

# Instructions for Schedule M-3 (Form 1120-L)

**(Net Income (Loss) Reconciliation for U.S.  
Life Insurance Companies With Total Assets  
of \$10 Million or More**

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Volume 1 of 2



Department of the Treasury  
**Internal Revenue Service**



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<b>Contents</b>	<b>Regular Page</b>	<b>Large Print Page</b>
Future Developments	1	5
What's New	1	6
<b>General Instructions</b>	1	6
Purpose of Schedule	1	6
Where To File	1	7
Who Must File	1	8
Other Issues Affecting Schedule M-3 Filing Requirements	2	15
Other Form 1120-L Schedules Affected by Schedule M-3 Requirements	2	18

Entity Considerations for Schedule M-3	3	23
Consolidated Schedule M-3 Versus Consolidating Schedules M-3 for Form 1120-L Groups	4	32
Completion of Schedule M-3 and Certain Allocations, Limitations, and Carryovers	5	45
<b>Specific Instructions for Part I</b>	6	49
Part I. Financial Information and Net Income (Loss) Reconciliation	6	49
Specific Instructions for Parts II and III	11	94

Reporting Requirements for Parts II and III	12	99
Part II. Reconciliation of Net Income (Loss) per Income Statement of Life Insurance Companies With Taxable Income per Return	14	117
Part III. Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/ Deduction Items	19	163

Section references are to the Internal Revenue Code unless otherwise noted.

## **Future Developments**

For the latest information about developments related to Schedule M-3 (Form 1120-L), and its instructions, such as

legislation enacted after they were published, go to [IRS.gov/ Form1120L](https://www.irs.gov/Form1120L).

## **What's New**

**Amortization of research and development costs.** Specified research or developmental costs paid or incurred in tax years beginning after December 31, 2021, must be capitalized and amortized. See the instructions for Line 37. Research and Development Costs, later.

## **General Instructions**

### **Purpose of Schedule**

Schedule M-3, Part I, asks certain questions about the corporation's financial statements and reconciles financial statement net income (loss) for the corporation (or consolidated financial statement group, if applicable), as reported on Schedule M-3, Part I, line 4a, to net income (loss) of the corporation for U.S.

taxable income purposes, as reported on Schedule M-3, Part I, line 11.

Schedule M-3, Parts II and III, reconcile financial statement net income (loss) for the U.S. corporation (or consolidated tax group, if applicable), as reported on Schedule M-3, Part I, line 11, to the subtotal on Form 1120-L, page 1, line 20. For life insurance companies that prepare an annual statement, financial statement net income (loss) should be reported on the statutory basis on Schedule M-3, Part I, line 11.

## **Where To File**

If the corporation is required to file (or voluntarily files)

Schedule M-3 (Form 1120-L), the corporation **must** file Form 1120-L and all attachments and schedules, including Schedule M-3 (Form 1120-L) at the following address.

Department of the Treasury  
Internal Revenue Service Center  
Ogden, UT 84201-0012

## **Who Must File**

Generally, the following apply.

- Any domestic corporation or group of corporations required to file Form 1120-L, U.S. Life Insurance Company Income Tax Return, that reports on Schedule L, Part II, line 2, column (b), of Form 1120-L total assets at the end of the corporation's tax year that equal or exceed \$10 million must complete and file Schedule M-3.
- A corporation filing a non-consolidated Form 1120-L that reports on Schedule L, Part II, line 2, column (b), of Form 1120-L total assets that equal or exceed \$10 million must complete and file Schedule M-3 and must check box (1) Non-consolidated return, at the top of page 1 of Schedule M-3.



- Any U.S. consolidated tax group consisting of a U.S. parent corporation and additional includible corporations listed on Form 851, Affiliations Schedule, required to file Form 1120-L that reports on Schedule L, Part II, line 2, column (b), of Form 1120-L total consolidated assets at the end of the tax year that equal or exceed \$10 million must complete and file Schedule M-3 and must check box (2) Consolidated return (Form 1120-L only) or (3) Mixed 1120/L/PC group, as applicable, at the top of page 1 of Schedule M-3.

A U.S. life insurance company filing Form 1120-L that is not required to file Schedule M-3 may voluntarily file Schedule M-3. A life insurance company filing Schedule M-3 must check Item A, box 3, on Form 1120-L, page 1, indicating that Schedule M-3 is attached, whether required or voluntary.

### ***Example 1.***

1. U.S. life insurance company A owns U.S. subsidiary B and foreign subsidiary F. For its current tax year, A prepares consolidated financial statements with B and F that report total assets of \$12 million. A files a consolidated U.S. income tax return with B and reports total consolidated assets on Schedule L, Part II, line 2, column (b), of \$8 million. A's U.S. consolidated tax group is not required to file Schedule M-3 for the current tax year.
2. U.S. life insurance company C owns U.S. life insurance company D. For its current tax year, C prepares consolidated financial statements with D but C and D file separate U.S. income tax returns. The consolidated accrual basis financial statements for C and D report total assets at the end of

the tax year of \$12 million after intercompany eliminations. C reports separate company total year-end assets on its Schedule L, Part II, line 2, column (b), of \$7 million. D reports separate company total year-end assets on its Schedule L, Part II, line 2, column (b), of \$6 million. Neither C nor D is required to file Schedule M-3 for the current tax year.

3. Foreign corporation A owns 100% of both U.S. life insurance company B and U.S. life insurance company C. C owns 100% of U.S. life insurance company D. For its current tax year, A prepares a consolidated worldwide financial statement for the ABCD consolidated group. The ABCD consolidated financial statement reports total year-end assets of \$25 million. A is not required to file a U.S. income tax return. B files a separate

U.S. income tax return and reports separate company total year-end assets on its Schedule L, Part II, line 2, column (b), of \$12 million. C files a consolidated U.S. income tax return with D and, after eliminating intercompany transactions between C and D, reports consolidated total year-end assets on Schedule L, Part II, line 2, column (b), of \$8 million. B is required to file Schedule M-3 because its total year-end assets reported on Schedule L, Part II, line 2, column (b), equal at least \$10 million. The CD U.S. consolidated tax group is not required to file Schedule M-3 because its total year-end assets reported on Schedule L, Part II, line 2, column (b), do not equal at least \$10 million.

## **Special Filing Requirements for Mixed Groups**

If the parent corporation of a U.S. consolidated tax group files Form 1120-L and files Schedule M-3, each member of the group must file Schedule M-3. However, if the parent corporation of a U.S. consolidated tax group files Form 1120-L and any member of the group files Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return, or Form 1120, that member must file a Form 1120-PC Schedule M-3 or a Form 1120 Schedule M-3, respectively, and the group must comply with the mixed group consolidated Schedule M-3 reporting described in the section *Schedule M-3 Consolidation for Mixed Groups (1120/L/PC)*, later, in these instructions. A mixed group must also file Form 8916, Reconciliation of Schedule M-3 Taxable Income With Tax Return Taxable Income for Mixed Groups,

and, if applicable, Form 8916-A,  
Supplemental Attachment to Schedule M-3.

If the parent corporation of a U.S. consolidated tax group files Form 1120-L and any member of the group files Form 1120-PC or Form 1120, and the consolidated Schedule L, Part II, line 2, column (b), reported in the return includes the assets of all of the corporations (the insurance companies as well as the non-insurance companies), in order to determine if the group meets the \$10 million threshold test for the requirement to file Schedule M-3, use the amount of total assets reported on Schedule L, Part II, line 2, column (b), of the consolidated return.

If the parent company of a U.S. consolidated tax group files Form 1120-L and any member of the group files Form 1120-PC or Form 1120 and the consolidated Schedule L, Part II, line 2, column (b), reported in the return does not include the assets of one or more of the corporations in the U.S. consolidated tax

group, in order to determine if the group meets the \$10 million threshold test for the requirement to file Schedule M-3, use the sum of the amount of total assets reported on the consolidated Schedule L, Part II, line 2, column (b), plus the amounts of all assets reported on Forms 1120-PC and 1120 that are included in the consolidated return but not included on the consolidated Schedule L, Part II, line 2, column (b).

For insurance companies included in the consolidated U.S. income tax return, see the instructions for Part I, lines 10a, 10b, 10c, and 11, and Part II, line 7, for guidance on Schedule M-3 reporting of intercompany dividends and statutory accounting adjustments.

## **Other Issues Affecting Schedule M-3 Filing Requirements**

If a life insurance company was required to file Schedule M-3 for the preceding tax year

but reports on Schedule L, Part II, line 2, column (b), of Form 1120-L total consolidated assets at the end of the current tax year of less than \$10 million, the life insurance company is not required to file Schedule M-3 for the current tax year. The life insurance company may voluntarily file Schedule M-3 for the current tax year. If for a subsequent tax year the life insurance company is required to file Schedule M-3, the life insurance company must complete Schedule M-3 in its entirety for that subsequent tax year.

In the case of a U.S. consolidated tax group, total assets at the end of the tax year must be determined based on the total year-end assets of all includible corporations listed on Form 851, net of eliminations for intercompany transactions and balances between the includible corporations. In addition, for purposes of determining for Schedule M-3 whether the corporation (or



U.S. consolidated tax group) has total assets at the end of the current tax year of \$10 million or more, the corporation's total consolidated assets must be determined on an overall accrual method of accounting unless both of the following apply: (a) the tax returns of all includible corporations in the U.S. consolidated tax group are prepared using an overall cash method of accounting, and (b) no includible corporation in the U.S. consolidated tax group prepares or is included in financial statements prepared on an accrual basis.

**Note.** See the instructions for Part I, line 1, for a discussion of non-tax-basis income statements and related non-tax-basis balance sheets to be used in the preparation of Schedule M-3 and Form 1120-L, Schedule L.

# **Other Form 1120-L Schedules Affected by Schedule M-3 Requirements**

Report on Schedule L and Form 1120-L, page 1, amounts for the U.S. corporation or, if applicable, the U.S. consolidated tax group.

## **Schedule L**

If a non-tax-basis income statement and related non-tax-basis balance sheet are prepared for any purpose for a period ending with or within the tax year, Schedule L must be prepared showing non-tax-basis amounts. See the instructions for Schedule M-3, Part I, line 1, for the discussion of non-tax-basis income statements and related non-tax-basis balance sheets prepared for any purpose and the impact on the selection of the income statement used for Schedule M-3 and the related non-tax-basis balance sheet amounts that must be used for Schedule L.

Total assets shown on Schedule L, Part II, line 2, column (b), must equal the total assets of the life insurance company (or, in the case of a U.S. consolidated tax group, the total assets of all members of the group listed on Form 851) as of the last day of the tax year, and must be the same total assets reported by the life insurance company (or by each member of the U.S. consolidated tax group) in the non-tax-basis financial statements, if any, used for Schedule M-3. If the life insurance company prepares non-tax-basis financial statements, Schedule L, Part II, line 2, column (b), must equal the sum of the non-tax-basis financial statement total assets for each corporation listed on Form 851 and included in the U.S. consolidated tax return (includible corporation) net of eliminations for intercompany transactions between includible corporations. If the life insurance company does not prepare non-tax-basis financial statements, Schedule L, Part II, line 2, column (b), must be based on the life

insurance company's books and records. The Schedule L balance sheet may show tax-basis balance sheet amounts if the life insurance company is allowed to use books and records for Schedule M-3 and the life insurance company's books and records reflect only tax-basis amounts.

Generally, total assets at the beginning of the year (Schedule L, Part II, line 2, column (a)) must equal total assets at the close of the prior year (Schedule L, Part II, line 2, column (b)). For each Schedule L balance sheet item reported for which there is a difference between the current opening balance sheet amount and the prior closing balance sheet amount, attach a statement that reports the balance sheet item, the prior closing amount, the current opening amount, and a short explanation of the change. Reasons for those differences include mergers and acquisitions.

For purposes of measuring total assets at the end of the year, the corporation's assets may not be netted or reduced by the corporation's liabilities. In addition, total assets may not be reported as a negative amount. If Schedule L is prepared on a non-tax-basis method, an investment in a partnership may be shown as appropriate under the corporation's non-tax-basis method of accounting, including, if required by the corporation's reporting methodology, the equity method of accounting for investments. If Schedule L is prepared on a tax basis, an investment by the corporation in a partnership must be shown as an asset and measured by the corporation's adjusted basis in its partnership interest. Any liabilities contributing to such adjusted basis must be shown on Schedule L as corporate liabilities.

## **Consolidated Return (Form 1120-L, Page 1)**

Report on Form 1120-L, page 1, each item of income, gain, loss, expense, or deduction net of elimination entries for intercompany transactions between includible corporations. The corporation must not report as dividends on Form 1120-L, Schedule A, any amounts received from an includible corporation unless the corporation receiving the intercompany dividends is an insurance company and only to the extent that the insurance company is required to include intercompany dividends in taxable income. (See the instructions for Part I, lines 10a, 10b, 10c, and 11, for a discussion of intercompany dividends and insurance company statutory accounting.) In general, dividends received from an includible corporation must be eliminated in consolidation rather than offset by the dividends-received deduction.

## **Entity Considerations for Schedule M-3**

For purposes of Schedule M-3, references to the classification of an entity (for example, as a corporation, a partnership, or a trust) are references to the treatment of the entity for U.S. income tax purposes. An entity that is generally regarded as separate from its owner for U.S. income tax purposes (disregarded entity) must not be separately reported on Schedule M-3 except, if required, on Part I, line 7a or 7b. On Parts II and III, any item of income, gain, loss, deduction, or credit of a disregarded entity must be reported as an item of its owner. In particular, the income or loss of a disregarded entity must not be reported on Part II, line 9, 10, or 11 as a separate partnership or other pass-through entity. The financial statement income or loss of a disregarded entity is included on Part I, line 7a or 7b, only if its financial statement

income or loss is included on Part I, line 11, but not on Part I, line 4a.

## **Reportable Entity Partner Reporting Responsibilities**

A reportable entity partner with respect to a partnership filing Form 1065 is an entity that:

- Owns or is deemed to own, directly or indirectly, under these instructions a 50% or greater interest in the income, loss, or capital of the partnership on any day of the tax year; and
- Was required to file Schedule M-3 on its most recently filed U.S. income tax return or return of income filed prior to that day.

For the purposes of these instructions, the following rules apply.

1. The parent corporation of a consolidated tax group is deemed to own all corporate and partnership interests owned or deemed to be



owned under these instructions by any member of the tax consolidated group.

2. The owner of a disregarded entity is deemed to own all corporate and partnership interests owned or deemed to be owned under these instructions by the disregarded entity.
3. The owner of 50% or more of a corporation by vote on any day of the corporation's tax year is deemed to own all corporate and partnership interests owned or deemed to be owned under these instructions by the corporation during the corporation's tax year.
4. The owner of 50% or more of partnership income, loss, or capital on any day of the partnership tax year is deemed to own all corporate and partnership interests owned or deemed to be owned under these

instructions by the partnership during the partnership tax year.

5. The beneficial owner of 50% or more of the beneficial interest of a trust or nominee arrangement on any day of the trust or nominee arrangement tax year is deemed to own all corporate and partnership interests owned or deemed to be owned under these instructions by the trust or nominee arrangement.

A reportable entity partner with respect to a partnership (as defined above) must report the following to the partnership within 30 days of first becoming a reportable entity partner and, after first reporting to the partnership under these instructions, thereafter within 30 days of the date of any change in the interest it owns or is deemed to own, directly or indirectly, under these instructions, in the partnership.

1. Name.
2. Mailing address.
3. Taxpayer identification number (TIN or EIN), if applicable.
4. Entity or organization type.
5. State or country in which it is organized.
6. Date on which it first became a reportable entity partner.
7. Date with respect to which it is reporting a change in its ownership interest in the partnership, if applicable.
8. The interest in the partnership it owns or is deemed to own in the partnership, directly or indirectly (as defined under these instructions), as of the date with respect to which it is reporting.

9. Any change in that interest as of the date with respect to which it is reporting.

The reportable entity partner must retain copies of required reports it makes to the partnerships under these instructions. Each partnership must retain copies of the required reports it receives under these instructions from reportable entity partners.

***Example 2.***

1. A, an LLC filing a Form 1065 for 2023, is owned 50% by U.S. life insurance company Z. A owns 50% of B, C, D, and E, which are also LLCs filing a Form 1065 for calendar year 2023. Z was first required to file Form 1120-L, Schedule M-3, for its corporate tax year ending December 31, 2022 and filed Schedule M-3 with its Form 1120-L for 2022, on October 15, 2023. As of October 16, 2023, Z was a reportable entity partner with respect to A and,

through A, with respect to B, C, D, and E. On November 5, 2023, Z reports to A, B, C, D, and E, as it is required to do within 30 days of October 16, that Z is a reportable entity partner directly owning (with respect to A) or deemed to own indirectly (with respect to B, C, D, and E) a 50% interest. Therefore, because Z was a reportable entity partner for 2023, each of A, B, C, D, and E is required to file Form 1065, Schedule M-3, for 2023, regardless of whether they would otherwise be required to file Schedule M-3 for that year.

2. P, a U.S. life insurance company, is the parent of a financial consolidation group with 50 domestic subsidiaries, DS1 through DS50, and 50 foreign subsidiaries, FS1 through FS50, all 100% owned on October 16, 2023. On October 15, 2023, P filed a

consolidated tax return on Form 1120-L and was required to file Schedule M-3 for the tax year ending December 31, 2022. On October 16, 2023, DS1, DS2, DS3, FS1, and FS2 each acquire a 10% partnership interest in partnership K, which files Form 1065 for the tax year ending December 31, 2023. P is deemed to own, directly or indirectly (under these instructions), all corporate and partnership interests of DS1, DS2, and DS3, as the parent of the tax consolidation group and therefore is deemed to own 30% of K on October 16, 2023. P is deemed to own, directly or indirectly (under these instructions), all corporate and partnership interests of FS1 and FS2 as the owner of 50% or more of each corporation by vote and therefore is deemed to own 20% of K on October 16, 2023. P is therefore deemed to own 50% of K on October 16, 2023.

Since P owns or is deemed to own, directly or indirectly (under these instructions), 50% or more of K on October 16, 2023, and was required to file Schedule M-3 with its most recently filed U.S. income tax return filed prior to that date, P is a reportable entity partner of K as of October 16, 2023. On November 5, 2023, P reports to K that P is a reportable entity partner as of October 16, 2023, deemed to own (under these instructions) a 50% interest in K. K is, therefore, required to file Schedule M-3 when it files its Form 1065 for its tax year ending December 31, 2023.

# **Consolidated Schedule M-3 Versus Consolidating Schedules M-3 for Form 1120-L Groups**

A consolidated tax return group with a parent corporation that files a Form 1120-L is a mixed group if any member is a property and casualty insurance company (files Form 1120-PC) or is not an insurance company. See *Schedule M-3 Consolidation for Mixed Groups (1120/L/PC)*, later.

A U.S. consolidated tax group must file a consolidated Schedule M-3. Parts I, II, and III of the consolidated Schedule M-3 must reflect the activity of the entire U.S. consolidated tax group. The parent corporation must also complete Parts II and III of a separate Schedule M-3 to reflect the parent's own activity. In addition, Parts II and III of a separate Schedule M-3 must be completed by each includible corporation to reflect the activity of that includible corporation. Lastly,



it will generally be necessary to complete Parts II and III of a separate Schedule M-3 for consolidation eliminations.

If a U.S. consolidated tax group that is not a mixed group consists of four includible corporations (the parent and three subsidiaries) all filing Form 1120-L, the U.S. consolidated tax group must complete six Schedules M-3 as follows.

- One consolidated Schedule M-3 with Parts I, II, and III completed to reflect the activity of the entire U.S. consolidated tax group.
- Parts II and III of a separate Schedule M-3 for each of the four includible corporations to reflect the activity of each includible corporation.
- Parts II and III of a separate Schedule M-3 to eliminate intercompany transactions between includible corporations and to include limitations on deductions (for

example, charitable contribution limitations and capital loss limitations) and carryover amounts (for example, charitable contribution carryovers and capital loss carryovers). See Completion of Schedule M-3 and Certain Allocations, Limitations, and Carryovers, later.

**Note.** Complete only one Schedule M-3, Part I, for each consolidated group. A subsidiary of a consolidated group does not complete Schedule M-3, Part I. Enter on Part I the name and EIN of the common parent of the consolidated group.

Indicate on each Schedule M-3, Parts II and III, on the line after the common parent's name and EIN, whether the Schedule M-3, Parts II and III, is for the (1) consolidated group; (2) parent corporation; (3) consolidation eliminations; or (4) subsidiary corporation, by checking the appropriate box. If Parts II and III are for a subsidiary in a

consolidated return, also enter the name and EIN of the subsidiary.

### **Schedule M-3 Consolidation for Mixed Groups (1120/L/PC)**

Special Schedule M-3 consolidation rules apply to a mixed group, that is, a consolidated tax group that (1) includes both a corporation that is an insurance company and a corporation that is not an insurance company; or (2) includes both a life insurance company and a property and casualty insurance company; or (3) includes a life insurance company, a property and casualty insurance company, and a corporation that is not an insurance company.

Mixed group consolidation for Schedule M-3, Parts II and III, requires (1) subgroup sub-consolidation of the 1120 subgroup, the 1120-PC subgroup, and the 1120-L subgroup, each with its own sub-consolidated Schedule M-3, Parts II and III, and (2) consolidation of the subgroup sub-consolidation totals on a

consolidated Schedule M-3, Part II, that ties to a consolidated Schedule M-3, Part I, and a consolidated Form 8916.

In addition to one Schedule M-3, Part II, and one Schedule M-3, Part III, for each corporation in the three subgroup sub-consolidations, there will generally be a total of six additional Schedule M-3, Parts II, and six additional Schedule M-3, Parts III, for the subgroup sub-consolidations. Specifically, there must be one Schedule M-3, Part II, and one Schedule M-3, Part III, for each subgroup's sub-consolidated amounts and one Schedule M-3, Part II, and one Schedule M-3, Part III, for each subgroup's sub-consolidation eliminations amounts.

At the mixed group consolidated level, there must be a consolidated Schedule M-3, Part II, and, if applicable, a Schedule M-3, Part II, for consolidation eliminations not includible in the subgroup eliminations. At the consolidated level, there must also be a consolidated

Schedule M-3, Part I, and a consolidated Form 8916. For a mixed group, there is no Schedule M-3, Part III, at the consolidated level. At the consolidated level, use the Schedule M-3 (1120, 1120-PC, or 1120-L), Parts I and II, that match the form on which the parent corporation reports and the entire consolidated group files.

The corporation must check the applicable mixed group checkboxes on all Schedules M-3, Parts I, II, and III, as discussed below.

### **Subgroup Sub-Consolidation: 1120 Subgroup, 1120-PC Subgroup, and 1120-L Subgroup**

A subgroup Schedule M-3, Parts II and III, sub-consolidation must be prepared with all necessary eliminations within the subgroup for each of the three possible subgroups that are in fact present: one subgroup for those corporations reporting on Form 1120, one subgroup for those corporations reporting on

Form 1120-PC, and one subgroup for those reporting on Form 1120-L. The parent corporation is included in the subgroup that corresponds to the form on which it reports and the entire consolidated group files. For example, in the case of a Form 1120-L parent and Form 1120-L consolidated group, the parent is included in the Form 1120-L subgroup sub-consolidation. Each subgroup uses its own Schedule M-3 (1120, 1120-PC, or 1120-L), Parts II and III, for each corporation within the subgroup and for the subgroup sub-consolidation and the subgroup eliminations.

The three subgroup sub-consolidation taxable income calculations on Schedule M-3 must follow the separate return requirements of the regulations under section 1502 and all other applicable regulations taking into account the amounts separately reported on Form 8916. Capital loss limitation and carryforward used and charitable deduction

limitation and carryforward used are not taken into account in the determination of the three subgroup sub-consolidated taxable incomes on Schedule M-3, but are reflected on Form 8916 and in the calculation of the life/non-life loss limitation and carryforward used. See *Life/Non-Life Loss Limitation and Carryforward Used Calculations*, later.

The reconciliation totals for book, temporary difference, permanent difference, and taxable income for each subgroup are reported on Form 1120, 1120-PC, or 1120-L, as applicable, Schedule M-3, Part II, line 29a, columns (a), (b), (c), and (d), and equal the sum of the line amounts on Part II, lines 26 through 28. For a mixed group, Schedule M-3, Part II, lines 29b, 29c, and 30, are blank on the Form 1120, 1120-PC, or 1120-L, as applicable, for the separate corporations (parent and subsidiary) and for the three subgroup sub-consolidations.

**Note.** A sub-consolidation is required for every subgroup, even if the subgroup consists of only one corporation. In addition, Form 8916-A, if applicable, is required at the sub-consolidated level and the sub-consolidated elimination level.

### **Reconciliation of Mixed Group Subgroup Sub-Consolidation Amounts to Schedule M-3, Part I, Line 11, and to Tax Return Taxable Income**

At the consolidated level, use the Schedule M-3 (Form 1120, 1120-PC, or 1120-L), Parts I and II that matches the form on which the parent corporation reports and the entire consolidated group files. For a mixed group, on the consolidated Schedule M-3, Part II, lines 29a, 29b, and 29c, report the applicable amounts from the three subgroup sub-consolidation Part II, line 29a, amounts. (If a consolidated level Part II for consolidation eliminations not includible in the subgroup eliminations is applicable, the applicable



amounts must be adjusted by the applicable elimination amounts.) The consolidated Schedule M-3, Part II, line 30, amounts are the sum of the applicable amounts on the consolidated Part II, lines 29a, 29b, and 29c. For a mixed group, the consolidated Part II, lines 1 through 28, are blank and no consolidated Part III is required to be completed.

For mixed groups, the consolidated Part II, line 30, column (a), must equal Part I, line 11, with appropriate adjustments for statutory accounting requirements reflected on Part I, lines 10a and 10b. The consolidated taxable income indicated on Part II, line 30, column (d), must equal the amount shown on Form 8916, line 1. Form 8916, line 8, must equal taxable income reported on the tax return.

## **Completion of Mixed Group Checkboxes for Schedule M-3, Part II and Part III**

**Note.** The following discussion of checkboxes will assume that the 1120-L subgroup includes the corporate parent of the mixed group.

Forms 1120, 1120-PC, and 1120-L, Schedule M-3, Parts II and III, each have a checkbox (5) at the top indicating a mixed group. Checkbox (5) and one or more other applicable checkboxes must be checked for a mixed group.

For example, an 1120-L parent corporation included in the 1120-L subgroup must check Form 1120-L, Schedule M-3, Parts II and III, box (2) Parent corporation, and box (5) Mixed 1120/L/PC group. An 1120-L subsidiary corporation within the 1120-L subgroup must check Form 1120-L, Schedule M-3, Parts II and III, box (4) Subsidiary corporation, and box (5) Mixed 1120/L/PC group. An 1120-PC subsidiary corporation within the

1120-PC subgroup must check Form 1120-PC Schedule M-3, Parts II and III, box (4) Subsidiary corporation, and box (5) Mixed 1120/L/PC group. An 1120 subsidiary corporation within the 1120 subgroup must check Form 1120, Schedule M-3, Parts II and III, box (4) Subsidiary corporation, and box (5) Mixed 1120/L/PC group.

The 1120 subgroup sub-consolidation Form 1120, Schedule M-3, Parts II and III, must be indicated by checking box (5) Mixed 1120/L/PC group, and box (6) 1120 group for the sub-consolidation, and by checking box (5) Mixed 1120/L/PC group, and box (7) 1120 eliminations, for the eliminations. The 1120-PC subgroup sub-consolidation Form 1120-PC, Schedule M-3, Parts II and III, must be indicated by checking box (5) Mixed 1120/L/PC group, and box (6) 1120-PC group for the sub-consolidation and by checking box (5) Mixed 1120/L/PC group, and box (7) 1120-PC eliminations, for the eliminations.

The 1120-L subgroup sub-consolidation Form 1120-L, Schedule M-3, Parts II and III, must be indicated by checking box (5) Mixed 1120/L/PC group, and box (6) 1120-L group for the sub-consolidation, and by checking box (5) Mixed 1120/L/PC group, and box (7) 1120-L eliminations, for the eliminations.

A mixed group with a Form 1120-L parent corporation completes a consolidated level Form 1120-L, Schedule M-3, Parts I and II, and a consolidated Form 8916. The mixed group consolidated Schedule M-3, Part II, must be indicated by checking box (1) Consolidated group, and box (5) Mixed 1120/L/PC group. If a consolidated level Part II for consolidation eliminations not includible in the subgroup eliminations is applicable, that Part II must be indicated by checking box (3) Consolidated eliminations, and box (5) Mixed 1120/L/PC group.

## **Life/Non-Life Loss Limitation and Carryforward Used Calculations**

The applicable life/non-life loss limitation and all carryforward used calculations are made using the amounts determined for taxable income in the three subgroup sub-consolidations and other applicable amounts separately reported on Form 8916. The calculated life/non-life loss limitation or carryforward used amounts, if any, are not entered on Schedule M-3. The calculated amounts, if any, are entered on Form 8916.

## **Completion of Schedule M-3 and Certain Allocations, Limitations, and Carryovers**

Generally, a corporation (or any member of a U.S. consolidated tax group) required to file Schedule M-3 must complete the form in its entirety. In particular, a corporation filing a non-consolidated return that meets the filing requirements for Schedule M-3 must

complete Parts I, II, and III. Such a corporation does not check any of the checkboxes at the top of Parts II and III. In the case of a U.S. consolidated tax group, Part I must be completed once, on the consolidated Schedule M-3, by the parent corporation. Parts II and III must be completed by the parent corporation, each includible corporation, and a consolidating eliminations entity.

Except as otherwise provided in these instructions, when a Schedule M-3 (Form 1120-L) is filed, all applicable Part I questions must be answered; all applicable columns in Parts II and III must be completed; all numerical data required in Parts I, II, and III must be provided; and any statement required to support a line item in Part I, II, or III must be attached and must provide the information required for that line item.

All detailed statements for Part II and Part III of Schedule M-3 must be attached for each separate entity included in the consolidated Part II and Part III, including those for the parent company and the eliminations entity, if applicable. It is not required that the same supporting detailed information be presented for Part II and Part III of the consolidated Schedule M-3.

If an item attributable to an includible corporation is not shared by or allocated to the appropriate member of the group but is retained in the parent corporation's financial statements (or books and records, if applicable), then the item must be reported by the parent corporation in its separate Schedule M-3. For example, if the parent of a U.S. consolidated tax group prepares financial statements that include all members of the U.S. consolidated tax group and the parent does not allocate the group's income tax expense as reflected in the financial

statements among the members of the group but retains it in the parent corporation, the parent corporation must report on its separate Schedule M-3 the U.S. consolidated tax group's income tax expense as reflected in the financial statements.

Any adjustments made at the consolidated group level that are not attributable to any specific member of the U.S. consolidated tax group (for example, disallowance of net capital losses, contribution deduction carryovers, and limitation of contribution deductions) must not be reported on the separate consolidating parent or subsidiary Schedules M-3 but rather on the consolidated Schedule M-3 and on the consolidating Schedule M-3 for consolidation eliminations (or on Form 8916 in the case of a mixed group).

If an includible corporation has (1) no activity for the tax year (for example, because the corporation is a dormant or inactive



corporation); (2) no amount for the corporation was included on Part I, line 11; and (3) the corporation has no amounts to report on Part II and Part III of Schedule M-3 for the tax year, the parent corporation of the U.S. consolidated tax group may attach to the consolidated Schedule M-3 a statement that provides the name and employer identification number (EIN) of the includible corporation instead of filing a blank Part II and Part III of Schedule M-3 for the entity. On Part I, check box (4) Dormant subsidiaries schedule attached.

## **Specific Instructions for Part I**

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

#### **When To Complete Part I**

Part I must be completed for any tax year for which the life insurance company files

Schedule M-3. Check either box (1) Non-consolidated return, (2) Consolidated return (Form 1120-L only), or (3) Mixed 1120/L/PC group, as applicable. In addition, check box (4) Dormant subsidiaries schedule attached, if applicable.

### **Line 1. Questions Regarding the Type of Income Statement Prepared**

For Schedule M-3, Part I, lines 1 through 12, use only the financial statements of the U.S. life insurance company filing the U.S. income tax return (or the consolidated financial statements for the U.S. parent corporation of a U.S. consolidated tax group). If the U.S. life insurance company filing a U.S. income tax return (or the U.S. parent corporation of a U.S. consolidated tax group) prepares its own financial statements but is controlled by another corporation (U.S. or foreign) that prepares financial statements that include the U.S. corporation, the U.S. corporation (or the U.S. parent corporation of a U.S. consolidated

tax group) must use for its Schedule M-3, Part I, its own financial statements and not the financial statements of the controlling corporation.

If a non-publicly traded U.S. parent life insurance company of a U.S. consolidated tax group prepares financial statements and that group includes a publicly traded subsidiary that files financial statements with the Securities and Exchange Commission (SEC), the consolidated financial statements of the parent life insurance company are the appropriate financial statements for purposes of completing Part I. Do not use any separate company financial statements that might be prepared for publicly traded subsidiaries.

## **Non-Tax-Basis Financial Statements and Tax-Basis Financial Statements**

A tax-basis income statement is allowed for Schedule M-3 and a tax-basis balance sheet for Schedule L only if no non-tax-basis income statement and no non-tax-basis

balance sheet were prepared for any purpose and the books and records of the corporation reflect only tax-basis amounts. The corporation is deemed to have non-tax-basis income statements and the related non-tax-basis balance sheets for the current year for purposes of Schedule M-3 and Schedule L if such non-tax-basis financial statements were prepared for and presented to management, creditors, shareholders, government regulators, or any other third parties for a period ending with or within the tax year.

### **Lines 1a, 1b, and 1c**

If a Form 10-K is filed with the SEC for the period ending with or within the tax year, the corporation must check "Yes," for Part I, line 1a, and use that income statement for Schedule M-3. If Form 10-K is not filed and a non-tax-basis income statement is prepared that is a certified non-tax-basis income statement for the period ending with or within the tax year, the corporation must check

“Yes,” for Part I, line 1b, and use that income statement for Schedule M-3. If Form 10-K is not filed and no certified non-tax-basis income statement is prepared but an unaudited non-tax-basis income statement is prepared for the period ending with or within the tax year, the corporation must check “Yes” for Part I, line 1c, and use that income statement for Schedule M-3.

**Order of priority in accounting standards.**

If no Form 10-K is filed and two or more non-tax-basis income statements are both certified non-tax-basis income statements for the period, the income statement prepared according to the following order of priority in accounting standards must be used.

1. U.S. Generally Accepted Accounting Principles (GAAP).
2. International Financial Reporting Standards (IFRS).

3. Any other International Accounting Standards (IAS).
4. Statutory accounting for insurance companies.
5. Other regulatory accrual accounting.
6. Any other accrual accounting standard.
7. Any fair market value standard.
8. Any cash basis standard.

If no non-tax-basis income statement is certified and two or more non-tax-basis statements are prepared, the income statement prepared according to the first listed of the accounting standards above must be used.

If no non-tax-basis financial statements are prepared for a U.S. life insurance company (or, in the case of a U.S. consolidated tax group, for the U.S. parent corporation's consolidated group) filing Schedule M-3, the U.S. life insurance company (or the U.S.

parent corporation of a U.S. consolidated tax group) must check "No" on questions 1a, 1b, and 1c, skip Part I, lines 2a through 3c, and enter the net income (loss) per the books and records of the U.S. life insurance company (or U.S. consolidated tax group) on Part I, line 4a.

If no non-tax-basis financial statements are prepared for a U.S. life insurance company (or, in the case of a U.S. consolidated tax group, for the U.S. parent corporation's consolidated group) filing Schedule M-3, and the U.S. life insurance company is owned by a foreign corporation that prepares financial statements that include the U.S. life insurance company (or the U.S. parent corporation's consolidated group), the U.S. life insurance company (or the U.S. parent corporation of the U.S. consolidated tax group) must check "No" on questions 1a, 1b, and 1c, skip Part I, lines 2a through 3c, and enter the net income (loss) per the books and

records of the U.S. corporation (or U.S. consolidated tax group) on Part I, line 4a.

## **Line 2. Questions Regarding Income Statement Period and Restatements**

Enter the beginning and ending dates on line 2a for the life insurance company's annual income statement period ending with or within this tax year.

The questions on Part I, lines 2b and 2c, regarding income statement restatements, refer to the worldwide consolidated income statement issued by the corporation filing the U.S. income tax return (the consolidated financial statements for the U.S. parent corporation of a U.S. consolidated tax group) and used to prepare Schedule M-3. Answer "Yes" on lines 2b and/or 2c if the corporation's annual income statement has been restated for any reason. Attach a short explanation of the reasons for the restatement in net income for each annual income statement period that is restated,



including the original amount and restated amount of each annual statement period's net income. The attached statement is not required to report restatements on an entity-by-entity basis.

### **Line 3. Questions Regarding Publicly Traded Voting Common Stock**

The primary U.S. publicly traded voting common stock class is the most widely held or most heavily traded within the United States as determined by the life insurance company. If the life insurance company has more than one class of publicly traded voting common stock, attach a list of the classes of publicly traded voting common stock and the trading symbol and the nine-digit CUSIP number of each class.

### **Line 4. Worldwide Consolidated Net Income (Loss) per Income Statement**

Report on Part I, line 4a, the worldwide consolidated net income (loss) per the income

statement (or books and records, if applicable) of the corporation. A corporation filing a non-consolidated Form 1120-L for itself must report its worldwide income on Part I, line 4a.

In completing Schedule M-3, the life insurance company must use financial statement amounts from the financial statement type checked "Yes" on Part I, line 1, or from its books and records if Part I, line 1c, is checked "No." If Part I, line 1a, is checked "Yes," report on Part I, line 4a, the net income amount reported in the income statement presented to the SEC on the corporation's Form 10-K (the Form 10-K for the security identified on Part I, line 3b, if applicable).

If a life insurance company prepares non-tax-basis financial statements, the amount on Part I, line 4a, must equal the financial statement net income (loss) for the income

statement period ending with or within the tax year as indicated on Part I, line 2a.

If the life insurance company prepares non-tax-basis financial statements and the income statement period differs from the life insurance company's tax year, the income statement period indicated on Part I, line 2a, applies for purposes of Part I, lines 4a through 8.

If the life insurance company does not prepare non-tax-basis financial statements, and has checked "No" on Part I, line 1c, enter the net income (loss) per the books and records of the U.S. life insurance company or the U.S. consolidated tax group on Part I, line 4a.

Indicate on Part I, line 4b, which of the following accounting standards were used for line 4a.

1. U.S. Generally Accepted Accounting Principles (GAAP).

2. International Financial Reporting Standards (IFRS).
3. Statutory.
4. Other (specify).

### **Lines 5a through 10**

Report on Part I, lines 5a through 10, as instructed below, all adjustment amounts required to adjust worldwide net income (loss) reported on this Part I, line 4a (whether from financial statements or books and records), to net income (loss) of includible corporations that must be reported on Part I, line 11.

Report on line 12a the worldwide consolidated total assets and total liabilities amounts for the corporation using the same financial statements (or books and records) used for the worldwide consolidated income (loss) amount reported on Part I, line 4a.

If a U.S. life insurance company (a) has net income (loss) included on Part I, line 4a, and removed on Part I, line 6a or 6b, on another U.S. corporation's Schedule M-3; (b) files its own Form 1120-L (separate or consolidated); (c) does not have a separate non-tax-basis financial statement (certified or otherwise) of its own; and (d) reports on Schedule L, Part II, line 2, column (b), of its own Form 1120-L total consolidated assets that equal or exceed \$10 million at the end of the corporation's tax year, the life insurance company must answer questions 1a, 1b, and 1c, of Part I as appropriate for its own Form 1120-L and must report on Part I, line 4a, the amount for the corporation's net income (loss) that is removed on Part I, line 6a or 6b, of the other corporation's Schedule M-3. However, if in the circumstances described immediately above, the life insurance company does have separate non-tax-basis financial statements (certified or otherwise) of its own, independent of the amount of the

corporation's net income included on Part I, line 4a, of the other U.S. corporation, the life insurance company must answer questions 1a, 1b, and 1c, of Part I, as appropriate, for its own Form 1120-L, based on its own separate income statement, and must report on Part I, line 4a, the net income amounts shown on its separate income statement.

**Note.** See the instructions for Part I, line 10, for adjustments that may be necessary to reconcile financial statement income to statutory income for the life insurance company.

### **Line 5. Net Income (Loss) of Nonincludible Foreign Entities**

Remove the financial net income (line 5a) or loss (line 5b) of each foreign entity that is included on Part I, line 4a, and is not an includible corporation in the U.S. consolidated tax group (nonincludible foreign entity). In addition, on Part I, line 8, adjust for consolidation eliminations and correct for

minority interest and intercompany dividends between any nonincludible foreign entity and any includible corporation. Do not remove in Part I the financial net income (loss) of any nonincludible foreign entity accounted for on Part I, line 4a, using the equity method.

Attach a supporting statement that provides the name, EIN (if applicable), and net income (loss) included on Part I, line 4a, that is removed on line 5 for each separate nonincludible foreign entity. Also state the total assets and total liabilities for each such separate nonincludible foreign entity and include those assets and liabilities amounts in the total assets and total liabilities reported on Part I, line 12b. The amounts of income (loss) detailed on the supporting statement should be reported for each separate nonincludible foreign entity without regard to the effect of consolidation or elimination entries. If there are consolidation or elimination entries relating to nonincludible

foreign entities whose income (loss) is reported on the attached statement that are not reportable on Part I, line 8, the net amounts of all such consolidation and elimination entries must be reported on a separate line on the attached statement, so that the separate financial accounting income (loss) of each nonincludible foreign entity remains separately stated.

For example, if the net income (after consolidation and elimination entries) of a nonincludible foreign sub-consolidated group is being reported on line 5a, the attached supporting statement should report the income (loss) of each separate nonincludible foreign legal entity from each such entity's own financial accounting net income statement or books and records, and any consolidation or elimination entries (for intercompany dividends, minority interests, etc.) not reportable on Part I, line 8, should be reported on the attached supporting



statement as a net amount on a line separate and apart from lines that report each nonincludible foreign entity's separate net income (loss).

## **Line 6. Net Income (Loss) of Nonincludible U.S. Entities**

Remove the financial net income (line 6a) or loss (line 6b) included on Part I, line 4a, for each U.S. entity that is not an includible corporation in the U.S. consolidated tax group (nonincludible U.S. entity). In addition, on Part I, line 8, adjust for consolidation eliminations and correct for minority interest and intercompany dividends between any nonincludible U.S. entity and any includible corporation. Do not remove in Part I the financial net income (loss) of any nonincludible U.S. entity accounted for on Part I, line 4a, using the equity method.

Attach a supporting statement that provides the name, EIN, and net income (loss) included on Part I, line 4a, that is removed on

line 6 for each separate nonincludible U.S. entity. Also state the total assets and total liabilities for each such separate nonincludible U.S. entity and include those assets and liabilities amounts in the total assets and total liabilities reported on Part I, line 12c. The amounts of income (loss) detailed on the supporting statement should be reported for each separate nonincludible U.S. entity without regard to the effect of consolidation or elimination entries. If there are consolidation or elimination entries relating to nonincludible U.S. entities whose income (loss) is reported on the attached statement that are not reportable on Part I, line 8, the net amounts of all such consolidation and elimination entries must be reported on a separate line on the attached statement so that the separate financial accounting income (loss) of each nonincludible U.S. entity remains separately stated. For example, if the net income (after consolidation and elimination entries) of a nonincludible U.S.

sub-consolidated group is being reported on line 6a, the attached supporting statement should report the income (loss) of each separate nonincludible U.S. legal entity from each such entity's own financial accounting net income statement or books and records, and any consolidation or elimination entries (for intercompany dividends, minority interests, etc.) not reportable on Part I, line 8, should be reported on the attached supporting statement as a net amount on a line separate and apart from lines that report each nonincludible U.S. entity's separate net income (loss).

**Lines 7a, 7b, and 7c. Net Income (Loss) of Other Foreign Disregarded Entities, Net Income (Loss) of Other U.S. Disregarded Entities, and Net Income (Loss) of Other Includible Entities**

Include on Part I, line 7a, 7b, or 7c, the financial net income or (loss) of each foreign or U.S. disregarded entity or other includible

corporation that is not included in the consolidated financial group and therefore not included in the income reported on Part I, line 4a. Include on line 7a or 7b the financial net income or (loss) of any disregarded entity that is not included in the income reported on Part I, line 4a, but is included on Part I, line 11 (other disregarded entities). Include on line 7c the financial net income or (loss) of any entity not a disregarded entity that is not included in the income reported on Part I, line 4a, but is included on line 11 (other includible corporation). In addition, on Part I, line 8, adjust for consolidation eliminations and correct for minority interest and intercompany dividends for any other includible disregarded entity or other includible entities.

Attach a supporting statement that provides the name, EIN, and net income (loss) per the financial statement or books and records for each separate other disregarded entity or other includible entity reported on line 7. Also

state the total assets and total liabilities for each such separate included entity and include those assets and liabilities amounts in the total assets and total liabilities reported on Part I, line 12d. The amounts of income (loss) detailed on the supporting statement should be reported for each separate other disregarded entity or other includible entity without regard to the effect of consolidation or elimination entries solely between or among the entities listed. If there are consolidation or elimination entries relating to such other disregarded entity or other includible entities whose income (loss) is reported on the attached statement that are not reportable on Part I, line 8, the net amounts of all such consolidation and elimination entries must be reported on a separate line on the attached statement, so that the separate financial accounting income (loss) of each other disregarded entity or other includible entity remains separately stated.

For example, if the net income (after consolidation and elimination entries) of a sub-consolidated group of other disregarded entities is being reported on line 7a or 7b, the attached supporting statement should report the income (loss) of each separate other disregarded entity from each entity's own financial accounting net income statement or books and records, and any consolidation or elimination entries (for intercompany dividends, minority interests, etc.) not reportable on Part I, line 8, should be reported on the attached supporting statement as a net amount on a line separate and apart from lines that report each other disregarded entity's separate net income (loss).

### **Line 8. Adjustment to Eliminations of Transactions Between Includible Entities and Nonincludible Entities**

Adjustments on Part I, line 8, to reverse certain financial accounting consolidation or

elimination entries are necessary to ensure that transactions between includible entities and nonincludible U.S. or foreign entities are not eliminated, in order to report the correct total amount on Part I, line 11. Also, additional consolidation entries and elimination entries may be necessary on Part I, line 8, related to transactions between includible entities that are in the consolidated financial group and other disregarded entities and other includible entities that are not in the consolidated financial group but that are reported on Part I, line 7a, 7b, or 7c, in order to report the correct total amount on Part I, line 11.

Include on Part I, line 8, the total of the following: (a) amounts of any adjustments to consolidation entries and elimination entries that are contained in the amount reported on Part I, line 4a, required as a result of removing amounts on Part I, line 5 or 6; and (b) amounts of any additional consolidation

entries and elimination entries that are required as a result of including amounts on Part I, line 7a, 7b, or 7c. This is necessary in order that the consolidation entries and intercompany elimination entries included in the amount reported on Part I, line 11, are only those applicable to the financial net income (loss) of includible entities for the financial statement period.

For example, adjustments must be reported on line 8 to remove minority interest and to reverse the elimination of intercompany dividends included on Part I, line 4a, that relate to the net income of entities removed on Part I, line 5 or 6, because the income to which the consolidation or elimination entries relate has been removed. Also, for example, consolidation or elimination entries must be reported on line 8 to reflect any minority interest ownership in the net income of other disregarded entities or other includible entities reported on Part I, line 7a, 7b, or 7c.



Consolidation and elimination entries must also be reported on line 8 to eliminate any intercompany dividends between entities whose income is included on Part I, line 7a, 7b, or 7c, and other entities included in the consolidated U.S. income tax return. See line 11, examples 3, 4, and 5.

If a corporate owner of an interest in another entity (a) accounts for the interest in the entity in the owner corporation's separate general ledger on the equity method, and (b) fully consolidates the entity in the owner corporation's consolidated financial statements, but the entity is not includible in the owner corporation's consolidated U.S. income tax return, then, as part of reversing all consolidation and elimination entries for the nonincludible entity, the corporate owner must reverse on Schedule M-3, Part I, line 8, the elimination of the equity income inclusion from the entity. If the owner corporation does not account for the entity on the equity

method on its own general ledger, it will not have eliminated the equity income for consolidated financial statement purposes, and therefore will have no elimination of equity income to reverse.

The attached supporting statement for Part I, line 8, must identify the type (for example, minority interest, intercompany dividends, etc.) and amount of consolidation or elimination entries reported, as well as the names of the entities to which they pertain. It is not necessary, but it is permitted, to report intercompany eliminations that net to zero on Part I, line 8, such as intercompany interest income and expense.

### **Line 9. Adjustment To Reconcile Income Statement Period to Tax Year**

Include on line 9 any adjustments necessary to the income (loss) of includible corporations to reconcile differences between the corporation's income statement period reported on line 2a and the corporation's tax

year. Attach a statement describing the adjustment.

Statutory accounting for an insurance company subsidiary acquired or merged may require the use of a financial statement period for income reported on Part I, line 11, that differs from the period reported on Part I, line 4a or line 7. Report on Part I, line 10b, adjustments to income because of the differences in accounting period.

**Line 10a. Intercompany Dividend  
Adjustments To Reconcile to Line 11 and  
Line 10b. Other Statutory Accounting  
Adjustments To Reconcile to Line 11 and  
Line 10c. Other Adjustments To  
Reconcile to Amount on Line 11**

Include on lines 10a, 10b, and 10c any other adjustments to reconcile net income (loss) on Part I, line 4a, through Part I, line 9, with net income (loss) on Part I, line 11. Include on line 10a the amount of any intercompany dividend adjustment required by statutory

accounting. Include on line 10b the amount of any other required statutory accounting adjustment. Include on line 10c the amount of any other adjustment not required by statutory accounting.

Normally, all intercompany dividends will have been eliminated or excluded from the financial accounting consolidated net income (loss) reported on Part I, line 4a.

However, an insurance company may be required to include certain intercompany dividends on Part I, line 11, so that the amount reported on Part I, line 11, agrees with statutory accounting net income (Annual Statement). If the net income (loss) of a corporation that files Form 1120-PC or Form 1120-L is included on Part I, line 4a or line 7, and is computed on a basis other than statutory accounting, include on line 10a the adjustments necessary such that Part I, line 11, includes intercompany dividends in the net income (loss) for the corporation to the

extent required by statutory accounting principles. (For insurance companies included in the consolidated U.S. income tax return, see instructions for Part I, line 11, and Part II, line 7.)

Statutory accounting for an insurance company subsidiary acquired or merged may require the use of a financial statement period for income reported on Part I, line 11, that differs from the period reported on Part I, line 4 or line 7. Report on Part I, line 10b, adjustments to income because of such differences in accounting period.

For any adjustments reported on Part I, lines 10a, 10b, and 10c, attach a supporting statement that provides, for each corporation to which an adjustment relates, the name and EIN of the corporation; the amount of net income included in Part I before any adjustments on line 10; the amount of net income included on Part I, line 11; the amount of the net adjustment that is

attributable to intercompany dividend adjustments required to be reported by statutory accounting and included on Part I, line 10a; the amount of the net adjustment attributable to other statutory accounting requirements and included on Part I, line 10b; and the amount of the remainder of the net adjustment not required because of statutory accounting and included on Part I, line 10c. If any net adjustment is included for the corporation on Part I, line 10b or 10c, attach a supplemental supporting statement identifying the line (10b or 10c), and the type and amount of each adjustment included in the net adjustment.

### **Line 11. Net Income (Loss) per Income Statement of Includible Corporations**

Report on line 11 the net income (loss) per the income statement (or books and records, if applicable) of the life insurance company. In the case of a U.S. consolidated tax group, report the consolidated income statement net

income (loss) of all corporations listed on Form 851 and included in the consolidated U.S. income tax return for the tax year. Amounts reported in column (a) of Parts II and III (see instructions, later) must be reported on the same accounting method used to report the amount of net income (loss) per income statement of includible corporations on Part I, line 11, which for insurance companies is usually statutory accounting. (For insurance companies included in the consolidated U.S. income tax return, see instructions for Part I, line 10, and Part II, line 7.)

Do not, in any event, report on line 11 the net income of entities not listed on Form 851 and not included in the consolidated U.S. income tax return for the tax year. For example, it is not permissible to remove the income of nonincludible entities on lines 5 and/or 6, discussed earlier, then to add back such income on lines 7 through 10, such that

the amount reported on line 11 includes the net income of entities not includible in the consolidated U.S. income tax return. A principal purpose of Schedule M-3 is to report on this Part I, line 11, only the financial accounting net income of only the corporations included in the consolidated U.S. income tax return.

Whether or not the corporation prepares financial statements, Part I, line 11, must include all items that impact the net income (loss) of the corporation even if they are not recorded in the profit and loss accounts in the corporation's general ledger, including, for example, all post-closing adjusting entries (including workpaper adjustments) and dividend income or other income received from non-includible corporations.

***Example 3.***

1. U.S. life insurance company P is publicly traded and files Form 10-K with the SEC. P owns 80% or more of the stock



of 75 U.S. corporations, DS1 through DS75; between 51% and 79% of the stock of 25 U.S. corporations, DS76 through DS100; and 100% of the stock of 50 foreign subsidiaries, FS1 through FS50. P eliminates all dividend income from DS1 through DS100 and FS1 through FS50 in financial statement consolidation entries. Furthermore, P eliminates the minority interest ownership, if any, of DS1 through DS100 in financial statement consolidation entries. P's SEC Form 10-K includes P, DS1 through DS100, and FS1 through FS50, on a fully consolidated basis. P files a consolidated U.S. income tax return with DS1 through DS75.

P must check "Yes" on Part I, line 1a. On Part I, line 4a, P must report the consolidated net income from the SEC Form 10-K for the consolidated financial statement group of P, DS1 through DS100, and FS1 through FS50.

P must remove the net income (loss) of FS1 through FS50 on Part I, line 5a or 5b, as applicable. P must remove the net income (loss) before minority interests of DS76 through DS100 on Part I, line 6a or 6b, as applicable. P must reverse on Part I, line 8:

- a. The elimination of dividends received by P and DS1 through DS75 from DS76 through DS100 and FS1 through FS50; and
- b. The recognition of minority interests' share of the net income (loss) of DS76 through DS100. **Note.** The minority interests' share, if any, of the income of DS1 through DS75 must be reported on Part II, line 8.

P reports on Part I, line 11, the consolidated financial statement net income (loss) attributable to the includible corporations. Intercompany transactions between the includible corporations that had been eliminated in the net income amount on Part

I, line 4a, remain eliminated in the net income amount on line 11. Transactions between the includible corporations and the nonincludible entities that are eliminated in the net income amount on Part I, line 4a, are included in the net income amount on line 11 since the elimination of those transactions was reversed on line 8.

2. Foreign corporation F owns 100% of the stock of U.S. life insurance company P. P owns 100% of the stock of DS1, 60% of the stock of DS2, and 100% of the stock of FS1. F prepares certified audited financial statements. P does not prepare any financial statements. P files a consolidated U.S. income tax return with DS1.

P must not complete Schedule M-3, Part I, with reference to the financial statements of its foreign parent F. P must check "No" on Part I, lines 1a, 1b, and 1c, skip lines 2a through 3c of Part I, and enter worldwide net

income (loss) per the books and records of the includible corporations (P and DS1) on Part I, line 4a. If the amount on Part I, line 4a, includes the income (loss) of DS2 and FS1 or is not on the statutory basis, P must enter any necessary adjustments on lines 5a through 10 in order for Part I, line 11, to report the net income (loss) of includible corporations P and DS1, net of eliminations for transactions between P and DS1. In particular, P must make any required adjustments on Part I, line 10, in order for the net income on line 11 for life insurance companies to be on the statutory basis.

***Example 4.***

1. U.S. life insurance company P owns 60% of corporation DS1, which is fully consolidated in P's financial statements. P does not account for DS1 in P's separate general ledger on the equity method. DS1 has net income of \$100 (before minority interests) and pays

dividends of \$50, of which P receives \$30. The dividend is eliminated in the consolidated financial statements. In its financial statements, P consolidates DS1 and includes \$60 of net income (\$100 less the minority interest of \$40) on Part I, line 4a.

P must remove the \$100 net income of DS1 on Part I, line 6a. P must reverse on Part I, line 8, the elimination of the \$40 minority interest net income of DS1. In addition, P reverses its elimination of the \$30 intercompany dividend in its financial statements on Part I, line 8. The net result is that P includes the \$30 dividend from DS1 on Part I, line 11, and on Part II, line 7, column (a). P's dividend income included on the tax return from DS1 must be reported on Part II, line 7, column (d).

2. U.S. life insurance company C owns 60% of the capital and profits interests in U.S. LLC N. C does not account for N

in C's separate general ledger on the equity method. N has net income of \$100 (before minority interests) and makes no distributions during the tax year. C treats N as a corporation for financial statement purposes and as a partnership for U.S. income tax purposes. In its financial statements, C consolidates N and includes \$60 of net income (\$100 less the minority interest of \$40) on Part I, line 4a.

C must remove the \$100 net income of N on Part I, line 6a. C must reverse on Part I, line 8, the elimination of the \$40 minority interest net income of N. The result is that C includes no income for N either on Part I, line 11, or on Part II, line 9, column (a). C's taxable income from N must be reported by C on Part II, line 9, column (d).

3. U.S. life insurance company P owns 60% of corporation DS1, which is fully consolidated in P's financial statements.

P accounts for DS1 in P's separate general ledger on the equity method. DS1 has net income of \$100 (before minority interests) and pays dividends of \$50, of which P receives \$30. The dividend reduces P's investment in DS1 for equity method reporting on P's separate general ledger where P includes its 60% equity share of DS1 income, which is \$60. In its financial statements, P eliminates the DS1 equity method income of \$60 and consolidates DS1, including \$60 of net income (\$100 less the minority interest of \$40) on Part I, line 4a.

P must remove the \$100 net income of DS1 on Part I, line 6a. P must reverse on Part I, line 8, the elimination of the \$40 minority interest net income of DS1 and the elimination of the \$60 of DS1 equity income. The net result is that P includes the

\$60 of equity method income from DS1 on Part I, line 11, and on Part II, line 6, column (a). P's dividend income included on the tax return from its investment in DS1 must be reported on Part II, line 7, column (d).

4. U.S. life insurance company C owns 60% of the capital and profits interests in U.S. LLC N. C accounts for N in C's separate general ledger on the equity method. N has net income of \$100 (before minority interests) and makes no distributions during the tax year. C treats N as a corporation for financial statement purposes and as a partnership for U.S. income tax purposes. For equity method reporting on C's separate general ledger, C includes its 60% equity share of N income, which is \$60. In its financial statements, C eliminates the \$60 of N equity method income and consolidates N, including \$60 of net income (\$100



less the minority interest of \$40) on Part I, line 4a.

C must remove the \$100 net income of N on Part I, line 6a. C must reverse on Part I, line 8, the elimination of the \$40 minority interest net income of N and the elimination of the \$60 of N equity method income. The result is that C includes the \$60 of equity method income for N on Part I, line 11, and on Part II, line 9, column (a). C's taxable income from N must be reported by C on Part II, line 9, column (d).

5. U.S. life insurance company C owns 60% of the capital and profits interests in U.S. LLC N. C accounts for N in C's separate general ledger on the equity method. N has net income of \$100 (before minority interests) and pays a \$50 cash distribution, of which C receives \$30. The distribution reduces C's investment in N for equity method reporting on C's separate general ledger.

C treats N as a corporation for financial statement purposes and as a partnership for U.S. income tax purposes. For equity method reporting on C's separate general ledger, C includes its 60% equity share of N income, which is \$60. In its financial statements, C eliminates the \$60 of N equity method income and consolidates N and includes \$60 of net income (\$100 less the minority interest of \$40) on Part I, line 4a.

C must remove the \$100 net income of N on Part I, line 6a. C must reverse on Part I, line 8, the elimination of the \$40 minority interest net income of N and the elimination of the \$60 of N equity method income. The result is that C includes the \$60 of equity method income for N on Part I, line 11, and on Part II, line 9, column (a). C's taxable income from N must be reported by C on Part II, line 9, column (d).

**Example 5.** U.S. life insurance company P owns 80% of the stock of corporation DS1. DS1 is included in P's consolidated U.S. income tax return, even though DS1 is not included in P's consolidated financial statements on either a consolidated basis or on the equity method. DS1 has current year net income of \$100 after taking into account its \$40 interest payment to P. P has net income of \$1,040 after recognition of the interest income from DS1. Because DS1 is an includible corporation, 100% of the net income of both P and DS1 must be reported on Form 1120-L, page 1, of the PDS consolidated U.S. income tax return, and the intercompany interest income and expense must be removed by consolidation elimination entries.

P must report its financial statement net income of \$1,040 on Part I, line 4a, and reports DS1's net income of \$100 on Part I, line 7c. Then, in order to reflect the full

consolidation of the financial accounting net income of P and DS1 at Part I, line 11, Net income (loss) per income statement of includible corporations, the following consolidation and elimination entries are reported on Part I, line 8: (a) offsetting entries to remove the \$40 of interest income received from DS1 included by P on line 4a, and to remove the \$40 of interest expense of DS1 included in line 7c for a net change of zero; and (b) an entry to reflect the \$20 minority interest in the net income of DS1 (DS1 net income of \$100 times 20% minority interest). The result is that Part I, line 11, reports \$1,120: \$1,040 from line 4a, \$100 from line 7c, and (\$20) from line 8. Stated another way, Part I, line 11, includes the entire \$1,000 net income of P, measured before recognition of the intercompany interest income from DS1 and the consolidation of DS1 operations, plus the entire \$140 net income of DS1, measured before interest expense to P, less the minority

interest ownership of \$20 in DS1's separate net income (\$100). The consolidated U.S. income tax group is required to include on the attached supporting statement for Part I, line 8, the details of the adjustment to the minority interest in the net income of DS1, but is not required to report the offsetting adjustment to the intercompany elimination of interest income and interest expense (though it is permitted to do so).

**Line 12. Total Assets and Liabilities of Entities Included or Removed on Part I, Lines 4, 5, 6, and 7**

Line 12 must be completed by all corporations that file Schedule M-3. Report on lines 12a, 12b, 12c, and 12d the total amount (not just the corporation's share) of assets and liabilities of entities included or removed on Part I, lines 4, 5, 6, and 7. All assets and liabilities reported on Part I, lines 12a through 12d, must be reported as positive amounts.

On line 12a, enter the worldwide consolidated total assets and total liabilities of all of the entities included in completing Part I, line 4a. On line 12b, enter the total assets and total liabilities of the entities removed in completing Part I, line 5. On line 12c, enter the total assets and total liabilities removed in completing Part I, line 6. On line 12d, enter total assets and total liabilities included in completing Part I, line 7.

## **Specific Instructions for Parts II and III**

For consolidated U.S. income tax returns, file supporting statements for each includible corporation. See Consolidated Return in the Instructions for Form 1120-L.

### **General Format of Parts II and III**

Check the applicable box(es) at the top of pages 2 and 3 of Schedule M-3 to indicate whether the Schedule M-3 is for the:

1. Consolidated group,
2. Parent corporation,
3. Consolidated eliminations,
4. Subsidiary corporation, or
5. Mixed 1120/L/PC group.

Also check the applicable box to indicate whether the Schedule M-3 is for a sub-consolidated (6) 1120-L group; or (7) 1120-L eliminations. See Consolidated Schedule M-3 Versus Consolidating Schedules M-3 for Form 1120-L Groups and Schedule M-3 Consolidation for Mixed Groups (1120/L/PC), earlier.

For each line item in Parts II and III, report in column (a) the amount of net income (loss) included on Part I, line 11, and report in column (d) the amount included in the subtotal on Form 1120-L, page 1, line 20.

**Note.** A statement or explanation may be attached to any line even if none is required.

For any item of income, gain, loss, expense, or deduction for which there is a difference between columns (a) and (d), the portion of the difference that is temporary must be entered in column (b) and the portion of the difference that is permanent must be entered in column (c).

If financial statements are prepared by the life insurance company in accordance with statutory accounting principles (SAP), differences that are treated as temporary for SAP must be reported in column (b) and differences that are permanent (that is, not temporary for SAP) must be reported in column (c). Generally, pursuant to SAP, a temporary difference affects (creates, increases, or decreases) a deferred tax asset or liability.



If the life insurance company does not prepare financial statements, or the financial statements are not prepared in accordance with SAP, report in column (b) any difference that the life insurance company believes will reverse in a future tax year (that is, have an opposite effect on taxable income in a future tax year (or years) due to the difference in timing of recognition for financial accounting and U.S. income tax purposes) or is the reversal of such a difference that arose in a prior tax year. Report in column (c) any difference that the life insurance company believes will not reverse in a future tax year (and is not the reversal of such a difference that arose in a prior tax year).

If the life insurance company is unable to determine whether a difference between column (a) and column (d) for an item will reverse in a future tax year or is the reversal of a difference that arose in a prior tax year,

report the difference for that item in column (c).

**Example 6.** In its first year of operation, life insurance company A is not required to file a Schedule M-3. If A voluntarily files Schedule M-3, all applicable Part I questions must be answered and all applicable columns in Parts II and III must be completed.

**Example 7.** Life insurance company B is a U.S. publicly traded corporation that files a consolidated U.S. income tax return and prepares consolidated SAP/GAAP financial statements. In prior years, B acquired intellectual property (IP) and goodwill through several corporate acquisitions. The IP is amortizable for both U.S. income tax and financial statement purposes. In the current year, B's annual amortization expense for IP is \$9,000 for U.S. income tax purposes and \$6,000 for financial statement purposes. In its financial statements, B treats the difference in IP amortization as a temporary

difference. The goodwill is not amortizable for U.S. income tax purposes and is subject to impairment for financial statement purposes. In the current year, B records an impairment charge on the goodwill of \$5,000. In its financial statements, B treats the goodwill impairment as a permanent difference. B must report the amortization attributable to the IP on Part III, line 30, and report \$6,000 in column (a), a temporary difference of \$3,000 in column (b), and \$9,000 in column (d). B must report the goodwill impairment on Part III, line 29, and report \$5,000 in column (a), a permanent difference of (\$5,000) in column (c), and \$0 in column (d).

## **Reporting Requirements for Parts II and III**

Except for mixed group consolidation, the number of Parts II must equal the number of Parts III filed by the corporation. Mixed groups should see *Schedule M-3*

Consolidation for Mixed Groups (1120/L/PC), earlier.

## **General Reporting Requirements**

If an amount is attributable to a reportable transaction described in Regulations section 1.6011-4(b), the amount must be reported in columns (a), (b), (c), and (d), as applicable, of Part II, line 12, regardless of whether the amount would otherwise be reported on Part II or Part III of Schedule M-3. Thus, if a taxpayer files Form 8886, Reportable Transaction Disclosure Statement, the amounts attributable to that reportable transaction must be reported on Part II, line 12.