

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

2009

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.

<p>1 Net income (loss) per books</p> <p>2 Federal income tax per books</p> <p>3 Excess of capital losses over capital gains</p> <p>4 Income subject to tax not recorded on books this year (itemize): _____</p> <p>_____</p> <p>5 Expenses recorded on books this year not deducted on this return (itemize):</p> <p style="margin-left: 20px;">a Depreciation \$ _____</p> <p style="margin-left: 20px;">b Charitable contributions \$ _____</p> <p style="margin-left: 20px;">c Travel and entertainment \$ _____</p> <p style="margin-left: 20px;">d Other (itemize): _____</p> <p>_____</p> <p>6 Add lines 1 through 5</p>	<p>7 Income recorded on books this year not included on this return (itemize):</p> <p style="margin-left: 20px;">a Tax-exempt interest \$ _____</p> <p style="margin-left: 20px;">b Other (itemize): _____</p> <p>_____</p> <p>8 Deductions on this return not charged against book income this year (itemize):</p> <p style="margin-left: 20px;">a Depreciation \$ _____</p> <p style="margin-left: 20px;">b Charitable contributions \$ _____</p> <p style="margin-left: 20px;">c Other (itemize): _____</p> <p>_____</p> <p>9 Add lines 7 and 8</p> <p>10 Income—line 6 less line 9</p>
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Schedule M-2

Analysis of Unappropriated Retained Earnings per Books

<p>1 Balance at beginning of year</p> <p>2 Net income (loss) per books</p> <p>3 Other increases (itemize): _____</p> <p>_____</p> <p>4 Add lines 1, 2, and 3</p>	<p>5 Distributions: a Cash</p> <p style="margin-left: 40px;">b Stock</p> <p style="margin-left: 40px;">c Property</p> <p>6 Other decreases (itemize): _____</p> <p>_____</p> <p>7 Add lines 5 and 6</p> <p>8 Balance at end of year (line 4 less line 7)</p>
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Who Must File

Generally, any foreign corporation that is required to complete Form 1120-F, Section II must complete Schedules M-1 and M-2. However, under some circumstances, a foreign corporation is required to complete (or may voluntarily complete) Schedule M-3 in lieu of Schedule M-1.

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

Note. If Schedule M-3 is completed in lieu of Schedule M-1, the corporation is still required to complete Schedule M-2.

Do not complete Schedules M-1, M-2, and M-3 if total assets at the end of the tax year (Schedule L, line 17, column (d)) are less than \$25,000.

Specific Instructions

Schedule M-1

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.

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.

Schedule M-2

Line 1. Beginning balance of unappropriated retained earnings. Enter the beginning balance of unappropriated retained earnings per the set(s) of books taken into account on Schedule L.