

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

2017

Department of the Treasury
Internal Revenue Service

▶ Go to www.irs.gov/Form1120F for the latest information.
▶ Attach to Form 1120-F.

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).

<p>1 Net income (loss) per books</p> <p>2 Federal income tax per books</p> <p>3 Excess of capital losses over capital gains</p> <p>4 Income subject to tax not recorded on books this year (itemize): _____</p> <p>_____</p> <p>5 Expenses recorded on books this year not deducted on this return (itemize):</p> <p>a Depreciation \$ _____</p> <p>b Charitable contributions \$ _____</p> <p>c Travel and entertainment \$ _____</p> <p>d Other (itemize): _____</p> <p>6 Add lines 1 through 5</p>	<p>7 Income recorded on books this year not included on this return (itemize):</p> <p>a Tax-exempt interest \$ _____</p> <p>b Other (itemize): _____</p> <p>_____</p> <p>8 Deductions on this return not charged against book income this year (itemize):</p> <p>a Depreciation . . . \$ _____</p> <p>b Charitable contributions \$ _____</p> <p>c Other (itemize): _____</p> <p>_____</p> <p>9 Add lines 7 and 8</p> <p>10 Income—line 6 less line 9</p>
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Schedule M-2 Analysis of Unappropriated Retained Earnings per Books

<p>1 Balance at beginning of year</p> <p>2 Net income (loss) per books</p> <p>3 Other increases (itemize): _____</p> <p>_____</p> <p>4 Add lines 1, 2, and 3</p>	<p>5 Distributions: a Cash</p> <p>b Stock</p> <p>c Property</p> <p>6 Other decreases (itemize): _____</p> <p>_____</p> <p>7 Add lines 5 and 6</p> <p>8 Balance at end of year (line 4 less line 7)</p>
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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 or sets of books taken into account on Schedule L.

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

- Meal and entertainment 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 over \$400.

- The cost of entertainment tickets over face value (also subject to the 50% limit under section 274(n)).
- The cost of skyboxes over the face value of nonluxury box seat tickets.
- 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 at the top of 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).