

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

Department of the Treasury Internal Revenue Service

▶ Attach to Form 1120-F.

Name of corporation

Employer identification number

Schedule M-1

Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 may be required instead of Schedule M-1—see instructions.

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

Schedule M-2

Analysis of Unappropriated Retained Earnings per Books per Return

1	Balance at beginning of year		5	Distributions:	
2	Net income (loss) per books		a	Cash	
3	Other increases (itemize):		b	Stock	
			c	Property	
			6	Other decreases (itemize):	
4	Add lines 1, 2, and 3		7	Add lines 5 and 6	
			8	Balance at end of year (line 4 less line 7)	

Specific Instructions

**Line 1. Net income (loss) per books.** The foreign corporation must report on line 1 of Schedule M-1 the net income (loss) per the set or sets of books taken into account on Schedule L. The foreign corporation must report on line 1 of Schedule M-2 the balance of unappropriated retained earnings per the set or sets of books taken into account on Schedule L.

Do not complete Schedules M-1 and M-2 if total assets at the end of the tax year (line 17, column (d) of Schedule L) are less than \$25,000.

Complete Schedule M-3 in lieu of Schedule M-1 if total assets at the end of the tax year are \$10 million or more.

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

- Meal and entertainment expenses not deductible under section 274(n).
- Expenses for the use of an entertainment facility.
- The part of business gifts over \$25.
- Expenses of an individual over \$2,000 that are allocable to conventions on cruise ships.
- Employee achievement awards over \$400.
- The cost of entertainment tickets over face value (also subject to the 50% limit under section 274(n)).
- The cost of skyboxes over the face value of nonluxury box seat tickets.

- The part of luxury water travel expenses not deductible under section 274(m).
- Expenses for travel as a form of education.
- Other nondeductible travel and entertainment expenses.

For more information, see Pub. 542.

**Line 7a. Tax-exempt interest.** Report any tax-exempt interest received or accrued, including any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company. Also report this same amount in item P at the top of page 2 of Form 1120-F.

that are reportable on Schedule L

A corporation filing Form 1120-F that is not required to file Schedule M-3 (Form 1120-F) may voluntarily file Schedule M-3 instead of Schedule M-1. See the instructions for Schedule M-3 (Form 1120-F) for more information.