loss) per books, 3 Other increases (itemize), 4 Add lines 1, 2, and 3. Right column: 5 Distributions: a Cash, b Stock, c Property, 6 Other decreases (itemize), 7 Add lines 5 and 6, 8 Balance at end of year (line 4 less line 7).

Who Must File

Generally, any foreign corporation that is required to complete Form 1120-F, Section II, must complete Schedules M-1 and M-2 (Form 1120-F). However, the following rules apply.

Do not complete Schedules M-1, M-2, and M-3 if total assets at the end of the tax year (Schedule L, line 17, column (d)) are less than \$25,000.

Complete Schedule M-3 in lieu of Schedule M-1 if total assets at the end of the tax year that are reportable on Schedule L are \$10 million or more.

A corporation filing Form 1120-F that is not required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1. See the Instructions for Schedule M-3 (Form 1120-F) for more information.

Foreign corporations that (a) are required to file a Schedule M-3 (Form 1120-F) and have less than \$50 million in total assets at the end of the tax year, or (b) are not required to file a Schedule M-3 (Form 1120-F) and voluntarily file a Schedule M-3 (Form 1120-F) must either (1) complete Schedule M-3 (Form 1120-F) entirely, or (2) complete Schedule M-3 (Form 1120-F) through Part I and complete Schedule M-1 instead of completing Parts II and III of

Schedule M-3 (Form 1120-F). If the foreign corporation chooses (2), then Schedule M-1, line 1, must equal Schedule M-3 (Form 1120-F), Part I, line 11. See the Instructions for Schedule M-3 (Form 1120-F) for more information.

Note: If Schedule M-3 is completed in lieu of Schedule M-1, the corporation is still required to complete Schedule M-2.

Specific Instructions

Schedule M-1

Line 1. Net income (loss) per books. The foreign corporation must report on line 1 of Schedule M-1 the net income (loss) per the set(s) of books taken into account on Schedule L.

Line 5c. Travel and entertainment expenses. Include any of the following.

- Entertainment expenses not deductible under section 274(a).
- Meal expenses not deductible under section 274(n).
- Expenses for the use of an entertainment facility.
- The part of business gifts over \$25.
- Expenses of an individual over \$2,000 that are allocable to conventions on cruise ships.

- Employee achievement awards of non-tangible property or of tangible property if the value is over \$400 (\$1,600 if part of a qualified plan).
- The part of luxury water travel expenses not deductible under section 274(m).

- Expenses for travel as a form of education.
- Other nondeductible travel and entertainment expenses.

Line 7a. Tax-exempt interest. Report any tax-exempt interest received or accrued, including any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company. Also report this same amount in item P on page 2 of Form 1120-F.

Schedule M-2

Line 1. Beginning balance of unappropriated retained earnings. Enter the beginning balance of unappropriated retained earnings per the set(s) of books taken into account on Schedule L.

Note: For additional information for Schedule M-2 reporting, see the Instructions for Schedule M-3 (Form 1120-F).