

2010–2011 Schedule M-3 Profiles and Schedule UTP Filing Status*

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Part 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 (FS) or books and records. The goal of the Schedule M-3 reconciliation is to increase taxpayer transparency to the IRS with respect to the adjustments (book-tax differences, or BTD) made to FS or books and records in preparing the tax return and to assist the IRS in selecting returns and issues for audit where tax compliance risk is present and in not selecting returns and issues where such risk is not 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 using the less structured Schedule M-1 for these corporations for the required reconciliation of FS income to tax income.²

A Treasury report in 1999 and Treasury testimony in 2000 by Assistant Secretary (Tax Policy) Jonathan Talisman viewed the 1990s widening difference between the sum of corporate FS 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 also noted the difficulty in interpreting Schedule M-1 BTD data.³

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.⁴ The Mills and Plesko (2003) Schedule M-1 redesign recommendations are largely reflected in Schedule M-3, particularly in Part I.⁵

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 FS to determine the book income of the includible

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¹ The opinions expressed are those of the authors and do not necessarily represent positions of the U.S. Department of the Treasury or the Internal Revenue Service.

² This paper repeats certain material from Boynton, DeFilippes, and Legel (2005, 2006a, 2006b, and 2008), Boynton, DeFilippes, Legel, and Reum (2011 and 2014), Boynton and Wilson (2006), and Boynton and Livingston (2010), used with permission. The SOI corporate data file for year t includes all tax years ending between July of calendar year t and June of calendar year $t+1$. Effective for tax years ending on or after December 31, 2004, Schedule M-3 replaced Schedule M-1 for corporations filing Form 1120 and reporting total assets of \$10 million or more on Form 1120, Schedule L. Effective for tax years ending on or after December 31, 2006, for corporations with total assets of \$10 million or more, Schedule M-3 applies to Form 1120S for S corporations, to Form 1120-C for cooperative associations, and to Form 1120-L for life insurance companies, and 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 certain 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, would be 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.

³ See U.S. Department of the Treasury (1999) and Talisman (2000). See also Mills (1998) cited by U.S. Department of the Treasury (1999, page 32, note 118).

⁴ See Mills and Plesko (2003) for the proposed redesign of Schedule M-1.

⁵ For a discussion of the development of Schedule M-3, see Boynton and Mills (2004).

corporations in the tax return.⁶ We also use Part I data to identify each corporation FS type as SEC 10K/Public, Audited, or Unaudited.⁷

Schedule M-3, Parts II and III, are a more structured listing of BTD than Schedule M-1 and specify a number of 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 BTD are listed as well as the BTD and the name for the line.

On Schedule M-3, Parts II and III, BTD 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 time periods. Permanent differences are items of income or expense that are recognized for either financial or tax reporting, but not both.⁸

Parts II and III contain four columns. Column (a) represents FS (book) income or expense amounts using the FS source determined in Part I. Column (d) represents amounts as shown on the tax return. The BTD 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 BTD adjustment occurs if tax income is below book income. Further note that in our study 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 BTD reduces tax income.*⁹

We impose certain minimum reconciliation requirements on the returns included in our study.¹⁰

This is the seventh paper in a series of articles by the authors researching the differences between FS income (often called book income) and tax income as reported on U.S. corporate income tax returns.¹¹ This seventh paper analyzes final data for the 2010–2011 corporate Form 1120, Schedule M-3, with Schedule UTP filing status.¹²

B. Schedule M-3 versus Schedule UTP

Schedule M-3 was introduced in 2004 for corporations with assets of \$10 million or more in order to assist the IRS in reconciling FS income to tax income including identifying temporary and permanent BTD. Taxpayers

⁶ 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 FS. *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 must equal Schedule M-3, line 11.

⁷ We define “SEC 10K/Public” to include any tax return on which: (1) Schedule M-3, Part I, line 1a, indicated that an SEC 10K was filed; or (2) Part I, line 3a, indicated that the corporation had publicly traded common stock. Some firms indicate the first without the second which may mean publicly traded debt or a reporting error. Other firms report the second without the first suggesting a reporting error. We 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 a certified audited FS was prepared and our requirements for “SEC 10K/Public” are not met. We define “Unaudited” to include all other returns.

⁸ 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 FS reporting under generally accepted accounting principles (GAAP), permanent differences are not considered in the FAS 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 have the potential to substantially influence reported financial earnings per share computations, and, in the case of public companies, stock prices. Accordingly, permanent differences of a given size may represent a greater examination risk than temporary differences of the same size.

⁹ See Part I. C, of this paper for a discussion of sign conventions.

¹⁰ Some companies with assets 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. The reconciliations of the subset of corporations meeting our minimum data and reconciliation tests for this 2010–2011 Schedule M-3 study with the full 2010 and 2011 SOI corporate files are presented in Distribution Table D3 of the full M-3 First Look data sets for 2010 and 2011 are available on request.

¹¹ See Boynton, DeFilippes, and Legel (2005, 2006a, 2006b, and 2008) and Boynton, DeFilippes, Legel, and Reum (2011 and 2014). The first two articles analyze corporate Form 1120, Schedule M-1, reporting for Tax Years 1990–2003. The third paper in this series analyzes advance file data for the 2004 corporate Form 1120, Schedule M-3. The fourth paper analyzes final data for the 2005 corporate Form 1120, Schedule M-3, and updates the prior 2004 report using final 2004 data. The fifth paper analyzes final data for the 2006 and 2007 corporate Form 1120, Schedule M-3, as well as earlier Schedule M-1 data from 1994 through 2005 and Schedule M-3 data from 2004–2005. The sixth paper analyzes final data for 2008, 2009, and 2010 corporate Form 1120, Schedule M-3, as well as earlier Schedule M-3 data for 2006 and 2007 and information on 2010 Schedule UTP filing status.

¹² Schedule UTP (Uncertain Tax Position Statement)

prepare corporate and partnership tax returns by adjusting amounts from their FS. The goal is to increase taxpayer transparency with respect to the adjustments made to the FS to prepare the tax return. Many, but not all, of the items that must be listed on Schedule UTP generate or impact BTD 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 FS reporting uncertain tax positions in the income tax footnote and for certain related corporations.¹³ The purpose was to share with the IRS some of the taxpayer information calculated as part of preparing the FS income tax footnote.¹⁴ The goal was to increase taxpayer transparency with respect to items giving rise to federal income tax uncertain tax positions in the taxpayer's FS.

Schedule UTP asks for relevant code sections and a concise description of issues, *without dollar amounts*, for the uncertain tax positions that affect the FS reported U.S. federal income tax liabilities of certain corporations that issue or are included in audited FS. The corporate asset reporting threshold is assets of \$100 million or more in Tax Years 2010 and 2011, \$50 million or more in Tax Years 2012 and 2013, and \$10 million or more in tax years ending December 31, 2014 or later.¹⁵

Items listed on the Schedule UTP relate to amounts and/or positions reported on other forms or schedules of the current tax return or a prior tax return. Many of the Schedule UTP items relate to the temporary or permanent BTD 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 due to errors in the calculations of the income/(loss) of the includible 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 consolidated tax return.) Other Schedule UTP items may relate to 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 (i.e., Form 6765, *Credit for Increasing Research Activities*, or Form 5471, *Information Return of U.S. Persons with Respect to Certain Foreign Corporations*).¹⁶

In summary:

- Schedule M-3:
 - This IRS form is a crosswalk from the taxpayer's FS to their tax return.
 - Part I removes the income (loss) of all entities included in the FS but not included in the consolidated tax return and adds the income (loss) of all entities not included in the FS 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 FS as well as the initial book income and final tax income amounts for each scheduled item.
- Schedule UTP:
 - This IRS form reports the federal income tax uncertain tax positions reserved on the taxpayer's FS with respect to items on the tax return the taxpayer acknowledges the IRS may challenge.

¹³ For a discussion of the uncertain tax positions reported on Schedule UTP and an analysis of how Schedule UTP reporting requirements affect corporate tax and financial reporting behavior, see Towery (2013).

¹⁴ Footnote reporting of uncertain tax positions is required by U.S. GAAP under FAS No. 109 (ASC 740) and FIN 48 (ASC 740-10).

¹⁵ 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 with respect to that tax position for U.S. federal income tax in audited FS, 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 FS are prepared based on U.S. GAAP, International Financial Reporting Standards (IFRS), or other country-specific accounting standards, including a modified version of any of the above (for example, modified GAAP).

¹⁶ 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 R&D costs on Part III, line 36, column (d), and credit eligible expenses on Form 6765, and therefore with the R&D credit. The most frequent code section cited is IRS section 482 relating to transfer pricing. IRC section 41 relating to the R&D credit is the second most frequent code section cited in 2010 and 2011 on Schedule UTP, Part I.

- Schedule UTP discloses relevant code sections and provides a concise description of the uncertain tax positions *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 (i.e., tax credit items).¹⁷

Schedule M-3 and Schedule UTP are complementary sources of taxpayer transparency that do not overlap and do not contain duplicative information. Sections A to D of Part IV of this report investigate some of the Schedule M-3 characteristics of Schedule UTP filers and nonfilers. Tables 1, 2, 4, 5, and 6 present additional data on Schedule UTP filers and nonfilers.

C. Book-to-Tax Differences (BTD) and Signs

Book income is the FS income of the entity filing a corporation or partnership income tax return. For consolidated corporations filing U.S. Form 1120, book income is the consolidated FS income of the includible corporations joining in the consolidated tax return and will often differ from the worldwide consolidated income reported by the parent corporation's worldwide consolidated FS. Schedule M-3, Part I, reconciles worldwide consolidated FS income to book income.

We compare pretax book income (book income measured before federal income tax expense) with tax income and calculate BTD as pretax differences, consistent with the BTD literature since Talisman (2000).¹⁸

The BTD literature prior to 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. Schedule M-3 reverses this prior convention to “tax minus book” by its reconciliation rules.

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 BTD in columns (b) and (c) of Schedule M-3, Parts II and III, means that the tax amount is *higher* than the book amount. A *negative* total BTD in columns (b) and (c) of Schedule M-3, Parts II and III, means that the tax amount is *lower* than the book amount.

In this paper, the sign of Schedule M-3, Part III, expense/deduction data including BTD has been changed to agree with the effect of such expense/deduction items and BTD on net income reported on Part II, line 30. If a Part III expense/deduction item or BTD reduces Part II, line 30, net income, we show it as a negative amount.¹⁹

D. Source of Schedule M-3 Data and UTP Status

A weighted statistical sample of tax return data is electronically encoded annually by the IRS Statistics of Income Division (SOI), for use by the U.S. Department of the Treasury Office of Tax Analysis (OTA), and the congressional Joint Committee on Taxation (JCT).²⁰ The Office of Planning, Analysis, Inventory, and Research (PAIR) within the IRS Large Business & International Division (LB&I) also receives a copy of the file.²¹ The

¹⁷ See prior footnote on R&D credits and Schedule M-3.

¹⁸ We calculate total pretax book income and total pretax temporary and permanent BTD 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 BTD is the sum of total temporary and permanent BTD.

¹⁹ Schedule M-3 instructions require that column (a) book expense and column (d) tax deduction amounts that reduce net book income and reduce 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).

²⁰ 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).

²¹ Use of the SOI file by PAIR and LB&I is limited under a formal Memorandum of Understanding between SOI and LB&I to research studies. SOI file data are not used for IRS audit case building.

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 the taxpayer indicates on Form 1120, Schedule K that Schedule UTP is required, if a Schedule UTP, Part I, identifying an uncertain tax position is attached to the return with any data, and the number of lines on Schedule UTP, Part I, with any data on the line.²² The 2011 SOI corporate file was issued to OTA, JCT, and LB&I in October 2013.²³

Beginning May 2011, researchers using SOI data must report tax data as an aggregate for a minimum of five taxpayers to protect taxpayer confidentiality.²⁴ For statistical reasons, SOI prefers that reported aggregate data are for 10 or more taxpayers when possible.²⁵

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 FS 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 FS pretax consolidated worldwide income. In particular, amounts reported on the Form 1120 and the Schedule M-3 do not provide the data needed to calculate the pretax worldwide effective tax rate for the entities included in the worldwide FS.

F. Reconciling Counts of Schedule UTP

Table 1 shows a total of 2,074 Form 1120 2011 Schedule UTP filers compared to 2,190 reported by the PAIR LB&I UTP Registry for the 2011 form year. The difference is a result of:

- (1) including different corporate income tax return forms (PAIR counts include Form 1120-F and Form 1120 filed by parents of insurance companies and our tables include neither);

²² The regular 2010 and 2011 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 2010 and 2011 SOI corporate files tabulates the limited information reported on Schedule UTP, Part I, lines 1 through 10, for current-year uncertain tax positions such as Internal Revenue Code (IRC) sections cited, temporary and permanent effect, whether the position is a major position, and relative rank of the position. Part II relating to prior year uncertain tax positions, and Part III relating to the concise descriptions for the positions listed in Parts I and II, are not tabulated by SOI.

²³ The final SOI corporate file may contain placeholder records representing returns for some reason not available at the time the SOI file is issued but 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.

²⁴ Prior to 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 assure that data cannot be generated by subtraction that would violate the minimum aggregations requirement. For a discussion of the older requirement of three or more taxpayers or individuals for aggregate data, see U.S. Office of Management and Budget Working Paper 22 (2005) and IRS Publication 1075 (Rev. 2007).

²⁵ Our tax return table values may not add and may differ from official 2010 and 2011 SOI values due to rounding. SOI publications do not include Schedules M-1 or M-3 data. Prior to 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 2010–2011 Schedule M-3 study with the full 2010–2011 SOI corporate files are presented in Distribution Table D3 of the full M-3 First Look data set for each year, 2010–2011, are 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.

- (2) using different tax year beginning months and ending months for 2011 (July 2011 to June 2012 for SOI data versus December 2011 to November 2012 for PAIR);
- (3) using different standards as to whether Schedule UTP is filed (SOI reports the indication on Form 1120, Schedule K that Schedule UTP is required; in addition SOI counts Schedule UTP as present if any Schedule UTP, Part I Current Year line, has any data; PAIR requires both Schedule UTP, Parts I Current Year or II Prior Year, and also Part III Concise Descriptions);²⁶ and
- (4) different minimum asset recognition thresholds (PAIR includes voluntary filing by a corporation with assets below \$100 million and this report does not).

In particular: (1) 2011 SOI Schedule UTP data are for Form 1120 tax returns with year ends of July 2011 through June 2012; (2) we recognize a corporation as a Schedule UTP filer if SOI recognizes the indication on Form 1120, Schedule K, that Schedule UTP is required and/or SOI recognizes the presence of a Schedule UTP, Part I, with any data on any line; (3) we exclude Form 1120 returns if SOI indicates that it is the parent of an insurance company and should be classified as either 1120-L or 1120-PC under the SOI test of 50 percent or more of the total receipts are from life insurance or property and casualty insurance; and (4) we exclude voluntary 2011 Schedule UTP filed by corporations with total Schedule L assets of less than \$100 million.

Reconciliation of the Number of 1120 Returns for July 2011–June 2012

UTP registry for Dec 2011–Nov 2012	2,190
Remove 1120-F returns	- 22
Subtotal 1120, 1120-L, 1120-PC for Dec 2011–Nov 2012	2,168
Remove 1120 for July 2012–Nov 2012	- 217
Subtotal 1120, 1120-L, 1120-PC for Dec 2011–June 2012	1,951
Add 1120 for July 2011–Nov 2011	+ 245
Subtotal 1120, 1120-L, 1120-PC for July 2011–June 2012	2,196
Add 1120 identified by SOI UTP Flag NOT in UTP Registry	+ 75
Subtotal 1120+1120-L+1120-PC UTP identified by SOI UTP flag for July 2011–July 2012	2,271
Remove returns deemed 1120-L and 1120-PC identified by SOI	- 111
Subtotal 1120 UTP identified by SOI UTP flag for July 2011–June 2012	2,160
Remove 1120 for July 2011–June 2012 with assets below \$100 million	- 86
Total 1120 for July 2011–June 2012 identified by SOI UTP flag with assets of \$100 million or more	2,074

Part II. 2011 Worldwide Income to Tax Less Credits

A. By Asset Size, FS Type, and UTP Status

Table 1 presents 2011 Schedule M-3, Part I, data and other tax return data for the 41,636 corporations meeting our study requirements filing the Form 1120 broken down by asset size, UTP filing status, and for three FS types (SEC 10K/Public, Audited, and Unaudited).²⁷ The columns are key tax return and Schedule M-3 variables: number of returns, Schedule L total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, pretax temporary BTD, pretax permanent BTD, tax net income positive, taxable income, foreign tax credit, and U.S. corporate income tax less credits.²⁸

²⁶ The regular 2010 and 2011 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 2010 and 2011 SOI corporate files tabulates the limited information reported on Schedule UTP, Part I, lines 1 through 10, for current year uncertain tax positions such as IRC sections cited, temporary and permanent effect, whether the position is a major position, and relative rank of the position. Part II relating to prior-year uncertain tax positions, and Part III relating to the concise descriptions for the positions listed in Parts I and II, are not tabulated by SOI.

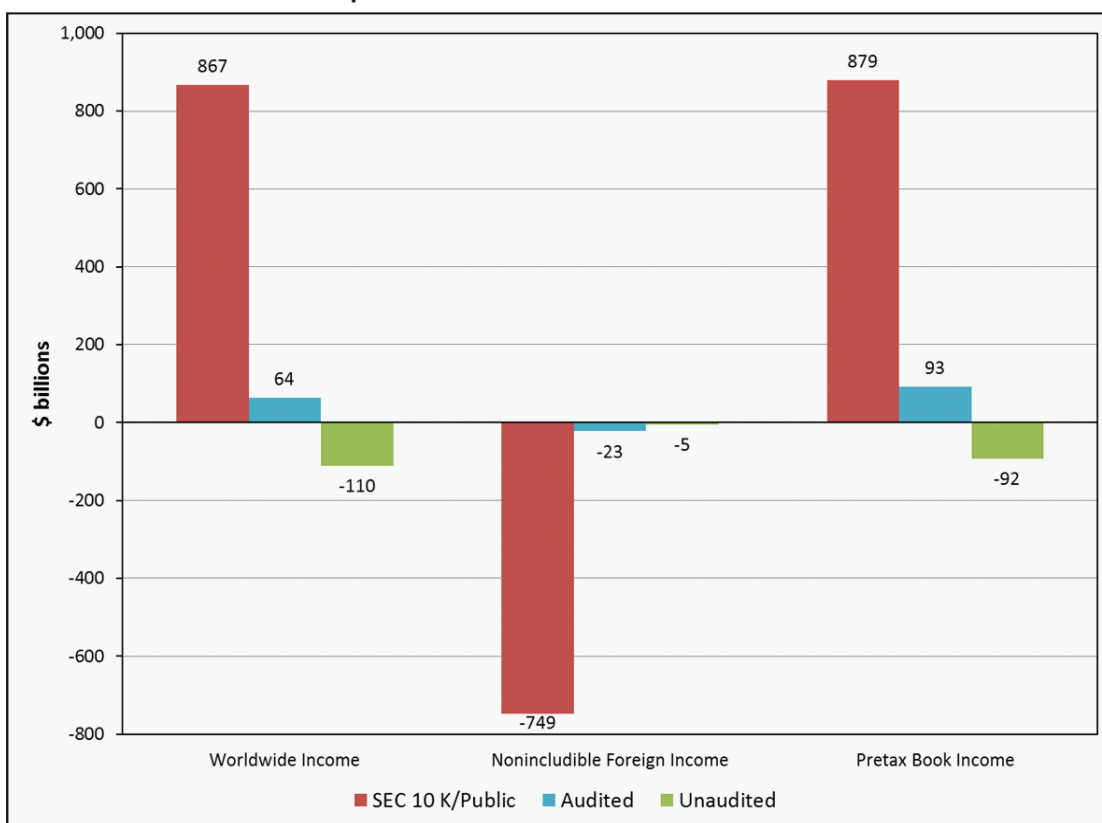
²⁷ Some companies with assets less than \$10 million voluntarily filed Schedule M-3. We do not analyze that data. Our minimum reconciliation tests require Schedule M-3 data agreement within tolerances of 1 percent of the maximum absolute value of the amounts on Part II, line 30, for income between Part I, line 11, and Part II, line 30, column (a), and for expenses/deductions between Part III, line 38, and the carryover line Part II, line 27. The year-by-year reconciliations of the subset of corporations meeting our minimum data and reconciliation tests for this 2010–2011 Schedule M-3 study with the full 2010–2011 SOI corporate files are presented in Distribution Table D3 of the full M-3 First Look data set for each year, 2010–2011, available on request.

²⁸ Nonincludible foreign income is shown as negative in Table 1 because it is the foreign income that must be removed from worldwide income in determining book income for the U.S. tax consolidated group. FTC is shown as negative in Table 1 because it reduces the U.S. income tax that is owed.

Table 1 has two columns of percentages following each amount giving, first, the percentage of the total for all 41,636 corporations represented by that row amount, and, second, the percentage of the total for the subgroup of rows in which the row is included represented by that row amount.

Figures 1A-1C highlight the relative magnitude of several 2011 Schedule M-3 and Form 1120 tax return income and adjustment amounts involved in moving from worldwide consolidated FS income to tax less credits. Data are presented for three FS types: SEC 10K/Public, Audited, and Unaudited.²⁹

FIGURE 1A. 2011: U.S. Corporation M-3: Worldwide Income to Pretax Book Income



In Figure 1A, for 2011, total worldwide consolidated FS income (reported on Schedule M-3, Part I, line 4) is \$867,248 million for SEC 10K/Public; \$63,688 million for Audited; and -\$110,295 million for Unaudited.

Next shown in Figure 1A is the adjustment to remove nonincludible foreign net income (reported on Schedule M-3, Part I, line 5). The 2011 adjustment is -\$748,596 million for SEC 10K/Public; -\$22,616 million for Audited; and -\$5,223 million for Unaudited.³⁰

²⁹ We define "SEC 10K/Public" to include any tax return on which (1) Schedule M-3, Part I, line 1a, indicated an SEC 10K was filed or (2) Part I, line 3a, indicated the corporation had publicly traded common stock. Some firms indicate the first without the second which may mean publicly traded debt or a reporting error. Other firms report the second without the first suggesting a reporting error. We 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 a certified audited FS was prepared and our requirements for "SEC 10K/Public" are not met. We define "Unaudited" to include all other returns.

³⁰ The adjustment to remove positive nonincludible foreign net income from worldwide FS income is shown as a *negative* amount on Schedule M-3, Part I, in the calculation of the book income of includible corporations. The income must be removed from worldwide FS income in the calculation of the book income of includible corporations because foreign subsidiaries owned more than 50 percent and certain foreign partnerships are includible in worldwide consolidated FS but only U.S. corporations owned more than 80 percent are includible in the U.S. tax consolidated group tax return.

TABLE 1. 2011 U.S. Corporations Form 1120 Schedule M-3: Financial Statement Type by Asset Size by UTP Filing Status (\$ millions)

Asset Size (A)	UTP Filing Status and Financial Statement Type		Number of Returns				Schedule L Total Assets				Worldwide Income (Part I Ln 4)				Nonclaimable Foreign Income				Pretax Book Income				Tax Net Income			
			Sum		%2		Sum		%2		Sum		%2		Sum		%2		Sum		%2		Sum		%2	
			%1	%2	%1	%2	%1	%2	%1	%2	%1	%2	%1	%2	%1	%2	%1	%2	%1	%2	%1	%2	%1	%2	%1	%2
All	All	All	41,636	100	100	51,095,020	100	100	820,641	100	100	-776,435	100	100	879,279	100	100	715,873	100	100						
All	a	SEC 10 K/Public	4,488	11	11	37,697,048	74	74	867,248	106	106	-748,596	96	96	878,771	100	100	637,691	89	89						
	b	Audited	17,298	42	42	6,354,953	12	12	63,688	8	8	-22,616	3	3	92,621	11	11	45,882	6	6						
	c	Unaudited	19,850	48	48	7,043,018	14	14	-110,295	-13	-13	-5,223	1	1	-92,114	-10	-10	32,300	5	5						
All	a	1120 Consolidated	19,485	47	47	20,243,234	40	40	556,127	68	68	-334,930	43	43	613,912	70	70	242,821	34	34						
	b	1120 Mixed Group	420	1	1	23,273,632	46	46	265,442	32	32	-427,122	55	55	269,238	31	31	233,126	33	33						
	c	1120 Unconsolidated	21,732	52	52	7,578,153	15	15	-928	0	0	-14,383	2	2	-3,872	0	0	37,306	5	5						
\$10M ≤ A < \$50M	All	All	24,012	58	58	524,047	1	1	-2,304	0	0	-7,086	1	1	-5,077	-1	-1	-5,918	-1	-1						
	All	All	5,317	13	13	377,215	1	1	1,845	0	0	-1,271	0	0	2,323	0	0	68	0	0						
\$50M ≤ A < \$100M	All	All	12,307	30	30	50,193,759	98	98	821,100	100	100	-768,079	99	99	882,032	100	100	721,722	101	101						
		with UTP	2,074	5	17	35,883,467	70	71	770,004	94	94	-695,826	90	91	803,216	91	91	611,598	85	85						
	a	SEC 10 K/Public	1,227	3	10	31,349,918	61	62	732,811	89	89	-682,842	88	89	740,593	84	84	558,750	78	77						
	b	Audited	535	1	4	2,561,995	5	5	27,278	3	3	-11,768	2	2	44,613	5	5	22,246	3	3						
	c	Unaudited	311	1	3	1,971,553	4	4	9,915	1	1	-1,216	0	0	18,011	2	2	30,603	4	4						
		without UTP	10,233	25	83	14,310,292	28	29	51,096	6	6	-72,253	9	9	78,816	9	9	110,124	15	15						
	a	SEC 10 K/Public	2,143	5	17	6,300,624	12	13	138,890	17	17	-63,497	8	8	143,609	16	16	82,959	12	11						
	b	Audited	4,861	12	39	3,387,115	7	7	34,550	4	4	-9,136	1	1	46,867	5	5	24,116	3	3						
	c	Unaudited	3,229	8	26	4,622,553	9	9	-122,344	-15	-15	381	0	0	-111,659	-13	-13	3,049	0	0						
		All	All	2,751	7	100	47,199,385	92	100	782,195	95	100	-753,264	97	100	833,436	95	100	687,664	96	100					
A ≥ \$1B		with UTP	1,072	3	39	35,488,064	69	75	757,394	92	97	-689,080	89	91	791,482	90	95	599,656	84	87						
	a	SEC 10 K/Public	748	2	27	31,148,090	61	66	723,340	88	92	-677,128	87	90	732,578	83	88	551,856	77	80						
	b	Audited	159	0	6	2,428,108	5	5	24,473	3	3	-10,914	1	1	41,776	5	5	18,277	3	3						
	c	Unaudited	165	0	6	1,911,866	4	4	9,581	1	1	-1,038	0	0	17,128	2	2	29,524	4	4						
		without UTP	1,679	4	61	11,711,321	23	25	24,801	3	3	-64,184	8	9	41,954	5	5	88,008	12	13						
	a	SEC 10 K/Public	803	2	29	5,761,870	11	12	128,041	16	16	-57,578	7	8	134,187	15	16	78,049	11	11						
	b	Audited	486	1	18	2,119,574	4	4	23,912	3	3	-7,671	1	1	29,668	3	4	12,925	2	2						
	c	Unaudited	390	1	14	3,829,877	7	8	-127,153	-15	-16	1,064	0	0	-121,901	-14	-15	-2,967	0	0						
		All	All	9,556	23	100	2,994,374	6	100	38,905	5	100	-14,815	2	100	48,598	6	100	34,058	5	100					
		with UTP	All	1,002	2	10	395,403	1	13	12,610	2	32	-6,746	1	46	11,735	1	24	11,942	2	35					
\$100M ≤ A < \$1B		a SEC 10 K/Public	479	1	5	201,828	0	7	9,471	1	24	-5,714	1	39	8,015	1	16	6,894	1	20						
	b	Audited	376	1	4	133,887	0	4	2,805	0	7	-853	0	6	2,837	0	6	3,969	1	12						
	c	Unaudited	146	0	2	59,687	0	2	333	0	1	-179	0	1	883	0	2	1,079	0	3						
		without UTP	8,554	21	90	2,598,971	5	87	26,295	3	68	-8,069	1	54	36,863	4	76	22,116	3	65						
	a	SEC 10 K/Public	1,340	3	14	538,754	1	18	10,849	1	28	-5,919	1	40	9,422	1	19	4,910	1	14						
	b	Audited	4,375	11	46	1,267,540	2	42	10,637	1	27	-1,466	0	10	17,199	2	35	11,190	2	33						
	c	Unaudited	2,839	7	30	792,677	2	26	4,808	1	12	-683	0	5	10,241	1	21	6,016	1	18						

%1 = the percentage of the total for all 41,636 corporations represented by that row amount; %2 = the percentage of the total for the subgroup of rows in which the row is included represented by that row amount. Totals may not equal the sum of the components due to rounding.

TABLE 1. 2011 U.S. Corporations Form 1120 Schedule M-3: Financial Statement Type by UTP Filing Status (\$ millions)
(Continued)

Asset Size (A)	UTP Filing Status and Financial Statement Type	Pretax Temporary Book-Tax Difference		Pretax Permanent Book-Tax Difference		Positive Tax Net Income		Taxable Income		Foreign Tax Credit		Total Tax Less Credits		
		Sum	%1	%2	Sum	%1	%2	Sum	%1	%2	Sum	%1	%2	
All	All	-150,437	100	100	36,807	100	1,007,640	100	894,552	100	-104,882	100	190,756	100
	a SEC 10 K/Public	-202,588	135	135	-5,315	-14	776,399	77	700,876	78	-94,412	90	137,090	72
	b Audited	-54,477	36	36	9,707	26	117,093	12	101,086	11	-5,769	6	27,160	14
All	c Unaudited	106,629	-71	-71	32,416	88	114,147	11	92,590	10	-4,701	4	26,506	14
	a 1120 Consolidated	-181,226	120	120	65,336	178	625,863	62	572,099	64	-74,762	71	118,008	62
	b 1120 Mixed Group	45,302	-30	-30	-30,037	-82	326,410	32	276,774	31	-29,042	28	58,436	31
\$10M ≤ A < \$50M	c 1120 Unconsolidated	-14,513	10	10	1,508	4	55,367	5	45,679	5	-1,077	1	14,312	8
	All	-2,976	2	2	2,193	6	24,808	2	19,311	2	-181	0	6,246	3
	All	-3,812	3	3	1,571	4	14,900	1	11,617	1	-212	0	3,719	2
\$50M ≤ A < \$100M	All	-143,648	95	95	33,043	90	967,931	96	863,623	97	-104,489	100	180,791	95
	with UTP	-162,003	108	113	4,532	12	716,857	71	647,420	72	-88,912	85	125,224	66
	a SEC 10 K/Public	-132,785	88	92	-18,395	-50	641,765	64	580,837	65	-83,242	79	108,995	57
A ≥ \$100M	b Audited	-22,318	15	16	1,409	4	36,892	4	33,344	4	-4,125	4	6,914	4
	c Unaudited	-6,900	5	5	21,518	58	38,200	4	33,239	4	-1,545	1	9,314	5
	without UTP	18,355	-12	-13	28,511	77	251,074	25	216,203	24	-15,577	15	55,567	29
A ≥ \$1B	a SEC 10 K/Public	-70,126	47	49	11,984	33	132,598	13	118,866	13	-11,151	11	27,715	15
	b Audited	-29,565	20	21	7,275	20	61,420	6	52,610	6	-1,431	1	15,407	8
	c Unaudited	118,045	-78	-82	9,253	25	57,056	6	44,727	5	-2,994	3	12,446	7
A ≥ \$1B	All	-122,932	82	100	25,746	70	874,480	87	785,617	88	-101,499	97	157,549	83
	with UTP	-161,719	107	132	3,873	11	695,357	69	629,191	70	-87,966	84	120,283	63
	a SEC 10 K/Public	-131,758	88	107	-18,340	-50	629,053	62	570,242	64	-82,680	79	106,198	56
A ≥ \$1B	b Audited	-22,631	15	18	585	2	30,702	3	27,839	3	-3,864	4	5,363	3
	c Unaudited	-7,330	5	6	21,627	59	35,602	4	31,109	3	-1,422	1	8,722	5
	without UTP	38,787	-26	-32	21,873	59	179,123	18	156,426	17	-13,533	13	37,266	20
A ≥ \$1B	a SEC 10 K/Public	-64,688	43	53	10,745	29	114,920	11	104,321	12	-10,570	10	23,384	12
	b Audited	-21,117	14	17	4,612	13	30,698	3	26,278	3	-677	1	7,240	4
	c Unaudited	124,592	-83	-83	6,516	18	33,505	3	25,829	3	-2,286	2	6,643	3
\$100M ≤ A < \$1B	All	-20,718	14	100	7,297	20	93,452	9	78,007	9	-2,990	3	23,241	12
	with UTP	-285	0	1	659	2	21,500	2	18,230	2	-946	1	4,940	3
	a SEC 10 K/Public	-1,026	1	5	-56	0	12,712	1	10,594	1	-563	1	2,797	1
\$100M ≤ A < \$1B	b Audited	312	0	-2	824	2	6,191	1	5,506	1	-260	0	1,550	1
	c Unaudited	430	0	-2	-110	0	2,598	0	2,129	0	-123	0	592	0
	without UTP	-20,433	14	99	6,638	18	71,952	7	59,777	7	-2,044	2	18,301	10
\$100M ≤ A < \$1B	a SEC 10 K/Public	-5,438	4	26	1,238	3	17,677	2	14,545	2	-580	1	4,331	2
	b Audited	-8,447	6	41	2,662	7	30,722	3	26,332	3	-755	1	8,167	4
	c Unaudited	-6,547	4	32	2,738	7	23,551	2	18,899	2	-709	1	5,803	3

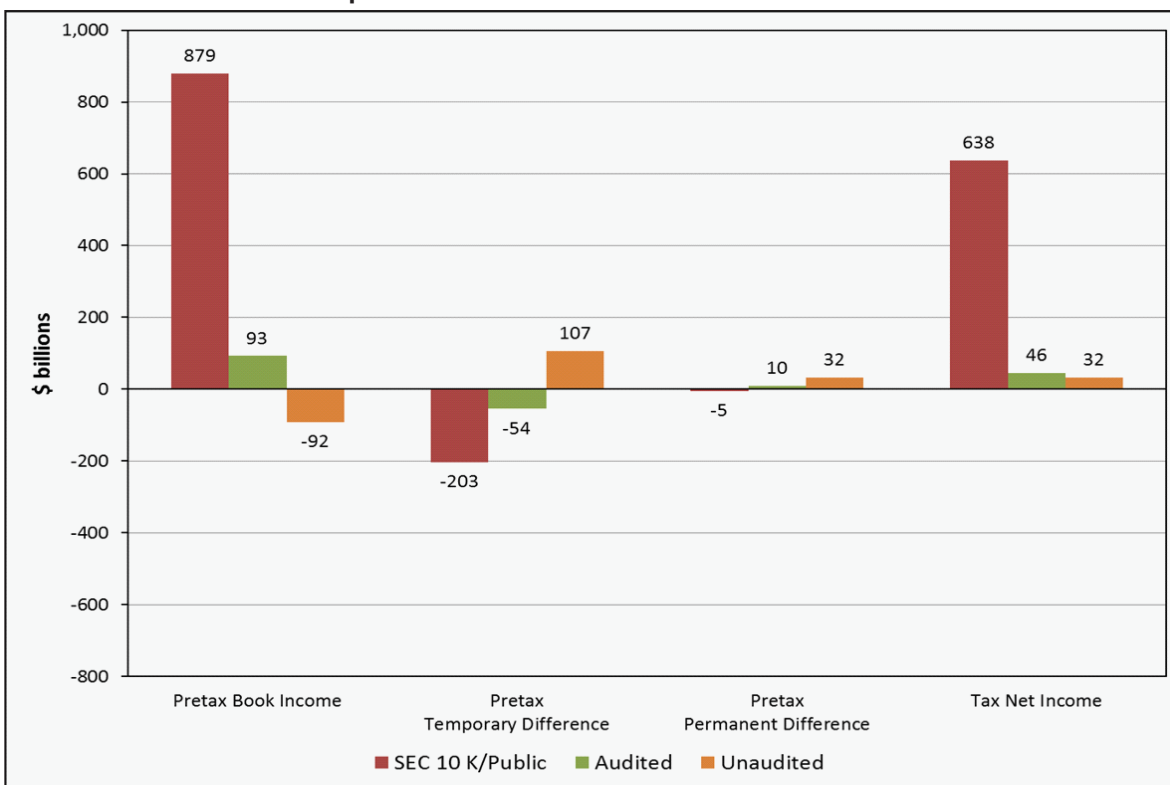
%1 = the percentage of the total for all 41,636 corporations represented by that row amount; %2 = the percentage of the total for the subgroup of rows in which the row is included represented by that row amount. Totals may not equal the sum of the components due to rounding.

Data for the following 2011 Schedule M-3, Part I, adjustments are not shown in Figure 1A and are not included in Table 1:³¹

- The adjustment to remove nonincludible U.S. net income (reported on Schedule M-3, Part I, line 6);³²
- The adjustment to include the net income of other includible entities (reported on Schedule M-3, Part I, line 7);³³
- The adjustment to FS consolidation eliminations (reported on Schedule M-3, Part I, line 8) because of the removal of the net income of foreign and U.S. nonincludible corporations and partnerships and the inclusion of the net income of other includible entities;³⁴
- The adjustment to income because of differences in FS year and tax year (reported on Schedule M-3, Part I, line 9);
- Other adjustments (reported on Schedule M-3, Part I, line 10) required to determine the net income of includible corporations (“book income”);³⁵ and
- The net income of includible corporations (“book income”) (reported on Schedule M-3, Part I, line 11).³⁶

Shown last in Figure 1A is pretax book income. Pretax book income is \$878,771 million for SEC 10K/Public, \$92,621 million for Audited, and - \$92,114 million for Unaudited.³⁷

FIGURE 1B. 2011: U.S. Corporation M-3: Pretax Book Income to Tax Net Income



³¹ Data for 2006-2010 for all of the items are reported in Tables 1A-1D of Boynton, DeFilippes, Legel, and Reum (2014).

³² The adjustment to remove positive nonincludible U.S. net income from worldwide FS income would be shown as a *negative* amount. U.S. subsidiaries owned more than 50 percent and certain U.S. partnerships are includible in worldwide consolidated FS but only U.S. corporations owned 80 percent or more are includible in the U.S. tax consolidated tax return.

³³ Other includible entities are U.S. subsidiaries owned 80 percent or more and certain disregarded entities (if owned by any of the includible corporations) for some reason not included in the worldwide consolidated FS and therefore not included on Schedule M-3, Part I, Line 4.

³⁴ Such adjustments include the restoration of certain dividends, minority interests, and equity method income eliminated in the consolidation for worldwide consolidated FS income.

³⁵ These adjustments include adjustments required between GAAP and statutory accounting when subsidiaries are insurance companies.

³⁶ Book income on Schedule M-3, Part I, line 11, is the book anchor for the Schedule M-3 book-to-tax reconciliation in Parts II and III. Tax net income on Form 1120, page 1, line 28, is the tax anchor.

³⁷ For our analysis, consistent with the BTM literature since Talisman (2000), we adjust book income to pretax book income by reversing the recognition of federal income tax expense (reported on Schedule M-3, Part III, lines 1, and 2) and calculate BTM as pretax differences. The adjustment of book income to pretax book income permits a consistent comparison with tax return income. See our discussion of pretax income, BTM, and signs in Part I. C of this paper.

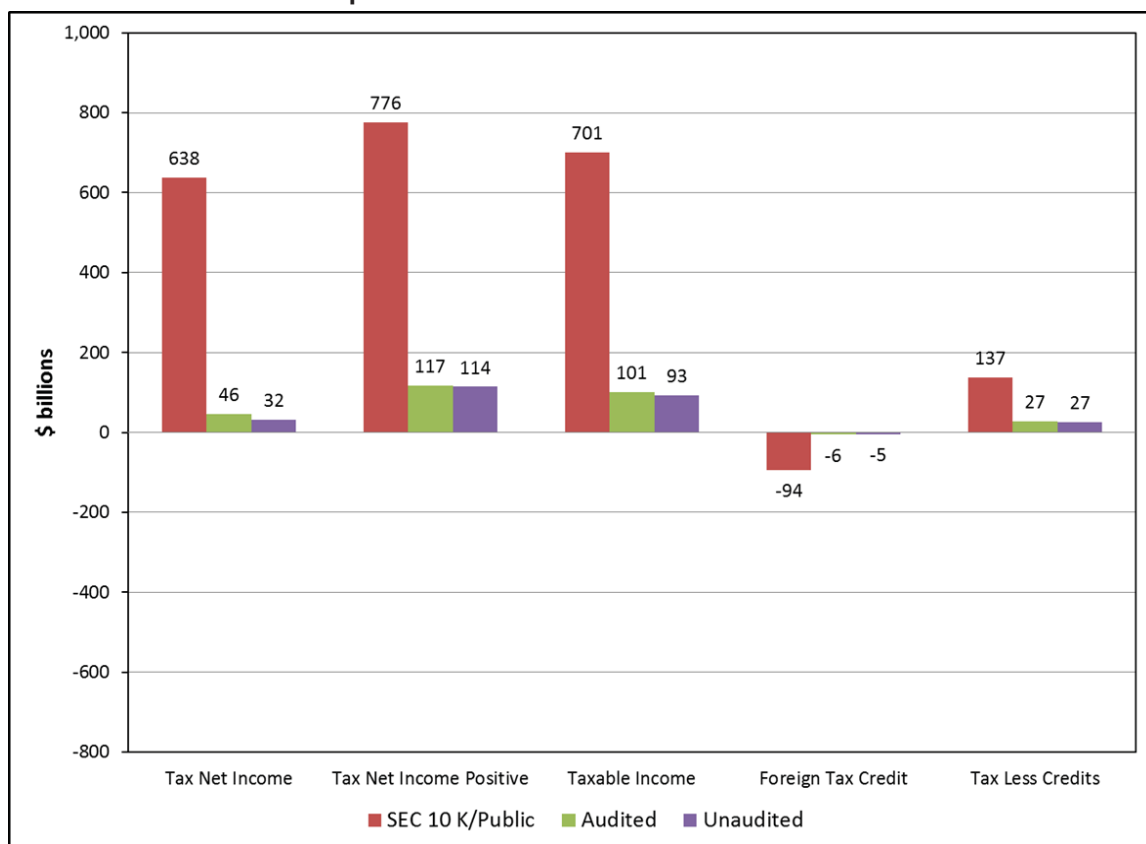
The first item in Figure 1B is pretax book income repeating the last item in Figure 1A.

Next shown in Figure 1B is the adjustment for net temporary BTD followed by the adjustment for net permanent BTD. Net total BTD is the sum of net temporary BTD and net permanent BTD. A negative BTD reduces tax net income compared to pretax book income. A positive BTD increases tax net income compared to pretax book income.

The net temporary BTD is -\$202,588 million for SEC 10K/Public, -\$54,477 million for Audited, and \$106,629 million for Unaudited. The net permanent BTD is -\$5,315 million for SEC 10K/Public, \$9,707 million for Audited, and \$32,416 million for Unaudited.

Not shown are the adjustments to Form 1120, page 1, line 4, dividend income and line 28 tax net income made by SOI to remove intercompany dividends (ICD) and the adjustment to correct other Form 1120, page 1, reporting errors impacting line 28 tax net income.³⁸

FIGURE 1C. 2011: U.S. Corporation M-3: Tax Net Income to Tax Less Credits



Tax net income is the last item in Figure 1B and the first item in Figure 1C. It is \$637,691 million for SEC 10K/Public, \$45,882 million for Audited, and \$32,300 million for Unaudited.

The next item shown in Figure 1C is total positive tax net income, that is, the total tax net income of corporations not reporting a loss on Form 1120, page 1, line 28. Loss corporations are not subject to the regular

³⁸ Data for 2006-2010 are reported in Tables 1A-1D of Boynton, DeFilippes, Legel, and Reum (2014). Some taxpayers improperly include ICD in tax net income on Form 1120, page 1, line 28, the reconciliation target for Schedule M-3. The taxpayer then removes the same ICD amount as a 100-percent dividends-received deduction on line 29b so that it does not increase final income subject to tax on line 30. On the SOI corporate file, SOI removes all ICD that it identifies from Form 1120 data including from page 1, line 28, whether or not the tax consolidation group contains an insurance company subsidiary. See the discussion of the history of ICD editing by SOI for 1990-2003 tax years in Boynton, DeFilippes, and Legel (2005 and 2006a) and Boynton, DeFilippes, Legel, and Reum (2011 and 2014). Note that changes on the SOI corporate file do not change the amounts on the tax return and do not impact IRS audits (or lack of audits) for corporate tax returns.

corporate income tax. Positive tax net income is \$776,399 million for SEC 10K/Public, \$117,093 million for Audited and \$114,147 million for Unaudited.

Not shown in Figure 1C are:³⁹

- The Form 1120, page 1, line 29a, net operating loss (NOL) deduction utilizing prior-year losses to reduce current taxable income;⁴⁰ and
- The adjustment for special deductions (dividend received deductions), on Form 1120, page 1, line 29b. The adjustment for special deductions reduces taxable income.

The next item shown is Form 1120, page 1, line 30, taxable income: \$700,876 million for SEC 10K/Public, \$101,086 million for Audited, and \$92,590 million for Unaudited.

Not shown is U.S. federal corporate income tax before credits.⁴¹

The next to last item shown is foreign tax credits (FTC) of -\$104,882 for all corporations, -\$94,412 million for SEC 10K/Public, -\$5,769 million for Audited, and -\$4,701 million for Unaudited.⁴²

Missing from Figure 1C are adjustments for the general business credit and other credits reducing taxes due.⁴³

In Figure 1C, the last item is tax less credits of \$137,090 million for SEC 10K/Public, \$27,160 million for Audited, and \$26,506 million for Unaudited.

Figure 2 expands on the 2011 analysis of pretax book income to tax net income first shown in Figure 1B and focuses on the corporations with \$100 million or more in assets—that is, the study population potentially subject to filing Schedule UTP for 2011. Figure 2 and Table 1 present data for Schedule UTP filers and nonfilers by FS type.

Table 1 data highlight the relative importance to the U.S. corporate tax system of very large corporations and of corporations that are publicly held and file with the SEC as well as the importance of “mixed groups” (tax consolidated groups with a noninsurance parent and one or more insurance subsidiaries). The study data for 2011 include 41,636 corporations that file Schedule M-3 including 12,307 corporations (30 percent) with total assets of \$100 million or more that are potentially subject to filing Schedule UTP.

The 2,751 corporations (7 percent) with \$1 billion or more in assets report 92 percent of the assets, 95 percent of the worldwide income, 97 percent of the nonincludible foreign income, 95 percent of pretax book income, 82 percent of the net negative (tax income reducing) temporary BTD, 70 percent of the net positive permanent BTD, and 83 percent of the tax less credits for the 41,636 corporations. The 4,488 corporations (11 percent) with SEC 10K/Public FS report 74 percent of the assets, 106 percent of the worldwide income, 96 percent of the nonincludible foreign income, 100 percent of pretax income, 135 percent of the net negative temporary BTD, and net negative permanent BTD equal to -14 percent of the aggregate net positive permanent BTD, and 72 percent of the tax less credits. The 420 corporations (1 percent) that are mixed groups report 46 percent of the assets, 32 percent of the worldwide income, 55 percent of the nonincludible foreign income, 31 percent of pretax book income, net positive temporary BTD equal to -30 percent of the aggregate net negative temporary BTD, net negative permanent BTD equal to -82 percent of the aggregate net positive permanent BTD, and 31 percent of the tax less credits.

In contrast with the above, the 24,012 corporations (58 percent) with assets of \$10 million or more but less than \$50 million report only 1 percent of total assets, an aggregate FS net loss representing less than 1 percent

³⁹ Data for 2006-2010 for all of the items are reported in Tables 1A-1D of Boynton, DeFilippes, Legel, and Reum (2014).

⁴⁰ The adjustment for the NOL deduction would be shown as negative because the adjustment reduces taxable income.

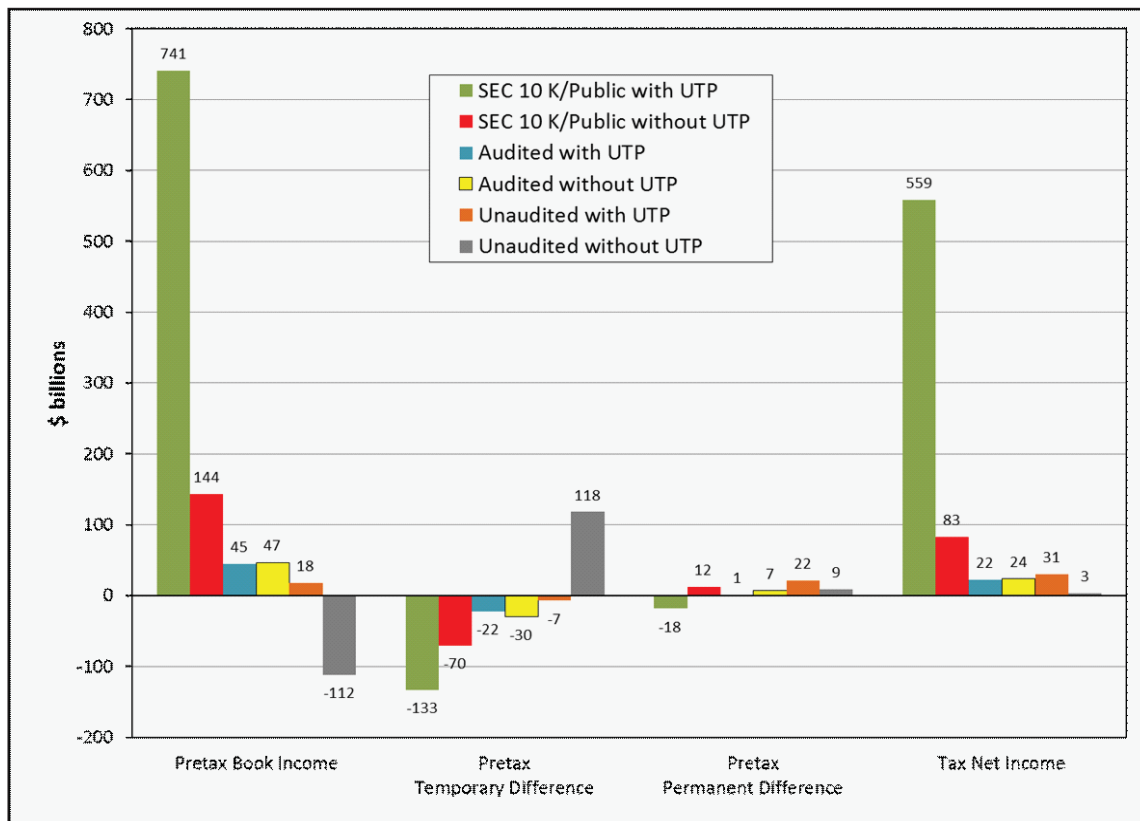
⁴¹ Data for 2006-2010 are reported in Tables 1A-1D of Boynton, DeFilippes, Legel, and Reum (2014).

⁴² The adjustment for FTC is shown as negative because the adjustment reduces the U.S. income tax that is owed. FTC reduces U.S. income taxes, within limits, for income taxes paid to foreign countries on income earned outside the U.S. but included in U.S. taxable income.

⁴³ Data for 2006-2010 are reported in Tables 1A-1D of Boynton, DeFilippes, Legel, and Reum (2014).

of worldwide income, and 3 percent of tax less credits.⁴⁴ The 5,317 corporations (13 percent) with assets of \$50 million or more but less than \$100 million report only 1 percent of total assets, an aggregate FS net profit representing less than 1 percent of worldwide income, and 2 percent of tax less credits. Corporations with assets of \$50 million or more but less than \$100 million are potentially subject to filing Schedule UTP starting in 2012. Corporations with assets of \$10 million or more but less than \$50 million are potentially subject to filing Schedule UTP starting in 2014.

FIGURE 2. 2011: U.S. Corporation M-3: Pretax Book Income to Tax Net Income, All FS by UTP Status



The 12,307 corporations (30 percent) with assets of \$100 million or more in 2011 are potentially required to file Schedule UTP. They report 98 percent of assets, approximately 100 percent of net aggregate worldwide income, 99 percent of the nonincludible foreign income, approximately 100 percent of net aggregate pretax book income, 95 percent of the net negative temporary BTD, 90 percent of the net positive permanent BTD, and 95 percent of tax less credits for the 41,636 corporations.

The 2,074 corporations (5 percent) with assets of \$100 million or more that in fact filed Schedule UTP report 70 percent of assets, 94 percent of worldwide income, 90 percent of the nonincludible foreign income, 91 percent of pretax book income, 108 percent of the net negative (tax-income-decreasing) temporary BTD, 12 percent of the net positive (tax-income-increasing) permanent BTD, and 66 percent of tax less credits for the 41,636 corporations.

⁴⁴ 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 would be 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.

In contrast, the 10,233 corporations (25 percent) with assets of \$100 million or more that did not file Schedule UTP (were not required to file or failed to file) report 28 percent of assets, 6 percent of worldwide income, 9 percent of nonincludible foreign income, 9 percent of the pretax book income, net positive temporary BTD equal to -12 percent of the net negative temporary BTD, 77 percent of the net positive permanent BTD, and 29 percent of tax less credits for the 41,636 corporations.

B. By Industry and UTP Status

Table 2 presents distribution table data for 2011 with rows for 19 key industries and Schedule UTP filing status for 12,307 corporations with \$100 million or more in assets.⁴⁵ The columns are key tax return and Schedule M-3 variables: number of returns, Schedule L total assets, worldwide income, nonincludible foreign income, pretax book income, pretax temporary BTD, pretax permanent BTD, and U.S. corporate income tax less credits.⁴⁶ Subtotals are presented for: manufacturing, finance/holding, and other.

Table 2 has two columns of percentages following each row amount giving, first, the percentage of the total for all 12,307 corporations represented by that row amount, and, second, the percentage of the total for the industry within which the row is included represented by that row amount.

The rate of filing Schedule UTP by the 12,307 corporations with assets of \$100 million or more differs greatly by industry. In manufacturing, 908 (34 percent) file Schedule UTP and 1,802 (66 percent) do not. In finance/holding, 189 (4 percent) file and 4,678 (96 percent) do not. In other, 976 (21 percent) file and 3,753 (79 percent) do not.

The 908 manufacturing corporations filing Schedule UTP report 18 percent of assets for the 12,307 corporations with \$100 million or more in assets, 54 percent of the worldwide income, 69 percent of nonincludible foreign income, 44 percent of pretax book income, 28 percent of the net negative temporary BTD, 44 percent of the net positive permanent BTD, and 28 percent of the tax less credits. In contrast, the 1,802 manufacturing corporations that do not file Schedule UTP report 9 percent of the worldwide income of the 12,307 corporations, 6 percent of the foreign nonincludible income, and 13 percent of the net negative permanent BTD.

The 189 finance/holding corporations filing Schedule UTP report a disproportionate 41 percent of assets for the 12,307 corporations with assets of \$100 million or more but only 12 percent of tax less credits, 10 percent of worldwide income, 5 percent of nonincludible foreign income, 16 percent of pretax book income, 6 percent of net negative (tax income reducing) temporary BTD, and -87 percent of net negative permanent BTD.

The 976 other nonmanufacturing, nonfinancial corporations filing Schedule UTP report 8 percent of the assets for the 12,307 corporations, 13 percent of worldwide income, 29 percent of nonincludible foreign income, 30 percent of pretax book income, 30 percent of tax less credits, 78 percent of net negative temporary BTD, and net positive (tax income increasing) permanent BTD equal to 56 percent of the net positive permanent BTD of the 12,307 corporations.

⁴⁵ The industries listed in Table 2 are listed in SOI publications in the following industries, major codes and sector codes: Petroleum Refineries: Ind. 324110; Pharmaceuticals: Ind. 325410; Computers/Electronics: Major code 334; Electrical Equipment: Major code 335; Transportation Equipment: Major code 336; Fabricated Metal and Machinery: Major codes 332 and 333; Food/Beverage Mfg: Major codes 311 and 312; Other Manufacturing: Major codes 313, 315, 316, 321, 322, 323, 325, 326, 327, 331, 337, 339, and Ind. 325125; Non-Bank Holding Company: Ind. 551112; Bank & Bank Holding Company: Ind. 551111, and Major code 521; Securities/Commodities: Major code 523; Other Financial: Major codes 522, 524, 525, and Sector code 53; Trade: Sector code 41; (N) Information: Sector code 51; Utilities: Sector code 22; Transport/Warehousing: Sector code 48; Mining: Sector code 21; Construction: Sector code 23; and Service/Agriculture/Other: the remainder of the industries not listed above.

⁴⁶ Nonincludible foreign income is shown as *negative* in Table 2 because it is the foreign income that must be *removed* from worldwide income in determining book income for the U.S. tax consolidated group.

Table 2. 2011 U.S. Corporations Form 1120 Schedule M-3: 19 Industries, Assets of \$100 Million or More, by UTP Filing Status

Industry	UTP Filing Status	Number of Returns			Schedule L Total Assets			Worldwide Income (Part I Line 4)			Nonincludible Foreign Income		
		Sum	%1	%2	Sum	%1	%2	Sum	%1	%2	Sum	%1	%2
All	All	12,307	100	100	50,193,759	100	100	821,100	100	100	-768,079	100	100
i. SUBTOTAL Manufacturing	No	1,802	15	66	1,785,153	4	17	76,523	9	15	-45,477	6	8
	Yes	908	7	34	8,937,084	18	83	445,044	54	85	-533,494	69	92
n. SUBTOTAL Financial	No	4,678	38	96	8,675,006	17	30	-106,974	-13	478	-1,310	0	3
	Yes	189	2	4	20,433,731	41	70	84,601	10	-378	-41,964	5	97
y. SUBTOTAL Other	No	3,753	30	79	3,850,133	8	37	81,547	10	25	-25,466	3	17
	Yes	976	8	21	6,512,652	13	63	240,359	29	75	-120,368	16	83
a. Petroleum Refineries	No	28	0	74	216,424	0	9	14,670	2	14	-5,276	1	7
	Yes	10	0	26	2,128,289	4	91	93,198	11	86	-71,301	9	93
b. Pharmaceuticals	No	58	0	49	27,936	0	3	569	0	1	5	0	0
	Yes	60	0	51	1,002,631	2	97	52,041	6	99	-173,851	23	100
c. Computers/Electronics	No	139	1	39	143,452	0	13	2,973	0	3	-2,157	0	2
	Yes	216	2	61	953,745	2	87	95,375	12	97	-131,237	17	98
d. Electrical Equipment	No	80	1	71	53,096	0	5	1,174	0	5	-1,751	0	6
	Yes	32	0	29	947,861	2	95	20,725	3	95	-29,488	4	94
e. Transportation Equipment	No	207	2	67	128,784	0	11	4,284	1	6	-2,734	0	13
	Yes	100	1	33	1,079,082	2	89	64,991	8	94	-18,194	2	87
f. Fabrication Metal/Machinery	No	318	3	71	218,902	0	23	11,984	1	29	-8,881	1	28
	Yes	128	1	29	715,079	1	77	29,159	4	71	-23,350	3	72
g. Food / Beverage Manufacturing	No	204	2	78	329,153	1	30	23,279	3	47	-13,613	2	32
	Yes	57	0	22	760,280	2	70	26,637	3	53	-28,541	4	68
h. Other Manufacturing	No	767	6	72	667,407	1	33	17,590	2	22	-11,070	1	16
	Yes	305	2	28	1,350,116	3	67	62,918	8	78	-57,532	7	84
j. Non-Bank Holding Company	No	367	3	96	274,992	1	66	974	0	9	-1,482	0	12
	Yes	17	0	4	140,437	0	34	9,739	1	91	-10,427	1	88
k. Bank (& Bank Holding Company)	No	3,288	27	98	4,907,807	10	32	22,754	3	29	-194	0	1
	Yes	55	0	2	10,272,572	20	68	55,146	7	71	-16,088	2	99
l. Securities/Commodities	No	241	2	84	2,651,577	5	42	-146,364	-18	118	5,297	-1	-172
	Yes	47	0	16	3,628,474	7	58	22,321	3	-18	-8,374	1	272
m. Other Financial	No	782	6	92	840,631	2	12	15,662	2	120	-4,932	1	41
	Yes	70	1	8	6,392,248	13	88	-2,605	0	-20	-7,075	1	59
o. Trade	No	1,185	10	81	993,513	2	32	37,241	5	30	-8,586	1	15
	Yes	283	2	19	2,083,899	4	68	85,452	10	70	-48,941	6	85
p. Information	No	435	4	71	645,107	1	27	2,496	0	4	1,882	0	-5
	Yes	174	1	29	1,720,048	3	73	65,298	8	96	-36,984	5	105
q. Utilities	No	161	1	73	438,640	1	27	7,299	1	21	-13	0	1
	Yes	59	0	27	1,172,245	2	73	27,427	3	79	-2,492	0	99
r. Transportation/Warehousing	No	246	2	87	347,366	1	59	234	0	2	480	0	-48
	Yes	36	0	13	242,174	0	41	14,470	2	98	-1,490	0	148
s. Mining	No	329	3	90	584,648	1	61	25,048	3	48	-16,577	2	59
	Yes	35	0	10	370,655	1	39	27,291	3	52	-11,431	1	41
t. Construction	No	182	1	89	112,250	0	70	-1,032	0	-251	-34	0	6
	Yes	22	0	11	48,957	0	30	1,443	0	351	-546	0	94
x. Services/Agriculture/ Other	No	1,214	10	77	728,608	1	45	10,262	1	35	-2,617	0	12
	Yes	367	3	23	874,674	2	55	18,979	2	65	-18,484	2	88

%1 = the percentage of the total for all 12,307 corporations represented by that row amount; %2 = the percentage of the total for the subgroup of rows in which the row is included represented by that row amount.

Totals may not equal the sum of the components due to rounding.

TABLE 2. 2011 U.S. Corporations Form 1120 Schedule M-3: 19 Industries, Assets of \$100 Million or More, by UTP Filing Status (Continued)

Industry	UTP Filing Status	Pretax Book Income			Pretax Temporary Difference			Pretax Permanent Difference			Tax Less Credits		
		Sum	%1	%2	Sum	%1	%2	Sum	%1	%2	Sum	%1	%2
All	All	882,032	100	100	-143,648	100	100	33,043	100	100	180,791	100	100
i. SUBTOTAL Manufacturing	No	63,405	7	14	-19,334	13	32	2,475	7	14	13,878	8	22
	Yes	391,897	44	86	-40,367	28	68	14,658	44	86	50,125	28	78
n. SUBTOTAL Financial	No	-91,156	-10	-176	103,238	-72	110	4,089	12	-17	15,033	8	41
	Yes	142,824	16	276	-9,183	6	-10	-28,590	-87	117	21,202	12	59
y. SUBTOTAL Other	No	106,567	12	28	-65,550	46	37	21,948	66	54	26,656	15	33
	Yes	268,496	30	72	-112,453	78	63	18,463	56	46	53,896	30	67
a. Petroleum Refineries	No	14,723	2	12	-5,276	4	50	-580	-2	-4	1,488	1	21
	Yes	112,004	13	88	-5,197	4	50	16,779	51	104	5,759	3	79
b. Pharmaceuticals	No	671	0	3	496	0	7	-52	0	0	383	0	5
	Yes	23,681	3	97	6,230	-4	93	14,943	45	100	7,748	4	95
c. Computers/Electronics	No	2,396	0	4	-2,501	2	18	1,248	4	-42	577	0	6
	Yes	63,091	7	96	-11,480	8	82	-4,218	-13	142	9,510	5	94
d. Electrical Equipment	No	356	0	1	-752	1	20	550	2	-13	323	0	27
	Yes	26,965	3	99	-2,920	2	80	-4,694	-14	113	884	0	73
e. Transportation Equipment	No	2,250	0	4	-1,968	1	9	439	1	-5	368	0	6
	Yes	58,572	7	96	-19,724	14	91	-8,586	-26	105	5,310	3	94
f. Fabrication Metal/Machinery	No	8,452	1	25	-1,220	1	40	1,410	4	47	2,366	1	32
	Yes	24,756	3	75	-1,829	1	60	1,577	5	53	4,955	3	68
g. Food / Beverage Manufacturing	No	19,653	2	45	-1,158	1	77	-2,521	-8	59	3,944	2	41
	Yes	23,634	3	55	-352	0	23	-1,724	-5	41	5,566	3	59
h. Other Manufacturing	No	14,904	2	20	-6,955	5	58	1,981	6	77	4,428	2	30
	Yes	59,194	7	80	-5,096	4	42	581	2	23	10,393	6	70
j. Non-Bank Holding Company	No	2,327	0	20	-3,503	2	46	5,244	16	32	2,195	1	54
	Yes	9,468	1	80	-4,038	3	54	11,051	33	68	1,895	1	46
k. Bank (& Bank Holding Company)	No	31,696	4	22	-10,897	8	158	-1,532	-5	3	7,453	4	47
	Yes	112,284	13	78	3,997	-3	-58	-44,778	-136	97	8,358	5	53
l. Securities/Commodities	No	-141,181	-16	115	131,491	-92	103	1,512	5	36	2,117	1	30
	Yes	18,829	2	-15	-3,597	3	-3	2,729	8	64	5,056	3	70
m. Other Financial	No	16,002	2	88	-13,853	10	71	-1,135	-3	-89	3,267	2	36
	Yes	2,242	0	12	-5,544	4	29	2,409	7	189	5,893	3	64
o. Trade	No	49,379	6	32	-15,913	11	59	2,817	9	33	13,052	7	31
	Yes	105,265	12	68	-10,909	8	41	5,655	17	67	28,614	16	69
p. Information	No	6,048	1	9	6,930	-5	-47	2,416	7	25	2,758	2	18
	Yes	62,704	7	91	-21,627	15	147	7,130	22	75	12,208	7	82
q. Utilities	No	8,058	1	16	-15,636	11	23	-1,818	-6	19	330	0	34
	Yes	41,766	5	84	-53,348	37	77	-7,996	-24	81	652	0	66
r. Transportation/Warehousing	No	2,075	0	9	-7,308	5	37	1,940	6	104	954	1	25
	Yes	20,337	2	91	-12,415	9	63	-83	0	-4	2,871	2	75
s. Mining	No	28,581	3	54	-28,992	20	69	11,025	33	108	2,758	2	51
	Yes	24,749	3	46	-12,764	9	31	-818	-2	-8	2,630	1	49
t. Construction	No	-833	0	-386	-1,561	1	98	176	1	29	464	0	52
	Yes	1,049	0	486	-29	0	2	423	1	71	427	0	48
x. Services/Agriculture/ Other	No	13,259	2	51	-3,069	2	69	5,391	16	28	6,339	4	49
	Yes	12,625	1	49	-1,360	1	31	14,152	43	72	6,494	4	51

%1 = the percentage of the total for all 12,307 corporations represented by that row amount; %2 = the percentage of the total for the subgroup of rows in which the row is included represented by that row amount.

Totals may not equal the sum of the components due to rounding.

Part III. 2010 and 2011 Adjusted Mini M-3

A. Mini M-3: Specified vs Other Lines

The “other-with-difference” lines on Schedule M-3 with BTD are Part II, line 25, and Part III, line 37. The “other-with-no-difference” line is Part II, line 28. In two prior studies in this series we noted both the large dollar magnitude of the book income, tax income, and BTD amounts reported on the “other-with-difference” lines and the documentation problems found on the lines.⁴⁷

We use a “Mini M-3” format to compare the aggregate amounts reported on the Schedule M-3, Parts II and III, “other-with-difference” or “other-with-no-difference” lines with the aggregate amounts reported on the Schedule M-3, Parts II and III, “specified” lines, that is, the lines with specific captions.⁴⁸

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 IRS SOI corporate data file. The Mini M-3 format also makes related special adjustments to other-income-with-difference and other-items-with-no-difference lines and decomposes the adjusted other-items-with-no-difference line into other-income-with-no-difference and other-expense/deduction-with-no-difference lines.

After making the data adjustments, the Mini M-3 format has 10 categories of specified lines, other-with-difference or no-difference lines, and subtotals or totals:⁴⁹

- Other income with no difference (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 difference (Part II, line 25 adjusted)
- Adjusted total income
- Specified expense/deduction (Part III, lines 3-36)⁵⁰
- Other expense/deduction with difference (Part III, line 37)
- Other expense/deduction with no difference (an adjustment to Part II, line 28)
- Pretax book income

We used the adjusted-total-income book amount as a common-size scaling factor and compare percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers and nonfilers for the three FS types, total pretax income BTD is expressed as a percentage of total pretax book income.

B. COGS and Other Adjustments

We make a Schedule M-3 COGS adjustment for the Mini 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

⁴⁷ For discussions of the other-with-difference documentation by large taxpayers in 2005 and 2007, see Boynton, DeFilippes, and Legel (2008) and Boynton, DeFilippes, Legel, and Reum (2011).

⁴⁸ Amounts reported on the other-with-difference lines require attached documentation. The documentation must separately state and adequately disclose the BTD for the line. The other-items-with-no-difference line has no documentation. Reporting on the other-with-difference 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 BTD. Schedule M-3 requires a description, a book income amount, a temporary BTD amount, a permanent BTD amount, and a tax income amount.

⁴⁹ In Tables 4, 5, and 6, we omit the data for adjusted other income with no difference and adjusted COGS and start the table data with adjusted gross profit to save space. All BTD in adjusted gross profit are from adjusted COGS. The adjustments we make to COGS are made equally to the unadjusted book amount and tax amount, and have no effect on the BTD.

⁵⁰ 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 BTD in Part I. C, of this paper.

1120, page 1, line 2, COGS.⁵¹ We make the equal adjustments to Part II, line 17, COGS book income and tax income with the result that COGS BTD are not changed. 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-difference and to other-items-with-no-difference. We also decompose the adjusted other-items-with-no-difference into other-income-with-no difference and other-expense/deduction-with-no difference.⁵²

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 transactions. SOI adjusted COGS, gross receipts, and inventory amounts are used by the Bureau of Economic Analysis (BEA) for national income accounts. At the request of the Office of Tax Analysis (OTA), SOI has not adjusted the data for Schedule M-3 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 the book income and tax income components, as well as the 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.⁵³

As shown in Table 3, we adjust 2011 Schedule M-3 COGS by approximately \$41 trillion 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 difference, and line 28, other items without difference. 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.⁵⁴ In addition, for 2011 we compare the Form 1120, page 1, line 27, total deduction amount with the total Part III deduction amount carried over to Part II as reported on Part II, line 27, column (d), to determine the total deductions-with-no-difference amount currently included in Part II, line 28, other items with no difference. The amounts of the four adjustments are shown in Table 3.⁵⁵

Of the 41,636 Schedule M-3 returns in our study for 2011, some 25,078 reported COGS on Part II, line 17. The total COGS adjustment for 2011 is \$41,308,853 million. The details of the adjustment are shown in Table 3 and Figure 3. The adjustments do not affect pretax net income and do not affect BTD. BTD are not affected by the COGS and other adjustments described in this Part III, B., because equal adjustments are made to book income and tax income amounts.

Table 3 shows the aggregate amounts of the three COGS adjustments and the one other-expense/deduction-with-no-difference adjustment for all corporations in our study and by FS type. The adjustments are largely to SEC 10K/Public. The adjustments do not affect pretax net income and do not affect BTD.

⁵¹ Note that changes on the SOI corporate file do not change the amounts on the tax return and do not impact IRS audits (or lack of audits) for corporate tax returns.

⁵² We have introduced adjustment lines into our 2010 M-3 First Look FORM tables 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.

⁵³ 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-difference line combined. A majority of gross receipts are reported on Part II, line 28, other items with no difference.

⁵⁴ See Boynton, DeFilippes, Legel, and Reum (2014).

⁵⁵ 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, then 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 difference if P2L25D other income with difference is greater than P2L28D other income without difference AND P2L25D is greater than 80 percent of the gross receipts adjustment **ELSE** use ADJ COGS2.

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

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

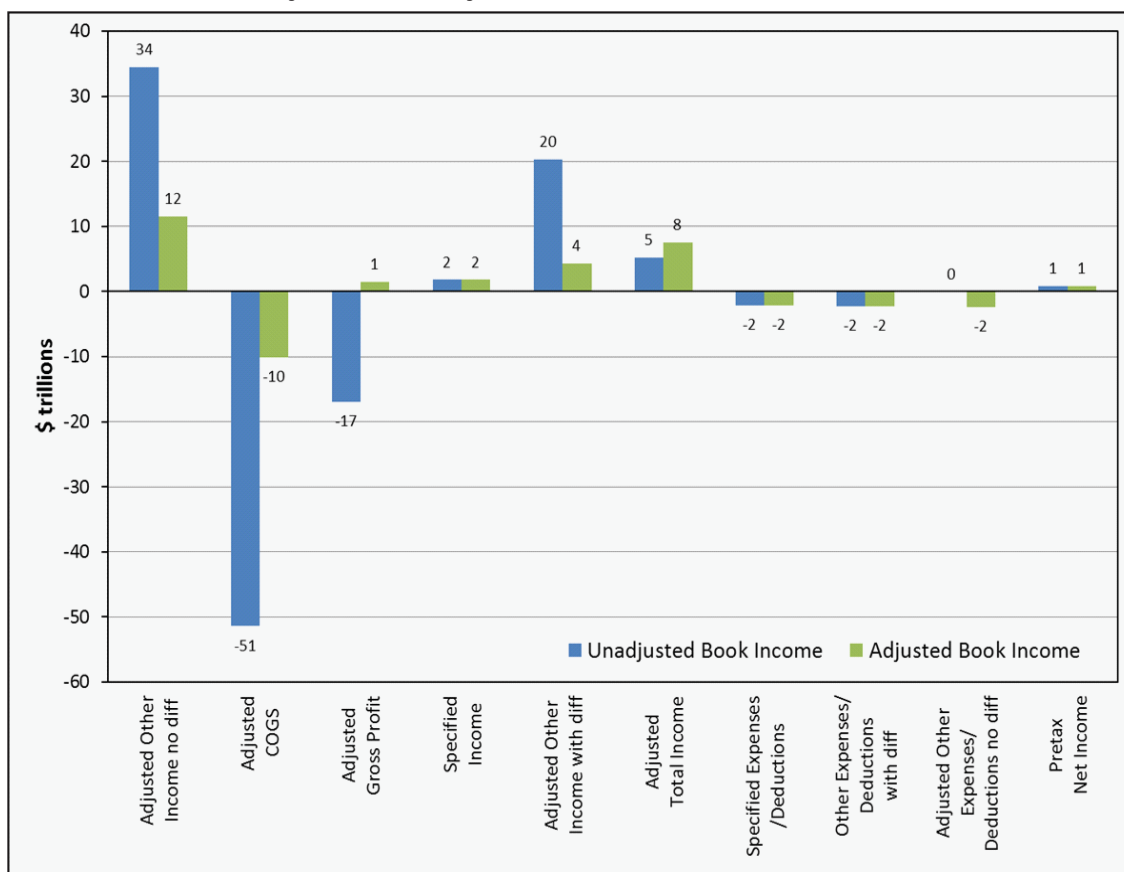
ADJ EXPDED: We estimate expenses/deduction without differences as the amount if any by which Form 1120, page 1, line 27, total deductions exceed the absolute value of P2L27 column (d). We show it as an additional expense/deduction line and as an increase to P2L28. The adjusted P2L28 amount changes from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

TABLE 3. 2011 U.S. Corporation Form 1120 Schedule M-3: Cost of Goods Sold (COGS) Related Adjustments (\$ Millions)

	Unadjusted Book Income	Adjustments					Adjusted Book Income
		ADJ COGS1	ADJ COGS2	ADJ COGS3	ADJ Expenses/Deductions	Total ADJ	
All							
Other income no diff	34,488,365		-25,733,871	446,385	2,387,246	-22,900,240	11,588,124
COGS	-51,429,810	16,021,367	25,733,871	-446,385		41,308,853	-10,120,956
Gross Profit	-16,941,445	16,021,367	0	0	2,387,246	18,408,613	1,467,168
Specified income	1,804,671					0	1,804,671
Other income with diff	20,340,377	-16,021,367				-16,021,367	4,319,010
Total Income	5,203,603	0	0	0	2,387,246	2,387,246	7,590,849
Specified expense/dedn	-2,098,946					0	-2,098,946
Other exp/dedn with diff	-2,225,382					0	-2,225,382
Other exp/dedn no diff	0				-2,387,246	-2,387,246	-2,387,246
Pretax Net Income	879,279	0	0	0	0	0	879,279
SEC 10K/Public							
Other income no diff	29,167,653		-24,324,224	352,206	1,451,683	-22,520,335	6,647,319
COGS	-45,958,356	15,993,158	24,324,224	-352,206		39,965,176	-5,993,181
Gross Profit	-16,790,703	15,993,158	0	0	1,451,683	17,444,841	654,138
Specified income	1,470,206					0	1,470,206
Other income with diff	19,240,058	-15,993,158				-15,993,158	3,246,900
Total Income	3,919,561	0	0	0	1,451,683	1,451,683	5,371,244
Specified expense/dedn	-1,564,368					0	-1,564,368
Other exp/dedn with diff	-1,476,426					0	-1,476,426
Other exp/dedn no diff	0				-1,451,683	-1,451,683	-1,451,683
Pretax Net Income	878,771	0	0	0	0	0	878,771
Audited							
Other income no diff	2,823,328		-357,790	44,962	522,623	209,795	3,033,123
COGS	-2,999,792	10,505	357,790	-44,962		323,333	-2,676,459
Gross Profit	-176,464	10,505	0	0	522,623	533,128	356,664
Specified income	185,016					0	185,016
Other income with diff	706,232	-10,505				-10,505	695,727
Total Income	714,784	0	0	0	522,623	522,623	1,237,408
Specified expense/dedn	-286,067					0	-286,067
Other exp/dedn with diff	-336,096					0	-336,096
Other exp/dedn no diff	0				-522,623	-522,623	-522,623
Pretax Net Income	92,621	0	0	0	0	0	92,621
Unaudited							
Other income no diff	2,497,383		-1,051,857	49,216	412,940	-589,701	1,907,682
COGS	-2,471,661	17,704	1,051,857	-49,216		1,020,345	-1,451,317
Gross Profit	25,722	17,704	0	0	412,940	430,644	456,365
Specified income	149,449					0	149,449
Other income with diff	394,086	-17,704				-17,704	376,383
Total Income	569,257	0	0	0	412,940	412,940	982,197
Specified expense/dedn	-248,510					0	-248,510
Other exp/dedn with diff	-412,860					0	-412,860
Other exp/dedn no diff	0				-412,940	-412,940	-412,940
Pretax Net Income	-92,114	0	0	0	0	0	-92,114

Totals may not equal the sum of the components due to rounding.

We will use the adjusted book income and tax income amounts in our Mini M-3 analysis in Part IV and will scale by adjusted total income, the sum of the adjusted other-income-with-no-difference, adjusted COGS, specified-income, and adjusted other-income-with-difference amounts.

FIGURE 3. 2011: Unadjusted and Adjusted Book Income Amounts

Part IV. Analysis of Mini M-3: FS by UTP

A. Mini M-3 by FS by UTP

Part IV, Tables 4, 5, and 6, and Figures 4, 5, and 6 present adjusted 2010 and 2011 data for adjusted gross profit, specified income, adjusted income with difference, adjusted total income, specified expense/deduction, other expense/deduction with difference, other expense deduction with no difference, and pretax book income for book income, tax income, and temporary and permanent BTM amounts by FS type (SEC 10K/Public, Audited, and Unaudited) further partitioned by the presence or absence of Schedule UTP.⁵⁶ The Mini M-3 formats in Tables 4-6 do not show the adjusted-income-with-no-difference line and the adjusted-COGS line but do show the adjusted-gross-profit line resulting from the two omitted lines.⁵⁷ All BTM reported on the adjusted-gross-profit line are from the adjusted-COGS line and, when relevant, are discussed as COGS BTM.

⁵⁶ The SAS computer code we use for indicating the presence or absence of UTP filing is as follows:

```
/*Flag any indication of UTP*/
HAS_UTP = 0;
IF (SCHUTP_REQ_IND = 1) OR (SCHUTP_CD = 1) OR (NUM_SCHUTP > 0) THEN HAS_UTP=1;
HAS_UTP3 = HAS_UTP;
IF TOT_ASSTS < 100000 THEN HAS_UTP3=0; /* if assets under 100m */
```

We are using UTP3, which does not recognize volunteer filings by corporations with total assets of less than \$100 million.

⁵⁷ The data for the omitted adjusted-income-with-no-difference and adjusted-COGS lines in Tables 4, 5, and 6 are available on request.

TABLE 4. 2010-2011: U.S. Corporation Form 1120 Schedule M-3: Mini M-3 by UTP Status: SEC 10K/Public FS: Assets ≥ \$100 Million

	\$ Millions										Percent of Adjusted Total Income Book				Percent of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Diff.	Book	Temp	Perm	Tax	Total Diff.	Temp	Perm	Total Diff.				
2010 with UTP Filing																	
Adjusted Gross Profit	1,287,530	-24,531	3,891	1,266,891	-20,640	33.51	-0.64	0.10	32.98	-0.54	-3.6	0.6	-0.54	-3.0			
Specified Income	1,289,815	-114,719	-13,349	1,161,754	-128,067	33.57	-2.99	-0.35	30.24	-3.33	-16.7	-1.9	-3.33	-18.6			
Adjusted Other Income with difference	1,264,432	3,583	-58,287	1,209,747	-54,704	32.91	0.09	-1.52	31.49	-1.42	0.5	-8.5	-1.42	-8.0			
Adjusted Total Income	3,841,778	-135,667	-67,745	3,638,392	-203,412	100.00	-3.53	-1.76	94.71	-5.29	-19.8	-9.9	-5.29	-29.6			
Specified Expense/Deduction	-1,230,384	28,994	22,723	-1,178,676	51,718	-32.03	0.75	0.59	-30.68	1.35	4.2	3.3	1.35	7.5			
Other Exp/Ded with difference	-978,950	-34,794	-4,483	-1,018,242	-39,276	-25.48	-0.91	-0.12	-26.50	-1.02	-5.1	-0.7	-1.02	-5.7			
Adj Other Exp/Ded no difference	-945,641	0	0	-945,641	0	-24.61	0.00	0.00	-24.61	0.00	0.0	0.0	0.00	0.0			
Pretax Net Income	686,803	-141,466	-49,504	495,833	-190,970	17.88	-3.68	-1.29	12.91	-4.97	-20.6	-7.2	-4.97	-27.8			
2010 without UTP Filing																	
Adjusted Gross Profit	624,083	25,810	-140	649,762	25,669	45.99	1.90	-0.01	47.88	1.89	11.4	-0.1	1.89	11.3			
Specified Income	147,010	15,562	-47,012	115,566	-31,450	10.83	1.15	-3.46	8.52	-2.32	6.8	-20.7	-2.32	-13.8			
Adjusted Other Income with difference	586,029	-39,252	-17,031	529,745	-56,283	43.18	-2.89	-1.25	39.03	4.15	-17.3	-7.5	4.15	-24.8			
Adjusted Total Income	1,357,122	2,120	-64,184	1,295,074	-62,065	100.00	0.16	-4.73	95.43	-4.57	0.9	-28.2	-4.57	-27.3			
Specified Expense/Deduction	-338,353	-26,289	-140	-364,799	-26,429	-24.93	-1.94	-0.01	-26.88	-1.95	-11.6	-0.1	-1.95	-11.6			
Other Exp/Ded with difference	-377,011	-13,388	17,336	-373,063	3,948	-27.78	-0.99	1.28	-27.49	0.29	-5.9	7.6	0.29	1.7			
Adj Other Exp/Ded no difference	-414,425	0	0	-414,425	0	-30.54	0.00	0.00	-30.54	0.00	0.0	0.0	0.00	0.0			
Pretax Net Income	227,332	-37,557	-46,989	142,786	-84,546	16.75	-2.77	-3.46	10.52	-6.23	-16.5	-20.7	-6.23	-37.2			
2011 with UTP Filing																	
Adjusted Gross Profit	245,221	13,563	-2,748	256,037	10,816	5.90	0.33	-0.07	6.16	0.26	1.8	-0.4	0.26	1.5			
Specified Income	1,252,745	-83,872	-15,125	1,153,790	-98,996	30.14	-2.02	-0.36	27.76	-2.38	-11.3	-2.0	-2.38	-13.4			
Adjusted Other Income with difference	2,658,720	-7,895	-33,595	2,617,230	-41,490	63.96	-0.19	-0.81	62.96	-1.00	-1.1	-4.5	-1.00	-5.6			
Adjusted Total Income	4,156,686	-78,204	-51,467	4,027,056	-129,671	100.00	-1.88	-1.24	96.88	-3.12	-10.6	-6.9	-3.12	-17.5			
Specified Expense/Deduction	-1,280,402	-19,186	29,058	-1,270,570	9,872	-30.80	-0.46	0.70	-30.57	0.24	-2.6	3.9	0.24	1.3			
Other Exp/Ded with difference	-1,090,956	-35,395	4,019	-1,122,333	-31,377	-26.25	-0.85	0.10	-27.00	-0.75	-4.8	0.5	-0.75	-4.2			
Adj Other Exp/Ded no difference	-1,044,741	0	0	-1,044,741	0	-25.13	0.00	0.00	-25.13	0.00	0.0	0.0	0.00	0.0			
Pretax Net Income	740,593	-132,785	-18,395	589,413	-151,180	17.82	-3.19	-0.44	14.18	-3.64	-17.9	-2.5	-3.64	-20.4			
2011 without UTP Filing																	
Adjusted Gross Profit	397,317	-18,377	1,744	380,669	-16,634	33.31	-1.54	0.15	31.92	-1.39	-12.8	1.2	-1.39	-11.6			
Specified Income	214,691	2,827	12,700	230,274	15,526	18.00	0.24	1.06	19.31	1.30	2.0	8.8	1.30	10.8			
Adjusted Other Income with difference	580,656	2,216	-3,628	579,244	-1,412	48.69	0.19	-0.30	48.57	-0.12	1.5	-2.5	-0.12	-1.0			
Adjusted Total Income	1,192,664	-13,334	10,816	1,190,188	-2,519	100.00	-1.12	0.91	99.79	-0.21	-9.3	7.5	-0.21	-1.8			
Specified Expense/Deduction	-278,518	-44,642	178	-323,024	-44,464	-23.35	-3.74	0.01	-27.08	-3.73	-31.1	0.1	-3.73	-31.0			
Other Exp/Ded with difference	-377,189	-12,150	990	-388,349	-11,160	-31.63	-1.02	0.08	-32.56	-0.94	-8.5	0.7	-0.94	-7.8			
Adj Other Exp/Ded no difference	-393,348	0	0	-393,348	0	-32.98	0.00	0.00	-32.98	0.00	0.0	0.0	0.00	0.0			
Pretax Net Income	143,609	-70,126	11,984	85,466	-58,142	12.04	-5.88	1.00	7.17	-4.87	-48.8	8.3	-4.87	-40.5			

Totals may not equal the sum of the components due to rounding.

The analysis of Schedule UTP filing status is limited to corporations in the study reporting total assets of \$100 million or more, the total asset threshold in 2011 for Schedule UTP to potentially apply. Schedule UTP asks for relevant code sections and a concise description of issues, *without dollar amounts*, for the uncertain tax positions that affect the FS reported U.S. federal income tax liabilities of certain corporations that issue or are included in audited FS.⁵⁸

The first five data columns in Tables 4-6 are book income, temporary difference, permanent difference, tax income, and total difference in millions of dollars. The next five columns express the first five columns as percentages of the book amount of adjusted total income, our primary scaling factor to correct for the difference in size of the three FS types.⁵⁹ The final three columns express temporary difference, permanent difference, and total difference as percentages of pretax book income.

Tables 4-6 present the 2010-2011 Mini M-3 data for Schedule UTP filers and nonfilers for the three FS types: Table 4 for SEC 10K/Public, Table 5 for Audited, and Table 6 for Unaudited.

Figures 4, 5, and 6 compare the 2010-2011 temporary BTM, permanent BTM, and total BTM as a percentage of pretax book income for Schedule UTP filers and nonfilers: Figure 4 for SEC 10K/Public, Figure 5 for Audited, and Figure 6 for Unaudited filers.

B. SEC 10K/Public FS Mini M-3

2010

See the first panel of Table 4. Schedule UTP filers report, in aggregate, a relatively large negative temporary component for specified-income BTM (-2.99 percent) and a relatively large negative permanent component for other-income-with-difference BTM (-1.52 percent) contributing to a relatively large total pretax income negative BTM (-4.97 percent) reducing tax income from pretax income book (pretax income book 17.88 percent to tax income 12.91 percent), a reduction of 27.8 percent.

See the second panel of Table 4. Schedule UTP nonfilers report, in aggregate, a relatively large positive temporary component for COGS (1.90 percent), a relatively large negative permanent component for specified-income BTM (-3.46 percent), a relatively large negative temporary component for other-income-with-difference BTM (-2.89 percent), and a relatively large negative temporary component for specified-expense/deduction BTM (-1.94 percent) contributing to a relatively large total pretax income negative BTM (-6.23 percent) reducing tax income from pretax income book (pretax income book 16.75 percent to tax income 10.52 percent), a reduction of 37.2 percent.

See the last row of the first and second panels of Table 4 and see Figure 4. Although the pretax income negative BTM of the UTP filers is larger in dollar magnitude than the pretax income negative BTM of the nonfilers (UTP filers -\$190,970 million versus UTP nonfilers -\$84,546 million), the nonfiler negative BTM as a percentage of pretax income book represents a greater tax income reduction (UTP filers 27.8 percent versus UTP nonfilers 37.2 percent).

2011

See the third panel of Table 4. Schedule UTP filers report, in aggregate, a relatively large negative temporary component for specified-income BTM (-2.02 percent) contributing to a relatively large total pretax income negative BTM (-3.64 percent) reducing tax income from pretax income book (pretax income book 17.82 percent to tax income 14.18 percent), a reduction of 20.4 percent.

⁵⁸ See Part I. B. of this study for a discussion of Schedule UTP requirements. See Part I. F. for a reconciliation of the 2011 Schedule UTP count we present with the PAIR LB&I UTP Registry count.

⁵⁹ As discussed in Part III, 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 development of a consistent measure of total income applicable to different size corporations.

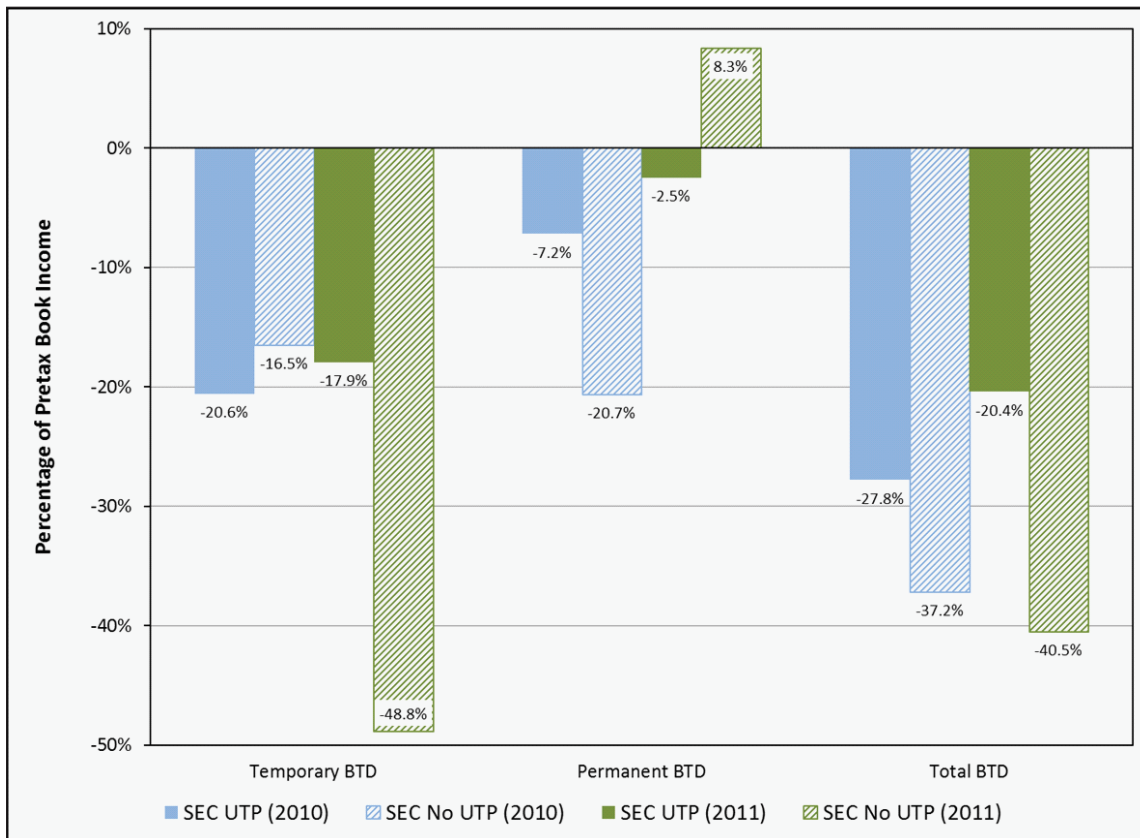
TABLE 5. 2010-2011: U.S. Corporation Form 1120 Schedule M-3: Mini M-3 by UTP Status: Audited FS: Assets \$100 Million or More

	\$ Millions						Percent of Adjusted Total Income Book						Percent of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Diff.	Book	Temp	Perm	Tax	Total Diff.	Temp	Perm	Total Diff.		
2010 with UTP Filing															
Adjusted Gross Profit	16,809	8,599	-44	25,372	8,555	4.24	2.17	-0.01	6.39	2.16	38.8	-0.2	2.16	38.6	
Specified Income	53,526	6,630	-7,756	52,399	-1,125	13.49	1.67	-1.95	13.20	-0.28	29.9	-35.0	-0.28	-5.1	
Adjusted Other Income with difference	326,536	-10,781	-1,716	314,039	82,28	82.28	-2.72	-0.43	79.13	-3.15	-48.7	-7.8	-3.15	-56.4	
Adjusted Total Income	396,871	4,449	-9,516	391,810	-5,067	100.00	1.12	-2.40	98.72	-1.28	20.1	-43.0	-1.28	-22.9	
Specified Expense/Deduction	-115,032	-818	6,103	-109,754	5,285	-28.98	-0.21	1.54	-27.65	1.33	-3.7	27.6	1.33	23.9	
Other Exp/Ded with difference	-143,167	13,925	257	-128,985	14,182	-36.07	3.51	0.06	-32.50	3.57	62.9	1.2	3.57	64.1	
Adj Other Exp/Ded no difference	-116,531	0	0	-116,531	0	-29.36	0.00	0.00	-29.36	0.00	0.0	0.0	0.00	0.0	
Pretax Net Income	22,139	17,561	-3,155	36,545	14,406	5.58	4.42	-0.79	9.21	3.63	79.3	-14.3	3.63	65.1	
2010 without UTP Filing															
Adjusted Gross Profit	210,209	-4,403	353	206,199	-4,051	34.65	-0.73	0.06	33.99	-0.67	-10.4	0.8	-0.67	-9.6	
Specified Income	114,477	-1,266	2,870	116,061	1,603	18.87	-0.21	0.47	19.13	0.26	-3.0	6.8	0.26	3.8	
Adjusted Other Income with difference	281,990	-341	-6,459	275,191	-6,800	46.48	-0.06	-1.06	45.36	-1.12	-0.8	-15.2	-1.12	-16.1	
Adjusted Total Income	606,676	-6,011	-3,237	597,452	-9,248	100.00	-0.99	-0.53	98.48	-1.52	-14.2	-7.6	-1.52	-21.8	
Specified Expense/Deduction	-146,571	-9,770	5,911	-150,453	-3,859	-24.16	-1.61	0.97	-24.80	-0.64	-23.1	14.0	-0.64	-9.1	
Other Exp/Ded with difference	-159,195	108	377	-158,710	485	-26.24	0.02	0.06	-26.16	0.08	0.3	0.9	0.08	1.1	
Adj Other Exp/Ded no difference	-258,551	0	0	-258,551	0	-42.62	0.00	0.00	-42.62	0.00	0.0	0.0	0.00	0.0	
Pretax Net Income	42,359	-15,672	3,051	29,738	6,98	6.98	-2.58	0.50	4.90	-2.08	-37.0	7.2	-2.08	-29.8	
2011 with UTP Filing															
Adjusted Gross Profit	-1,516	8,837	62	7,383	8,899	-0.36	2.12	0.01	1.77	2.14	19.8	0.1	2.14	19.9	
Specified Income	52,223	6,549	-9,591	49,183	-3,042	12.55	1.57	-2.31	11.82	-0.73	14.7	-21.5	-0.73	-6.8	
Adjusted Other Income with difference	365,275	-9,796	-505	354,974	87.81	87.81	-2.35	-0.12	85.33	-2.48	-22.0	-1.1	-2.48	-23.1	
Adjusted Total Income	415,982	5,590	-10,034	411,539	-4,444	100.00	1.34	-2.41	98.93	-1.07	12.5	-22.5	-1.07	-10.0	
Specified Expense/Deduction	-113,737	-24,735	9,572	-128,900	-27.34	-27.34	-5.95	2.30	-30.99	-3.65	-55.4	21.5	-3.65	-34.0	
Other Exp/Ded with difference	-122,802	-3,174	1,871	-124,104	-1,303	-29.52	-0.76	0.45	-29.83	-0.31	-7.1	4.2	-0.31	-2.9	
Adj Other Exp/Ded no difference	-134,830	0	0	-134,830	0	-32.41	0.00	0.00	-32.41	0.00	0.0	0.0	0.00	0.0	
Pretax Net Income	44,613	-22,318	1,409	23,704	10,72	10.72	-5.37	0.34	5.70	-5.03	-50.0	3.2	-5.03	-46.9	
2011 without UTP Filing															
Adjusted Gross Profit	215,912	-6,756	490	214,503	-6,266	35.60	-1.11	0.08	35.36	-1.03	-14.4	1.0	-1.03	-13.4	
Specified Income	114,346	-7,134	1	102,304	-7,132	18.85	-1.18	0.00	16.87	-1.18	-15.2	0.0	-1.18	-15.2	
Adjusted Other Income with difference	276,287	-1,302	-772	274,321	-2,075	45.55	-0.21	-0.13	45.23	-0.34	-2.8	-1.6	-0.34	-4.4	
Adjusted Total Income	606,546	-15,192	-281	591,128	-7,895	100.00	-2.50	-0.05	97.46	-2.55	-32.4	-0.6	-2.55	-33.0	
Specified Expense/Deduction	-141,545	-14,229	6,334	-149,491	7,895	-23.34	-2.35	1.04	-24.65	-1.30	-30.4	13.5	-1.30	-16.8	
Other Exp/Ded with difference	-158,200	-145	1,222	-157,126	1,077	-26.08	-0.02	0.20	-25.91	0.18	-0.3	2.6	0.18	2.3	
Adj Other Exp/Ded no difference	-259,935	0	0	-259,935	0	-42.85	0.00	0.00	-42.85	0.00	0.0	0.0	0.00	0.0	
Pretax Net Income	46,867	-29,565	7,275	24,577	7,73	7.73	-4.87	1.20	4.05	-3.67	-63.1	15.5	-3.67	-47.6	

Totals may not equal the sum of the components due to rounding.

See the fourth panel of Table 4. Schedule UTP nonfilers report, in aggregate, a relatively large negative temporary component for COGS (-1.54 percent), and a relatively large negative temporary component for specified-expense/deduction BTD (-3.74 percent) contributing to a relatively large total pretax income negative BTD (-4.87 percent) reducing tax income from pretax income book (pretax income book 12.04 percent to tax income 7.17 percent), a reduction of 40.5 percent.

FIGURE 4: 2010–2011 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book for SEC 10K/Public FS by UTP Filing Status



See the last row of the third and fourth panels of Table 4 and see Figure 4. Although the pretax income negative BTB of the UTP filers is larger in dollar magnitude than the pretax income negative BTB of the nonfilers (UTP filers -\$151,180 million versus UTP nonfilers -\$58,142 million), the nonfiler negative BTB as a percentage of pretax income book represents a greater tax income reduction (UTP filers 20.4 percent versus UTP nonfilers 40.5 percent).

Conclusions: SEC 10K/Public

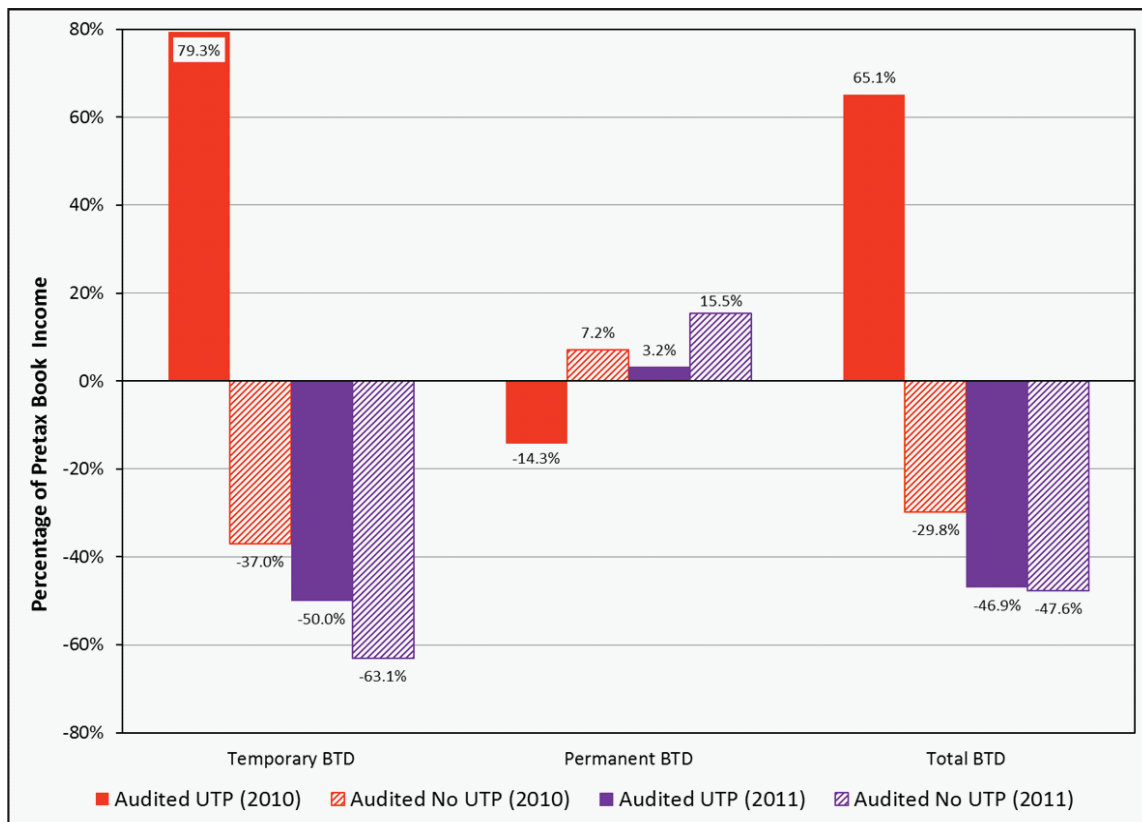
The requirements to file Schedule UTP in 2010–2011 do identify a *minority* group of corporations with SEC 10K/Public FS with \$100 million or more in assets that has both uncertain tax positions and that, in aggregate, reduces tax income with BTB reported on Schedule M-3 (a 27.8-percent reduction in pretax book income for 2010 and a 20.4-percent reduction in 2011), but similar corporations in FS type and asset size not required to file Schedule UTP (or failing to file) reduce tax income with BTB to a relatively greater extent (a 37.2-percent reduction in pretax income for 2010 and a 40.5-percent reduction in 2011). For 2010 and 2011, some 31.7 percent and 36.4 percent (respectively) of the SEC 10K/Public firms filed Schedule UTP while 68.3 percent and 63.6 percent (respectively) did not file a Schedule UTP. *The conclusion for corporations with SEC 10K/Public FS with \$100 million or more in assets is that filing Schedule UTP does not identify the same tax compliance risks as reporting Schedule M-3 tax-income-decreasing BTB. The further conclusion is that Schedule UTP supplements—but does not replace—Schedule M-3 for transparency and return selection for the minority of large corporations with SEC 10K/Public FS that file Schedule UTP.*

C. Audited FS Mini M-3

2010

See the first panel of Table 5. Schedule UTP filers, in aggregate, report a relatively large positive temporary component for COGS BTD (2.17 percent) reflected in the gross profit subtotal line, both a relatively large positive temporary component and a relatively large negative permanent component for specified-income BTD (temporary 1.67 percent and permanent -1.95 percent), a relatively large negative temporary component for other-income-with-difference BTD (-2.72 percent), a relatively large positive permanent component for specified-expense/deduction BTD (1.54 percent), and a relatively large positive temporary component for other-expense/deduction-with-difference BTD (3.51 percent) contributing to a relatively large total pretax income positive BTD (3.63 percent) increasing tax income from pretax income book (pretax income book 5.58 percent to tax income 9.21 percent), an increase of 65.1 percent.

FIGURE 5: 2010–2011 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book for Audited FS by UTP Filing Status



See the second panel of Table 5. Schedule UTP nonfilers, in aggregate, report a relatively large negative temporary component for specified-expense/deduction BTD (-1.61 percent) contributing to a relatively large total pretax income negative BTD (-2.08 percent) reducing tax income from pretax income book (pretax income book 6.98 percent to tax income 4.90 percent), a reduction of 29.8 percent.

See the last row of the first and second panels of Table 5 and see Figure 5. The pretax income positive BTD of the UTP filers is larger in dollar magnitude than the pretax income negative BTD of the nonfilers (UTP filers \$14,406 million versus UTP nonfilers -\$12,621 million). The filer positive BTD as a percentage of pretax income book represents a tax income increase of 65.1 percent while the nonfiler negative BTD represents a tax income decrease of 29.8 percent.

2011

See the third panel of Table 5. Schedule UTP filers, in aggregate, report a relatively large positive temporary component for COGS BTD (2.12 percent) reflected in the gross profit line, both a relatively large positive temporary component and a relatively large negative permanent component for specified-income BTD (temporary 1.57 percent and permanent -2.31 percent), a relatively large negative temporary component for other-income-with-difference BTD (-2.35 percent), and both a relatively large negative temporary component and a relatively large positive permanent component for specified-expense/deduction BTD (temporary -5.95 percent and permanent 2.30 percent) contributing to a relatively large total pretax income negative BTD (-5.03 percent) decreasing tax income from pretax income book (pretax income book 10.72 percent to tax income 5.70 percent), a decrease of 46.9 percent.

See the fourth panel of Table 5. Schedule UTP nonfilers, in aggregate, report a relatively large negative temporary component for specified-expense/deduction BTD (-2.35 percent) contributing to a relatively large total pretax income negative BTD (-3.67 percent) reducing tax income from pretax income book (pretax income book 7.73 percent to tax income 4.05 percent), a reduction of 47.6 percent.

See the last row of the third and fourth panels of Table 5 and see Figure 5. The pretax income negative BTD of the UTP filers is smaller in dollar magnitude than the pretax income negative BTD of the nonfilers (UTP filers -\$20,909 million versus UTP nonfilers -\$22,290 million). The filer negative BTD as a percentage of pretax income book represents a tax income decrease of 46.9 percent while the nonfiler negative BTD represents a slightly larger tax income decrease of 47.6 percent.

Conclusions: Audited

The requirements to file Schedule UTP in 2010 identify a *minority* group of corporations with Audited FS with total assets of \$100 million or more that has uncertain tax positions and that, in aggregate, increases tax income with BTD reported on Schedule M-3 (this group of taxpayers had a 65.1-percent increase to pretax book income). For 2011, the requirements to file Schedule UTP identify a *minority* group of corporations with Audited FS with total assets of \$100 million or more that has uncertain tax positions and that, in aggregate, reduces tax income with BTD reported on Schedule M-3 (a 46.9-percent reduction in pretax book income). Similar corporations in FS type and asset size not required to file Schedule UTP (or failing to file) do reduce tax income with BTD for both 2010 and 2011 (respectively) to a relatively greater or same extent (a 29.8-percent reduction in pretax book income for 2010 and a 47.6-percent reduction in 2011). For 2010 and 2011, 9.4 percent and 9.9 percent (respectively) of the Audited firms filed Schedule UTP while 90.6 percent and 90.1 percent (respectively) did not file a Schedule UTP. *The conclusion for corporations with Audited FS with \$100 million or more in assets is that filing Schedule UTP does not identify the same tax compliance risks as reporting Schedule M-3 tax-income-decreasing BTD. The further conclusion is that Schedule UTP supplements—but does not replace—Schedule M-3 for transparency and return selection for the minority of large corporations with Audited FS that file Schedule UTP.*

D. Unaudited FS Mini M-3

2010

See the first panel of Table 6. Schedule UTP filers, in aggregate, report both a relatively large positive temporary component and a relatively large positive permanent component for specified-income BTD (temporary 1.85 percent and permanent 3.66 percent) and a relatively large positive permanent component for specified-expense/deduction BTD (1.70 percent) contributing to a relatively large total pretax income positive BTD (5.98 percent) increasing tax income from pretax income book (pretax income book 4.84 percent to tax income 10.81 percent), an increase of 123.6 percent.

See the second panel of Table 6. Schedule UTP nonfilers, in aggregate, report a relatively large negative permanent component for specified-income BTD (-3.74 percent) and a relatively large negative temporary component for specified-expense/deduction BTD (-1.86 percent) contributing to a relatively large total pretax income negative BTD (-8.72 percent) reducing tax income from pretax income book (pretax income book 13.53 percent to tax income 4.81 percent), a reduction of 64.5 percent.

TABLE 6. 2010–2011: U.S. Corporation Form 1120 Schedule M-3: Mini M-3 by UTP Status: Unaudited FS: Assets \$100 Million or More

	\$ Millions					Percent of Adjusted Total Income Book					Percent of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Diff.	Book	Temp	Perm	Tax	Total Diff.	Temp	Perm	Total Diff.
2010 with UTP Filing													
Adjusted Gross Profit	29,257	484	127	29,868	611	9.75	0.16	0.04	9.95	0.20	3.3	0.9	4.2
Specified Income	44,925	5,540	10,995	61,412	16,534	14.97	1.85	3.66	20.46	5.51	38.2	75.8	113.9
Adjusted Other Income with difference	225,919	-3,963	-2,650	219,306	-6,613	75.28	-1.32	-0.88	73.08	-2.20	-27.3	-18.3	-45.6
Adjusted Total Income	300,101	2,060	8,472	310,586	10,532	100.00	0.69	2.82	103.49	3.51	14.2	58.4	72.6
Specified Expense/Deduction	-95,618	-1,549	5,108	-92,012	3,558	-31.86	-0.52	1.70	-30.66	1.19	-10.7	35.2	24.5
Other Exp/Ded with difference	-103,545	2,778	1,070	-99,697	3,849	-34.50	0.93	0.36	-33.22	1.28	19.1	7.4	26.5
Adj Other Exp/Ded no difference	-86,425	0	0	-86,425	0	-28.80	0.00	0.00	-28.80	0.00	0.0	0.0	0.0
Pretax Net Income	14,514	3,289	14,650	32,453	17,939	4.84	1.10	4.88	10.81	5.98	22.7	100.9	123.6
2010 without UTP Filing													
Adjusted Gross Profit	203,190	-2,239	87	201,037	-2,153	40.23	-0.44	0.02	39.81	-0.43	-3.3	0.1	-3.2
Specified Income	121,951	-2,129	-18,910	100,896	-21,039	24.15	-0.42	-3.74	19.98	-4.17	-3.1	-27.7	-30.8
Adjusted Other Income with difference	179,907	-5,082	1,295	176,127	-3,787	35.62	-1.01	0.26	34.87	-0.75	-7.4	1.9	-5.5
Adjusted Total Income	505,049	-9,450	-17,529	478,060	-26,979	100.00	-1.87	-3.47	94.66	-5.34	-13.8	-25.7	-39.5
Specified Expense/Deduction	-135,631	-9,390	-2,939	-147,955	-12,329	-26.86	-1.86	-0.58	-29.30	-2.44	-13.7	-4.3	-18.0
Other Exp/Ded with difference	-127,336	-2,225	-2,522	-132,084	-4,747	-25.21	-0.44	-0.50	-26.15	-0.94	-3.3	-3.7	-6.9
Adj Other Exp/Ded no difference	-173,753	0	0	-173,753	0	-34.40	0.00	0.00	-34.40	0.00	0.0	0.0	0.0
Pretax Net Income	68,328	-21,065	-22,990	24,274	-44,055	13.53	-4.17	-4.55	4.81	-8.72	-30.8	-33.6	-64.5
2011 with UTP Filing													
Adjusted Gross Profit	105,497	2,609	342	108,449	2,952	32.95	0.81	0.11	33.88	0.92	14.5	1.9	16.4
Specified Income	48,833	278	13,225	62,332	13,502	15.25	0.09	4.13	19.47	4.22	1.5	73.4	75.0
Adjusted Other Income with difference	165,800	517	-827	165,489	-311	51.79	0.16	-0.26	51.69	-0.10	2.9	-4.6	-1.7
Adjusted Total Income	320,130	3,403	12,740	336,270	16,143	100.00	1.06	3.98	105.04	5.04	18.9	70.7	89.6
Specified Expense/Deduction	-90,564	-7,682	3,704	-94,538	-3,978	-28.29	-2.40	1.16	-29.53	-1.24	-42.7	20.6	-22.1
Other Exp/Ded with difference	-115,525	-2,622	5,074	-113,073	2,452	-36.09	-0.82	1.58	-35.32	0.77	-14.6	28.2	13.6
Adj Other Exp/Ded no difference	-96,030	0	0	-96,030	0	-30.00	0.00	0.00	-30.00	0.00	0.0	0.0	0.0
Pretax Net Income	18,011	-6,900	21,518	32,628	14,618	5.63	-2.16	6.72	10.19	4.57	-38.3	119.5	81.2
2011 without UTP Filing													
Adjusted Gross Profit	218,469	-2,970	1	215,464	-2,969	45.18	-0.61	0.00	44.56	-0.61	-2.7	0.0	-2.7
Specified Income	85,079	6,692	4,367	96,140	11,059	17.60	1.38	0.90	19.88	2.29	6.0	3.9	9.9
Adjusted Other Income with difference	179,951	70	1,513	181,535	1,584	37.22	0.01	0.31	37.55	0.33	0.1	1.4	1.4
Adjusted Total Income	483,499	3,792	5,882	493,139	9,674	100.00	0.78	1.22	101.99	2.00	3.4	5.3	8.7
Specified Expense/Deduction	-134,130	-13,877	94	-147,883	-13,783	-27.74	-2.87	0.02	-30.59	-2.85	-12.4	0.1	-12.3
Other Exp/Ded with difference	-263,145	128,131	3,277	-131,734	131,407	-54.43	26.50	0.68	-27.25	27.18	114.8	2.9	117.7
Adj Other Exp/Ded no difference	-197,883	0	0	-197,883	0	-40.93	0.00	0.00	-40.93	0.00	0.0	0.0	0.0
Pretax Net Income	-111,659	118,045	9,253	15,639	127,298	-23.09	24.41	1.91	3.23	26.33	105.7	8.3	114.0

Totals may not equal the sum of the components due to rounding.

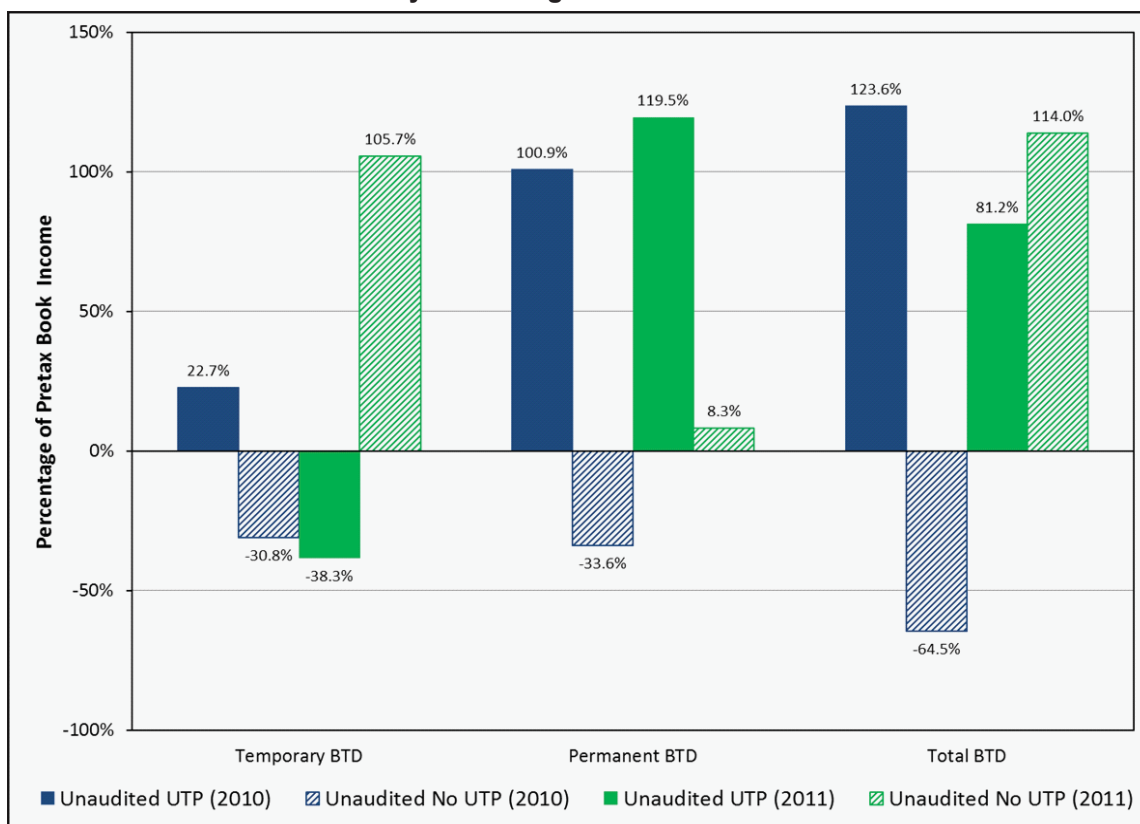
See the last row of the first and second panels of Table 6 and see Figure 6. The pretax income positive BTD of the UTP filers is smaller in dollar magnitude than the pretax income negative BTD of the nonfilers (UTP filers \$17,939 million versus UTP nonfilers -\$44,055 million). The filer positive BTD as a percentage of pretax income book represents a tax income increase of 123.6 percent while the nonfiler negative BTD represents a tax income decrease of 64.5 percent.

2011

See the third panel of Table 6. Schedule UTP filers, in aggregate, report a relatively large positive permanent component for specified-income BTD (4.13 percent), a relatively large negative temporary component for specified-expense/deduction BTD (-2.40 percent), and a relatively large positive permanent component for other-expense/deduction-with-difference BTD (1.58 percent) contributing to a relatively large total pretax income positive BTD (4.57 percent) increasing tax income from pretax income book (pretax income book 5.63 percent to tax income 10.19 percent), an increase of 81.2 percent.

See the fourth panel of Table 6. Schedule UTP nonfilers, in aggregate, report a relatively large negative temporary component for specified-expense/deduction BTD (-2.87 percent) and a relatively large positive temporary component for other-expense/deduction-with-difference BTD (26.50 percent) contributing to a relatively large total pretax income positive BTD (26.33 percent) increasing tax income from pretax income book (pretax income book -23.09 percent to tax income 3.23 percent), an increase of 114.0 percent of the absolute value of the loss.

FIGURE 6: 2010–2011 U.S. Corporation M-3: Book-to-Tax Difference as Percentage of Pretax Book for Unaudited FS by UTP Filing Status



See the last row of the third and fourth panels of Table 6 and see Figure 6. The pretax income positive BTD of the UTP filers is smaller in dollar magnitude than the pretax income positive BTD of the nonfilers (UTP filers \$14,618 million versus UTP nonfilers \$127,298 million). The filer positive BTD as a percentage of pretax income book represents a tax income increase of 81.2 percent while the nonfiler positive BTD represents a tax income increase of 114.0 percent.

Conclusions: Unaudited

The requirements to file Schedule UTP in 2010 and 2011 identify a *minority* group of corporations with Unaudited FS with total assets of \$100 million or more that has uncertain tax positions and that, in aggregate, increase tax income with BTD reported on Schedule M-3 (this group of taxpayers had an increase in pretax book income of 123.6 percent for 2010 and 81.2 percent for 2011). Similar corporations in FS type and asset size not required to file Schedule UTP (or failing to file) do reduce tax income with BTD in 2010 to a relatively greater extent but not in 2011 (a reduction of pretax income of 64.5 percent for 2010 and an increase of 114.0 percent for 2011). For 2010 and 2011, some 8.0 percent and 8.8 percent (respectively) of the Unaudited firms filed Schedule UTP while 92.0 percent and 91.2 percent (respectively) did not file a Schedule UTP. *The conclusion for corporations with Unaudited FS with \$100 million or more in assets is that filing Schedule UTP does not identify the same tax compliance risks as reporting Schedule M-3 tax-income-decreasing BTD. The further conclusion is that Schedule UTP supplements—but does not replace—Schedule M-3 for transparency and return selection for the minority of large corporations with Unaudited FS that file Schedule UTP.*

Part V. General Conclusions

This paper presents and compares 2010-2011 Schedule M-3 and Form 1120 tax return data profiles for Schedule UTP filers and nonfilers with \$100 million or more in assets. It includes 12,044 corporations in 2010 and 12,307 corporations in 2011. In 2010 Schedule UTP filers decrease tax income using Schedule M-3 BTD *less*—as a percentage of total pretax book income—than Schedule UTP nonfilers for all FS types (SEC 10K/Public, Audited, and Unaudited). In 2011 Schedule UTP filers decrease tax income using BTD *less* than Schedule UTP nonfilers for SEC 10K/Public FS and decrease tax income *no more* than nonfilers for Audited FS. We conclude that filing Schedule UTP does not identify the same tax compliance risks as reporting Schedule M-3 tax-income-decreasing BTD. We also conclude that Schedules UTP and M-3 are complementary and not duplicative for tax compliance risk analysis. We observe that for all FS-types only a *minority* of large corporations file Schedule UTP while all file Schedule M-3.

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