Purpose of Schedule M-3

- Increase Transparency
- Use as Risk Assessment Tool
  - Return Selection/De-selection
  - Focus on high risk issues, emerging issues, etc.
- Improve Cycle Time/Increase Currency
- Reduce Overall Taxpayer Burden
What We’ve Seen So Far

• Significant Non-Compliance
• Significant Errors in Compliance
  – Part I, line 4
  – Missing Supporting Schedules
  – Not “separately stated and adequately disclosed”
  – Amounts netted
  – Permanent vs. Temporary
Excuses for Errors

• Misinterpretation of Instructions
• Software
• Professional Advice
• Taxpayer prepared vs. paid preparer
• Large companies vs Small companies
What does this mean?

- Return selection
- Time on audit
- Penalties
Changes for 2006

• Changes for “Mixed Group”
  – Check boxes on pages 1, 2, and 3
  – Part I, line 10, other adjustments
  – Part II roll up lines

• Form 8916 and 8916-A
New Schedule M-3s

• Tax years ending on or after 12/31/2006
  – Form 1120S
  – Form 1120PC
  – Form 1120L
  – Form 1065
Criteria for New M-3s

• Forms 1120S, 1120PC, 1120L
  – $10 million or more in assets

• Form 1065
  – Total assets of $10 million or more, or
  – Adjusted total assets of $10 million or more, or
  – Total receipts of $35 million or more, or
  – Reportable Entity Partner
Changes for 2007

• Hierarchy of Financial Statements

• Additional Exceptions for Cost of Goods Sold

• Form 1065 only
  • Reconciliation of Schedules
  • Guaranteed Payments
What’s Next

• Form 1120F
• Monitor Compliance
• Change for tax law, emerging issues, etc.
• FIN 48
• Additional Questions added
Resources
