tax notes
Volume 149, Number 2 ■ October 12, 2015

Schedule M-3 Profiles of Schedule UTP Filers by IRC Section Cited

By Charles Boynton, Portia DeFilippes, Ellen Legel, and Lisa Rupert

Reprinted from *Tax Notes*, October 12, 2015, p. 249

taxanalysts®

Schedule M-3 Profiles of Schedule UTP Filers by IRC Section Cited

By Charles Boynton, Portia DeFilippes, Ellen Legel, and Lisa Rupert

Charles Boynton (charles.e.boynton@irs.gov) is a program manager and senior program analyst in the IRS Large Business and International Division Office of Planning, Analysis, Inventory, and Research (PAIR). He was a member of the original Treasury-IRS Schedule M-3 team in 2003 while serving with the Treasury Office of Tax Analysis (OTA) and is also a member of the LB&I Schedule M-3 study group. Portia DeFilippes (Portia.DeFilippes@treasury.gov) is a financial economist in the OTA's Economic Modeling and Computer Application Division. Ellen Legel (ellen.j.legel@irs.gov) is a senior economist and Schedule M-3 analyst with PAIR/LB&I and was a member of the LB&I Schedule M-3 study group. She was a designer for the taxpayer information gateway special Schedule M-3 reports and was a corporation tax program lead analyst in the Statistics of Income division. She has worked at the SEC and in private sector investment banking. Lisa Rupert (lisa.j.rupert@irs.gov) is a lead operations research analyst with the IRS Research, Analysis and Statistics division. She was a member of the LB&I Schedule M-3 Study Group and was a compliance management team manager with PAIR/LB&I and also a prefiling technical guidance technical adviser for the compliance assurance process and for Schedule M-3. She has worked for two Big Four accounting firms and in the private sector in federal and state income tax compliance, planning, and consulting.

This report was prepared for the June 2015 IRS Research Conference. The authors thank SOI for making its final corporate files available to create the 2011 through 2012 Schedule M-3 "First Look" data sets. Those data sets are available as zip files in Excel format by e-mail request to Boynton. The authors also thank Richard Bartlett, Thomas Brandt, Martha Harris, Danielle Higgins, Christopher Johnson, Christopher Larsen, Susan Latham, Catherine Leonard, Dave Macias, Lillian Mills, Debbie Patel, Erin Towery, Clarissa Vue, David Wagner, and Kimmy Wang.

This report presents and compares 2011 and 2012 Schedule M-3 and Form 1120 tax return data profiles for Schedule UTP (uncertain tax position statement) filers and nonfilers. For Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets, this report further compares Schedule M-3 profiles of corporations that cite or do not cite on Schedule UTP any of the five most commonly cited code sections: 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), and 263 (capitalized cost). In 2012, 72 percent of those filers cited at least one of the five sections. The authors conclude that Schedule UTP filers and nonfilers and Schedule UTP filers that cite frequently cited code sections have Schedule M-3 data profiles that are sufficiently different that Schedule M-3 quantitative models could be developed to detect on Schedule UTP nonfiler returns the underlying issues concerning the code sections cited by Schedule UTP filers. The authors believe those models would assist LB&I return selection.

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

Table of Contents

This report presents and compares 2011 and 2012 Schedule M-3 and Form 1120 tax return data profiles for Schedule UTP (uncertain tax position statement) filers and nonfilers. For Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets, this report further compares Schedule M-3 profiles of corporations that cite or do not cite on Schedule UTP any of the five most commonly cited code sections: 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), and 263 (capitalized cost). In 2012, 72 percent of the filers cited at least one of the five code sections.

This report scales aggregate dollar data by an adjusted-total-income measure to make data for filers and nonfilers more comparable. Further, total pretax income book-tax difference is expressed as a percentage of total pretax book income.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the micro-data level and use both the sign and amount of the data item.

This report finds that the Schedule UTP filers and nonfilers, as well as Schedule UTP filers that cite frequently cited code sections, have different Schedule M-3, Part I, Part II, and Part III data profiles.

On Schedule M-3, Part I, two lines are particularly important in separating or distinguishing Schedule UTP filers and nonfilers and filers that cite or do not cite one of the five most common code sections:

- worldwide financial net income (Schedule M-3, Part I, line 4); and
- foreign nonincludable income of filers (Schedule M-3, Part I, line 5).

On Schedule M-3, parts II and III, 14 out of 68 lines are particularly important in separating or distinguishing Schedule UTP filers and nonfilers and filers that cite or do not cite one of the five most common code sections:

- inclusion of subpart F foreign income in tax income (Part II, line 3);
- inclusion of section 78 gross-up in tax income (Part II, line 4);
- exclusion from tax income of previously taxed foreign distributions (Part II, line 5);
- exclusion from tax income of U.S. equity method income (Part II, line 6);
- adjustments to U.S. dividends, not eliminated in consolidation, in tax income (Part II, line 7);
- adjustments to U.S. partnership income to include all Schedule K-1 income in tax income (Part II, line 9);
- adjustments for mark-to-market in tax income (Part II, line 16);
- adjustments to cost of goods sold (COGS) in tax income (Part II, line 17);
- adjustment to other income with differences in tax income (Part II, line 25);
- adjustment to foreign income tax expense/deduction in tax income (Part III, line 5);
- adjustment to amortization/impairment of goodwill expense/deduction in tax income (Part III, line 26);
- adjustment to depreciation expense/deduction in tax income (Part III, line 31);
- adjustments to bad debt expense/deduction recognition in tax income (Part III, line 32); and
- adjustment to other expense/deduction with differences in tax income (Part III, line 37).

We conclude that Schedule UTP filers and nonfilers and Schedule UTP filers that cite frequently cited code sections have Schedule M-3 data profiles that are sufficiently different from one another that Schedule M-3 quantitative models could be developed to detect on Schedule UTP nonfiler returns the underlying issues concerning the code sections cited by Schedule UTP filers. We believe those models would assist the Large Business and International Division in return selection.

I. Schedules M-3 and UTP Background

A. Schedule M-3 Overview

Taxpayers prepare corporate and partnership tax returns by adjusting amounts from their financial statements or books and records. The goal of the Schedule M-3 reconciliation is to increase taxpayer transparency to the IRS regarding the book-tax differences resulting from adjustments made to financial statements or books and records in preparing the tax return and to assist the IRS in selecting returns and issues for audit only when tax compliance risk is present.

Schedule M-3 was first introduced in 2004 for U.S. corporations with total assets of $10 million or more filing U.S. income tax return Form 1120. It replaced four decades of use of the less-structured

Schedule M-1 for these corporations for the required reconciliation of financial statement income to tax income.[1]

A 1999 Treasury report and a Treasury testimony in 2000 by then-Treasury Assistant Secretary for Tax Policy Jonathan Talisman viewed the 1990s' widening difference between the sum of corporate financial statement income (book income) and federal income tax expense reported on Form 1120, Schedule M-1, lines 1 and 2, and tax income reported on Form 1120, page 1, line 28, as a possible indicator of corporate tax shelter activity, but he also noted the difficulty in interpreting Schedule M-1 book-tax difference data.[2]

Mills and Plesko (2003) proposed a redesign of Schedule M-1 to increase the transparency of the corporate book-to-tax reconciliation and to improve data interpretability.[3] The Mills and Plesko (2003) Schedule M-1 redesign recommendations are largely reflected in Schedule M-3, particularly in Part I.[4]

Schedule M-3, Part I is important and unique in tax reporting in that it lists the adjustments made to worldwide consolidated income in the parent corporation's financial statements to determine the book income of the includable corporations in the tax return.[5] We also use Part I data to identify each corporation financial statement type as SEC Form 10K/public, audited, or unaudited.[6]

Parts II and III of Schedule M-3 are a more structured listing of book-tax differences than on Schedule M-1 and specify several fixed categories as well as two ''other with difference'' categories. The fixed categories are machine readable. The book income and tax income amounts generating the book-tax differences are listed, as well as the book-tax difference and the name for the line.

On parts II and III of Schedule M-3, book-tax differences are characterized as temporary or permanent. Temporary differences are items of income or expense that are recognized for both financial and tax reporting but appear in different periods. Permanent differences are items of income or expense that are recognized for either financial or tax reporting, but not for both.[7]

[1]This report repeats some material from Charles Boynton, Portia DeFilippes, and Ellen Legel (2005, 2006a, 2006b, and 2008); Boynton, DeFilippes, Legel, and Todd Reum (2011 and 2014); Boynton, DeFilippes, Legel, and Lisa Rupert (2014); Boynton and William Wilson (2006); and Boynton and Barbara Livingston (2010). Our tax return table values may not add as a result of rounding. The Statistics of Income corporate data file for year t includes all tax years ending between July of calendar year t and June of calendar year t+1. Effective for tax years ending on or after December 31, 2004, Schedule M-3 replaced Schedule M-1 for corporations filing Form 1120 and reporting total assets of $10 million or more on Form 1120, Schedule L. Effective for tax years ending on or after December 31, 2006, for corporations with total assets of $10 million or more, Schedule M-3 applies to Form 1120S for S corporations, to Form 1120-C for cooperative associations, to Form 1120-L for life insurance companies, and to Form 1120-PC for property and casualty insurance companies. Effective for tax years ending on or after December 31, 2006, Schedule M-3 also applies to forms 1065 and 1065-B for partnerships with total assets of $10 million or more and to some other partnerships. Effective for tax years ending on or after December 31, 2007, a special Schedule M-3 applies to Form 1120-F for foreign corporations with effectively connected U.S. income and total assets of $10 million or more. Schedule M-1 continues to apply to Form 1120-RIC for regulated investment companies, to Form 1120-REIT for real estate investment trusts, and to all corporations with total assets of less than $10 million. Effective for tax years ending December 31, 2014, and later, corporations and partnerships with $10 million or more in assets but less than $50 million in assets, and those partnerships with less than $10 million in assets required to file Schedule M-3, are permitted to file Schedule M-3, Part I and to file Schedule M-1 in place of Schedule M-3, parts II and III if they so choose.

[2]*See* Treasury Department (1999) and Talisman (2000). *See also* Mills (1998) cited by Treasury (1999, at 32 n.118).

[3]*See* Mills and Plesko (2003) for the proposed redesign of Schedule M-1.

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

[5]A major problem with interpreting Schedule M-1 data in the past was the fact that the taxpayer was allowed to report a starting Schedule M-1, line 1 book income amount without reconciling the reported book income amount to financial accounting income on the taxpayer's financial statements. Schedule M-3, Part I, line 11 defines the starting book income for the book-to-tax reconciliation in parts II and III. The May 10, 2013, IRS notice, effective December 31, 2014, permitting the use of Schedule M-1 by corporations and partnerships with $10 million but less than $50 million in assets in place of Schedule M-3, parts II and III requires Schedule M-3, Part I, and requires that Schedule M-1, line 1 book income equal Schedule M-3, line 11.

[6]We define SEC Form 10K/public to include any tax return on which (1) Schedule M-3, Part I, line 1a indicated that an SEC Form 10K was filed, or (2) Part I, line 3a indicated that the corporation had publicly traded common stock. Some corporations indicate the first without the second, which may mean publicly traded debt or a reporting error. Other corporations report the second without the first, suggesting a reporting error. We make use of the presence of either indicator. We define audited to include any tax return on which Schedule M-3, Part I, line 1b indicates that certified audited financial statements were prepared and our requirements for SEC Form 10K/public are not met. We define unaudited to include all other returns.

[7]Temporary differences are important in tax administration because they may identify that an item is being included in the wrong tax year. For example, deferring the recognition of $1 billion of income for 30 years (or accelerating the recognition of $1 billion of deductions by 30 years) involves a substantial time value of money change in the value of the tax due. In contrast to temporary differences, permanent differences are adjustments that arise as a result of fundamental permanent differences in financial and tax accounting rules. These differences result from transactions that will not reverse in subsequent periods. In financial statements reporting under generally accepted accounting principles, permanent differences are not considered

(Footnote continued on next page.)

Parts II and III contain four columns. Column (a) represents financial statement (book) income or expense amounts using the financial statement source determined in Part I. Column (d) represents amounts as shown on the tax return. The book-tax difference between the amount shown in column (a) and the amount shown in column (d) is reported either as a temporary difference amount in column (b) or as a permanent difference amount in column (c).

Note that on Schedule M-3, a negative total book-tax difference adjustment occurs if tax income is below book income. Further note that in our report, we conform the sign of Part III data to agree with Part II so that a negative book income or tax income item always reduces total book income or tax income and a negative book-tax difference reduces tax income.[8]

We impose some minimum reconciliation requirements on the returns included in our report.[9]

This is the eighth article in a series by the authors researching the differences between financial statement income (book income) and tax income as reported on U.S. corporate income tax returns.[10] This report compares 2011-2012 Schedule M-3 and Form 1120 tax return data profiles for Schedule UTP filers and nonfilers.[11] For Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets, this report further compares Schedule M-3 profiles of corporations that cite or do not cite on Schedule UTP, Part I any of the five most commonly cited code sections: 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), or 263 (capitalized cost).

B. Schedule M-3 Versus Schedule UTP

Schedule M-3 was introduced in 2004 for corporations with assets of $10 million or more to assist the IRS in reconciling financial statement income to tax income, including identifying temporary and permanent book-tax differences. Taxpayers prepare corporate and partnership tax returns by adjusting amounts from their financial statements. The goal is to increase taxpayer transparency regarding the adjustments made to the financial statements to prepare the tax return. Many of the items that must be listed on Schedule UTP generate or affect book-tax differences that must be included on Schedule M-3. Schedule M-3 reports dollar amounts; Schedule UTP does not.

Schedule UTP was introduced in 2010 for corporations with assets of $100 million or more with audited financial statements reporting UTPs in the income tax footnote and for some related corporations.[12] The purpose was to share with the IRS some of the taxpayer information calculated as part of

---

in the Financial Accounting Standard No. 109 (ASC 740) computation of deferred tax assets and liabilities but do have a direct impact on the effective tax rate. Therefore, permanent differences can substantially influence reported financial earnings per share computations, and, for public companies, stock prices. Accordingly, permanent differences of a given size may represent a greater audit risk than temporary differences of the same size.

[8]*See* Section I.C of this report for a discussion of sign conventions.

[9]Some companies with assets of less than $10 million voluntarily filed Schedule M-3. We do not analyze that data. Our minimum reconciliation tests require Schedule M-3 data agreement within tolerances of 1 percent of the maximum absolute value of the amounts on Part II, line 30 for income between Part I, line 11 and Part II, line 30, column (a) and for expenses/deductions between Part III, line 38 (line 36 through 2009) and the carryover line Part II, line 27. Also, effective for data from the 2012 SOI corporate file, we require that the amounts reported on Part I, lines 4a through 10 reconcile with the total amount reported on line 11. If Part I, lines 4a to 10 are blank, we set Part I, line 4a worldwide income to line 11 book income. The reconciliations of the subset of corporations meeting our minimum data and reconciliation tests for this 2011-2012 Schedule M-3 study with the full 2011 and 2012 SOI corporate files are presented in Distribution Table D3 of the full Schedule M-3 ''First Look'' data sets for 2011 and 2012 available on request.

[10]*See* Boynton, DeFilippes, and Legel (2005, 2006a, 2006b, and 2008); Boynton, DeFilippes, Legel, and Reum (2011 and 2014); and Boynton, DeFilippes, Legel, and Rupert (2014). The first two articles analyze corporate Form 1120, Schedule M-1 reporting for tax years 1990-2003. The third article in this series analyzes advance file data for the 2004 corporate Form 1120, Schedule M-3. The fourth article analyzes final data for the 2005 Schedule M-3 and updates the prior 2004 report using final 2004 data. The fifth article analyzes final data for the 2006 and 2007 Schedule M-3 as well as earlier Schedule M-1 data from 1994

(Footnote continued in next column.)

through 2005 and Schedule M-3 data from 2004-2005. The sixth article analyzes final data for 2008, 2009, and 2010 Schedule M-3 as well as earlier Schedule M-3 data for 2006 and 2007 and information on 2010 Schedule UTP filing status. The seventh article analyzes the Schedule M-3 profiles of Schedule UTP filers and nonfilers with $100 million or more in assets in 2010 and 2011.

[11]The asset threshold that requires filing of Schedule UTP is $100 million or more effective for tax years beginning in 2010 or later, $50 million or more for tax years beginning in 2012 or later, and $10 million or more for tax years beginning in 2014 or later. Other conditions also apply as discussed in the next section. Except as otherwise indicated, this report is limited to Schedule UTP filers and nonfilers with SEC Form 10K/public financial statements and $100 million or more in assets. A Schedule UTP filer may file because it is required to do so or because it files voluntarily. A Schedule UTP nonfiler may be a nonfiler either because it is not required to file or because it is required to file but failed to do so. For tax years beginning in 2012 and later, the asset threshold for Schedule UTP drops to $50 million or more. This report does not include the new asset range of $50 million to $100 million for Schedule UTP in the detailed analysis in Part III because a two-year comparison is not possible.

[12]For a discussion of the UTPs reported on Schedule UTP and an analysis of how Schedule UTP reporting requirements affect corporate tax and financial reporting behavior, see Towery (2015).

preparing the financial statement income tax footnote.[13] The goal was to increase taxpayer transparency regarding items giving rise to federal income tax UTPs in the taxpayer's financial statements.

Schedule UTP asks for relevant code sections and a concise description of issues, without dollar amounts, for the UTPs that affect the financial-statement-reported U.S. federal income tax liabilities of some corporations that issue or are included in audited financial statements. The corporate asset reporting threshold is assets of $100 million or more in tax years beginning in 2010 and 2011, $50 million or more in tax years beginning in 2012 and 2013, and $10 million or more in tax years beginning in 2014 or later.[14]

Items listed on the Schedule UTP relate to amounts or positions reported on other forms or schedules of the current tax return or a prior tax return. Many of the Schedule UTP items concern the temporary or permanent book-tax differences reported on parts II and III of the Schedule M-3. (Note that adjustments can be made during an examination for amounts reported on Part I of the Schedule M-3 because of errors in the calculations of the income or loss of the includable and excludable entities. However, it is unlikely taxpayers would report a Schedule UTP item that would relate to whether an entity should be included or excluded from the U.S. consolidated tax return group.) Other Schedule UTP items may concern tax credit amounts or international issues that are not reported on the Schedule M-3 but are instead reported on the forms and schedules specific to those items (that is, Form 6765, "Credit for Increasing Research Activities," or Form 5471, "Information Return of U.S. Persons With Respect to Certain Foreign Corporations").[15]

In summary:

- Schedule M-3:
  - Schedule M-3 is a crosswalk from the taxpayer's financial statements to its tax return.
  - Part I removes the income (loss) of all entities included in the financial statements but not included in the consolidated tax return and adds the income (loss) of all entities not included in the financial statements but included in the consolidated tax return.
  - Parts II and III require taxpayers to report the dollar amounts of the temporary and permanent adjustments they make to create their tax return from their financial statements as well as the initial book income and final tax income amounts for each scheduled item.
- Schedule UTP:
  - Schedule UTP reports the federal income tax UTPs reserved on the taxpayer's financial statements for items on the tax return that the taxpayer acknowledges the IRS may challenge.
  - Schedule UTP discloses relevant code sections and provides a concise description of the UTPs without reporting the dollar amounts.
  - Items listed on Schedule UTP may relate to the amounts reported on Schedule M-3.
  - Some items reported on Schedule UTP may relate to items not reported on Schedule M-3 (that is, tax credit items).[16]

Schedule M-3 and Schedule UTP are complementary sources of taxpayer transparency that do not overlap and do not contain duplicative information.

C. Book-Tax Differences and Signs

Book income is the financial statement income of the entity filing a corporation or partnership income tax return. For consolidated corporations filing Form 1120, book income is the consolidated financial statement income of the includable corporations joining in the consolidated tax return, and it will often differ from the worldwide consolidated

[13]Footnote reporting of UTPs is required by U.S. generally accepted accounting principles under FAS No. 109 (ASC 740) and Financial Accounting Standards Board Interpretation No. 48 (ASC 740-10).

[14]Schedule UTP requires the reporting of each U.S. federal income tax position taken by an applicable corporation on its U.S. federal income tax return for which two conditions are satisfied: (1) The corporation has taken a tax position on its U.S. federal income tax return for the current tax year or for a prior tax year; and (2) either the corporation or a related party has recorded a reserve for that tax position for U.S. federal income tax in audited financial statements, or the corporation or related party did not record a reserve for that tax position because the corporation expects to litigate the position. A tax position for which a reserve was recorded (or for which no reserve was recorded because of an expectation to litigate) must be reported regardless of whether the audited financial statements are prepared based on U.S. GAAP, international financial reporting standards, or other country-specific accounting standards, including a modified version of any of the above (for example, modified GAAP).

[15]Although Schedule M-3 does not deal with credits, a direct correlation may exist between an item on Schedule M-3 and a credit. For example, there is a direct correlation between Schedule M-3 research and development costs on Part III, line 36, column (d) and credit-eligible expenses on Form 6765, and therefore with the research credit. Section 41, governing the research credit, is the most frequent code section cited in 2011 and 2012 in Schedule UTP, Part I. The second most frequent code section cited is section 482, for transfer pricing.

[16]*See supra* note 15 (research credits and Schedule M-3).

income reported by the parent corporation's worldwide consolidated financial statements. Part I of Schedule M-3 reconciles worldwide consolidated financial statement income to book income.

We compare pretax book income (book income measured before federal income tax expense) with tax income and calculate book-tax differences as pretax differences, consistent with the book-tax difference literature since Talisman (2000).[17]

The book-tax difference literature before the introduction of Schedule M-3 defined the sign of the difference between pretax book income and tax income as "book minus tax," resulting in a positive difference if the book amount is higher than the tax amount. The reconciliation rules of Schedule M-3 reverse this prior convention to "tax minus book."

For Schedule M-3, the temporary and permanent adjustment amounts reported in columns (b) and (c) of parts II and III are the amounts that are added to column (a) book income to determine column (d) tax income. A positive total book-tax difference in columns (b) and (c) means that the tax amount is higher than the book amount. A negative total book-tax difference in columns (b) and (c) means that the tax amount is lower than the book amount.

In our report, the sign of Schedule M-3, Part III expense/deduction data including book-tax differences has been changed to agree with the effect of those expense/deduction items and book-tax differences on net income reported on Part II, line 30. If a Part III expense/deduction item or book-tax difference reduces Part II, line 30 net income, it is shown as a negative amount in our report.[18]

D. Source of Schedules M-3 and UTP Data

A weighted statistical sample of tax return data is electronically encoded annually by the IRS SOI Division for use by Treasury's Office of Tax Analysis (OTA) and the Joint Committee on Taxation.[19] The Office of Planning, Analysis, Inventory, and Research (PAIR) within LB&I also receives a copy of the file.[20] The SOI corporate file includes Schedule M-1 data and, beginning with the 2004 file, Schedule M-3 data. Starting with 2010 the SOI corporate file reports if (1) the taxpayer indicates on Form 1120, Schedule K that Schedule UTP is required; (2) if Schedule UTP, Part I identifying a UTP is attached to the return with any data; and (3) the number of lines on Schedule UTP, Part I with any data on the line.[21] The 2012 SOI corporate file was issued to OTA, the JCT, and LB&I in October 2014.[22]

Beginning May 2011 researchers using SOI data must report tax data as an aggregate for a minimum of five taxpayers to protect taxpayer confidentiality.[23] For statistical reasons, SOI prefers that reported aggregate data are for 10 or more taxpayers when possible.[24]

[17]We calculate total pretax book income and total pretax temporary and permanent book-tax differences by adding back federal income tax expense and differences reported on Schedule M-3, Part III, lines 1 and 2, columns (a), (b), and (c), to book income and differences reported on Schedule M-3, Part II, line 30, columns (a), (b), and (c), column by column. Total book-tax difference is the sum of total temporary and permanent book-tax differences.

[18]Schedule M-3 instructions require that column (a) book expense and column (d) tax deduction amounts that reduce net book income and net tax income be shown on Part III as positive amounts. However, some taxpayers fail to follow the instructions. For a discussion of the problem and how we deal with it, see Boynton, DeFilippes, and Legel (2006b and 2008); and Boynton, DeFilippes, Legel, and Reum (2011).

[19]The SOI corporate file is a statistical sample. The record for a smaller tax return (usually measured by total assets) may be weighted to represent more than one tax return. Generally, tax returns for corporations with $50 million or more in assets have a weight of one — that is, the record represents only itself. The record for a smaller tax return generally has a weight greater than one (for example, five) — that is, the record represents several similar tax returns (for example, five tax returns). The SOI corporate data file for year t includes all tax years ending between July of calendar year t and June of calendar year t+1.

[20]Under a formal memorandum of understanding between SOI and LB&I, use of the SOI file by PAIR and LB&I is limited to research studies. SOI file data is not used for IRS audit case building.

[21]The regular 2011 and 2012 SOI corporate files do not tabulate what is reported on Schedule UTP, Part I and do not report if an attached Schedule UTP, Part I contains relevant data. A special SOI supplement to each of the regular 2011 and 2012 SOI corporate files tabulates the limited information reported on Schedule UTP, Part I, lines 1 through 10 for current-year UTPs such as code sections cited, temporary and permanent effect, whether the position is major, and relative rank of the position. Part II concerning prior-year UTPs and Part III concerning the concise descriptions for the positions listed in parts I and II are not tabulated by SOI.

[22]The final SOI corporate file may contain placeholder records representing returns that are unavailable for some reason when the SOI file is issued but are desired by SOI for statistical purposes. Placeholder data are commonly the edited return data from the prior tax year but may also be current-year data from the IRS Business Master File (limited return data tabulated by the IRS when the return is first received and processed) or data from the IRS Employee User Portal. Placeholder returns are not included in the Schedule M-3 "First Look" data files.

[23]Before May 2011 the minimum aggregation requirement for SOI and for other government agencies was data aggregation for three or more taxpayers or individuals. SOI has increased the required minimum for the use of SOI data to five or more. The change for SOI data applies to tax year 2008 and to new studies of data from earlier tax years. A data count of zero is permitted. Tests must be performed to ensure that data cannot be generated by subtraction that would violate the minimum aggregation requirement. For a discussion of the older requirement of three or more taxpayers or individuals for aggregate data, see Office of Management and Budget working paper 22 (2005); and IRS Publication 1075 (rev. 2007).

[24]Our tax return table values may not add up and may differ from official 2011 and 2012 SOI values because of rounding. SOI

(Footnote continued on next page.)

E. Limits of Schedule M-3 Data

With the exception of Schedule M-3, Part I, amounts reported on the Form 1120 tax return and the Schedule M-3, parts II and III:

- are limited to the tax information and pretax book income information of the includible corporations in the tax consolidated return; and
- do not include the tax information or pretax book income information of the nonincludible corporations and partnerships (both foreign and domestic) that are included in the worldwide consolidated after-tax income reported on Schedule M-3, Part I, line 4 (the worldwide book income reported in the financial statements for consolidated book purposes).

The after-tax income of the nonincludible corporations and partnerships are removed in gross after-tax amounts on Schedule M-3, Part I, lines 5 and 6 as one step in determining the book income of the includible corporations reported on Schedule M-3, Part I, line 11.

Form 1120 tax return and Schedule M-3 data do not yield generalizations about the financial statement pretax consolidated worldwide income. Amounts reported on Form 1120 and Schedule M-3 do not provide the data needed to calculate the pretax worldwide effective tax rate for the entities included in the worldwide financial statements.

F. Reconciling Counts of Schedule UTP

The number of Schedule UTPs stated in this report for tax years 2011 and 2012 differs from the number stated by the LB&I Schedule UTP Web page for the 2011 and 2012 form years.[25] The differences are a result of (1) including different corporate income tax return forms (LB&I counts include Form 1120-F and forms 1120, 1120-L, and 1120-PC filed by parents of insurance companies, and this report does not); (2) using different tax year ending months for 2011 and 2012 (July 2012 to June 2013 for SOI tax year 2012 versus December 2012 to November 2013 for LB&I form year 2012); (3) using different standards for whether Schedule UTP is filed (SOI reports the indication on Form 1120, Schedule K, line 10 that Schedule UTP is required; SOI also counts Schedule UTP as present if any Schedule UTP, Part I ''current year'' has any lines with data; and LB&I requires both Schedule UTP, Part I ''current year'' or Part II ''prior year'' and also Part III ''concise descriptions'');[26] and (4) different minimum asset recognition thresholds (LB&I includes Schedule UTP filing by a corporation without regard to assets and, except as otherwise noted, this report includes only corporations with assets of $100 million or more).

This report's stated frequency of Schedule UTP filers citing a code section for tax years 2011 and 2012 differs from what the LB&I Schedule UTP Web page reports for the 2011 and 2012 form years as the frequency of UTPs described by a code section. The differences are a result of the following: (1) there are differences (discussed in the prior paragraph) in the Schedule UTPs included for tax years 2011 and 2012 for this study and the Schedule UTPs included in form years 2011 and 2012 for the LB&I Schedule UTP Web page; (2) we state the frequency with which a code section is cited by any Schedule UTP filer for any UTP (note that taxpayers may cite up to three code sections for any UTP and may cite a particular code section for more than one UTP); and (3) the LB&I Schedule UTP Web page reports the frequency with which UTP concise statements across all Schedule UTP filers are categorized in terms of a single most descriptive code section (the LB&I Schedule UTP team determines a single most descriptive code section for each UTP concise description, which may differ from the code sections cited by the taxpayer).

G. Summary M-3: 'Specified' Versus 'Other'

The ''other with differences'' lines on Schedule M-3 with book-tax differences are Part II, line 25 and Part III, line 37. The ''other with no differences'' line is Part II, line 28. In two prior articles in this

---

publications do not include schedules M-1 or M-3 data. Before the publication of Boynton, DeFilippes, and Legel (2005 and 2006a), only Plesko (2002) (for 1996-1998) and Plesko-Shumofsky (2005) (for 1995-2001) presented public Schedule M-1 data for the SOI corporate file population. The year-by-year reconciliations of the subset of corporations meeting our minimum data and reconciliation tests for this 2011-2012 Schedule M-3 study with the full 2011-2012 SOI corporate files are presented in Distribution Table D3 of the full M-3 ''First Look'' data set for each year, 2011-2012, available on request. Our minimum data and reconciliation tests require that Part I, line 11 and Part II, line 30, column (a) agree and that Part III, line 38 and Part II, line 27 agree within 1 percent of the maximum absolute value of the amounts on Part II, line 30. Also, effective for data from the 2012 SOI corporate file, we require that the amounts reported on Part I, lines 4a through 10 reconcile with the total amount reported on line 11. If Part I, lines 4a to 10 are blank, we set Part I, line 4a worldwide income to line 11 book income.

[25]The LB&I Schedule UTP Web page is *available at* http://www.irs.gov/Businesses/Corporations/UTPFilingStatistics.

[26]The regular 2011 and 2012 SOI corporate files do not tabulate what is reported on Schedule UTP, Part I and do not report if an attached Schedule UTP, Part I contains relevant data. A special SOI supplement to each of the regular 2011 and 2012 SOI corporate files tabulates the limited information reported on Schedule UTP, Part I, lines 1 through 10 for current-year UTPs such as code sections cited, temporary and permanent effect, whether the position is major, and relative rank of the position. Part II concerning prior-year UTPs and Part III concerning the concise descriptions for the positions listed in parts I and II are not tabulated by SOI.

series, we noted both the large dollar magnitude of the book income, tax income, and book-tax difference amounts reported on the "other with differences" lines and the documentation problems found on the lines.[27]

We use a Summary M-3 format to compare the aggregate amounts reported on the Schedule M-3, parts II and III "other with differences" or "other with no differences" lines with the aggregate amounts reported on the Schedule M-3, parts II and III "specified" lines — that is, the lines with specific captions.[28]

A Schedule M-3 COGS adjustment discussed in the next section is used to remove the cost of securities, commodity contracts, and other financial products reported in COGS by some corporations and to reconcile to the COGS amount reported by the SOI corporate data file. The Summary M-3 format also makes related special adjustments to "other income with differences" and "other items with no differences" lines and separates the adjusted "other items with no differences" line into "other income with no differences" and "other expense/deduction with no differences" lines. Finally, the "other income with no differences" line is adjusted to reconcile to the gross receipts amount reported by the SOI corporate data file.

After making the data adjustments, the Summary M-3 format has 10 categories of "specified" lines, "other with differences" or "other with no differences" lines, and subtotals or totals[29]:

- other income with no differences (Part II, line 28 adjusted) (gross receipts);
- COGS (Part II, line 17 adjusted);
- adjusted gross profit;
- specified income (Part II, lines 1-16, 18-24, and 29a-29c);
- other income with differences (Part II, line 25 adjusted);
- adjusted total income;
- specified expense/deduction (Part III, lines 3-36);[30]
- other expense/deduction with differences (Part III, line 37);
- other expense/deduction with no differences (an adjustment to Part II, line 28); and
- pretax book income.

We use the adjusted total book income amount as a common-size scaling factor and compare percentages of adjusted total book income to remove or minimize the impact of differences in the size of corporations from our analysis. Also, in comparing the Schedule M-3 characteristics of Schedule UTP filers and nonfilers for the three financial statement types, total pretax income book-tax difference is expressed as a percentage of total pretax book income.

H. COGS and Other Adjustments

We make a Schedule M-3 COGS adjustment for the Summary M-3. The adjustment reconciles the Schedule M-3 COGS tax income amount with Form 1120, page 1, line 2 COGS reported by SOI for the corporations in our study. SOI removes the cost of securities, commodity contracts, and other financial products reported in Form 1120, page 1, line 2 COGS.[31] We make the equal adjustments to Part II, line 17 COGS book income and tax income, with the result that COGS book-tax differences are unchanged. SOI also makes adjustments to Form 1120, page 1, line 1 gross receipts to match the amounts SOI removes from COGS. We match our COGS adjustments with adjustments to other income with differences and to other items with no differences. We also separate the adjusted other items with no differences into other income with no differences and other expense/deduction with no differences.[32] Finally, the "other income with no differences" line is adjusted to reconcile to the gross receipts amount reported by the SOI corporate data file.

SOI has adjusted Form 1120, page 1, line 1 gross receipts and line 2 COGS; Schedule A COGS; and Schedule L inventory amounts since the 1980s to remove the cost of securities and commodities

[27]For discussions of the "other with differences" documentation by large taxpayers in 2005 and 2007, see Boynton, DeFilippes, and Legel (2008); and Boynton, DeFilippes, Legel, and Reum (2011).

[28]Amounts reported on the "other with differences" lines require attached documentation. The documentation must separately state and adequately disclose the book-tax differences for the line. The "other items with no differences" line has no documentation. Reporting on the "other with differences" lines is similar to but more detailed than reporting on Schedule M-1. Both allow descriptions determined by the taxpayer. Schedule M-1 requires only a description and a book-tax difference. Schedule M-3 requires a description, a book income amount, a temporary book-tax difference amount, a permanent book-tax difference amount, and a tax income amount.

[29]All book-tax differences in adjusted gross profit are from adjusted COGS. The adjustments we make to COGS are made equally to the unadjusted book amount and the tax amount and have no effect on the book-tax difference.

[30]We exclude federal income tax expense reported on Schedule M-3, Part III, lines 1 and 2 from our pretax analysis. See our discussion of pretax income and book-tax differences in Section I.C of this report.

[31]Changes on the SOI corporate file do not change the amounts on the tax return and do not affect IRS audits (or lack of audits) for corporate tax returns.

[32]We have introduced adjustment lines into our 2011-2012 Schedule M-3 "First Look" FORM tables (available on request) to show the frequency of adjustment and the amounts needed to reconcile Schedule M-3, Part II, line 17 COGS to the SOI amount reported for Form 1120, page 1, line 2.

transactions. SOI-adjusted COGS, gross receipts, and inventory amounts are used by the Bureau of Economic Analysis for national income accounts. At the OTA's request, SOI has not adjusted Schedule M-3 data since its introduction in 2004.

We wish to develop a consistent Schedule M-3 measure of total book income before expenses to scale or common-size book income and tax income components and book expense and tax deduction components for different size corporations. Adopting the SOI adjustments to COGS and gross receipts facilitates the development of a consistent measure of total income applicable to different size corporations.[33]

We adjust 2012 Schedule M-3 COGS book and tax income amounts to agree with the SOI Form 1120, page 1, line 2 COGS. In doing so, we need to determine where on Schedule M-3 to make the matching gross receipts adjustment. Using 2010 data, we developed a rule to allocate the matching gross receipts reduction between Schedule M-3, Part II, line 25, "other income with differences," and line 28, "other items without differences."[34]

Also, we compare the Form 1120, page 1, line 27 total deduction amount with the total Part III deduction amount carried over from Part II as reported on Part II, line 27, column (d) to determine the total "deductions with no differences" amount currently included in Part II, line 28, "other items with no differences."[35] We then separate the adjusted other items with no differences book and tax income amounts into other income with no differences and other expense/deduction with no differences. Finally, the other income with no differences book and tax income amounts are adjusted to reconcile to the gross receipts amount reported by the SOI corporate data file on Form 1120, page 1, line 1, with a matching adjustment to the other income with differences book and tax income amounts on Schedule M-3, Part II, line 25.

The adjustments do not affect pretax net income or book-tax differences. Book-tax differences are unaffected by the COGS and other described adjustments because equal adjustments are made to book income and tax income amounts.

We use the adjusted book income and tax income amounts in our Summary Schedule M-3 analysis in Part III of this report and scale by adjusted total income the sum of the "adjusted other income with no differences," "adjusted COGS," "specified income," and "adjusted other income with differences" amounts.

II. 2011-2012 U.S. Corporation Overview

A. Asset Size, Financial Statements, and UTP

Section II of this report describes the general population of Schedule UTP filers and nonfilers in terms of asset ranges ($10 million to $100 million, $100 million to $1 billion, and $1 billion or more), financial statement type (SEC Form 10K/public, audited, and unaudited), and Schedule UTP filing status (filer or nonfiler).[36]

Section III of this report focuses on data describing characteristics of Schedule UTP filers and nonfilers with SEC Form 10K/public financial statements and $100 million or more in assets because of the size and economic importance of those corporations. It does so also because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with audited (but not SEC Form 10K/public) or unaudited financial statements.[37]

---

[33]Aggregate unadjusted book income and tax income reported on Schedule M-3, Part II, line 26 for all corporations are both negative because the large absolute amount of COGS for all corporations on Part II, line 17 exceeds the income reported on the "specified" income lines and the "other income with differences" line combined. A majority of gross receipts are reported on Part II, line 28, "other items with no differences."

[34]We verified our rule on the 2010 data using the top 25 returns, which for 2010 accounted for 99 percent of the aggregate adjustment of approximately $32 trillion. *See* Boynton, DeFilippes, Legel, and Reum (2014).

[35]Our allocation rule:

ADJ COGS1 and ADJ COGS2: If the absolute value of P2L17 column D COGS is greater than Form 1120, page 1, line 2 COGS, the excess difference is the COGS adjustment and the matching gross receipts adjustment. The adjustments reduce the absolute magnitude of P2L17, P2L25, and P2L28.

ADJ COGS1: The gross receipts adjustment is applied to P2L25 other income with differences if P2L25D other income with differences is greater than P2L28D other income without differences *and* P2L25D is greater than 80 percent of the gross receipts adjustment.

ELSE use

ADJ COGS2: The gross receipts adjustment goes to P2L28 other income without differences.

ADJ COGS3: If the absolute value of P2L17 column (d) COGS is less than Form 1120, page 1, line 2 COGS, the adjustment is an increase to P2L17 and P2L28 in absolute magnitude.

(Footnote continued in next column.)

ADJ EXPDED: We estimate expense/deduction without differences as the amount if any by which Form 1120, page 1, line 27 total deductions exceed the absolute value of P2L27 column (d). We show it as an additional expense/deduction line and as an increase to P2L28. The adjusted P2L28 amount changes from "other items without differences" to "other income without differences."

[36]A Schedule UTP filer may file because it is required to do so or because it files voluntarily. A Schedule UTP nonfiler may be a nonfiler either because it is not required to file or because it is required to file but failed to do so.

[37]For tax years beginning in 2012 and later, the asset threshold for Schedule UTP drops to $50 million or more. This report does not include the new asset range of $50 million to $100

(Footnote continued on next page.)

Figure 1. 2011-2012 U.S. Corporation Schedule UTP Filers and Nonfilers (Assets of $10 Million or More): Percentages of Returns/Assets/Income Categories/Tax After Credits

LB&I is responsible for auditing corporations and partnerships with $10 million or more in assets. Tables 1A and 1B along with tables 2A and 2B highlight relevant Form 1120 corporation income tax return data for LB&I taxpayers with assets greater than $10 million for 2011 and 2012, respectively. These tables report the following:

- the number of Form 1120 returns filed by corporation taxpayers for 2011 and 2012 along with the reported total assets;
- total worldwide income from Schedule M-3, Part I, line 4;
- the total nonincludible foreign income removed from worldwide income on Schedule M-3, Part I, line 5;
- total pretax book income;
- tax net income and tax after credits; and
- total foreign tax credit.

For each year, the above data are analyzed in tables 1 and 2 by the following:

- total filers and nonfilers of Schedule UTP;
- filers and nonfilers of Schedule UTP broken down by asset size;
- filers and nonfilers of Schedule UTP broken down by SEC Form 10K/public and nonpublic; and
- the details of the top five code sections cited by each group of filers.

Figure 1 summarizes all Form 1120 corporate filers and nonfilers of Schedule UTP with assets of $10 million or more for both 2011 and 2012. This figure shows that a minority percentage of Form 1120 corporate taxpayers filed a Schedule UTP for both years. However, this minority percentage of filers represents a majority percentage of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, and tax after credits.

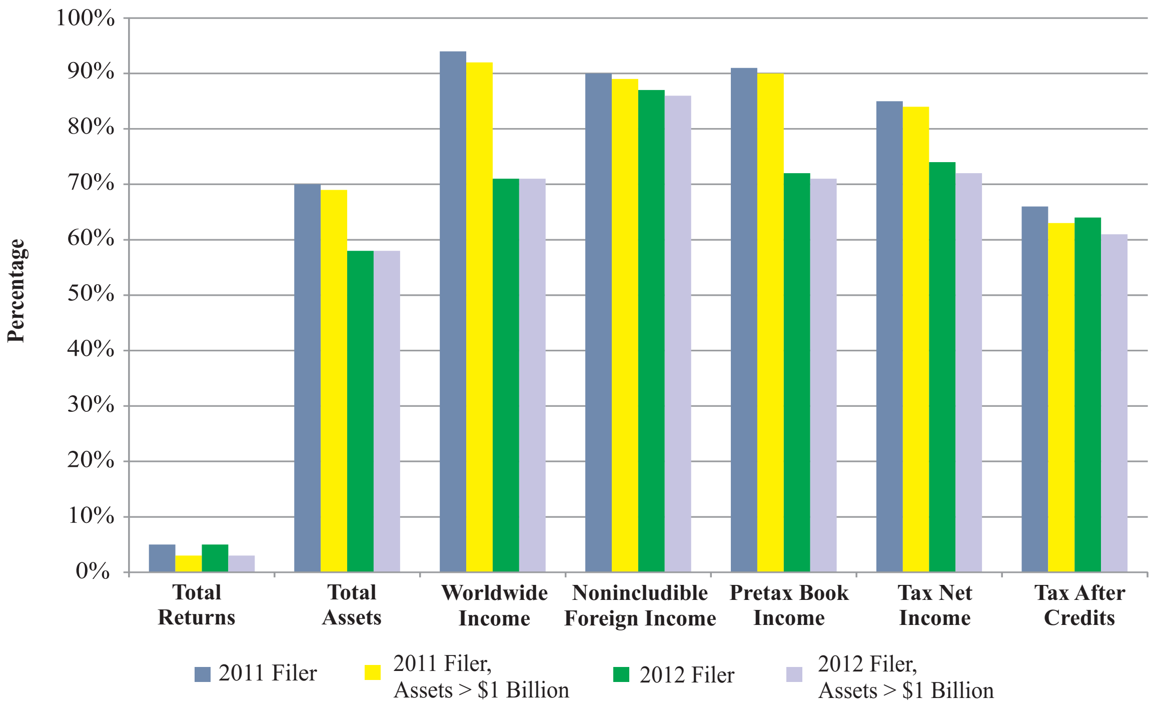
Figure 2A compares the percentages of Form 1120 corporate taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012 with the Form 1120 corporate taxpayers with assets of $1 billion or more that filed a Schedule UTP for those same years. Figure 2A shows that Form 1120 corporate taxpayers with assets of $1 billion or more made up most of the percentages of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, and tax after credits for all taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012.

Figure 2B compares the percentages of Form 1120 corporate taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012 with the Form 1120 corporate taxpayers with SEC financial statements and assets of $10 million or more that filed a Schedule UTP for those same years. Figure 2B shows that Form 1120 corporate

---

million for Schedule UTP in the detailed analysis in Section III because a two-year comparison is not possible.

Figure 2A. 2011-2012 U.S. Corporation Schedule UTP Filers With Assets of $10 Million or More and Filers With Assets of $1 Billion or More: Percentages of Returns/Assets/Income Categories/Tax After Credits



taxpayers with SEC financial statements and assets of $10 million or more made up most of the percentages of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, and tax after credits for all taxpayers with assets of $10 million or more that filed a Schedule UTP for 2011 and 2012.

Figure 2C contrasts the percentages of Form 1120 corporate taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012 with the Form 1120 corporate taxpayers with SEC financial statements and assets of $1 billion or more that filed a Schedule UTP for those same years. This figure shows that Form 1120 corporate taxpayers with SEC financial statements and assets of $1 billion or more made up most of the percentages of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, and tax after credits for all taxpayers with assets of $10 million or more that filed a Schedule UTP for 2011 and 2012.

Details for the 2011 LB&I corporation filers and nonfilers of Schedule UTP show that:

- Only approximately 5 percent of the total LB&I Form 1120 population filed a Schedule UTP (2,160 taxpayers). However, this small minority represents 70 percent of the total assets of the LB&I Form 1120 population, 94 percent of the worldwide income, 90 percent of the nonincludible foreign income, 91 percent of the pretax book income, 85 percent of the tax net income, 66 percent of the tax after credits, and 85 percent of the FTCs.
- Of the 2,160 taxpayers that filed a Schedule UTP (5 percent of the total returns), 2,074 of those returns were for taxpayers with $100 million or more in assets. These 2,074 taxpayers represent the exact same percentages reported in the bullet point above. Therefore, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for those LB&I Form 1120 taxpayers with assets less than $100 million are negligible in aggregate compared with the aggregate amounts for the LB&I Form 1120 taxpayers with assets of $100 million or more.

Highlights of the 2011 Form 1120 corporation Schedule UTP filers by asset size show:

- 1,072 taxpayers (3 percent of the total returns) with assets of $1 billion or more filed a Schedule UTP. This group of LB&I Form 1120 taxpayers is significant because they represent 69 percent of the total assets, 92 percent of the worldwide income, 89 percent of the nonincludible foreign income, 90 percent of the pretax book income, 84 percent of the tax net income, 63 percent of the tax after credits, and 84 percent of the FTCs. The percentages for these 1,072 taxpayers with assets of $1 billion

Figure 2B. 2011-2012 U.S. Corporation Schedule UTP Filers With Assets of $10 Million or More and SEC Filers With Assets of $10 Million or More: Percentages of Returns/Assets/Income Categories/Tax After Credits

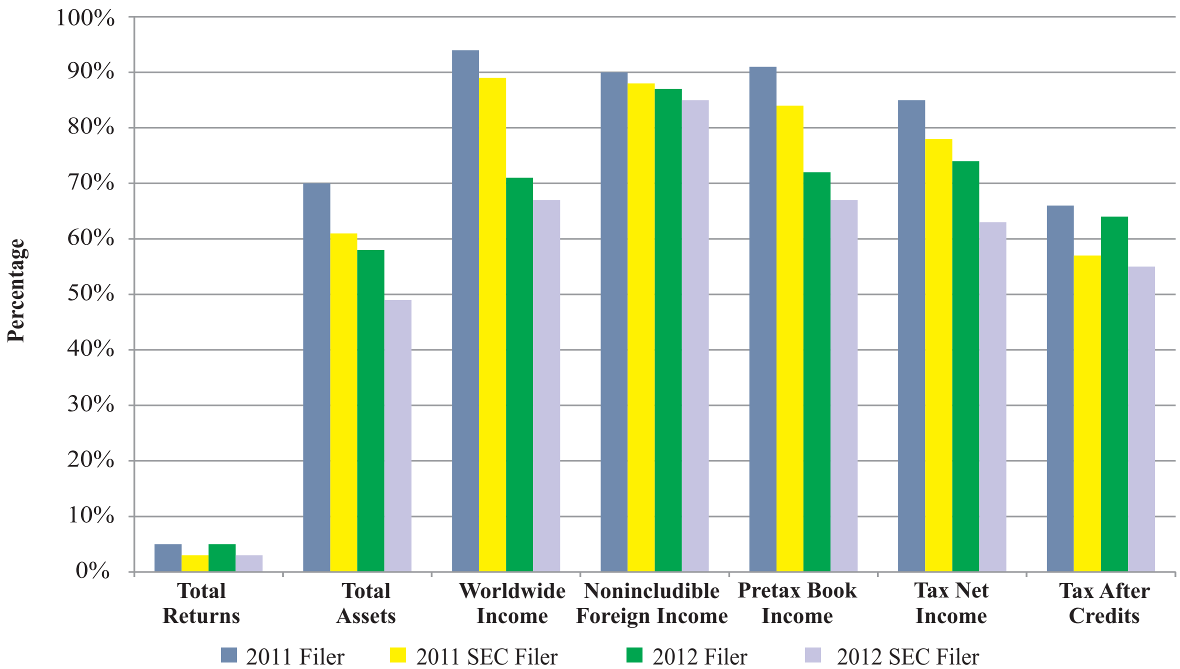
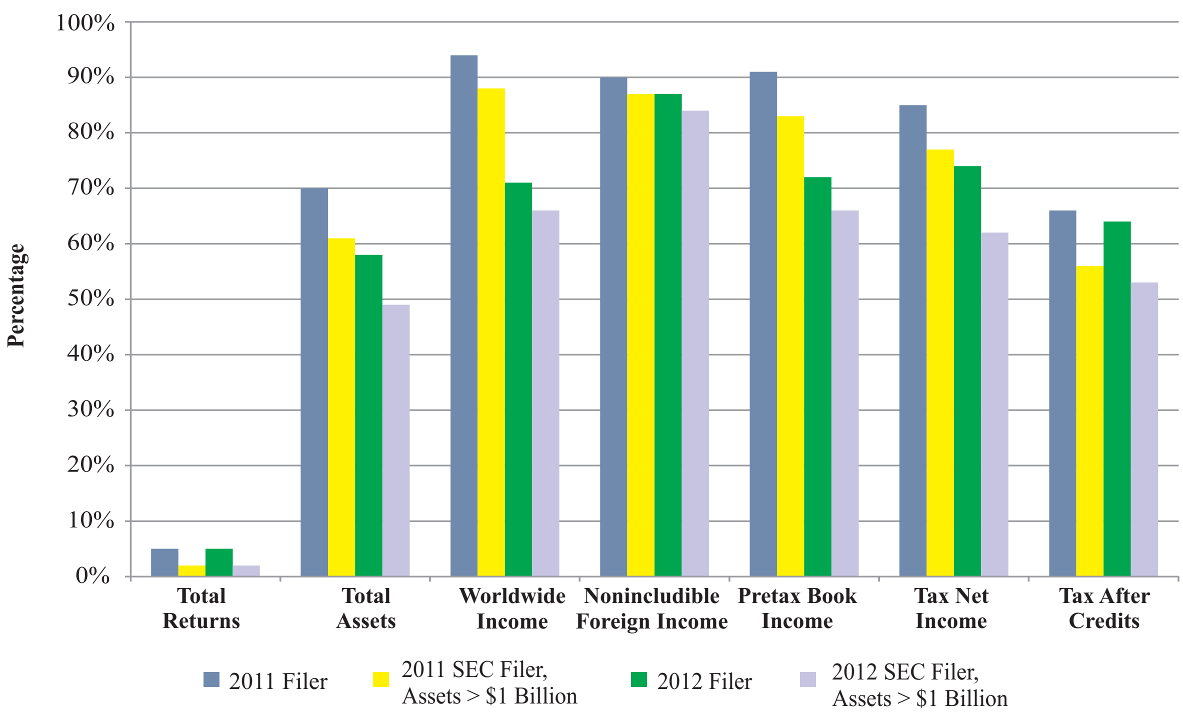


Figure 2C. 2011-2012 U.S. Corporation Schedule UTP Filers With Assets of $10 Million or More and SEC Filers With Assets of $1 Billion or More: Percentages of Returns/Assets/Income Categories/Tax After Credits



or more are almost identical to those percentages in the first bullet point of the section above for the 2,160 taxpayers that filed a Schedule UTP. In other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for those LB&I Form 1120 taxpayers with assets of $100 million to $1 billion are small in aggregate compared with the aggregate amounts for the LB&I Form 1120 taxpayers with assets of $1 billion or more.

- For LB&I Form 1120 taxpayers with assets between $100 million and $1 billion, 1,002 (2 percent of the total returns) filed a Schedule UTP. This represents 1 percent of the total assets, 2 percent of the worldwide income, 1 percent of the nonincludible foreign income, 1 percent of the pretax book income, 2 percent of the tax net income, 3 percent of the tax after credits, and 1 percent of the FTCs.

Relevant points for the 2011 Form 1120 corporation Schedule UTP filers by financial statement type include:

- Of the 4,488 taxpayers that reported filing a Form 10K with the SEC (SEC Form 10K/public), 1,238 (3 percent of the total returns) filed a Schedule UTP. This signifies another important group of taxpayers because they represent 61 percent of the total assets of LB&I Form 1120 taxpayers, 89 percent of the worldwide income, 88 percent of the nonincludible foreign income, 84 percent of the pretax book income, 78 percent of the tax net income, 57 percent of the tax after credits, and 79 percent of the FTCs.
- Of the 1,238 SEC Form 10K/public taxpayers that filed a Schedule UTP as noted in the bullet above, 1,227 (3 percent of the total returns) were SEC Form 10K/public taxpayers with $100 million or more in assets. These 1,227 taxpayers represent the exact same percentages reported in the bullet point above. Therefore, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for the LB&I Form 1120 taxpayers with assets less than $100 million are negligible in aggregate compared with the aggregate amounts for the LB&I taxpayers with assets of $100 million or more.
- Looking further into the 1,238 SEC Form 10K/public taxpayers that filed a Schedule UTP (see the first bullet point of this section), 748 of these taxpayers (2 percent of the total returns) have assets of $1 billion or more. This group of LB&I Form 1120 taxpayers is significant because they represent almost the exact same percentages noted in the first bullet point of this section for all SEC Form 10K/public filers since these 748 taxpayers report 61 percent of the total assets, 88 percent of the worldwide income, 87 percent of the nonincludible foreign income, 83 percent of the pretax book income, 77 percent of the tax net income, 56 percent of the tax after credits, and 79 percent of the FTCs. In other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for those SEC Form 10K/public taxpayers with assets of $100 million to $1 billion are small in aggregate compared with the aggregate amounts for those SEC Form 10K/public taxpayers with assets of $1 billion or more.

Finally, a review of the nonpublic taxpayers (with audited or unaudited financial statements) that filed a Schedule UTP in 2011 shows the following:

- 846 nonpublic taxpayers with assets greater than $100 million filed a Schedule UTP. This represents 2 percent of the total LB&I Form 1120 returns, 9 percent of the total assets, 5 percent of the worldwide income, 2 percent of the nonincludible foreign income, 7 percent of the pretax book income, 7 percent of the tax net income, 9 percent of the tax after credits, and 5 percent of the FTCs.

Analysis of the 2012 LB&I Form 1120 corporation filers and nonfilers of Schedule UTP shows:

- Again, only approximately 5 percent of the total LB&I population filed a Schedule UTP (2,232 taxpayers). However, this small minority represents 58 percent of the total assets of LB&I Form 1120 taxpayers (versus 70 percent in 2011), 71 percent of the worldwide income (versus 94 percent in 2011), 87 percent of the nonincludible foreign income (versus 90 percent in 2011), 72 percent of the pretax book income (versus 91 percent in 2011), 74 percent of the tax net income (versus 85 percent in 2011), 64 percent of the tax after credits (versus 66 percent in 2011), and 80 percent of the FTCs (versus 85 percent in 2011).
- As discussed in the next two bullet points, the number of SEC Form 10K/public Schedule UTP filers with $100 million or more in assets decreased a net 51 in number from 2011 to 2012, and the total assets of those filers decreased a net $6.4 trillion. A small number of very large corporations with SEC Form 10K/public financial statements that filed Schedule UTP in 2011 but did not file Schedule UTP in 2012 decreased the aggregate percentage dollar amounts reported in 2012 by Schedule UTP filers as shown in the prior bullet point.
- In 2011 Schedule UTP filers included 1,227 with SEC Form 10K/public financial statements and $100 million or more in assets reporting $31.3 trillion in assets — 61 percent of total assets of all corporations with $10 million or more assets filing Form 1120.
- In 2012 Schedule UTP filers included 1,176 with SEC Form 10K/public financial statements and $100 million or more in assets

reporting $24.9 trillion in assets — 49 percent of total assets of all corporations with $10 million or more in assets filing Form 1120.

- Of the 2,232 LB&I Form 1120 taxpayers that filed a Schedule UTP in 2012 (5 percent of the total returns), 2,018 were taxpayers with $100 million or more in assets. These 2,018 taxpayers again represent the exact same percentages reported in the bullet point above except for tax after credits (63 percent were filers with assets of $100 million or more rather than the 64 percent for all Schedule UTP filers). Again in 2012, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for those LB&I Form 1120 taxpayers with assets less than $100 million are negligible in aggregate compared with the aggregate amounts for the LB&I Form 1120 taxpayers with assets of $100 million or more.

Relevant points for the 2012 LB&I Form 1120 corporation Schedule UTP filers by asset size are:

- 1,079 taxpayers in 2012 (3 percent of the total returns and almost the exact same number of 1,072 taxpayers for 2011) with assets of $1 billion or more filed a Schedule UTP. This group of taxpayers is significant because they represent 58 percent of the total assets of LB&I Form 1120 taxpayers (versus 69 percent for 2011), 71 percent of the worldwide income (versus 92 percent for 2011), 86 percent of the nonincludible foreign income (versus 89 percent for 2011), 71 percent of the pretax book income (versus 90 percent for 2011), 72 percent of the tax net income (versus 84 percent for 2011), 61 percent of the tax after credits (versus 63 percent for 2011), and 79 percent of the FTCs (versus 84 percent for 2011). The percentages for these 1,079 taxpayers with assets of $1 billion or greater are almost identical to those percentages in the first bullet point of the section above for the 2,232 taxpayers that filed a Schedule UTP. In other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for the LB&I Form 1120 taxpayers with assets of $100 million to $1 billion are small in aggregate compared with the aggregate amounts for the LB&I Form 1120 taxpayers with assets of $1 billion or more.
- For taxpayers with assets between $100 million and $1 billion, 939 (2 percent of the total returns) filed a Schedule UTP in 2012. This represents 1 percent of the total assets, 1 percent of the worldwide income, 1 percent of the nonincludible foreign income, 1 percent of the pretax book income, 2 percent of the tax net income, 2 percent of the tax after credits, and 1 percent of the FTCs (almost identical to the percentages for 2011).

Analysis of the 2012 LB&I Form 1120 Schedule UTP filers by financial statement type shows:

- Of the 4,339 taxpayers in 2012 (4,488 in 2011) that reported filing a Form 10K with the SEC (SEC Form 10K/public), 1,230 (3 percent of the total returns) filed a Schedule UTP (versus 1,238 in 2011). This signifies another important group of taxpayers because they represent 49 percent of the LB&I Form 1120 taxpayer total assets (versus 61 percent in 2011), 67 percent of the worldwide income (versus 89 percent in 2011), 85 percent of the nonincludible foreign income (versus 88 percent in 2011), 67 percent of the pretax book income (versus 84 percent in 2011), 63 percent of the tax net income (versus 78 percent in 2011), 55 percent of the tax after credits (versus 57 percent in 2011), and 69 percent of the FTCs (versus 79 percent in 2011).
- Of the 1,230 SEC Form 10K/public taxpayers that filed a Schedule UTP as noted in the bullet above for 2012, 1,176 (3 percent of the total returns) of those returns were for SEC Form 10K/public taxpayers with $100 million or more in assets. These 1,176 taxpayers represent the exact same percentages reported in the bullet point above. Again this year, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for the LB&I Form 1120 taxpayers with assets less than $100 million are negligible in aggregate compared with the aggregate amounts for the LB&I taxpayers with assets of $100 million or more.
- Looking further into the 1,230 SEC Form 10K/public taxpayers that filed a Schedule UTP (see the first bullet point of this section for 2012), 734 of these taxpayers (2 percent of the total returns) have assets of $1 billion or greater (versus 748 taxpayers for 2011). As with 2011 this group of taxpayers is significant because they represent almost the exact same percentages noted in the first bullet point of this section for all SEC Form 10K/public filers since these 734 taxpayers report 49 percent of the total assets, 66 percent of the worldwide income, 84 percent of the nonincludible foreign income, 66 percent of the pretax book income, 62 percent of the tax net income, 53 percent of the tax after credits, and 68 percent of the FTCs. The percentages for these 734 SEC Form 10K/public taxpayers that file a Schedule UTP are once again also very close to the percentages noted in the first bullet point under the section for 2012 detailing the filers and nonfilers. In

other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and FTCs for those SEC Form 10K/public taxpayers with assets of $100 million to $1 billion are small in aggregate compared with the aggregate amounts for the SEC Form 10K/public taxpayers with assets of $1 billion or more.

Lastly, the review of the nonpublic taxpayers that filed a Schedule UTP in 2012 shows the following:

- 842 nonpublic taxpayers with assets greater than $100 million filed a Schedule UTP in 2012 (versus 846 in 2011). This represents 2 percent of the total returns, 9 percent of the total assets, 4 percent of the worldwide income, 2 percent of the nonincludible foreign income, 5 percent of the pretax book income, 10 percent of the tax net income, 9 percent of the tax after credits, and 11 percent of the FTCs (almost the exact same percentages as for 2011 in all categories, except the figure for FTC was 5 percent in 2011).

Overall Comments:

- The top two code sections cited in both 2011 and 2012 are section 41 (credit for increasing research activities) and section 482 (allocation of income and deductions among taxpayers — transfer pricing). These code sections represent large calculations that occur annually for large multinational taxpayers. It is unlikely that the entire amounts reported on the filed tax returns are uncertain. Rather, the uncertainty probably exists because of the complexity of these calculations and the methods used to compute the amounts reported on the returns. If the returns are examined, the IRS may contend the methods used to calculate the amounts should be changed.
- The SEC Form 10K/public subpopulation with assets of $100 million or more essentially account for all the dollar amounts for the Form 1120 population with assets of $10 million or more. For both 2011 and 2012, a minority of taxpayers with $100 million or more in assets and a SEC Form 10K/public financial statement filed a Schedule UTP. This is the group that will be examined in detail in Section III of this report.
- The number of SEC Form 10K/public Schedule UTP filers with total assets of $100 million or more decreased a net 51 in number from 2011 to 2012, and the total assets of those filers decreased a net $6.4 trillion. A small number of very large corporations with SEC Form 10K/public financial statements that filed Schedule UTP in 2011 but did not file Schedule UTP in 2012 decreased the aggregate percentage dollar amounts reported in 2012 by Schedule UTP filers.

III. 2011-2012 Analysis of Schedule M-3 Profiles

A. Schedule UTP Filers Versus Nonfilers

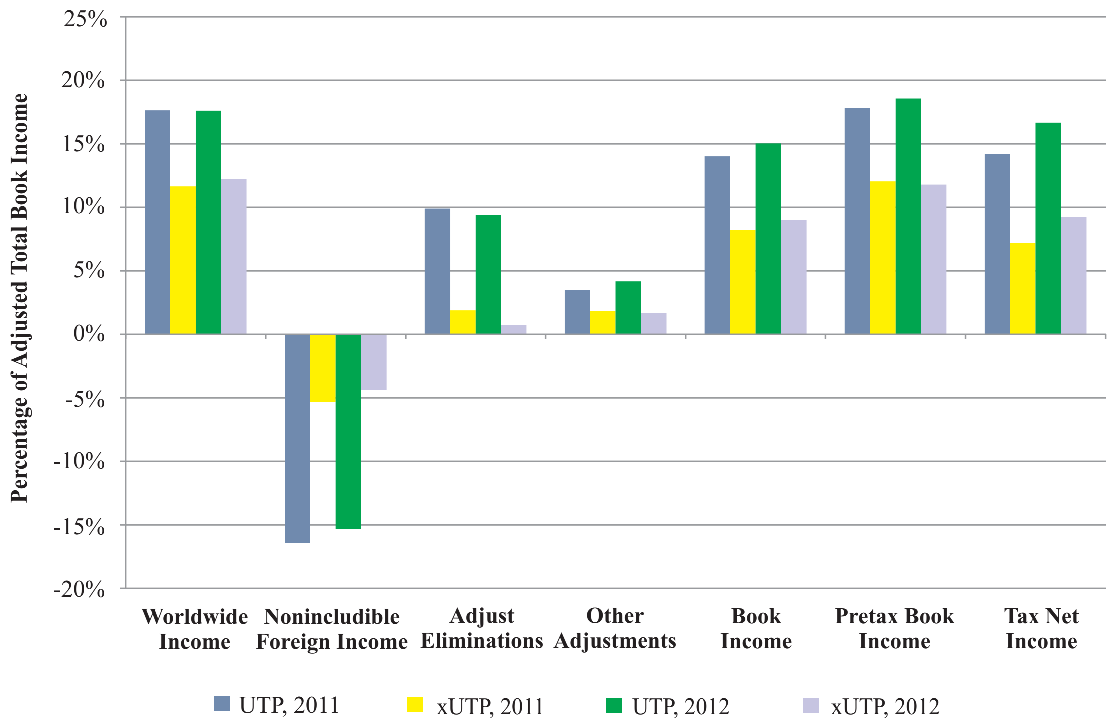
The balance of this report will focus on data describing characteristics of Schedule UTP filers and nonfilers with SEC Form 10K/public financial statements and $100 million or more in assets because of the size and economic importance of those corporations and the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with audited (but not SEC Form 10K/public) or unaudited financial statements.[38]

Tables 3A and 3B and figures 3A and 3B present 2012 data describing characteristics of Schedule UTP filers and nonfilers with SEC Form 10K/public financial statements and $100 million or more in assets. Figures 3A and 3B include 2011 data for comparison. Figure 3C presents 2011 and 2012 average data.

Schedule UTP filers are generally larger than nonfilers when study is restricted to the 3,288 Form 1120 corporate returns in 2012 with SEC Form 10K/public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120, Schedule L by those Schedule UTP filers and nonfilers is $21.2 billion for the 1,176 filers and $5.719 billion for the 2,112 nonfilers (see Table 3B). The mean worldwide financial net income of the filers (reported on Schedule M-3, Part I, line 4) is $553 million compared with $87 million for the nonfilers. The mean foreign nonincludible income of filers (reported on Schedule M-3, Part I, line 5) is -$481 million (shown as negative because the income is removed in calculating book income) compared with -$31 million for nonfilers. After the required Schedule M-3, Part I adjustments, the mean book income for filers (reported on Schedule M-3, Part I, line 11) is $472 million compared with $64 million for the nonfilers. Adding back U.S. federal tax expense, mean pretax book income is $583 million for the filers compared with $84 million for the nonfilers. Filers introduce mean book-tax differences of -$60 million to adjust pretax book

[38]A Schedule UTP filer may file because it is required to do so or because it files voluntarily. A Schedule UTP nonfiler may be a nonfiler either because it is not required to file or because it is required to file but failed to do so. For tax years beginning in 2012 and later, the asset threshold for Schedule UTP drops to $50 million or more. This report does not include the new asset range of $50 million to $100 million for Schedule UTP in the detailed analysis in Section III because a two-year comparison is not possible.

Figure 3A. 2011-2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC Form 10K/Public FS by UTP Filing Status



to mean tax net income (reported on Schedule M-3, Part II, line 30, column (d), and on Form 1120, page 1, line 28) of $523 million compared with nonfilers, which introduce mean book-tax differences of -$18 million to adjust pretax book to mean tax net income of $66 million.[39]

We scale our initial aggregate dollar data by the adjusted total income measure we develop for our Summary M-3 analysis to make data for filers and nonfilers more comparable. We use the adjusted total book income amount as a common-size scaling factor and compare percentages of adjusted total book income to remove or minimize the impact of differences in the size of corporations from our analysis. Also, in comparing the Schedule M-3 characteristics of Schedule UTP filers and nonfilers, total pretax income book-tax difference is expressed as a percentage of total pretax book income (see tables 3A and 3B).

Schedule UTP filers in 2012 with SEC Form 10K/public financial statements and $100 million or more in assets report more worldwide income scaled as a percentage of adjusted total income than similar nonfilers (17.6 percent versus 12.21 percent), more scaled foreign nonincludible income (-15.32 percent versus -4.4 percent), more scaled book income (15.02 percent versus 9 percent), more scaled pretax book income (18.56 percent versus 11.79 percent), more scaled tax net income (16.65 percent versus 9.24 percent), but less negative scaled book-tax difference (-1.91 percent versus -2.55 percent) (see Table 3B). If the book-tax difference is scaled by pretax book income, the filers reduce pretax book income by -10.27 percent to determine tax net income, compared with a reduction of -21.64 percent by nonfilers (see Table 3A, last row, last column in each panel).[40]

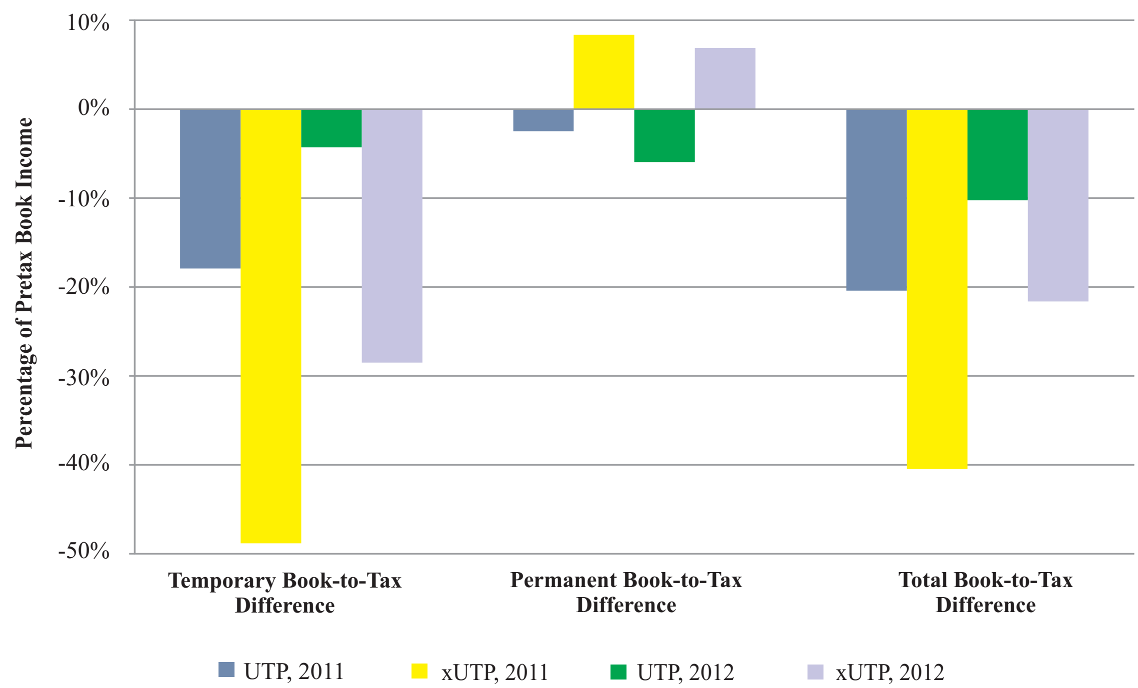
Figure 3A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers and nonfilers with SEC Form

[39]Negative total book-tax difference adjustments added to pretax book income result in tax net income that is lower than pretax book income.

[40]A similar pattern of book-tax difference reductions for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets occur in 2010 and 2011. *See* Boynton, DeFilippes, Legel, and Rupert (2014). *See also* Towery (2015):

> My results suggest firms found ways to change their financial reporting for tax uncertainty to avoid disclosing positions unknown to the IRS on Schedule UTP. Specifically, I find that although firms decrease financial statement reserves for tax uncertainty in response to Schedule UTP, firms continue claiming uncertain tax positions with the adoption of Schedule UTP. Overall, my results imply that linking tax return disclosures of uncertain tax positions to financial reporting for tax uncertainty can distort financial reporting disclosures of tax uncertainty.

Figure 3B. 2011-2012 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book Income for SEC Form 10K/Public FS by UTP Filing Status



10K/public financial statements and $100 million or more in assets for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. For both years, filers report larger scaled amounts for the seven items than nonfilers.

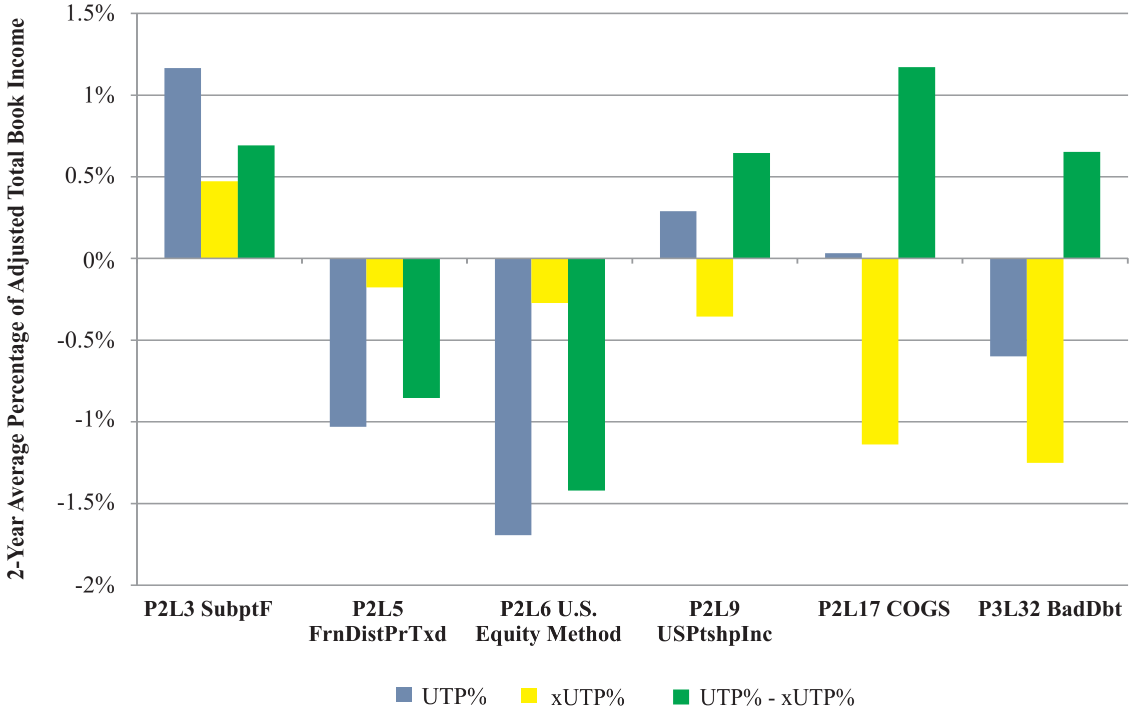
Figure 3B uses pretax book income for scaling 2011 and 2012 book-tax differences (temporary, permanent, and total) for Schedule UTP filers and nonfilers with SEC Form 10K/public financial statements and $100 million or more in assets. Filers have less negative temporary book-tax difference than nonfilers but more negative permanent book-tax difference. In aggregate the nonfilers report positive permanent book-tax difference partially offsetting their large negative temporary book-tax difference. Filers have less negative total book-tax difference than nonfilers even after the offsetting effects of the permanent book-tax difference for the nonfilers. Stated differently, the otherwise similar nonfilers use negative total book-tax difference to reduce tax net income more than the filers.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the micro-data level and use both the sign and amount of the data item.

Figure 3C reports total book-tax differences for six specific Schedule M-3 lines for Schedule UTP filers and nonfilers with SEC Form 10K/public financial statements and $100 million or more in assets. The six lines are selected from and represent approximately 10 percent of the 68 "specified" and "other with differences" lines on Schedule M-3, parts II and III.[41] The total book-tax differences for each of the six lines are scaled by adjusted total income and averaged for 2011 and 2012. The lines are the top six lines (that is, most extreme six lines)

[41]There are 31 lines on Part II and 37 lines on Part III for a total of 68 lines, but that is effectively reduced to 60 lines for our study. We exclude federal tax expense (Part II, lines 1 and 2) because it is not part of pretax book. We combine (that is, net) book-tax differences reported for asset dispositions on the multiple lines of Part II, lines 23a through 23g because corporations use line 23a to reverse out all book income for asset disposition and use lines 23b though 23g to bring in the tax income effects.

Figure 3C. 2011-2012 U.S. Corporation M-3: 2-Year Average Total Book-to-Tax Difference as Percentage of Adjusted Total Book Income for Top 6 Lines — UTP Filers/Nonf ilers (SEC Form 10K/Public FS)



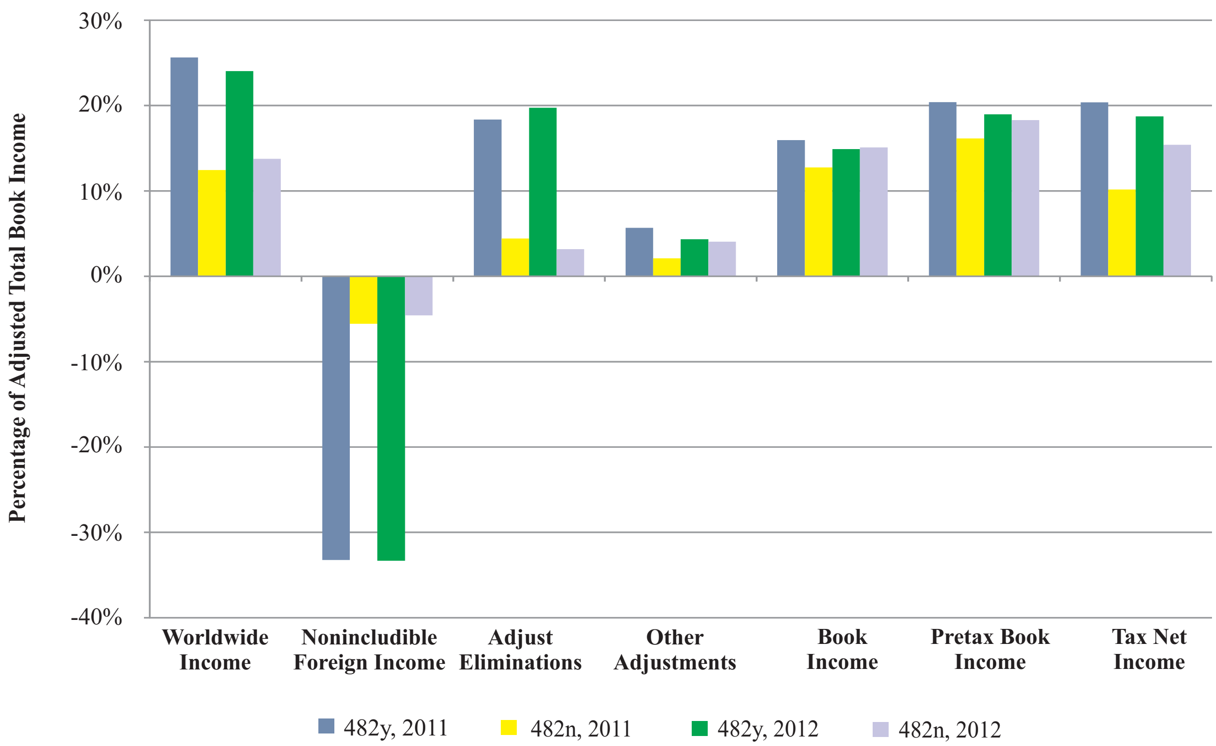
on Schedule M-3, parts II and III in terms of the absolute value of the difference in two-year average scaled book-tax difference between filers and nonfilers.[42]

Figure 3C reports the two-year average scaled total book-tax difference for the six specific Schedule M-3 lines for both the Schedule UTP filers and the nonfilers, as well as the difference calculated as the two-year average scaled book-tax difference of the filers minus the two-year average scaled difference of the nonfilers. The six lines and the differences are:

- inclusion in tax income of subpart F foreign income (Part II, line 3);
  - filers 1.17 percent, nonfilers 0.47 percent, difference 0.69 percent;
- exclusion in tax income of previously taxed foreign distributions (Part II, line 5);
  - filers -1.03 percent, nonfilers -0.18 percent, difference -0.85 percent;
- exclusion from tax income of U.S. equity method income (Part II, line 6);
  - filers -1.69 percent, nonfilers -0.27 percent, difference -1.42 percent;
- adjustments to U.S. partnership income to include all Schedule K-1 income in tax income (Part II, line 9);
  - filers 0.29 percent, nonfilers -0.36 percent, difference 0.65 percent;
- adjustments to COGS in tax income (Part II, line 17);
  - filers 0.03 percent, nonfilers -1.14 percent, difference 1.17 percent; and
- adjustments to bad debt expense/deduction recognition in tax income (Part III, line 32);
  - filers -0.6 percent, nonfilers -1.25 percent, difference 0.65 percent.

[42]For this report, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. Several corporations with SEC Form 10K/public financial statements and $100 million or more in assets in both 2011 and 2012 were Schedule UTP 2011 filers but 2012 nonfilers. This group of 2011 filers and 2012 nonfilers includes corporations reporting large temporary book-tax differences in both 2011 and 2012 on both interest income and interest expense. The temporary book-tax differences in 2012 for interest income and interest expense are particularly large when the corporations are nonfilers. Assuming the taxpayers made the correct decisions to file Schedule UTP in 2011 and to not file in 2012, the large temporary book-tax differences for interest income and interest expense in both years are not associated with the decision to file Schedule UTP in 2011 and to not file in 2012. In both 2011 and 2012, the large temporary book-tax difference on interest income approximately offset the large temporary book-tax difference on interest expense with the result that the impact on total book-tax differences for 2011 filers and 2012 nonfilers was small.

Figure 4A. 2011-2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC Form 10K/Public FS by Section 482



B. Section 482 Citers

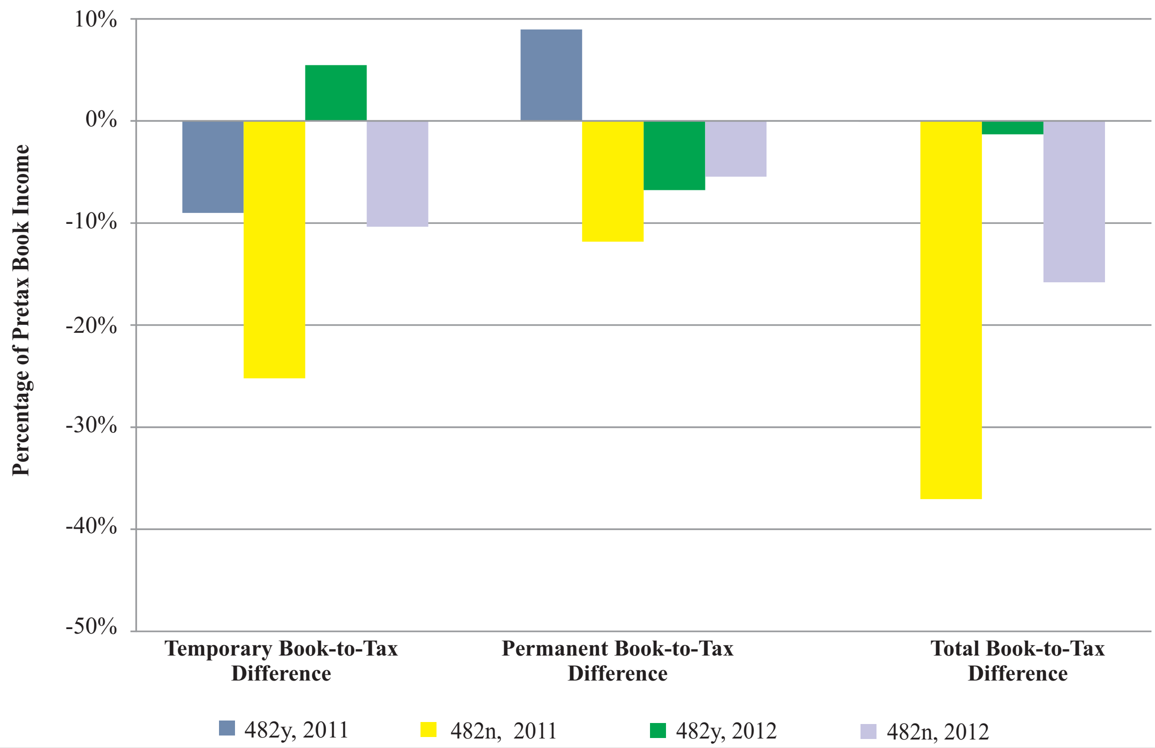
Schedule UTP filers are required to list one to three applicable code sections for each listed UTP concise description. Part I of Schedule UTP tabulates the code information for each current-year UTP concise description listed in Part III of Schedule UTP. SOI tabulates the first 10 rows of data on Part I. The five code sections appearing most frequently in the SOI file for tax years 2011 and 2012 are sections 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), and 263 (capitalized cost). In 2012, 72 percent of those filers cited at least one of the five code sections. We categorize Schedule UTP filers as citing or not citing a specific code section. In this part of our report, we focus on data describing Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 482.[43]

[43]We focus on Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets because of the size and economic importance of those corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with audited (but not SEC Form 10K/public) or unaudited financial statements.

Tables 4A and 4B and figures 4A and 4B present 2012 data describing characteristics of Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 482. Figures 4A and 4B include 2011 data for comparison. Figure 4C presents 2011 and 2012 average data.

Schedule UTP filers citing section 482 are generally larger than non-citers when study is restricted to the 1,176 Schedule UTP filers in 2012 with SEC Form 10K/public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120 Schedule L by those Schedule UTP filers is $23.921 billion for the 326 filers citing section 482 and $20.157 billion for the 850 filers not citing section 482 (see Table 4B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $1.017 billion compared with $374 million for the non-citers. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$1.41 billion (shown as negative because the income is removed in calculating book income) compared with -$125 million for nonfilers. After the required Schedule M-3, Part I adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $631 million compared with $410 million for the non-citers. Adding back U.S. federal tax expense, mean pretax book income is

Figure 4B. 2011-2012 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book Income for SEC Form 10K/Public FS by Section 482



$804 million for the citers compared with $498 million for the non-citers. Citers introduce mean book-tax differences of -$11 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column (d), and on Form 1120 page 1, line 28) of $793 million compared with non-citers that introduce mean book-tax differences of -$79 million to adjust pretax book to mean tax net income of $419 million.[44]

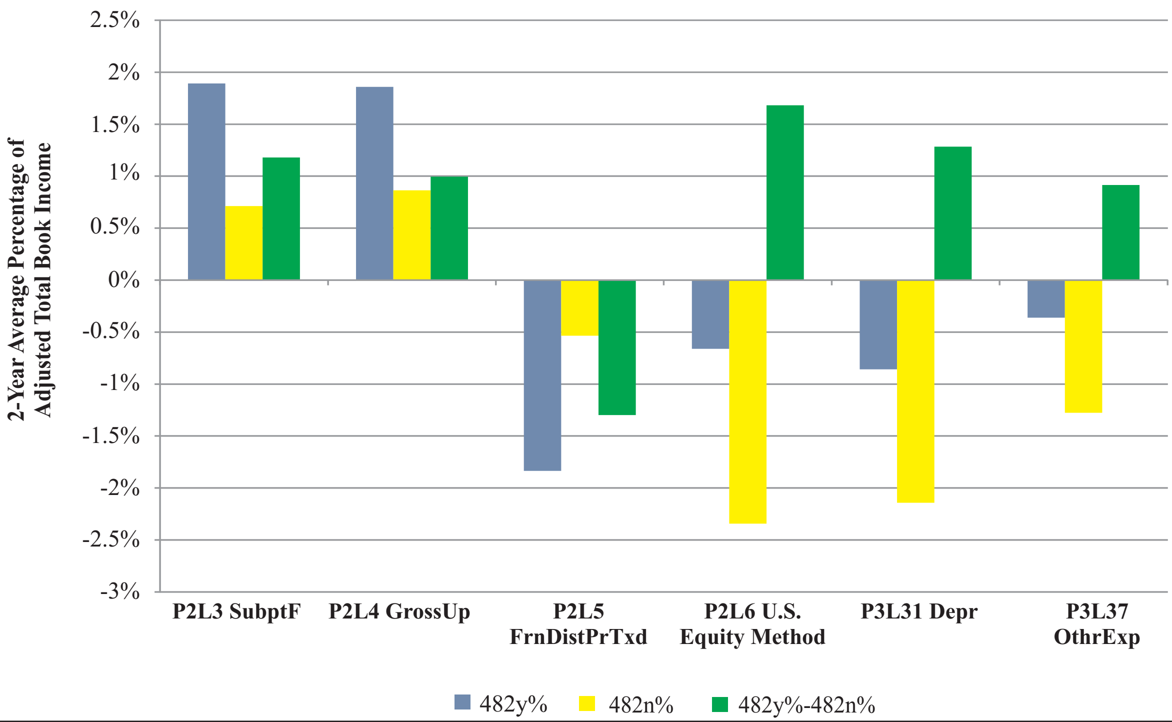
We scale our initial aggregate dollar data by the adjusted total income measure we develop for our Summary M-3 analysis to make data more comparable for filers that cite or do not cite a specific code section. We use the adjusted total book income amount as a common-size scaling factor and compare percentages of adjusted total book income to remove or minimize the impact of differences in the size of corporations from our analysis. Also, in comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific code section, total pretax income book-tax difference is expressed as a percentage of total pretax book income (see tables 4A and 4B).

[44]Negative total book-tax difference adjustments added to pretax book income result in tax net income that is lower than pretax book income.

Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing section 482 in 2012 report more worldwide income scaled as a percentage of adjusted total income than similar filers not citing section 482 (24.03 percent versus 13.76 percent), more scaled foreign nonincludible income (-33.31 percent versus -4.59 percent), less scaled book income (14.91 percent versus 15.09 percent), more scaled pretax book income (18.98 percent versus 18.3 percent), more scaled tax net income (18.73 percent versus 15.41 percent), but less negative scaled book-tax difference (-0.25 percent versus -2.89 percent) (see Table 4B). If the book-tax difference is scaled by pretax book income, the filers citing section 482 reduce pretax book income by -1.31 percent to determine tax net income, compared with a reduction of -15.81 percent by non-citers (see Table 4A, last row, last column in each panel).

Figure 4A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 482 for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the

Figure 4C. 2011-2012 U.S. Corporation M-3: 2-Year Average Total Book-to-Tax Difference as Percentage of Adjusted Total Book Income for Top 6 Lines — UTP Filers Citing/Not Citing Section 482 (SEC Form 10K/Public FS)



exception of book income for 2012, for both years, filers citing section 482 report larger scaled amounts for the seven items than non-citers.

Figure 4B uses pretax book income for scaling 2011 and 2012 book-tax differences (temporary, permanent, and total) for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 482. In 2011 citers have less negative temporary book-tax difference than non-citers and have positive permanent book-tax difference compared with negative permanent book-tax difference for non-citers. In 2012 citers have positive temporary book-tax difference compared with negative temporary book-tax difference for non-citers and have more negative permanent book-tax difference than non-citers. In aggregate the citers report approximately offsetting temporary and permanent book-tax differences. Citers have fewer negative total book-tax differences than non-citers after the offsetting effects of the temporary book-tax differences and permanent book-tax differences for the citers. Stated differently, the otherwise similar non-citers use negative total book-tax differences to reduce tax net income more often than the citers.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the microdata level and use both the sign and amount of the data item.

Figure 4C reports total book-tax differences for six specific Schedule M-3 lines for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 482.[45] The total book-tax difference for each of the six lines are scaled by adjusted total income and averaged for 2011 and 2012. The lines are the top six lines (that is, most extreme six lines) on Schedule M-3, parts II and III, in terms of

[45]The six lines are selected from and represent approximately 10 percent of the 68 "specified" and "other with differences" lines on Schedule M-3, parts II and III. *See* the discussion and footnotes for Figure 3C.

the absolute value of the difference in two-year average scaled book-tax difference between citers and non-citers.[46]

Figure 4C reports the two-year average scaled total book-tax difference for the six specific Schedule M-3 lines for both the Schedule UTP filers citing section 482 and the non-citers, as well as the difference calculated as the two-year average scaled book-tax difference of the citers minus the two-year average scaled difference of the non-citers. The six lines and the differences are:

- inclusion in tax income of subpart F foreign income (Part II, line 3);
  - citers 1.89 percent, non-citers 0.71 percent, difference 1.18 percent;
- inclusion in tax income of section 78 gross-up (Part II, line 4);
  - citers 1.86 percent, non-citers 0.86 percent, difference 0.99 percent;
- exclusion from tax income of previously taxed foreign distributions (Part II, line 5);
  - citers -1.83 percent, non-citers -0.54 percent, difference -1.3 percent;
- exclusion from tax income of U.S. equity method income (Part II, line 6);
  - citers -0.66 percent, non-citers -2.34 percent, difference 1.68 percent;
- adjustment to depreciation expense/deduction in tax income (Part III, line 31);
  - citers -0.86 percent, non-citers -2.14 percent, difference 1.28 percent; and
- adjustment to other expense/deduction with differences in tax income (Part III, line 37);
  - citers -0.36 percent, non-citers -1.28 percent, difference 0.91 percent.

C. Section 41 Citers

Schedule UTP filers are required to list one to three applicable code sections for each listed UTP concise description. Part I of Schedule UTP tabulates the code information for each current-year UTP concise description listed in Part III of Schedule UTP. SOI tabulates the first 10 rows of data on Part I. The five code sections appearing most frequently in the SOI file for tax years 2011 and 2012 are sections 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), and 263 (capitalized cost). In 2012, 72 percent of those filers cited at least one of the five code sections. We categorize Schedule UTP filers as citing or not citing a specific code section. In this part of our report, we focus on data describing Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 41.[47]

Tables 5A and 5B and figures 5A and 5B present 2012 data describing characteristics of Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 41. Figures 5A and 5B include 2011 data for comparison. Figure 5C presents 2011 and 2012 average data.

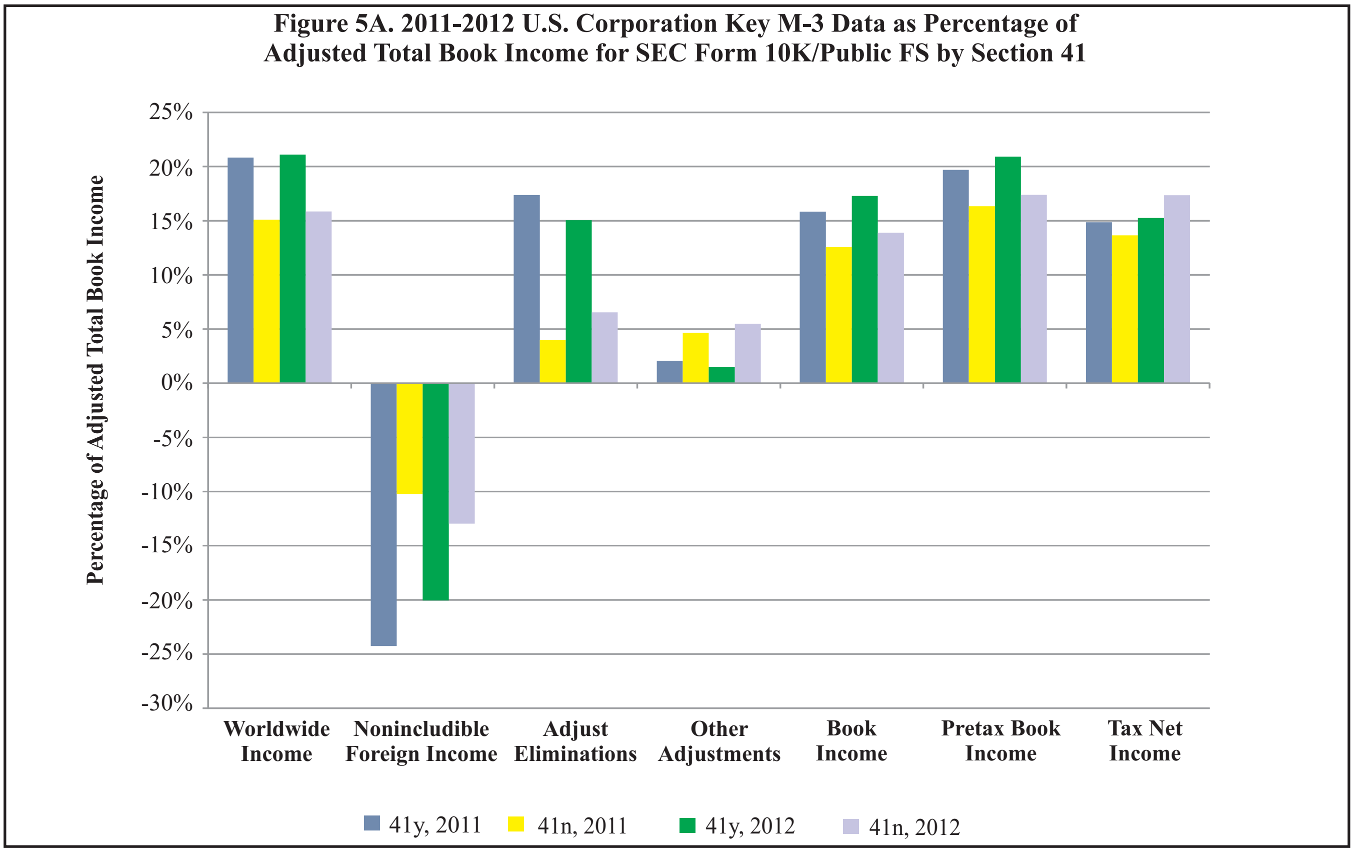
Schedule UTP filers citing section 41 are generally smaller than non-citers when study is restricted to the 1,176 Schedule UTP filers in 2012 with SEC Form 10K/public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120 Schedule L by those Schedule UTP filers is $14.24 billion for the 506 filers citing section 41 and $26.46 billion for the 670 filers not citing section 41 (see Table 5B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $513 million compared with $583 million for the non-citers. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$487 million (shown as negative because the income is removed in calculating book income) compared with -$477 million for nonfilers. After the required Schedule M-3, Part I, adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $420 million compared with $511 million for the non-citers. Adding back U.S. federal tax expense, mean pretax book income is $508 million for the citers compared with $639 million for the non-citers. Citers introduce mean book-tax differences of -$138 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column (d), and on Form 1120 page 1, line 28) of $370 million compared with non-citers that introduce mean book-tax differences of -$1 million to adjust pretax book to mean tax net income of $638 million.[48]

We scale our initial aggregate dollar data by the adjusted total income measure we develop for our Summary M-3 analysis to make data for filers that cite or do not cite a specific code section more

[46]For this study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. *See* the discussion and footnotes for Figure 3C.

[47]We focus on Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets because of the size and economic importance of those corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with audited (but not SEC Form 10K/public) or unaudited financial statements.

[48]Negative total book-tax difference adjustments added to pretax book income result in tax net income that is lower than pretax book income.



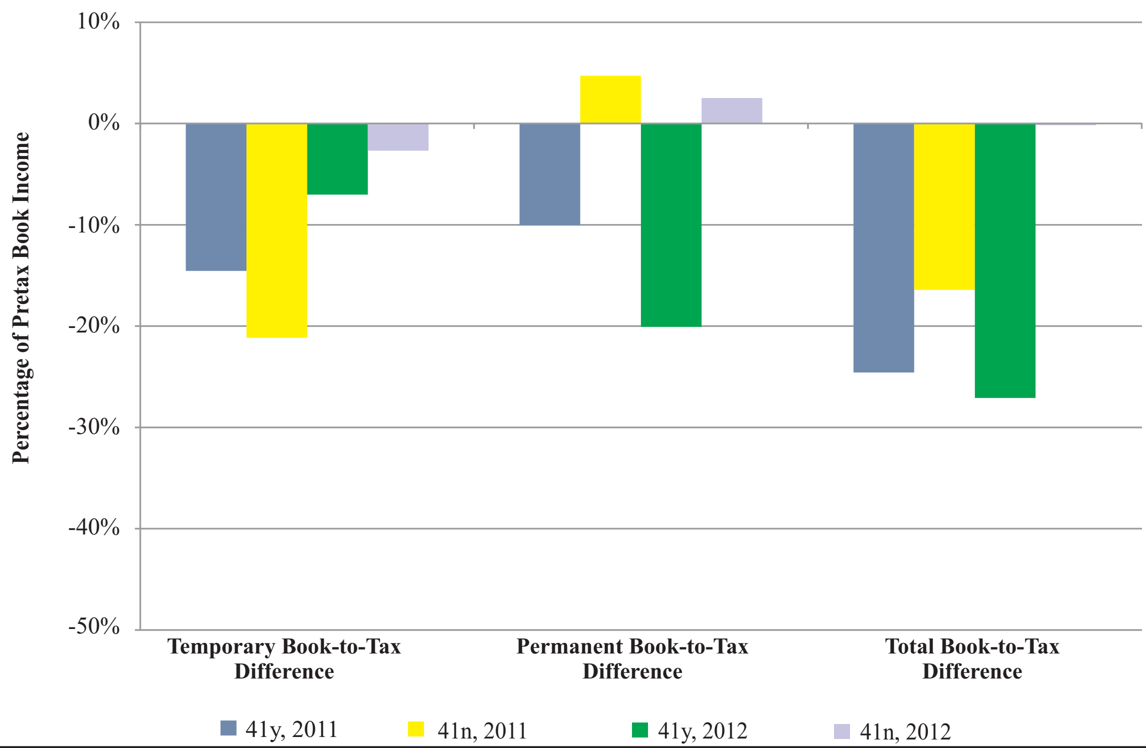
comparable. We used the adjusted total book income amount as a common-size scaling factor and compare percentages of adjusted total book income to remove or minimize the impact of differences in the size of corporations from our analysis. Also, in comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific code section, total pretax income book-tax difference is expressed as a percentage of total pretax book income (see tables 5A and 5B).

Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing section 41 in 2012 report more worldwide income scaled as a percentage of adjusted total income than similar filers not citing section 41 (21.1 percent versus 15.85 percent), more scaled foreign nonincludible income (-20.05 percent versus -12.97 percent), more scaled book income (17.29 percent versus 13.89 percent), more scaled pretax book income (20.91 percent versus 17.38 percent), less scaled tax net income (15.25 percent versus 17.35 percent), and more negative scaled book-tax difference (-5.66 percent versus -0.03 percent) (see Table 5B). If the book-tax difference is scaled by pretax book income, the filers citing section 41 reduce pretax book income by -27.09 percent to determine tax net income, compared with a reduction of -0.17 percent by non-citers (see Table 5A, last row, last column in each panel). In short, those SEC Form 10K/public Schedule UTP filers that cite section 41 are both more profitable and declare less tax net income than those that do not cite section 41.

Figure 5A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 41 for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of other adjustments for 2011 and 2012 and tax net income for 2012, for both years, filers citing section 41 report larger scaled amounts for the seven items than non-citers.

Figure 5B uses pretax book income for scaling 2011 and 2012 book-tax differences (temporary, permanent, and total) for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 41. In 2011 citers have less negative temporary book-tax difference than non-citers and have negative permanent book-tax difference compared with positive permanent book-tax difference for non-citers. In 2012 citers have more negative temporary book-tax difference than non-citers and have negative permanent book-tax difference compared with

Figure 5B. 2011-2012 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book Income for SEC Form 10K/Public FS by Section 41



positive permanent book-tax difference for non-citers. In aggregate, citers of section 41 have more negative total book-tax difference than non-citers in both 2011 and 2012. Stated differently, the otherwise similar non-citers use negative total book-tax difference to reduce tax net income less than the citers.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the micro-data level and use both the sign and amount of the data item.

Figure 5C reports total book-tax differences for six specific Schedule M-3 lines for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 41.[49] The total book-tax differences for each of the six lines are scaled by adjusted total income and averaged for 2011 and 2012. The lines are the top six lines (that is, most extreme six lines) on Schedule M-3, parts II and III, in terms of the absolute value of the difference in two-year average scaled book-tax difference between citers and non-citers.[50]

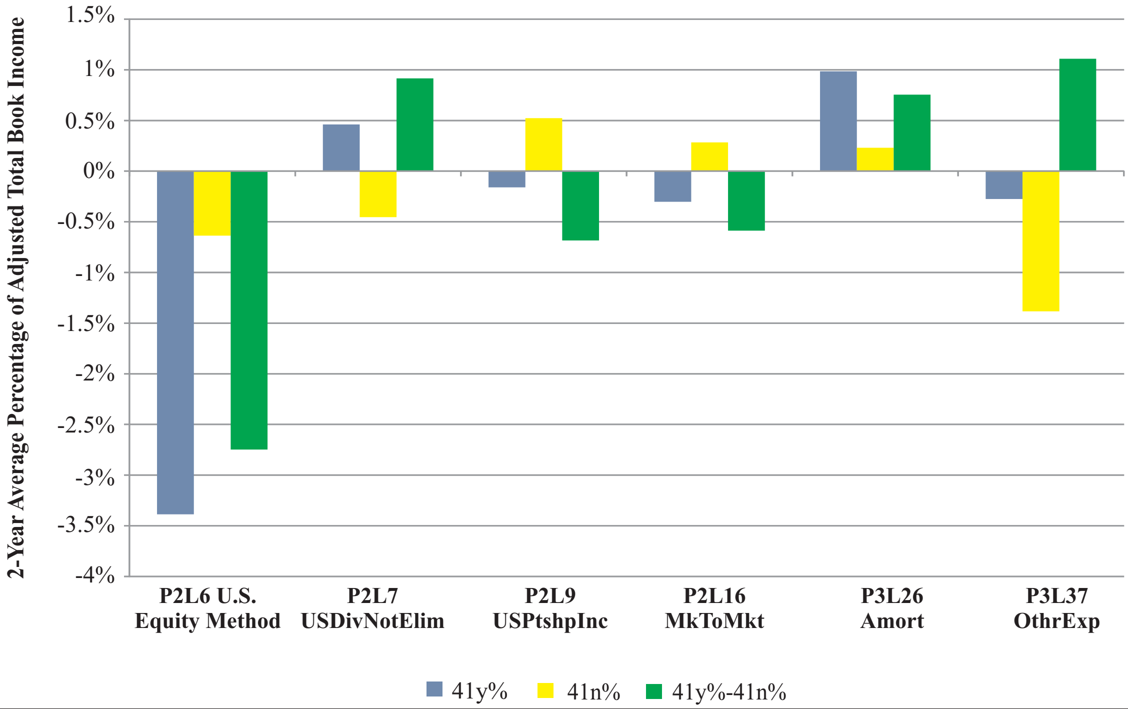
Figure 5C reports the two-year average scaled total book-tax difference for the six specific Schedule M-3 lines for both the Schedule UTP filers citing section 41 and the non-citers, as well as the difference calculated as the two-year average scaled book-tax difference of the citers minus the two-year average scaled difference of the non-citers. The six lines and the differences are:

- exclusion from tax income of U.S. equity method income (Part II, line 6);
  - citers -3.39 percent, non-citers -0.64 percent, difference -2.75 percent;

[49]The six lines are selected from and represent approximately 10 percent of the 68 "specified" and "other with differences" lines on Schedule M-3, parts II and III. *See* the discussion and footnotes for Figure 3C.

[50]For this study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. *See* the discussion and footnotes for Figure 3C.

Figure 5C. 2011-2012 U.S. Corporation M-3: 2-Year Average Total Book-to-Tax Difference as Percentage of Adjusted Total Book Income for Top 6 Lines — UTP Filers Citing/Not Citing Section 41 (SEC Form 10K/Public FS)



- adjustments to U.S. dividends, not eliminated in consolidation, in tax income (Part II, line 7);
  - citers 0.46 percent, non-citers -0.45 percent, difference 0.92 percent;
- adjustments to U.S. partnership income to include all Schedule K-1 income in tax income (Part II, line 9);
  - citers -0.16 percent, non-citers 0.52 percent, difference -0.68 percent;
- adjustments for mark-to-market in tax income (Part II, line 16);
  - citers -0.3 percent, non-citers 0.28 percent, difference -0.59 percent;
- adjustment to amortization/impairment of goodwill expense/deduction in tax income (Part III, line 26);
  - citers 0.98 percent, non-citers 0.23 percent, difference 0.75 percent; and
- adjustment to other expense/deduction with differences in tax income (Part III, line 37);
  - citers -0.28 percent, non-citers -1.38 percent, difference 1.11 percent.

D. Section 162 Citers

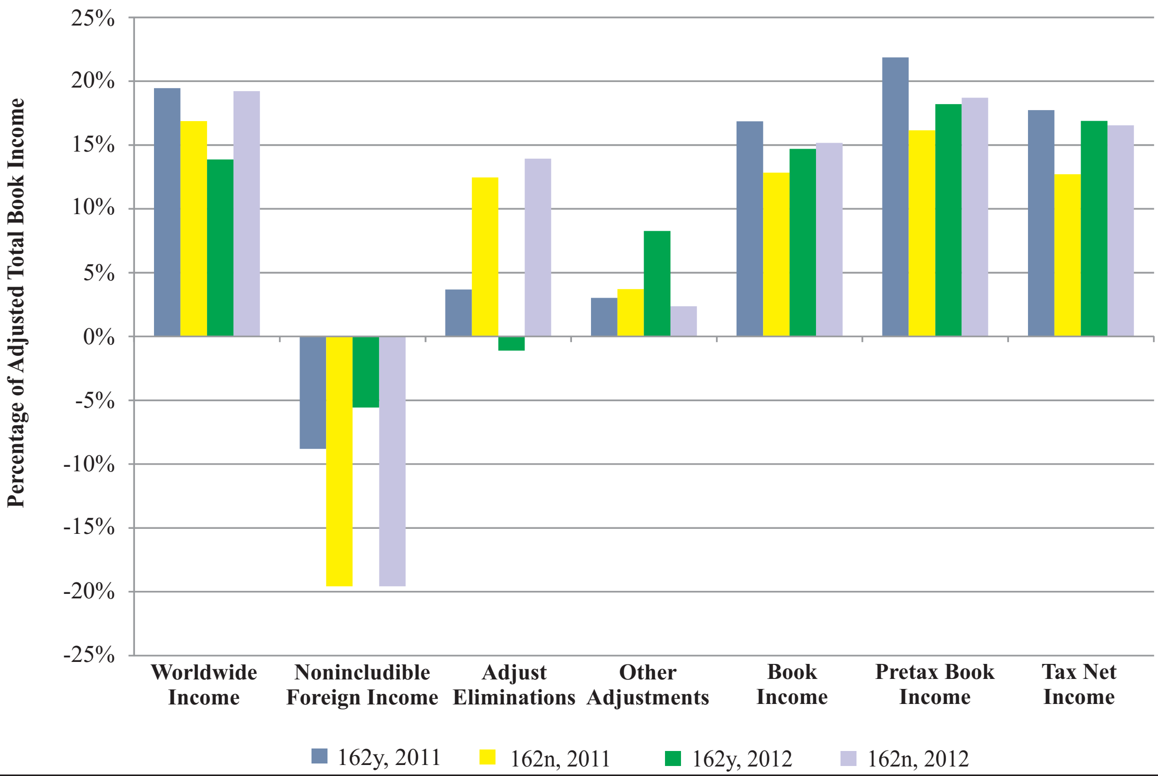
Schedule UTP filers are required to list one to three applicable code sections for each listed UTP concise description. Part I of Schedule UTP tabulates the code information for each current-year UTP concise description listed in Part III of Schedule UTP. SOI tabulates the first 10 rows of data on Part I. The five code sections appearing most frequently in the SOI file for tax years 2011 and 2012 are sections 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), and 263 (capitalized cost). In 2012, 72 percent of those filers cited at least one of the five code sections. We categorize Schedule UTP filers as citing or not citing a specific code section. In this part of our report, we focus on data describing Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 162.[51]

Tables 6A and 6B and figures 6A and 6B present 2012 data describing characteristics of Schedule UTP filers, with SEC Form 10K/public financial statements and $100 million or more in assets, citing or not citing section 162. Figures 6A and 6B include 2011 data for comparison. Figure 6C presents 2011 and 2012 average data.

Schedule UTP filers citing section 162 are generally larger than non-citers when study is restricted

[51]We focus on Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets because of the size and economic importance of those corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with audited (but not SEC Form 10K/public) or unaudited financial statements.

Figure 6A. 2011-2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC Form 10K/Public FS by Section 162



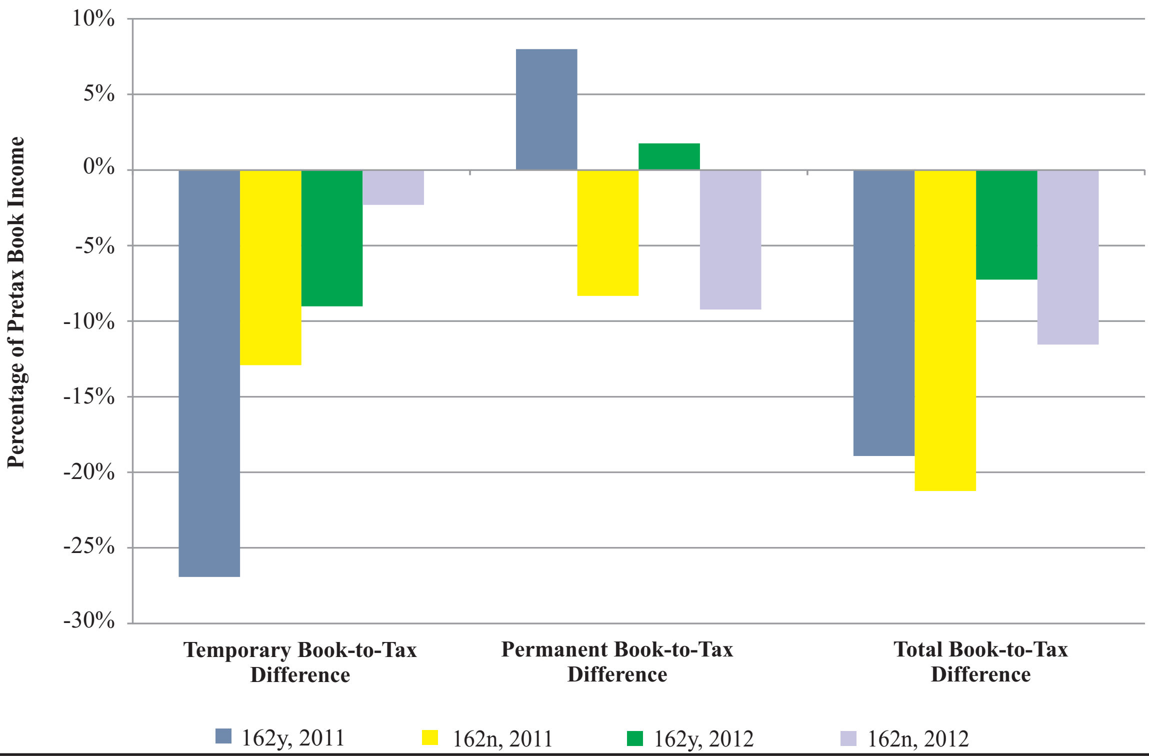
to the 1,176 Schedule UTP filers in 2012 with SEC Form 10K/public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120 Schedule L by those Schedule UTP filers is $52.298 billion for the 164 filers citing section 162 and $16.16 billion for the 1,012 filers not citing section 162 (see Table 5B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $948 million compared with $488 million for the non-citers. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$380 million (shown as negative because the income is removed in calculating book income) compared with -$497 million for nonfilers. After the required Schedule M-3, Part I adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $1.004 billion compared with $385 million for the non-citers. Adding back U.S. federal tax expense, mean pretax book income is $1.244 billion for the citers compared with $475 million for the non-citers. Citers introduce mean book-tax differences of -$90 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column (d), and on Form 1120, page 1, line 28) of $1.154 billion compared with non-citers, which introduce mean book-tax differences of -$55 million to adjust pretax book to mean tax net income of $421 million.[52]

We scale our initial aggregate dollar data by the adjusted total income measure we develop for our Summary M-3 analysis to make data for filers that cite or do not cite a specific code section more comparable. We use the adjusted total book income amount as a common-size scaling factor and compare percentages of adjusted total book income to remove or minimize the impact of differences in the size of corporations from our analysis. Also, in comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific code section, total pretax income book-tax difference is expressed as a percentage of total pretax book income (see tables 6A and 6B).

Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing section 162 in 2012 report less worldwide income scaled as a percentage of adjusted total income than similar filers not citing section 162 (13.88 percent versus 19.22 percent), less scaled foreign nonincludible income (-5.57 percent versus

[52]Negative total book-tax difference adjustments added to pretax book income result in tax net income that is lower than pretax book income.

Figure 6B. 2011-2012 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book Income for SEC Form 10K/Public FS by Section 162



-19.58 percent), less scaled book income (14.7 percent versus 15.16 percent), less scaled pretax book income (18.21 percent versus 18.71 percent), more scaled tax net income (16.89 percent versus 16.55 percent), and less negative scaled book-tax difference (-1.32 percent versus -2.16 percent) (see Table 6B). If the book-tax difference is scaled by pretax book income, the filers citing section 162 reduce pretax book income by -7.25 percent to determine tax net income, compared with a reduction of -11.55 percent by non-citers (see Table 6A, last row, last column in each panel).

Figure 6A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 162 for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of worldwide income for 2011, other adjustments for 2012, book income for 2011, pretax book income for 2011, and tax net income for 2011 and 2012, filers citing section 162 report smaller scaled amounts for the seven items than non-citers, for both years.

Figure 6B uses pretax book income for scaling 2011 and 2012 book-tax differences (temporary, permanent, and total) for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 162. In 2011 and 2012, citers have more negative temporary book-tax difference than non-citers and have positive permanent book-tax difference compared with negative permanent book-tax difference for non-citers. In aggregate, citers of section 162 have less negative total book-tax difference than non-citers in both 2011 and 2012. Stated differently, the otherwise similar non-citers use negative total book-tax differences to reduce tax net income more than the citers.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the microdata level and use both the sign and amount of the data item.

Figure 6C. 2011-2012 U.S. Corporation M-3: 2-Year Average Total Book-to-Tax Difference as Percentage of Adjusted Total Book Income for Top 6 Lines — UTP Filers Citing/Not Citing Section 162 (SEC Form 10K/Public FS)

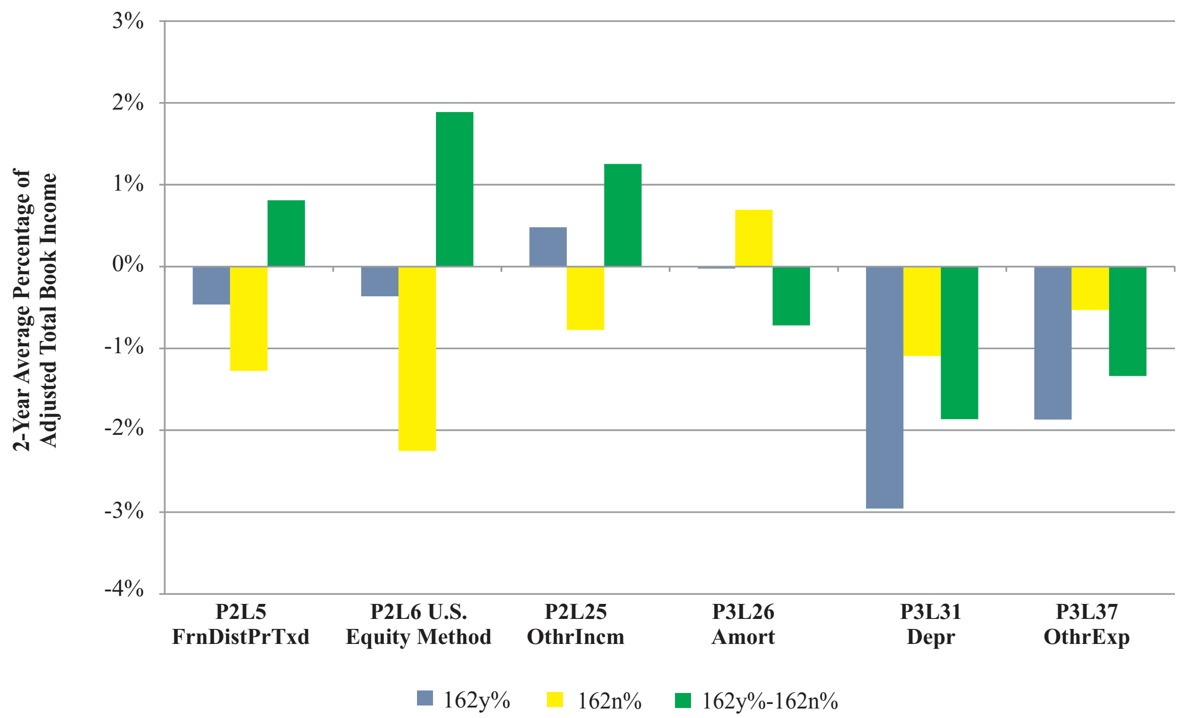


Figure 6C reports total book-tax differences for six specific Schedule M-3 lines for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 162.[53] The total book-tax differences for each of the six lines are scaled by adjusted total income and averaged for 2011 and 2012. The lines are the top six lines (that is, most extreme six lines) on Schedule M-3, parts II and III in terms of the absolute value of the difference in two-year average scaled book-tax difference between citers and non-citers.[54]

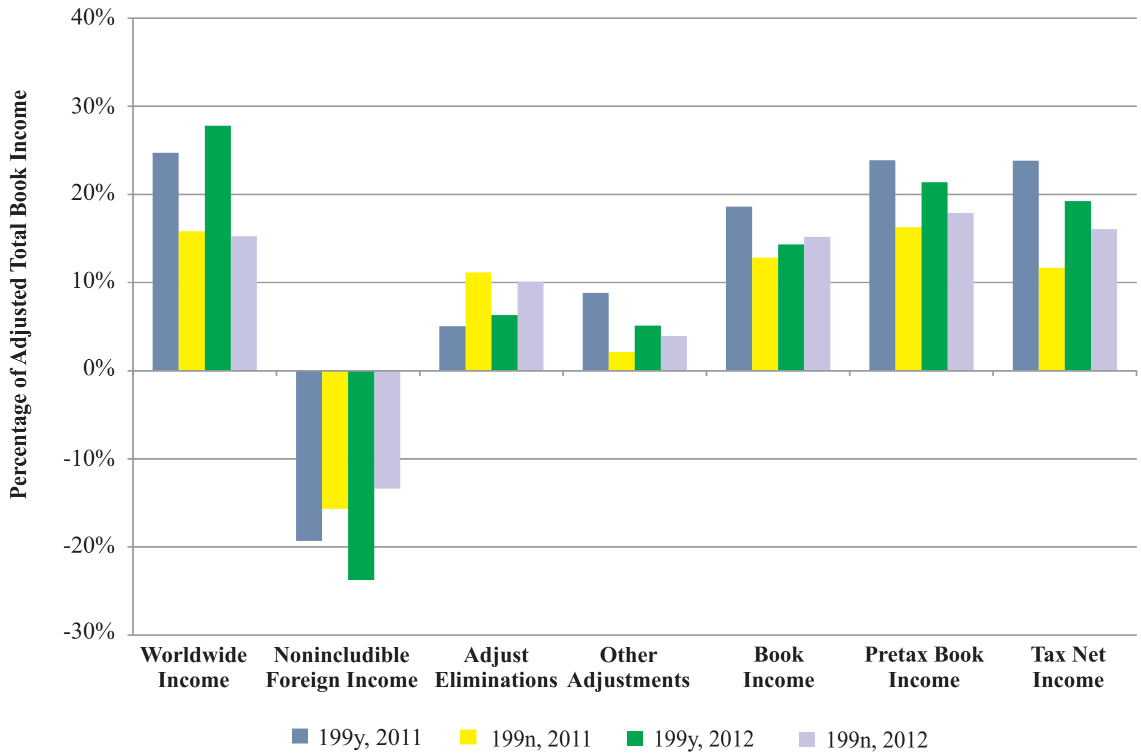
Figure 6C reports the two-year average scaled total book-tax difference for the six specific Schedule M-3 lines for both the Schedule UTP filers citing section 162 and the non-citers, as well as the difference calculated as the two-year average scaled book-tax difference of the citers minus the two-year average scaled difference of the non-citers. The six lines and the differences are:

- exclusion from tax income of previously taxed foreign distributions (Part II, line 5);
  - citers -0.46 percent, non-citers -1.27 percent, difference 0.81 percent;
- exclusion from tax income of U.S. equity method income (Part II, line 6);
  - citers -0.36 percent, non-citers -2.25 percent, difference 1.89 percent;
- adjustment to other income with differences in tax income (Part II, line 25);
  - citers 0.48 percent, non-citers -0.77 percent, difference 1.25 percent;
- adjustment to amortization/impairment of goodwill expense/deduction in tax income (Part III, line 26);
  - citers -0.02 percent, non-citers 0.69 percent, difference -0.72 percent;
- adjustment to depreciation expense/deduction in tax income (Part III, line 31);
  - citers -2.96 percent, non-citers -1.09 percent, difference -1.86 percent; and
- adjustment to other expense/deduction with differences in tax income (Part III, line 37);
  - citers -1.87 percent, non-citers -0.53 percent, difference -1.34 percent.

[53]The six lines are selected from and represent approximately 10 percent of the 68 "specified" and "other with differences" lines on Schedule M-3, parts II and III. *See* the discussion and footnotes for Figure 3C.

[54]For this study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. *See* the discussion and footnotes for Figure 3C.

Figure 7A. 2011-2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC Form 10K/Public FS by Section 199



E. Section 199 Citers

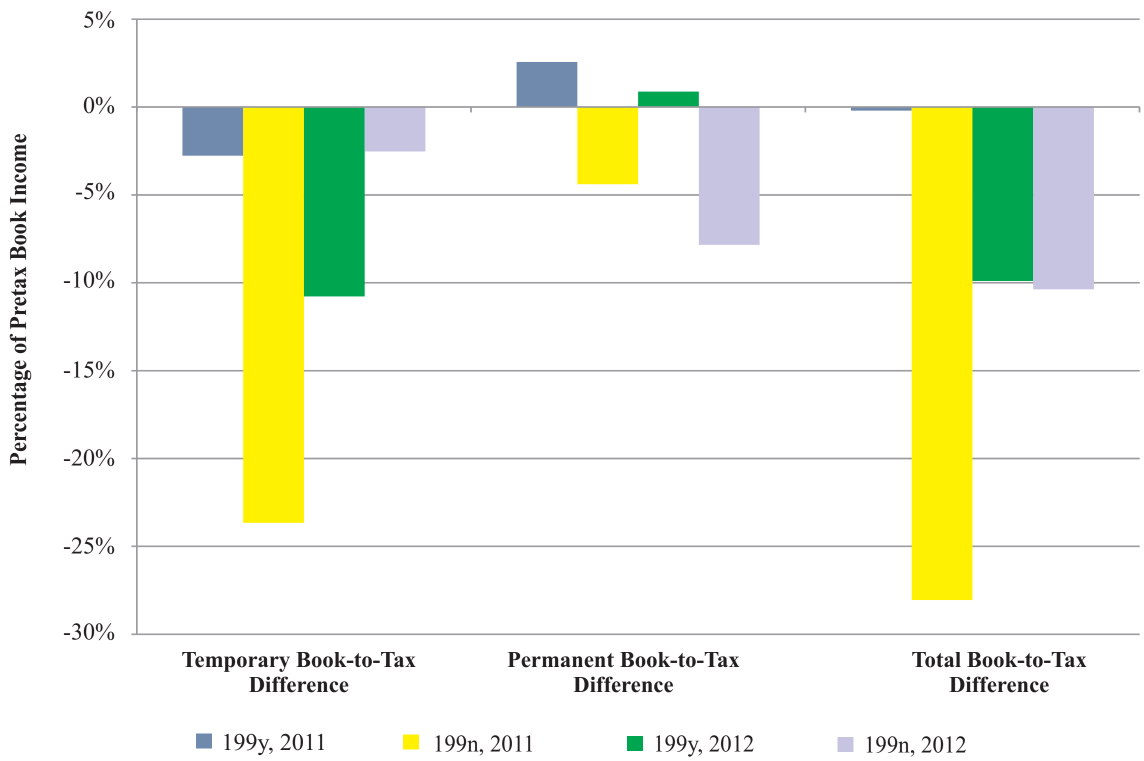
Schedule UTP filers are required to list one to three applicable code sections for each listed UTP concise description. Part I of Schedule UTP tabulates the code information for each current-year UTP concise description listed in Part III of Schedule UTP. SOI tabulates the first 10 rows of data on Part I. The five code sections appearing most frequently in the SOI file for tax years 2011 and 2012 are sections 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), and 263 (capitalized cost). In 2012, 72 percent of those filers cited at least one of the five code sections. We categorize Schedule UTP filers as citing or not citing a specific code section. In this part of our report, we focus on data describing Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 199.[55]

[55]We focus on Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets because of the size and economic importance of those corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with audited (but not SEC Form 10K/public) or unaudited financial statements.

Tables 7A and 7B and figures 7A and 7B present 2012 data describing characteristics of Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 199. Figures 7A and 7B include 2011 data for comparison. Figure 7C presents 2011 and 2012 average data.

Schedule UTP filers citing section 199 are, with the exception of total assets, generally larger than non-citers when analysis is restricted to the 1,176 Schedule UTP filers in 2012 with SEC Form 10K/public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120 Schedule L by those Schedule UTP filers is $17.347 billion for the 130 filers citing section 199 and $21.679 billion for the 1,046 filers not citing section 199 (see Table 7B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $1.483 billion compared with $437 million for the non-citers. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$1.267 billion (shown as negative because the income is removed in calculating book income) compared with -$383 million for nonfilers. After the required Schedule M-3, Part I adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $764 million compared with

Figure 7B. 2011-2012 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book Income for SEC Form 10K/Public FS by Section 199



$435 million for the non-citers. Adding back U.S. federal tax expense, mean pretax book income is $1.140 billion for the citers compared with $513 million for the non-citers. Citers introduce mean book-tax differences of -$113 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column (d), and on Form 1120, page 1, line 28) of $1.027 billion compared with non-citers that introduce mean book-tax differences of -$53 million to adjust pretax book to mean tax net income of $460 million.[56]

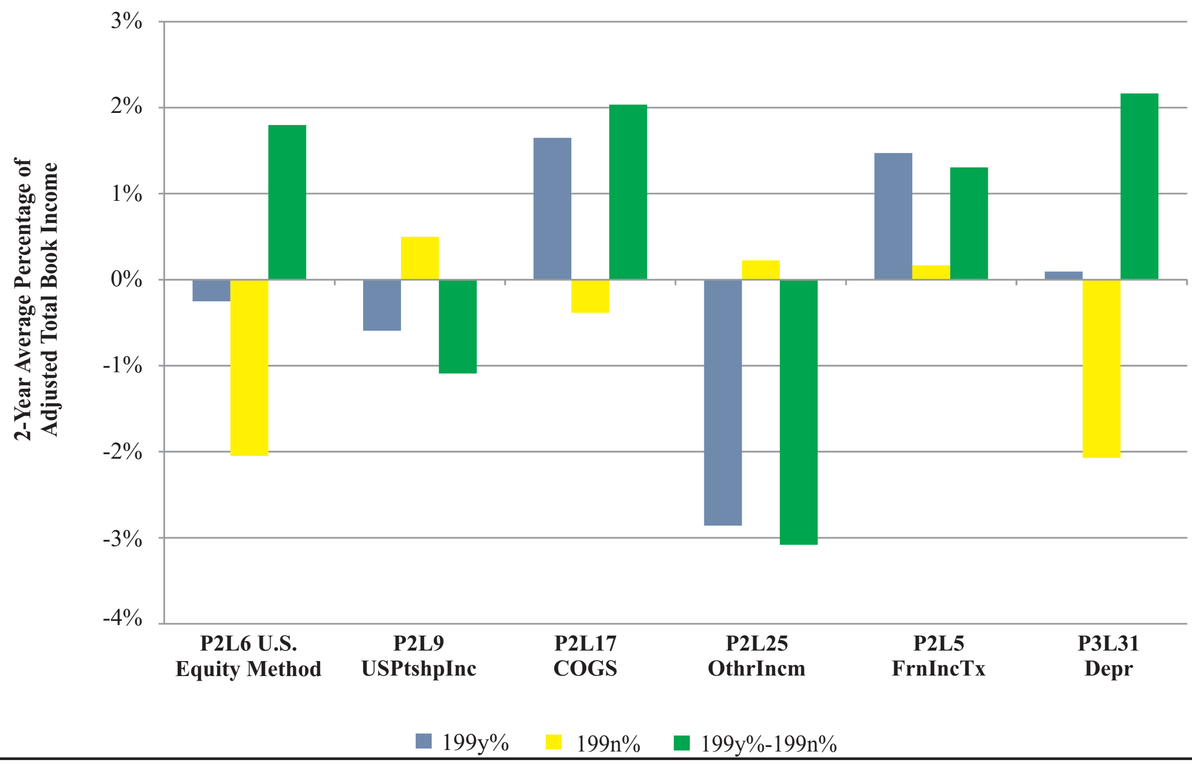
We scale our initial aggregate dollar data by the adjusted total income measure we develop for our Summary M-3 analysis to make data for filers that cite or do not cite a specific code section more comparable. We used the adjusted total book income amount as a common-size scaling factor and compare percentages of adjusted total book income to remove or minimize the impact of differences in the size of corporations from our analysis. Also, in comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific code section, total pretax income book-tax difference is expressed as a percentage of total pretax book income (see tables 7A and 7B).

Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing section 199 in 2012 report more worldwide income scaled as a percentage of adjusted total income than similar filers not citing section 199 (27.8 percent versus 15.24 percent), more scaled foreign nonincludible income (-23.75 percent versus -13.37 percent), less scaled book income (14.31 percent versus 15.19 percent), more scaled pretax book income (21.37 percent versus 17.91 percent), more scaled tax net income (19.25 percent versus 16.05 percent), and more negative scaled book-tax difference (-2.12 percent versus -1.86 percent) (see Table 7B). If the book-tax difference is scaled by pretax book income, the filers citing section 199 reduce pretax book income by -9.9 percent to determine tax net income, compared with a reduction of -10.37 percent by non-citers (see Table 7A, last row, last column in each panel).

Figure 7A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 199 for seven key items: worldwide financial income (Part I, line 4);

[56]Negative total book-tax difference adjustments added to pretax book income result in tax net income that is lower than pretax book income.

Figure 7C. 2011-2012 U.S. Corporation M-3: 2-Year Average Total Book-to-Tax Difference as Percentage of Adjusted Total Book Income for Top 6 Lines — UTP Filers Citing/Not Citing Section 199 (SEC Form 10K/Public FS)



foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of adjustments to eliminations for 2011 and 2012 and book income for 2012, for both years, filers citing section 199 report larger scaled amounts for the seven items than non-citers.

Figure 7B uses pretax book income for scaling 2011 and 2012 book-tax differences (temporary, permanent, and total) for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 199. In 2011 citers have less negative temporary book-tax difference than non-citers; in 2012 citers have more negative temporary book-tax difference than non-citers; and in both 2011 and 2012 citers have positive permanent book-tax difference compared with negative permanent book-tax difference for non-citers. In aggregate, citers of section 199 have fewer negative total book-tax differences than non-citers in both 2011 and 2012. Stated differently, the otherwise similar non-citers use negative total book-tax differences to reduce tax net income more than the citers.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the micro-data level and use both the sign and amount of the data item.

Figure 7C reports total book-tax differences for six specific Schedule M-3 lines for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 199.[57] The total book-tax differences for each of the six lines are scaled by adjusted total income and averaged for 2011 and 2012. The lines are the top six lines (that is, most extreme six lines) on Schedule M-3, parts II and III, in terms of

[57]The six lines are selected from and represent approximately 10 percent of the 68 "specified" and "other with differences" lines on Schedule M-3, parts II and III. *See* the discussion and footnotes for Figure 3C.

the absolute value of the difference in two-year average scaled book-tax difference between citers and non-citers.[58]

Figure 7C reports the two-year average scaled total book-tax difference for the six specific Schedule M-3 lines for both the Schedule UTP filers citing section 199 and the non-citers, as well as the difference calculated as the two-year average scaled book-tax difference of the citers minus the two-year average scaled difference of the non-citers. The six lines and the differences are:

- exclusion from tax income of U.S. equity method income (Part II, line 6);
  - citers -0.25 percent, non-citers -2.05 percent, difference 1.8 percent;
- adjustments to U.S. partnership income to include all Schedule K-1 income in tax income (Part II, line 9);
  - citers -0.59 percent, non-citers 0.5 percent, difference -1.09 percent;
- adjustments to COGS in tax income (Part II, line 17);
  - citers 1.65 percent, non-citers -0.38 percent, difference 2.03 percent;
- adjustment to other income with differences in tax income (Part II, line 25);
  - citers -2.86 percent, non-citers 0.22 percent, difference -3.08 percent;
- adjustment to foreign income tax expense/deduction in tax income (Part III, line 5);
  - citers 1.47 percent, non-citers 0.17 percent, difference 1.31 percent; and
- adjustment to depreciation expense/deduction in tax income (Part III, line 31);
  - citers 0.09 percent, non-citers -2.07 percent, difference 2.17 percent.

F. Section 263 Citers

Schedule UTP filers are required to list one to three applicable code sections for each listed UTP concise description. Part I of Schedule UTP tabulates the code information for each current-year UTP concise description listed in Part III of Schedule UTP. SOI tabulates the first 10 rows of data on Part I. The five code sections appearing most frequently in the SOI file for tax years 2011 and 2012 are sections 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), and 263 (capitalized cost). In 2012, 72 percent of those filers cited at least one of the five code sections. We categorize Schedule UTP filers as citing or not citing a specific code section. In this part of our report, we focus on data describing Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 263.[59]

Tables 8A and 8B and figures 8A and 8B present 2012 data describing characteristics of Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 263. Figures 8A and 8B include 2011 data for comparison. Figure 8C presents 2011 and 2012 average data.

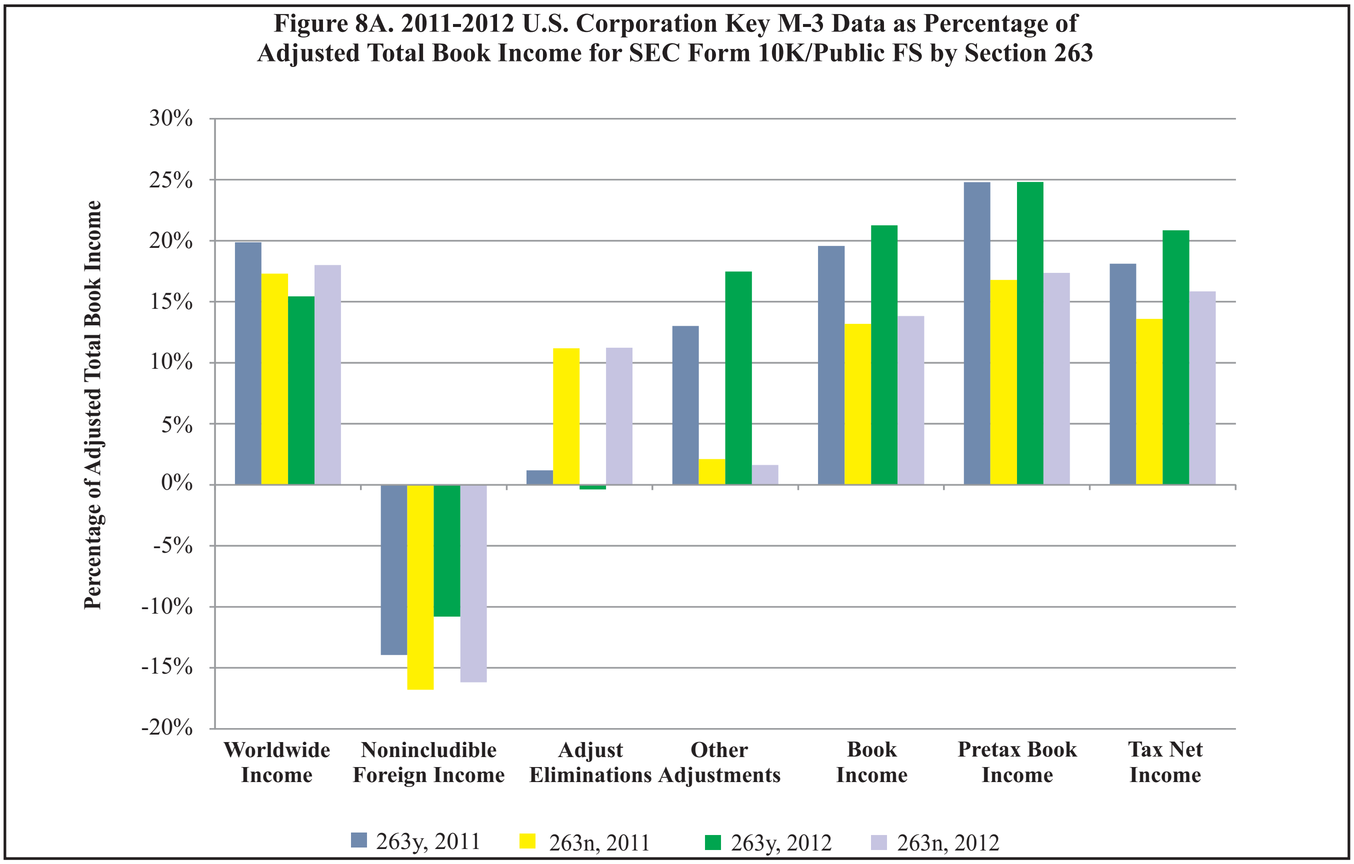
Schedule UTP filers citing section 263 are generally larger than non-citers when analysis is restricted to the 1,176 Schedule UTP filers in 2012 with SEC Form 10K/public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120 Schedule L by those Schedule UTP filers is $25.325 billion for the 91 filers citing section 263 and $20.854 billion for the 1,085 filers not citing section 263 (see Table 8B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $1.004 billion compared with $515 million for the non-citers. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$703 million (shown as negative because the income is removed in calculating book income) compared with -$463 million for nonfilers. After the required Schedule M-3, Part I adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $1.384 billion compared with $395 million for the non-citers. Adding back U.S. federal tax expense, mean pretax book income is $1.615 billion for the citers compared with $496 million for the non-citers. Citers introduce mean book-tax differences of -$258 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column (d), and on Form 1120 page 1, line 28) of $1.357 billion compared with non-citers, which introduce mean book-tax differences of -$43 million to adjust pretax book to mean tax net income of $453 million.[60]

We scale our initial aggregate dollar data by the adjusted total income measure we develop for our Summary M-3 analysis to make data for filers that cite or do not cite a specific code section more

[58]For this report, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. *See* the discussion and footnotes for Figure 3C.

[59]We focus on Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets because of the size and economic importance of those corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with audited (but not SEC Form 10K/public) or unaudited financial statements.

[60]Negative total book-tax difference adjustments added to pretax book income result in tax net income that is lower than pretax book income.



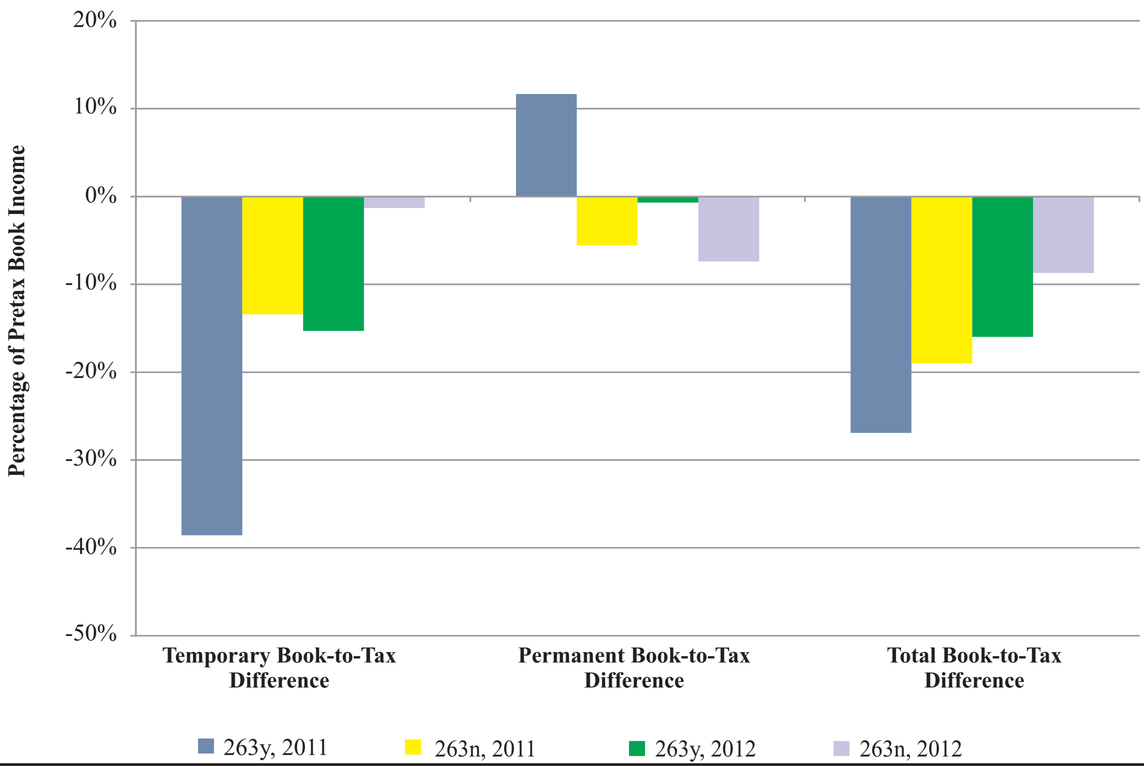
comparable. We used the adjusted total book income amount as a common-size scaling factor and compare percentages of adjusted total book income to remove or minimize the impact of differences in the size of corporations from our analysis. Also, in comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific code section, total pretax income book-tax difference is expressed as a percentage of total pretax book income (see tables 8A and 8B).

Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing section 263 in 2012 report less worldwide income scaled as a percentage of adjusted total income than similar filers not citing section 263 (15.44 percent versus 18.01 percent), less scaled foreign nonincludible income (-10.8 percent versus -16.19 percent), more scaled book income (21.27 percent versus 13.83 percent), more scaled pretax book income (24.82 percent versus 17.36 percent), more scaled tax net income (20.85 percent versus 15.85 percent), and more negative scaled book-tax difference (-3.97 percent versus -1.51 percent) (see Table 8B). If the book-tax difference is scaled by pretax book income, the filers citing section 199 reduce pretax book income by -15.99 percent to determine tax net income, compared with a reduction of -8.71 percent by non-citers (see Table 8A, last row, last column in each panel).

Figure 8A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 263 for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of worldwide income for 2012, foreign nonincludible income for 2011 and 2012, and adjustments to eliminations for 2011 and 2012, for both years, filers citing section 263 report larger scaled amounts for the seven items than non-citers.

Figure 8B uses pretax book income for scaling 2011 and 2012 book-tax differences (temporary, permanent, and total) for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 263. In 2011 and 2012 citers have more negative temporary book-tax differences than non-citers. In 2011 citers have positive permanent book-tax difference and in 2012 less negative permanent book-tax difference compared with negative permanent book-tax difference for non-citers in both years. In

Figure 8B. 2011-2012 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book Income for SEC Form 10K/Public FS by Section 263



aggregate, citers of section 199 have more negative total book-tax differences than non-citers in both 2011 and 2012. Stated differently, the otherwise similar non-citers use negative total book-tax differences to reduce tax net income less than the citers.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the micro-data level and generally use both the sign and amount of the data item.

Figure 8C reports total book-tax differences for six specific Schedule M-3 lines for Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets citing or not citing section 263.[61] The total book-tax differences for each of the six lines are scaled by adjusted total income and averaged for 2011 and 2012. The lines are the top six lines (that is, most extreme six lines) on Schedule M-3, parts II and III, in terms of the absolute value of the difference in two-year average scaled book-tax difference between citers and non-citers.[62]

Figure 8C reports the two-year average scaled total book-tax difference for the six specific Schedule M-3 lines for both the Schedule UTP filers citing section 263 and the non-citers, as well as the difference calculated as the two-year average scaled book-tax difference of the citers minus the two-year average scaled difference of the non-citers. The six lines and the differences are:

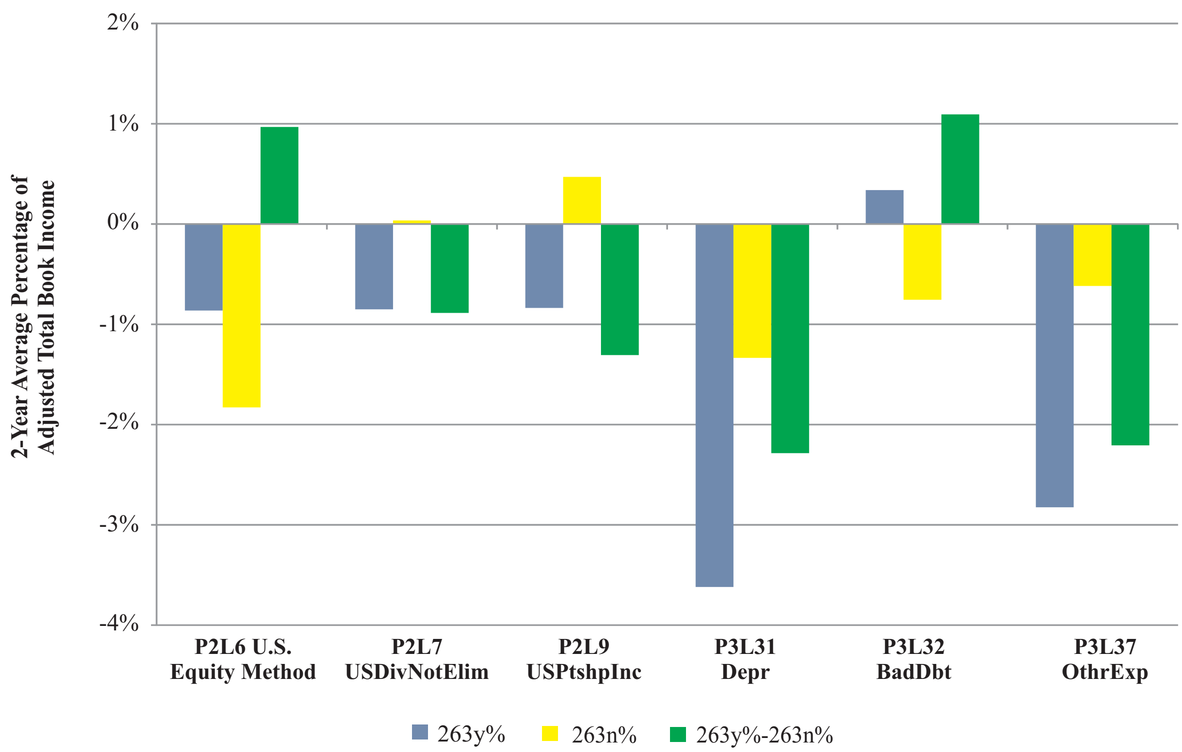
- exclusion from tax income of U.S. equity method income (Part II, line 6);

---

[61]The six lines are selected from and represent approximately 10 percent of the 68 "specified" and "other with differences" lines on Schedule M-3, parts II and III. *See* the discussion and footnotes for Figure 3C.

[62]For this study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. *See* the discussion and footnotes for Figure 3C.

Figure 8C. 2011-2012 U.S. Corporation M-3: 2-Year Average Total Book-to-Tax Difference as Percentage of Adjusted Total Book Income for Top 6 Lines — UTP Filers Citing/Not Citing Section 263 (SEC Form 10K/Public FS)



- citers -0.86 percent, non-citers -1.83 percent, difference 0.97 percent;
- adjustments to U.S. dividends, not eliminated in consolidation, in tax income (Part II, line 7);
  - citers -0.85 percent, non-citers 0.04 percent, difference -0.89 percent;
- adjustments to U.S. partnership income to include all Schedule K-1 income in tax income (Part II, line 9);
  - citers -0.84 percent, non-citers 0.47 percent, difference -1.31 percent;
- adjustment to depreciation expense/deduction in tax income (Part III, line 31);
  - citers -3.62 percent, non-citers -1.33 percent, difference -2.29 percent;
- adjustments to bad debt expense/deduction recognition in tax income (Part III, line 32);
  - citers 0.34 percent, non-citers -0.76 percent, difference 1.09 percent; and
- adjustment to other expense/deduction with differences in tax income (Part III, line 37);
  - citers -2.82 percent, non-citers -0.62 percent, difference -2.21 percent.

IV. Summary and Conclusions

This report compares 2011-2012 Schedule M-3 and Form 1120 tax return data profiles for Schedule UTP filers and nonfilers. For Schedule UTP filers with SEC Form 10K/public financial statements and $100 million or more in assets, the study further compares Schedule M-3 profiles of corporations that cite or do not cite on Schedule UTP any of the five most commonly cited code sections: 482 (transfer pricing), 41 (research credit), 162 (trade or business expense), 199 (domestic production activities deduction), or 263 (capitalized cost). In 2012, 72 percent of those filers cited at least one of the five code sections.

In developing filters and quantitative models for return selection, it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that in fact have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data item with extreme absolute differences. The models would generally operate at the micro-data level and use both the sign and amount of the data item.

We conclude that Schedule UTP filers and nonfilers and Schedule UTP filers that cite frequently cited code sections have Schedule M-3 data profiles that are sufficiently different that Schedule M-3 quantitative models could be developed to detect on Schedule UTP nonfiler returns the underlying issues related to the code sections cited by Schedule UTP filers. We believe those models may assist LB&I return selection.

V. References

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

Boynton, DeFilippes, and Legel, ''Distribution of Schedule M-1 Corporate Book-Tax Difference Data 1990-2003 for Three Large-Size and Three Industry Groups,'' *Tax Notes*, Apr. 10, 2006, p. 177 [2006a].

Boynton, DeFilippes, and Legel, ''A First Look at 2004 Schedule M-3 Reporting by Large Corporations,'' *Tax Notes*, Sept. 11, 2006, p. 943 [2006b].

Boynton, DeFilippes, and Legel, ''A First Look at 2005 Schedule M-3 Corporate Reporting,'' *Tax Notes*, Nov. 3, 2008, p. 563.

Boynton, DeFilippes, Legel, and Todd Reum, ''A First Look at 2007 Schedule M-3 Reporting by Large Corporations,'' *Tax Notes*, Aug. 15, 2011, p. 689.

Boynton, DeFilippes, Legel, and Reum, ''A First Look at 2010 Schedule M-3 Reporting and Schedule UTP,'' *Tax Notes*, July 21, 2014, p. 253.

Boynton, DeFilippes, Legel, and Lisa Rupert, ''2010-2011 Schedule M-3 Profiles and Schedule UTP Filing Status,'' *Tax Notes*, Nov. 3, 2014, p. 535.

Boynton and Barbara Livingston, ''Partnerships With Reportable Entity Partners,'' *Tax Notes*, Aug. 30, 2010, p. 949.

Boynton and Lillian Mills, ''The Evolving Schedule M-3: A New Era of Corporate Show and Tell?'' 57 *Nat'l Tax J.* 757 (2004).

Boynton and William Wilson, ''A Review of Schedule M-3, The Internal Revenue Service's New Book-Tax Reconciliation Tool,'' 25 *Petroleum Acct. & Fin. Mgmt. J.* 1 (2006).

IRS Publication 1075, *Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities: Safeguards for Protecting Federal Tax Returns and Return Information* (rev. 2007).

Mills, ''Book-Tax Differences and Internal Revenue Service Adjustments,'' 36 *J. Acct. Res.* 343 (1998).

Mills and George A. Plesko, ''Bridging the Gap: A Proposal for More Informative Reconciling of Book and Tax Income,'' 56 *Nat'l Tax J.* 865 (2003).

Office of Management and Budget, ''Report on Statistical Disclosure Limitation Mythology,'' working paper 22 (rev. 2005).

Plesko, ''Reconciling Corporate Book and Tax Net Income, Tax Years 1996-1998,'' 21 *SOI Bull.* 1 (2002).

Plesko and Nina L. Shumofsky, ''Reconciling Corporate Book and Tax Net Income, Tax Years 1995-2001,'' 24 *SOI Bull.* 103-108 (2005).

Talisman, Jonathan, ''Corporate Tax Shelters and the Corporate Tax Base,'' at 4-6, in ''Penalty and Interest Provisions, Corporate Tax Shelters,'' testimony before the Senate Finance Committee (Mar. 8, 2000).

Towery, Erin, ''The Interplay Between Mandatory Disclosure Regulation and Voluntary Disclosure: Evidence From Schedule UTP,'' University of Georgia working paper (2015).

Treasury Department, ''Evidence of Growth in Corporate Tax Shelters,'' in *The Problem of Corporate Tax Shelters: Discussion, Analysis, and Legislative Proposals*, at 31-33 (1999).

(Tables appear on the following pages.)

Table 1A. UTP Presence by Asset Size and Financial Statement for 2011

Millions of Dollars	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage
All	41,636	100%	51,095,020	100%	820,641	100%	-776,435	100%	879,279	100%	715,873	100%	190,756	100%	104,882	100%
Nonfilers	39,476	95%	15,207,307	30%	50,936	6%	-80,134	10%	76,819	9%	104,741	15%	65,479	34%	15,946	15%
Filers	2,160	5%	35,887,713	70%	769,705	94%	-696,301	90%	802,460	91%	611,132	85%	125,278	66%	88,936	85%
All filers > $100 million	2,074	5%	35,883,467	70%	770,004	94%	-695,826	90%	803,216	91%	611,598	85%	125,224	66%	88,912	85%
Section 41 cited	894	2%	12,968,969	25%	401,950	49%	-447,672	58%	396,657	45%	282,142	39%	60,800	32%	27,412	26%
Section 482 cited	580	1%	11,900,515	23%	436,914	53%	-547,900	71%	362,366	41%	346,609	48%	51,918	27%	61,459	59%
Section 162 cited	266	1%	6,835,859	13%	236,615	29%	-107,329	14%	266,196	30%	202,600	28%	35,093	18%	38,649	37%
Section 199 cited	184	0%	3,555,282	7%	219,551	27%	-164,848	21%	222,904	25%	209,271	29%	31,877	17%	38,495	37%
Section 263 cited	121	0%	3,203,219	6%	105,703	13%	-74,662	10%	131,983	15%	87,612	12%	18,169	10%	16,498	16%
Assets > $1 billion	2,751	7%	47,199,385	92%	782,195	95%	-753,264	97%	833,435	95%	687,664	96%	157,550	83%	101,499	97%
Assets > $1 billion, nonfilers	1,679	4%	11,711,321	23%	24,801	3%	-64,184	8%	41,953	5%	88,008	12%	37,266	20%	13,533	13%
Assets > $1 billion, filers	1,072	3%	35,488,064	69%	757,395	92%	-689,080	89%	791,482	90%	599,656	84%	120,283	63%	87,966	84%
Section 41 cited	412	1%	12,775,960	25%	395,007	48%	-444,033	57%	390,541	44%	276,399	39%	58,363	31%	27,010	26%
Section 482 cited	360	1%	11,806,232	23%	432,743	53%	-544,478	70%	358,381	41%	342,434	48%	50,789	27%	60,883	58%
Section 162 cited	203	0%	6,805,328	13%	235,094	29%	-106,177	14%	264,557	30%	200,591	28%	34,488	18%	38,502	37%
Section 199 cited	123	0%	3,528,857	7%	216,904	26%	-163,805	21%	220,023	25%	206,980	29%	31,248	16%	38,362	37%
Section 263 cited	100	0%	3,193,308	6%	105,202	13%	-74,655	10%	131,367	15%	87,342	12%	18,079	9%	16,465	16%
Assets > $100 million and < $1 billion	9,556	23%	2,994,373	6%	38,905	5%	-14,814	2%	48,597	6%	34,058	5%	23,241	12%	2,990	3%
Assets > $100 million and < $1 billion, nonfilers	8,554	21%	2,598,970	5%	26,295	3%	-8,068	1%	36,863	4%	22,116	3%	18,301	10%	2,044	2%
Assets > $100 million and < $1 billion, filers	1,002	2%	395,403	1%	12,610	2%	-6,746	1%	11,734	1%	11,942	2%	4,940	3%	946	1%
Section 41 cited	482	1%	193,009	0%	6,942	1%	-3,639	0%	6,116	1%	5,743	1%	2,437	1%	402	0%
Section 482 cited	220	1%	94,283	0%	4,171	1%	-3,422	0%	3,985	0%	4,175	1%	1,130	1%	576	1%
Section 162 cited	63	0%	30,531	0%	1,521	0%	-1,152	0%	1,639	0%	2,009	0%	605	0%	147	0%
Section 199 cited	61	0%	26,425	0%	2,647	0%	-1,043	0%	2,881	0%	2,291	0%	628	0%	133	0%
Section 263 cited	21	0%	9,911	0%	501	0%	-7	0%	616	0%	270	0%	91	0%	33	0%
Assets > $10 million and < $100 million	29,329	70%	901,262	2%	-459	0%	-8,357	1%	-2,754	0%	-5,850	-1%	9,965	5%	393	0%
Assets > $10 million and < $100 million, nonfilers	29,243	70%	897,016	2%	-160	0%	-7,881	1%	-1,998	0%	-5,384	-1%	9,911	5%	369	0%
Assets > $10 million and < $100 million, filers	86	0%	4,246	0%	-299	0%	-475	0%	-756	0%	-467	0%	54	0%	24	0%
SEC 10K/Public	4,488	11%	37,697,048	74%	867,248	106%	-748,596	96%	878,771	100%	637,691	89%	137,090	72%	94,412	90%
SEC 10K/Public nonfilers	3,250	8%	6,346,372	12%	134,769	16%	-65,676	8%	138,573	16%	79,351	11%	28,086	15%	11,170	11%
SEC 10K/Public filers	1,238	3%	31,350,676	61%	732,479	89%	-682,920	88%	740,198	84%	558,340	78%	109,004	57%	83,242	79%
SEC 10K/Public filers > $100 million	1,227	3%	31,349,918	61%	732,811	89%	-682,842	88%	740,593	84%	558,750	78%	108,995	57%	83,242	79%
Section 41 cited	594	1%	12,017,709	24%	382,692	47%	-445,473	57%	361,667	41%	256,933	36%	54,004	28%	26,484	25%
Section 482 cited	335	1%	9,422,154	18%	418,507	51%	-542,484	70%	332,959	38%	319,426	45%	44,339	23%	58,663	56%
Section 162 cited	188	0%	6,354,718	12%	235,892	29%	-106,759	14%	265,144	30%	200,297	28%	33,426	18%	38,577	37%
Section 199 cited	135	0%	3,238,242	6%	210,439	26%	-164,334	21%	203,127	23%	200,197	28%	29,584	16%	38,199	36%
Section 263 cited	93	0%	2,574,949	5%	106,345	13%	-74,654	10%	132,747	15%	84,418	12%	17,001	9%	16,292	16%
SEC 10K/Public filers > $1 billion	748	2%	31,148,090	61%	723,340	88%	-677,128	87%	732,578	83%	551,856	77%	106,199	56%	82,680	79%
Section 41 cited	313	1%	11,901,987	23%	377,192	46%	-442,147	57%	357,238	41%	253,245	35%	52,472	28%	26,219	25%
Section 482 cited	246	1%	9,379,195	18%	415,226	51%	-539,710	70%	330,331	38%	317,175	44%	43,839	23%	58,332	56%
Section 162 cited	159	0%	6,339,808	12%	234,372	29%	-105,620	14%	263,577	30%	198,735	28%	32,963	17%	38,438	37%
Section 199 cited	96	0%	3,221,419	6%	208,264	25%	-163,359	21%	200,802	23%	198,261	28%	29,080	15%	38,101	36%
Section 263 cited	83	0%	2,569,772	5%	106,082	13%	-74,601	10%	132,482	15%	84,165	12%	16,937	9%	16,259	16%

Table 1B. UTP Presence by Asset Size and Financial Statement for 2011 (Table 1A., Continued)

Millions of Dollars	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage
SEC 10K/Public filers > $100 million and < $1 billion	479	1%	201,828	0%	9,471	1%	-5,714	1%	8,015	1%	6,894	1%	2,797	1%	562	1%
Section 41 cited	281	1%	115,722	0%	5,500	1%	-3,326	0%	4,428	1%	3,688	1%	1,532	1%	265	0%
Section 482 cited	89	0%	42,959	0%	3,281	0%	-2,774	0%	2,628	0%	2,251	0%	500	0%	330	0%
Section 162 cited	29	0%	14,910	0%	1,520	0%	-1,139	0%	1,567	0%	1,562	0%	463	0%	139	0%
Section 199 cited	39	0%	16,823	0%	2,175	0%	-974	0%	2,325	0%	1,936	0%	504	0%	98	0%
Section 263 cited	10	0%	5,177	0%	263	0%	-53	0%	264	0%	252	0%	64	0%	33	0%
SEC 10K/Public filers < $100 million	11	0%	758	0%	-332	0%	-77	0%	-394	0%	-409	0%	8	0%	0	0%
Audited	17,298	42%	6,354,953	12%	63,688	8%	-22,616	3%	92,621	11%	45,882	6%	27,160	14%	5,769	6%
Audited nonfilers	16,723	40%	3,791,167	7%	36,225	4%	-10,438	1%	48,223	5%	23,611	3%	20,233	11%	1,620	2%
Audited filers	575	1%	2,563,786	5%	27,463	3%	-12,179	2%	44,398	5%	22,270	3%	6,927	4%	4,149	4%
Audited filers > $100 million	535	1%	2,561,995	5%	27,278	3%	-11,768	2%	44,613	5%	22,246	3%	6,914	4%	4,125	4%
Audited filers > $1 billion	159	0%	2,428,108	5%	24,472	3%	-10,914	1%	41,776	5%	18,276	3%	5,364	3%	3,864	4%
Audited filers > $100 million and < $1 billion	376	1%	133,887	0%	2,805	0%	-853	0%	2,837	0%	3,970	1%	1,551	1%	261	0%
Audited filers < $100 million	39	0%	1,791	0%	185	0%	-411	0%	-215	0%	24	0%	13	0%	24	0%
Unaudited	19,850	48%	7,043,018	14%	-110,295	-13%	-5,223	1%	-92,114	-10%	32,300	5%	26,506	14%	4,701	4%
Unaudited nonfilers	19,503	47%	5,069,768	10%	-120,058	-15%	-4,020	1%	-109,977	-13%	1,779	0%	17,159	9%	3,156	3%
Unaudited filers	347	1%	1,973,250	4%	9,763	1%	-1,203	0%	17,864	2%	30,521	4%	9,347	5%	1,545	1%
Unaudited filers > $100 million	311	1%	1,971,553	4%	9,915	1%	-1,216	0%	18,011	2%	30,603	4%	9,314	5%	1,545	1%
Unaudited filers > $1 billion	165	0%	1,911,866	4%	9,582	1%	-1,037	0%	17,128	2%	29,524	4%	8,721	5%	1,422	1%
Unaudited filers > $100 million and < $1 billion	146	0%	59,687	0%	333	0%	-178	0%	883	0%	1,079	0%	592	0%	123	0%
Unaudited filers < $100 million	36	0%	1,697	0%	-152	0%	13	0%	-147	0%	-82	0%	33	0%	0	0%
Nonpublic filers > $100 million	846	2%	4,533,548	9%	37,193	5%	-12,983	2%	62,624	7%	52,849	7%	16,228	9%	5,670	5%
Section 41 cited	300	1%	951,260	2%	19,257	2%	-2,199	0%	34,990	4%	25,209	4%	6,796	4%	928	1%
Section 482 cited	245	1%	2,478,361	5%	18,407	2%	-5,416	1%	29,407	3%	27,182	4%	7,580	4%	2,796	3%
Section 162 cited	78	0%	481,141	1%	724	0%	-570	0%	1,052	0%	2,303	0%	1,667	1%	73	0%
Section 199 cited	49	0%	317,040	1%	9,112	1%	-515	0%	19,777	2%	9,074	1%	2,293	1%	296	0%
Section 263 cited	28	0%	628,270	1%	-642	0%	-8	0%	-764	0%	3,195	0%	1,168	1%	206	0%
Nonpublic filers > $1 billion	324	1%	4,339,974	8%	34,054	4%	-11,952	2%	58,904	7%	47,800	7%	14,085	7%	5,286	5%
Section 41 cited	99	0%	873,973	2%	17,815	2%	-1,886	0%	33,303	4%	23,155	3%	5,891	3%	791	1%
Section 482 cited	114	0%	2,427,037	5%	17,517	2%	-4,768	1%	28,050	3%	25,258	4%	6,950	4%	2,550	2%
Section 162 cited	44	0%	465,520	1%	722	0%	-556	0%	980	0%	1,857	0%	1,524	1%	64	0%
Section 199 cited	27	0%	307,438	1%	8,641	1%	-446	0%	19,222	2%	8,719	1%	2,168	1%	261	0%
Section 263 cited	17	0%	623,536	1%	-880	0%	-54	0%	-1,115	0%	3,177	0%	1,142	1%	206	0%
Nonpublic filers > $100 million and < $1 billion	522	1%	193,575	0%	3,139	0%	-1,032	0%	3,720	0%	5,048	1%	2,143	1%	384	0%
Section 41 cited	201	0%	77,288	0%	1,442	0%	-313	0%	1,687	0%	2,055	0%	906	0%	137	0%
Section 482 cited	131	0%	51,324	0%	890	0%	-648	0%	1,357	0%	1,924	0%	629	0%	246	0%
Section 162 cited	34	0%	15,621	0%	1	0%	-13	0%	71	0%	447	0%	143	0%	8	0%
Section 199 cited	22	0%	9,603	0%	471	0%	-69	0%	556	0%	355	0%	124	0%	35	0%
Section 263 cited	11	0%	4,734	0%	238	0%	46	0%	351	0%	18	0%	27	0%	0	0%

Millions of Dollars	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage
All	42,301	100%	50,897,122	100%	969,512	100%	-669,129	100%	1,027,879	100%	889,481	100%	228,822	100%	81,349	100%
Nonfilers	40,069	95%	21,188,137	42%	277,831	29%	-87,779	13%	288,354	28%	235,288	26%	83,278	36%	16,285	20%
Filers	2,232	5%	29,708,985	58%	691,680	71%	-581,350	87%	739,525	72%	654,193	74%	145,545	64%	65,064	80%
All filers > $100 million	2,018	5%	29,694,251	58%	692,312	71%	-581,173	87%	740,148	72%	654,690	74%	145,186	63%	65,044	80%
Section 41 cited	772	2%	8,090,907	16%	276,498	29%	-247,853	37%	280,587	27%	218,371	25%	52,915	23%	14,168	17%
Section 482 cited	554	1%	9,469,654	19%	359,576	37%	-467,124	70%	292,600	28%	277,767	31%	55,008	24%	35,997	44%
Section 162 cited	247	1%	9,704,072	19%	164,886	17%	-66,778	10%	213,091	21%	167,669	19%	40,398	18%	15,480	19%
Section 199 cited	179	0%	2,417,199	5%	195,509	20%	-165,073	25%	152,274	15%	140,281	16%	30,823	13%	14,709	18%
Section 263 cited	128	0%	2,550,571	5%	95,932	10%	-63,867	10%	153,750	15%	92,352	10%	19,080	8%	13,348	16%
Assets > $1 billion	2,856	7%	46,971,632	92%	924,509	95%	-648,604	97%	979,508	95%	830,805	93%	189,923	83%	78,418	96%
Assets > $1 billion nonfilers	1,777	4%	17,661,062	35%	240,752	25%	-72,165	11%	250,620	24%	191,121	21%	50,237	22%	14,107	17%
Assets > $1 billion filers	1,079	3%	29,310,570	58%	683,757	71%	-576,439	86%	728,888	71%	639,684	72%	139,686	61%	64,311	79%
Section 41 cited	336	1%	7,912,481	16%	271,784	28%	-245,475	37%	274,310	27%	210,782	24%	50,211	22%	13,859	17%
Section 482 cited	355	1%	9,378,297	18%	357,220	37%	-464,672	69%	290,308	28%	273,463	31%	53,768	23%	35,754	44%
Section 162 cited	190	0%	9,677,327	19%	164,318	17%	-66,397	10%	212,558	21%	166,824	19%	40,059	18%	15,451	19%
Section 199 cited	119	0%	2,389,447	5%	192,749	20%	-163,897	24%	149,121	15%	137,030	15%	29,921	13%	14,573	18%
Section 263 cited	99	0%	2,538,822	5%	95,806	10%	-63,811	10%	153,568	15%	92,098	10%	18,993	8%	13,313	16%
Assets > $100 million and < $1 billion	9,571	23%	3,011,515	6%	39,254	4%	-12,064	2%	51,313	5%	55,538	6%	27,446	12%	2,494	3%
Assets > $100 million and < $1 billion, nonfilers	8,632	20%	2,627,833	5%	30,699	3%	-7,330	1%	40,053	4%	40,531	5%	21,946	10%	1,761	2%
Assets > $100 million and < $1 billion, filers	939	2%	383,682	1%	8,555	1%	-4,734	1%	11,260	1%	15,006	2%	5,500	2%	733	1%
Section 41 cited	436	1%	178,425	0%	4,714	0%	-2,378	0%	6,277	1%	7,589	1%	2,703	1%	309	0%
Section 482 cited	199	0%	91,357	0%	2,356	0%	-2,453	0%	2,292	0%	4,304	0%	1,240	1%	243	0%
Section 162 cited	57	0%	26,745	0%	567	0%	-382	0%	533	0%	845	0%	339	0%	30	0%
Section 199 cited	60	0%	27,752	0%	2,760	0%	-1,175	0%	3,153	0%	3,251	0%	903	0%	136	0%
Section 263 cited	29	0%	11,749	0%	126	0%	-56	0%	182	0%	254	0%	87	0%	35	0%
Assets > $10 million and < $100 million	29,874	71%	913,975	2%	5,749	1%	-8,461	1%	-2,942	0%	3,138	0%	11,453	5%	437	1%
Assets > $10 million and < $100 million, nonfilers	29,660	70%	899,242	2%	6,381	1%	-8,284	1%	-2,318	0%	3,635	0%	11,094	5%	417	1%
Assets > $10 million and < $100 million, filers	214	1%	14,733	0%	-632	0%	-178	0%	-623	0%	-498	0%	359	0%	20	0%
SEC 10K/Public	4,339	10%	37,053,332	73%	830,523	86%	-633,774	95%	856,373	83%	691,661	78%	161,981	71%	65,826	81%
SEC 10K/Public nonfilers	3,109	7%	12,117,934	24%	180,927	19%	-67,760	10%	171,559	17%	128,538	14%	36,666	16%	9,789	12%
SEC 10K/Public filers	1,230	3%	24,935,398	49%	649,596	67%	-566,014	85%	684,814	67%	563,123	63%	125,314	55%	56,037	69%
SEC 10K/Public filers > $100 million	1,176	3%	24,931,339	49%	649,845	67%	-565,835	85%	685,232	67%	563,578	63%	125,261	55%	56,034	69%
Section 41 cited	506	1%	7,203,724	14%	259,401	27%	-246,431	37%	257,066	25%	187,595	21%	44,633	20%	12,504	15%
Section 482 cited	326	1%	7,798,171	15%	331,638	34%	-459,800	69%	262,031	25%	244,930	28%	46,929	21%	32,918	40%
Section 162 cited	164	0%	8,576,916	17%	155,503	16%	-62,374	9%	204,080	20%	149,999	17%	36,415	16%	12,927	16%
Section 199 cited	130	0%	2,255,147	4%	192,757	20%	-164,726	25%	148,203	14%	131,989	15%	28,669	13%	14,514	18%
Section 263 cited	91	0%	2,304,560	5%	91,407	9%	-63,933	10%	146,988	14%	85,809	10%	16,465	7%	13,329	16%
SEC 10K/Public filers > $1 billion	734	2%	24,734,481	49%	643,929	66%	-562,254	84%	678,196	66%	554,893	62%	122,233	53%	55,550	68%
Section 41 cited	241	1%	7,091,740	14%	255,743	26%	-244,305	37%	252,709	25%	182,306	20%	42,867	19%	12,287	15%
Section 482 cited	236	1%	7,751,584	15%	329,690	34%	-457,717	68%	260,638	25%	242,481	27%	46,359	20%	32,727	40%
Section 162 cited	140	0%	8,565,492	17%	155,244	16%	-62,002	9%	203,803	20%	149,392	17%	36,212	16%	12,905	16%
Section 199 cited	93	0%	2,236,003	4%	190,479	20%	-163,783	24%	145,799	14%	129,651	15%	28,007	12%	14,436	18%
Section 263 cited	82	0%	2,299,717	5%	91,210	9%	-63,831	10%	146,760	14%	85,625	10%	16,414	7%	13,297	16%

Table 2A. UTP Presence by Asset Size and Financial Statement for 2012

Table 2B. UTP Presence by Asset Size and Financial Statement for 2012 (Table 2A., Continued)

Millions of Dollars	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage	Sum	Percentage
SEC 10K/Public filers > $100 million and < $1 billion	442	1%	196,857	0%	5,917	1%	-3,581	1%	7,035	1%	8,685	1%	3,028	1%	484	1%
Section 41 cited	265	1%	111,985	0%	3,658	0%	-2,126	0%	4,357	0%	5,289	1%	1,766	1%	217	0%
Section 482 cited	90	0%	46,587	0%	1,949	0%	-2,083	0%	1,393	0%	2,449	0%	570	0%	190	0%
Section 162 cited	24	0%	11,424	0%	259	0%	-372	0%	277	0%	606	0%	202	0%	22	0%
Section 199 cited	37	0%	19,144	0%	2,278	0%	-943	0%	2,404	0%	2,338	0%	662	0%	77	0%
Section 263 cited	9	0%	4,843	0%	198	0%	-102	0%	228	0%	184	0%	51	0%	32	0%
SEC 10K/Public filers < $100 million	54	0%	4,059	0%	-249	0%	-179	0%	-417	0%	-455	0%	53	0%	3	0%
Audited	17,192	41%	6,933,274	14%	66,555	7%	-24,750	4%	81,973	8%	100,536	11%	36,403	16%	8,336	10%
Audited nonfilers	16,545	39%	4,168,814	8%	52,168	5%	-11,975	2%	61,781	6%	52,981	6%	26,116	11%	2,008	2%
Audited filers	647	2%	2,764,460	5%	14,387	1%	-12,775	2%	20,192	2%	47,555	5%	10,287	4%	6,328	8%
Audited filers > $100 million	533	1%	2,756,837	5%	14,812	2%	-12,765	2%	20,519	2%	47,611	5%	10,097	4%	6,312	8%
Audited filers > $1 billion	174	0%	2,629,659	5%	12,901	1%	-12,173	2%	17,166	2%	42,602	5%	8,229	4%	6,137	8%
Audited filers > $100 million and < $1 billion	359	1%	127,178	0%	1,911	0%	-593	0%	3,352	0%	5,009	1%	1,868	1%	175	0%
Audited filers < $100 million	114	0%	7,624	0%	-425	0%	-10	0%	-327	0%	-56	0%	190	0%	15	0%
Unaudited	20,770	49%	6,910,516	14%	72,433	7%	-10,605	2%	89,533	9%	97,284	11%	30,438	13%	7,187	9%
Unaudited nonfilers	20,415	48%	4,901,389	10%	44,736	5%	-8,044	1%	55,014	5%	53,769	6%	20,496	9%	4,488	6%
Unaudited filers	355	1%	2,009,126	4%	27,697	3%	-2,561	0%	34,519	3%	43,515	5%	9,943	4%	2,699	3%
Unaudited filers > $100 million	309	1%	2,006,076	4%	27,655	3%	-2,573	0%	34,398	3%	43,501	5%	9,828	4%	2,697	3%
Unaudited filers > $1 billion	171	0%	1,946,429	4%	26,928	3%	-2,012	0%	33,526	3%	42,189	5%	9,224	4%	2,624	3%
Unaudited filers > $100 million and < $1 billion	138	0%	59,647	0%	727	0%	-560	0%	872	0%	1,312	0%	603	0%	74	0%
Unaudited filers < $100 million	46	0%	3,050	0%	42	0%	11	0%	121	0%	14	0%	115	0%	1	0%
Nonpublic filers > $100 million	842	2%	4,762,913	9%	42,467	4%	-15,338	2%	54,917	5%	91,112	10%	19,925	9%	9,009	11%
Section 41 cited	266	1%	887,182	2%	17,097	2%	-1,422	0%	23,521	2%	30,777	3%	8,282	4%	1,664	2%
Section 482 cited	228	1%	1,671,483	3%	27,938	3%	-7,324	1%	30,569	3%	32,836	4%	8,079	4%	3,080	4%
Section 162 cited	83	0%	1,127,156	2%	9,383	1%	-4,405	1%	9,011	1%	17,670	2%	3,983	2%	2,553	3%
Section 199 cited	49	0%	162,052	0%	2,752	0%	-346	0%	4,071	0%	8,292	1%	2,155	1%	195	0%
Section 263 cited	37	0%	246,011	0%	4,525	0%	66	0%	6,762	1%	6,543	1%	2,615	1%	19	0%
Nonpublic filers > $1 billion	345	1%	4,576,088	9%	39,829	4%	-14,185	2%	50,692	5%	84,791	10%	17,453	8%	8,761	11%
Section 41 cited	95	0%	820,742	2%	16,041	2%	-1,170	0%	21,601	2%	28,477	3%	7,345	3%	1,572	2%
Section 482 cited	119	0%	1,626,713	3%	27,530	3%	-6,955	1%	29,670	3%	30,981	3%	7,409	3%	3,027	4%
Section 162 cited	50	0%	1,111,835	2%	9,074	1%	-4,395	1%	8,755	1%	17,432	2%	3,847	2%	2,546	3%
Section 199 cited	26	0%	153,444	0%	2,270	0%	-114	0%	3,322	0%	7,379	1%	1,914	1%	137	0%
Section 263 cited	17	0%	239,105	0%	4,596	0%	21	0%	6,808	1%	6,473	1%	2,580	1%	16	0%
Nonpublic filers > $100 million and < $1 billion	497	1%	186,825	0%	2,638	0%	-1,153	0%	4,225	0%	6,321	1%	2,471	1%	248	0%
Section 41 cited	171	0%	66,441	0%	1,056	0%	-252	0%	1,920	0%	2,300	0%	937	0%	92	0%
Section 482 cited	109	0%	44,769	0%	408	0%	-370	0%	899	0%	1,855	0%	670	0%	53	0%
Section 162 cited	33	0%	15,321	0%	309	0%	-10	0%	256	0%	238	0%	137	0%	7	0%
Section 199 cited	23	0%	8,608	0%	482	0%	-232	0%	749	0%	913	0%	241	0%	58	0%
Section 263 cited	20	0%	6,905	0%	-71	0%	46	0%	-46	0%	70	0%	36	0%	3	0%

Table 3A. 2012 U.S. Corporation Form 1120 Schedule M-3: Summary M-3 by UTP Status: SEC 10K/Public: Assets $100 Million or More

	Millions of Dollars					Percentage of Adjusted Total Income Book					Percentage Pretax Book		
UTP Filer	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	6,615,611	0	0	6,615,611	0	179.17%	0.00%	0.00%	179.17%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-4,071,080	-7,006	-201	-4,078,286	-7,208	-110.25%	-0.19%	-0.01%	-110.45%	-0.20%	-1.02%	-0.03%	-1.05%
Adjusted gross profit	2,544,531	-7,006	-201	2,537,325	-7,208	68.91%	-0.19%	-0.01%	68.72%	-0.20%	-1.02%	-0.03%	-1.05%
Specified income	999,311	29,906	-32,262	996,825	-2,356	27.06%	0.81%	-0.87%	27.00%	-0.06%	4.36%	-4.71%	-0.34%
Adjusted other income — difference	148,617	24,110	-16,732	155,995	7,378	4.02%	0.65%	-0.45%	4.22%	0.20%	3.52%	-2.44%	1.08%
Adjusted total income	3,692,459	47,010	-49,195	3,690,145	-2,186	100.00%	1.27%	-1.33%	99.94%	-0.06%	6.86%	-7.18%	-0.32%
Specified expense/deduction	-987,005	-35,760	8,245	-1,014,390	-27,515	-26.73%	-0.97%	0.22%	-27.47%	-0.75%	-5.22%	1.20%	-4.02%
Other expense/deduction — difference	-1,090,550	-40,776	119	-1,131,208	-40,657	-29.53%	-1.10%	0.00%	-30.64%	-1.10%	-5.95%	0.02%	-5.93%
Other expense/deduction — no difference	-929,673	0	0	-929,673	0	-25.18%	0.00%	0.00%	-25.18%	0.00%	0.00%	0.00%	0.00%
Pretax net income	685,231	-29,526	-40,831	614,874	-70,358	18.56%	-0.80%	-1.11%	16.65%	-1.91%	-4.31%	-5.96%	-10.27%
UTP Nonfiler	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	2,365,953	0	0	2,365,959	0	157.66%	0.00%	0.00%	157.66%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-1,372,691	-15,165	1,927	-1,385,952	-13,238	-91.47%	-1.01%	0.13%	-92.36%	-0.88%	-8.57%	1.09%	-7.48%
Adjusted gross profit	993,262	-15,165	1,927	980,007	-13,238	66.19%	-1.01%	0.13%	65.31%	-0.88%	-8.57%	1.09%	-7.48%
Specified income	440,252	-89,400	13,397	364,261	-76,003	29.34%	-5.96%	0.89%	24.27%	-5.06%	-50.54%	7.57%	-42.96%
Adjusted other income — difference	67,118	11,920	-3,818	75,222	8,103	4.47%	0.79%	-0.25%	5.01%	0.54%	6.74%	-2.16%	4.58%
Adjusted total income	1,500,632	-92,645	11,506	1,419,490	-81,138	100.00%	-6.17%	0.77%	94.59%	-5.41%	-52.37%	6.50%	-45.86%
Specified expense/deduction	-493,009	61,604	-708	-432,107	60,896	-32.85%	4.11%	-0.05%	-28.80%	4.06%	34.82%	-0.40%	34.42%
Other expense/deduction — difference	-402,488	-19,387	1,339	-420,537	-18,048	-26.82%	-1.29%	0.09%	-28.02%	-1.20%	-10.96%	0.76%	-10.20%
Other expense/deduction — no difference	-428,228	0	0	-428,228	0	-28.54%	0.00%	0.00%	-28.54%	0.00%	0.00%	0.00%	0.00%
Pretax net income	176,907	-50,428	12,137	138,618	-38,290	11.79%	-3.36%	0.81%	9.24%	-2.55%	-28.51%	6.86%	-21.64%

Table 3B. 2012 U.S. Corporation Form 1120 Schedule M-3: Summary M-3 Part I by UTP Status: SEC 10K/Public: Assets $100 Million or More

	Means in Millions of Dollars		Percentage Adjusted Total Income Book		
	UTP Filer	UTP Nonfiler	UTP Filer	UTP Nonfiler	Difference
Worldwide financial net income	$553	$87	17.60%	12.21%	5.39%
(Foreign nonincludible income)	-$481	-$31	-15.32%	-4.40%	-10.92%
(U.S. nonincludible income)	-$32	-$8	-1.01%	-1.15%	0.15%
Other includible income	$1	-$1	0.03%	-0.11%	0.14%
Adjustments to eliminations	$294	$5	9.37%	0.72%	8.66%
Other adjustments	$131	$12	4.16%	1.69%	2.47%
Book net income	$472	$64	15.02%	9.00%	6.03%
Pretax net income — book	$583	$84	18.56%	11.79%	6.77%
Tax net income	$523	$66	16.65%	9.24%	7.41%
Total book-tax difference	-$60	-$18	-1.91%	-2.55%	0.65%
Total assets — Schedule L	$21,200	$5,719	Number of Returns		
Assets — financial statements	$18,980	$3,018	UTP Filer	UTP Nonfiler	Total
Assets — foreign nonincludible	$7,571	$530	1,176	2,112	3,288
Assets — U.S. nonincludible	$653	$233	35.77%	64.23%	100.00%
Assets — other includible	$118	$18			

Table 4A. 2012 U.S. Corporation Form 1120 Schedule M-3: Summary M-3 — Section 482 Cited: SEC 10K/Public: Assets $100 Million or More

	Millions of Dollars					Percentage of Adjusted Total Income Book					Percentage Pretax Book		
UTP Filer Citing Section 482	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	2,504,196	0	0	2,504,196	0	181.42%	0.00%	0.00%	181.42%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-1,618,979	-841	-420	-1,620,239	-1,261	-117.29%	-0.06%	-0.03%	-117.38%	-0.09%	-0.32%	-0.16%	-0.48%
Adjusted gross profit	885,217	-841	-420	883,957	-1,261	64.13%	-0.06%	-0.03%	64.04%	-0.09%	-0.32%	-0.16%	-0.48%
Specified income	316,896	22,232	-2,769	336,358	19,464	22.96%	1.61%	-0.20%	24.37%	1.41%	8.48%	-1.06%	7.43%
Adjusted other income — difference	178,192	9,659	-14,290	173,560	-4,632	12.91%	0.70%	-1.04%	12.57%	-0.34%	3.69%	-5.45%	-1.77%
Adjusted total income	1,380,305	31,050	-17,479	1,393,875	13,571	100.00%	2.25%	-1.27%	100.98%	0.98%	11.85%	-6.67%	5.18%
Specified expense/deduction	-408,004	-11,419	70	-419,352	-11,349	-29.56%	-0.83%	0.01%	-30.38%	-0.82%	-4.36%	0.03%	-4.33%
Other expense/deduction — difference	-366,729	-5,317	-338	-372,383	-5,655	-26.57%	-0.39%	-0.02%	-26.98%	-0.41%	-2.03%	-0.13%	-2.16%
Other expense/deduction — no difference	-343,541	0	0	-343,541	0	-24.89%	0.00%	0.00%	-24.89%	0.00%	0.00%	0.00%	0.00%
Pretax net income	262,031	14,314	-17,747	258,599	-3,433	18.98%	1.04%	-1.29%	18.73%	-0.25%	5.46%	-6.77%	-1.31%
UTP Filer Not Citing Section 482	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	4,111,415	0	0	4,111,415	0	177.82%	0.00%	0.00%	177.82%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-2,452,101	-6,165	219	-2,458,047	-5,946	-106.05%	-0.27%	0.01%	-106.31%	-0.26%	-1.46%	0.05%	-1.41%
Adjusted gross profit	1,659,314	-6,165	219	1,653,368	-5,946	71.76%	-0.27%	0.01%	71.51%	-0.26%	-1.46%	0.05%	-1.41%
Specified income	682,415	7,674	-29,493	660,467	-21,819	29.51%	0.33%	-1.28%	28.56%	-0.94%	1.81%	-6.97%	-5.16%
Adjusted other income — difference	-29,574	14,451	-2,442	-17,565	12,009	-1.28%	0.63%	-0.11%	-0.76%	0.52%	3.41%	-0.58%	2.84%
Adjusted total income	2,312,155	15,960	-31,716	2,296,270	-15,756	100.00%	0.69%	-1.37%	99.31%	-0.68%	3.77%	-7.49%	-3.72%
Specified expense/deduction	-579,000	-24,341	8,175	-595,038	-16,166	-25.04%	-1.05%	0.35%	-25.74%	-0.70%	-5.75%	1.93%	-3.82%
Other expense/deduction — difference	-723,822	-35,459	457	-758,824	-35,002	-31.31%	-1.53%	0.02%	-32.82%	-1.51%	-8.38%	0.11%	-8.27%
Other expense/deduction — no difference	-586,132	0	0	-586,132	0	-25.35%	0.00%	0.00%	-25.35%	0.00%	0.00%	0.00%	0.00%
Pretax net income	423,201	-43,840	-23,084	356,276	-66,924	18.30%	-1.90%	-1.00%	15.41%	-2.89%	-10.36%	-5.45%	-15.81%

Table 4B. 2012 U.S. Corporation Form 1120 Schedule M-3: M-3 Part I — Section 482 Cited: SEC 10K/Public: Assets $100 Million or More					
	Millions of Dollars		Percentage of Adjusted Total Income Book		
	Section 482	Not Section 482	Section 482	Not Section 482	Difference
Worldwide financial net income	$1,017	$374	24.03%	13.76%	10.26%
(Foreign nonincludible income)	-$1,410	-$125	-33.31%	-4.59%	-28.73%
(U.S. nonincludible income)	-$16	-$38	-0.37%	-1.39%	1.02%
Other includible income	-$1	$2	-0.03%	0.07%	-0.10%
Adjustments to eliminations	$836	$87	19.74%	3.18%	16.56%
Other adjustments	$183	$110	4.33%	4.06%	0.28%
Book net income	$631	$410	14.91%	15.09%	-0.18%
Pretax book net income	$804	$498	18.98%	18.30%	0.68%
Tax net income	$793	$419	18.73%	15.41%	3.33%
Total book-tax difference	-$11	-$79	-0.25%	-2.89%	2.65%
Total assets — Schedule L	$23,921	$20,157	Number of Returns		
Assets — financial statements	$24,143	$17,000	Section 482	Not Section 482	Total
Assets — foreign nonincludible	$14,961	$4,737	326	850	1,176
Assets — U.S. nonincludible	$757	$612	27.72%	72.28%	100.00%
Assets — other includible	$137	$110			

Table 5A. 2012 U.S. Corporation Form 1120 Schedule M-3: Summary M-3 — Section 41 Cited: SEC 10K/Public: Assets $100 Million or More

	Millions of Dollars					Percentage of Adjusted Total Income Book					Percentage Pretax Book		
UTP Filer Citing Section 41	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
Adjusted other income — no difference	2,186,076	0	0	2,186,076	0	177.82%	0.00%	0.00%	177.82%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-1,320,017	-1,233	35	-1,321,213	-1,198	-107.37%	-0.10%	0.00%	-107.47%	-0.10%	-0.48%	0.01%	-0.47%
Adjusted gross profit	866,059	-1,233	35	864,863	-1,198	70.45%	-0.10%	0.00%	70.35%	-0.10%	-0.48%	0.01%	-0.47%
Specified income	610,166	394	-41,824	568,727	-41,430	49.63%	0.03%	-3.40%	46.26%	-3.37%	0.15%	-16.27%	-16.12%
Adjusted other income — difference	-246,846	-2,285	-8,166	-257,297	-10,451	-20.08%	-0.19%	-0.66%	-20.93%	-0.85%	-0.89%	-3.18%	-4.07%
Adjusted total income	1,229,379	-3,124	-49,955	1,176,293	-53,079	100.00%	-0.25%	-4.06%	95.68%	-4.32%	-1.22%	-19.43%	-20.65%
Specified expense/deduction	-316,779	-8,578	472	-324,877	-8,106	-25.77%	-0.70%	0.04%	-26.43%	-0.66%	-3.34%	0.18%	-3.15%
Other expense/deduction — difference	-396,530	-6,331	-2,117	-404,978	-8,448	-32.25%	-0.51%	-0.17%	-32.94%	-0.69%	-2.46%	-0.82%	-3.29%
Other expense/deduction — no difference	-259,004	0	0	-259,004	0	-21.07%	0.00%	0.00%	-21.07%	0.00%	0.00%	0.00%	0.00%
Pretax net income	257,066	-18,033	-51,600	187,434	-69,633	20.91%	-1.47%	-4.20%	15.25%	-5.66%	-7.01%	-20.07%	-27.09%
UTP Filer Not Citing Section 41	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	4,429,536	0	0	4,429,536	0	179.84%	0.00%	0.00%	179.84%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-2,751,063	-5,773	-237	-2,757,073	-6,010	-111.69%	-0.23%	-0.01%	-111.94%	-0.24%	-1.35%	-0.06%	-1.40%
Adjusted gross profit	1,678,473	-5,773	-237	1,672,463	-6,010	68.15%	-0.23%	-0.01%	67.90%	-0.24%	-1.35%	-0.06%	-1.40%
Specified income	389,146	29,513	9,562	428,099	39,075	15.80%	1.20%	0.39%	17.38%	1.59%	6.89%	2.23%	9.13%
Adjusted other income — difference	395,461	26,395	-8,566	413,290	17,829	16.06%	1.07%	-0.35%	16.78%	0.72%	6.16%	-2.00%	4.16%
Adjusted total income	2,463,080	50,135	759	2,513,852	50,894	100.00%	2.04%	0.03%	102.06%	2.07%	11.71%	0.18%	11.89%
Specified expense/deduction	-670,225	-27,182	7,773	-689,513	-19,409	-27.21%	-1.10%	0.32%	-27.99%	-0.79%	-6.35%	1.82%	-4.53%
Other expense/deduction — difference	-694,020	-34,445	2,235	-726,230	-32,209	-28.18%	-1.40%	0.09%	-29.48%	-1.31%	-8.04%	0.52%	-7.52%
Other expense/deduction — no difference	-670,669	0	0	-670,669	0	-27.23%	0.00%	0.00%	-27.23%	0.00%	0.00%	0.00%	0.00%
Pretax net income	428,166	-11,492	10,767	427,440	-724	17.38%	-0.47%	0.44%	17.35%	-0.03%	-2.68%	2.51%	-0.17%

Table 5B. 2012 U.S. Corporation Form 1120 Schedule M-3: M-3 Part I — Section 41 Cited: SEC 10K/Public: Assets $100 Million or More					
	Millions of Dollars		Percentage of Adjusted Total Income Book		
	Section 41	Not Section 41	Section 41	Not Section 41	Difference
Worldwide financial net income	$513	$583	21.10%	15.85%	5.25%
(Foreign nonincludible income)	-$487	-$477	-20.05%	-12.97%	-7.08%
(U.S. nonincludible income)	-$9	-$49	-0.37%	-1.32%	0.95%
Other includible income	$2	$0	0.09%	0.00%	0.09%
Adjustments to eliminations	$366	$240	15.05%	6.54%	8.51%
Other adjustments	$36	$202	1.47%	5.50%	-4.03%
Book net income	$420	$511	17.29%	13.89%	3.39%
Pretax book net income	$508	$639	20.91%	17.38%	3.53%
Tax net income	$370	$638	15.25%	17.35%	-2.11%
Total book-tax difference	-$138	-$1	-5.66%	-0.03%	-5.63%
Total assets — Schedule L	$14,237	$26,459	Number of Returns		
Assets — financial statements	$13,715	$22,957	Section 41	Not Section 41	Total
Assets — foreign nonincludible	$7,053	$7,963	506	670	1,176
Assets — U.S. nonincludible	$445	$809	43.03%	56.97%	100.00%
Assets — other includible	$12	$197			

Table 6A. 2012 U.S. Corporation Form 1120 Schedule M-3: Summary M-3 — Section 162 Cited: SEC 10K/Public: Assets $100 Million or More

	Millions of Dollars					Percentage of Adjusted Total Income Book					Percentage Pretax Book		
UTP Filer Citing Section 162	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	1,631,130	0	0	1,631,130	0	145.56%	0.00%	0.00%	145.56%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-843,911	-2,620	234	-846,297	-2,386	-75.31%	-0.23%	0.02%	-75.52%	-0.21%	-1.28%	0.11%	-1.17%
Adjusted gross profit	787,219	-2,620	234	784,833	-2,386	70.25%	-0.23%	0.02%	70.04%	-0.21%	-1.28%	0.11%	-1.17%
Specified income	267,582	693	5,490	273,644	6,183	23.88%	0.06%	0.49%	24.42%	0.55%	0.34%	2.69%	3.03%
Adjusted other income — difference	65,758	16,679	-1,571	80,866	15,108	5.87%	1.49%	-0.14%	7.22%	1.35%	8.17%	-0.77%	7.40%
Adjusted total income	1,120,559	14,752	4,153	1,139,343	18,905	100.00%	1.32%	0.37%	101.68%	1.69%	7.23%	2.03%	9.26%
Specified expense/deduction	-281,815	-11,320	-485	-293,499	-11,805	-25.15%	-1.01%	-0.04%	-26.19%	-1.05%	-5.55%	-0.24%	-5.78%
Other expense/deduction — difference	-330,478	-21,829	-73	-352,379	-21,902	-29.49%	-1.95%	-0.01%	-31.45%	-1.95%	-10.70%	-0.04%	-10.73%
Other expense/deduction — no difference	-304,187	0	0	-304,187	0	-27.15%	0.00%	0.00%	-27.15%	0.00%	0.00%	0.00%	0.00%
Pretax net income	204,079	-18,397	3,595	189,278	-14,802	18.21%	-1.64%	0.32%	16.89%	-1.32%	-9.01%	1.76%	-7.25%
UTP Filer Not Citing Section 162	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	4,984,482	0	0	4,984,482	0	193.81%	0.00%	0.00%	193.81%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-3,227,169	-4,386	-436	-3,231,989	-4,821	-125.48%	-0.17%	-0.02%	-125.67%	-0.19%	-0.91%	-0.09%	-1.00%
Adjusted gross profit	1,757,313	-4,386	-436	1,752,493	-4,821	68.33%	-0.17%	-0.02%	68.14%	-0.19%	-0.91%	-0.09%	-1.00%
Specified income	731,729	29,214	-37,752	723,181	-8,538	28.45%	1.14%	-1.47%	28.12%	-0.33%	6.07%	-7.85%	-1.77%
Adjusted other income — difference	82,858	7,431	-15,161	75,128	-7,730	3.22%	0.29%	-0.59%	2.92%	-0.30%	1.54%	-3.15%	-1.61%
Adjusted total income	2,571,900	32,259	-53,349	2,550,802	-21,089	100.00%	1.25%	-2.07%	99.18%	-0.82%	6.70%	-11.09%	-4.38%
Specified expense/deduction	-705,189	-24,440	8,730	-720,891	-15,710	-27.42%	-0.95%	0.34%	-28.03%	-0.61%	-5.08%	1.81%	-3.27%
Other expense/deduction — difference	-760,073	-18,947	191	-778,828	-18,756	-29.55%	-0.74%	0.01%	-30.28%	-0.73%	-3.94%	0.04%	-3.90%
Other expense/deduction — no difference	-625,486	0	0	-625,486	0	-24.32%	0.00%	0.00%	-24.32%	0.00%	0.00%	0.00%	0.00%
Pretax net income	481,152	-11,128	-44,428	425,597	-55,555	18.71%	-0.43%	-1.73%	16.55%	-2.16%	-2.31%	-9.23%	-11.55%

Table 6B. 2012 U.S. Corporation Form 1120 Schedule M-3: M-3 Part I — Section 162 Cited: SEC 10K/Public: Assets $100 Million or More					
	Millions of Dollars		Percentage of Adjusted Total Income Book		
	Section 162	Not Section 162	Section 162	Not Section 162	Difference
Worldwide financial net income	$948	$488	13.88%	19.22%	-5.34%
(Foreign nonincludible income)	-$380	-$497	-5.57%	-19.58%	14.01%
(U.S. nonincludible income)	-$54	-$28	-0.79%	-1.10%	0.31%
Other includible income	-$1	$1	-0.01%	0.05%	-0.05%
Adjustments to eliminations	-$75	$354	-1.10%	13.94%	-15.04%
Other adjustments	$565	$60	8.27%	2.37%	5.91%
Book net income	$1,004	$385	14.70%	15.16%	-0.46%
Pretax book net income	$1,244	$475	18.21%	18.71%	-0.50%
Tax net income	$1,154	$421	16.89%	16.55%	0.34%
Total book-tax difference	-$90	-$55	-1.32%	-2.16%	0.84%
Total assets — Schedule L	$52,298	$16,160	Number of Returns		
Assets — financial statements	$43,792	$14,960	Section 162	Not Section 162	Total
Assets — foreign nonincludible	$8,060	$7,492	164	1,012	1,176
Assets — U.S. nonincludible	$1,033	$591	13.95%	86.05%	100.00%
Assets — other includible	$51	$128			

Table 7A. 2012 U.S. Corporation Form 1120 Schedule M-3: Summary M-3 — Section 199 Cited: SEC 10K/Public: Assets $100 Million or More

	Millions of Dollars					Percentage of Adjusted Total Income Book					Percentage Pretax Book		
UTP Filer Citing Section 199	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
Adjusted other income — no difference	1,429,379	0	0	1,429,379	0	206.12%	0.00%	0.00%	206.12%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-903,090	-1,421	-390	-904,902	-1,812	-130.23%	-0.20%	-0.06%	-130.49%	-0.26%	-0.96%	-0.26%	-1.22%
Adjusted gross profit	526,289	-1,421	-390	524,477	-1,812	75.89%	-0.20%	-0.06%	75.63%	-0.26%	-0.96%	-0.26%	-1.22%
Specified income	94,921	-9,698	14,867	100,090	5,169	13.69%	-1.40%	2.14%	14.43%	0.75%	-6.54%	10.03%	3.49%
Adjusted other income — difference	72,261	-1,339	-2,722	68,199	-4,062	10.42%	-0.19%	-0.39%	9.83%	-0.59%	-0.90%	-1.84%	-2.74%
Adjusted total income	693,471	-12,458	11,755	692,766	-705	100.00%	-1.80%	1.70%	99.90%	-0.10%	-8.41%	7.93%	-0.48%
Specified expense/deduction	-162,336	4,489	-8,080	-165,927	-3,590	-23.41%	0.65%	-1.17%	-23.93%	-0.52%	3.03%	-5.45%	-2.42%
Other expense/deduction — difference	-225,980	-8,006	-2,375	-236,362	-10,381	-32.59%	-1.15%	-0.34%	-34.08%	-1.50%	-5.40%	-1.60%	-7.00%
Other expense/deduction — no difference	-156,951	0	0	-156,951	0	-22.63%	0.00%	0.00%	-22.63%	0.00%	0.00%	0.00%	0.00%
Pretax net income	148,204	-15,975	1,300	133,526	-14,676	21.37%	-2.30%	0.19%	19.25%	-2.12%	-10.78%	0.88%	-9.90%
UTP Filer Not Citing Section 199	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	5,186,232	0	0	5,186,232	0	172.93%	0.00%	0.00%	172.93%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-3,167,989	-5,585	189	-3,173,384	-5,396	-105.64%	-0.19%	0.01%	-105.82%	-0.18%	-1.04%	0.04%	-1.00%
Adjusted gross profit	2,018,243	-5,585	189	2,012,848	-5,396	67.30%	-0.19%	0.01%	67.12%	-0.18%	-1.04%	0.04%	-1.00%
Specified income	904,390	39,604	-47,129	896,735	-7,525	30.16%	1.32%	-1.57%	29.90%	-0.25%	7.37%	-8.78%	-1.40%
Adjusted other income — difference	76,357	25,449	-14,010	87,796	11,439	2.55%	0.85%	-0.47%	2.93%	0.38%	4.74%	-2.61%	2.13%
Adjusted total income	2,998,990	59,468	-60,950	2,997,379	-1,482	100.00%	1.98%	-2.03%	99.95%	-0.05%	11.07%	-11.35%	-0.28%
Specified expense/deduction	-824,668	-40,249	16,325	-848,463	-23,925	-27.50%	-1.34%	0.54%	-28.29%	-0.80%	-7.49%	3.04%	-4.46%
Other expense/deduction — difference	-864,570	-32,770	2,494	-894,846	-30,276	-28.83%	-1.09%	0.08%	-29.84%	-1.01%	-6.10%	0.46%	-5.64%
Other expense/deduction — no difference	-772,722	0	0	-772,722	0	-25.77%	0.00%	0.00%	-25.77%	0.00%	0.00%	0.00%	0.00%
Pretax net income	537,030	-13,551	-42,131	481,348	-55,683	17.91%	-0.45%	-1.40%	16.05%	-1.86%	-2.52%	-7.85%	-10.37%

Table 7B. 2012 U.S. Corporation Form 1120 Schedule M-3: M-3 Part I — Section 199 Cited: SEC 10K/Public: Assets $100 Million or More

	Millions of Dollars		Percentage of Adjusted Total Income Book		
	Section 199	**Not Section 199**	**Section 199**	**Not Section 199**	**Difference**
Worldwide financial net income	$1,483	$437	27.80%	15.24%	12.55%
(Foreign nonincludible income)	-$1,267	-$383	-23.75%	-13.37%	-10.38%
(U.S. nonincludible income)	-$56	-$29	-1.05%	-1.00%	-0.06%
Other includible income	-$3	$1	-0.06%	0.05%	-0.11%
Adjustments to eliminations	$336	$289	6.30%	10.09%	-3.79%
Other adjustments	$273	$113	5.12%	3.94%	1.19%
Book net income	$764	$435	14.31%	15.19%	-0.87%
Pretax book net income	$1,140	$513	21.37%	17.91%	3.46%
Tax net income	$1,027	$460	19.25%	16.05%	3.20%
Total book-tax difference	-$113	-$53	-2.12%	-1.86%	-0.26%
Total assets — Schedule L	$17,347	$21,679	**Number of Returns**		
Assets — financial statements	$16,991	$19,228	**Section 199**	**Not Section 199**	**Total**
Assets — foreign nonincludible	$8,147	$7,500	130	1,046	1,176
Assets — U.S. nonincludible	$727	$643	11.05%	88.95%	100.00%
Assets — other includible	$32	$128			

Table 8A. 2012 U.S. Corporation 1120 Schedule M-3: Summary M-3 — Section 263 Cited: SEC 10K/Public: Assets $100 Million or More

	Millions of Dollars					Percentage of Adjusted Total Income Book					Percentage Pretax Book		
UTP Filer Citing Section 263	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
Adjusted other income — no difference	1,249,202	0	0	1,249,202	0	210.97%	0.00%	0.00%	210.97%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-792,935	-3,996	-177	-797,108	-4,173	-133.91%	-0.67%	-0.03%	-134.62%	-0.70%	-2.72%	-0.12%	-2.84%
Adjusted gross profit	456,267	-3,996	-177	452,094	-4,173	77.05%	-0.67%	-0.03%	76.35%	-0.70%	-2.72%	-0.12%	-2.84%
Specified income	110,524	-13	-1,665	108,846	-1,678	18.67%	0.00%	-0.28%	18.38%	-0.28%	-0.01%	-1.13%	-1.14%
Adjusted other income — difference	25,346	4,309	-5,274	24,381	-965	4.28%	0.73%	-0.89%	4.12%	-0.16%	2.93%	-3.59%	-0.66%
Adjusted total income	592,137	300	-7,116	585,321	-6,816	100.00%	0.05%	-1.20%	98.85%	-1.15%	0.20%	-4.84%	-4.64%
Specified expense/deduction	-146,298	-5,693	3,977	-148,014	-1,716	-24.71%	-0.96%	0.67%	-25.00%	-0.29%	-3.87%	2.71%	-1.17%
Other expense/deduction — difference	-153,135	-17,098	2,130	-168,103	-14,968	-25.86%	-2.89%	0.36%	-28.39%	-2.53%	-11.63%	1.45%	-10.18%
Other expense/deduction — no difference	-145,715	0	0	-145,715	0	-24.61%	0.00%	0.00%	-24.61%	0.00%	0.00%	0.00%	0.00%
Pretax net income	146,989	-22,491	-1,009	123,489	-23,500	24.82%	-3.80%	-0.17%	20.85%	-3.97%	-15.30%	-0.69%	-15.99%
UTP Filer Not Citing Section 263	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column A Book**	**Column B Temporary**	**Column C Permanent**	**Column D Tax**	**Total Difference**	**Column B Temporary**	**Column C Permanent**	**Total Difference**
Adjusted other income — no difference	5,366,410	0	0	5,366,410	0	173.09%	0.00%	0.00%	173.09%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-3,278,144	-3,010	-25	-3,281,178	-3,035	-105.74%	-0.10%	0.00%	-105.83%	-0.10%	-0.56%	0.00%	-0.56%
Adjusted gross profit	2,088,266	-3,010	-25	2,085,232	-3,035	67.36%	-0.10%	0.00%	67.26%	-0.10%	-0.56%	0.00%	-0.56%
Specified income	888,787	29,919	-30,597	887,979	-678	28.67%	0.97%	-0.99%	28.64%	-0.02%	5.56%	-5.68%	-0.13%
Adjusted other income — difference	123,270	19,801	-11,458	131,613	8,343	3.98%	0.64%	-0.37%	4.25%	0.27%	3.68%	-2.13%	1.55%
Adjusted total income	3,100,323	46,710	-42,080	3,104,824	4,630	100.00%	1.51%	-1.36%	100.15%	0.15%	8.68%	-7.82%	0.86%
Specified expense/deduction	-840,707	-30,067	4,268	-866,376	-25,799	-27.12%	-0.97%	0.14%	-27.94%	-0.83%	-5.59%	0.79%	-4.79%
Other expense/deduction — difference	-937,415	-23,678	-2,011	-963,104	-25,689	-30.24%	-0.76%	-0.06%	-31.06%	-0.83%	-4.40%	-0.37%	-4.77%
Other expense/deduction — no difference	-783,958	0	0	-783,958	0	-25.29%	0.00%	0.00%	-25.29%	0.00%	0.00%	0.00%	0.00%
Pretax net income	538,243	-7,035	-39,823	491,386	-46,858	17.36%	-0.23%	-1.28%	15.85%	-1.51%	-1.31%	-7.40%	-8.71%

Table 8B. 2012 U.S. Corporation Form 1120 Schedule M-3: M-3 Part I — Section 263 Cited: SEC 10K/Public: Assets $100 Million or More					
	Millions of Dollars		Percentage of Adjusted Total Income Book		
	Section 263	Not Section 263	Section 263	Not Section 263	Difference
Worldwide financial net income	$1,004	$515	15.44%	18.01%	-2.58%
(Foreign nonincludible income)	-$703	-$463	-10.80%	-16.19%	5.39%
(U.S. nonincludible income)	-$35	-$31	-0.54%	-1.10%	0.56%
Other includible income	$3	$1	0.05%	0.03%	0.03%
Adjustments to eliminations	-$25	$321	-0.38%	11.24%	-11.62%
Other adjustments	$1,137	$46	17.47%	1.62%	15.86%
Book net income	$1,384	$395	21.27%	13.83%	7.44%
Pretax book net income	$1,615	$496	24.82%	17.36%	7.46%
Tax net income	$1,357	$453	20.85%	15.85%	5.01%
Total book-tax difference	-$258	-$43	-3.97%	-1.51%	-2.46%
Total Assets — Schedule L	$25,325	$20,854	Number of Returns		
Assets — financial statements	$25,864	$18,403	Section 263	Not Section 263	Total
Assets — foreign nonincludible	$3,816	$7,886	91	1,085	1,176
Assets — U.S. nonincludible	$722	$647	7.74%	92.26%	100.00%
Assets — other includible	$345	$98			