

## **2010 Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships**

**Purpose:** This is the first circulated draft of the 2010 Schedule M-3 (Form 1065) for your review and comments. See below for a discussion of the major changes.

**TPCC Meeting:** None, but one may be arranged if requested.

**Prior Version:** The 2009 Schedule M-3 (Form 1065) is available at: <http://www.irs.gov/pub/irs-pdf/f1065sm3.pdf>.

**Instructions:** The 2010 Instructions for Schedule M-3 (Form 1065) will be circulated at a later date. The 2009 Instructions for Schedule M-3 (Form 1065) are available at: <http://www.irs.gov/pub/irs-pdf/i1065sm3.pdf>.

**Other Products:** Circulations of draft tax forms, instructions, notices, and publications are posted at: <http://taxforms.web.irs.gov/Circulations/index.htm>.

**Comments:** Please email, fax, call, or mail any comments to me by **July 15, 2010**. Comments submitted by telephone must be followed up in writing to be considered. Send a copy of any email comments to the form's reviewer, Sharon Dewsbury, at [Sharon.A.Dewsbury@irs.gov](mailto:Sharon.A.Dewsbury@irs.gov).

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### **Major Changes**

We inserted a new line 29 in Part III reading "Research and development costs (attach schedule)" because LMSB had identified the need to create a separate line on Part III of Schedule M-3 (Form 1065). This line will be used to separately report research and development costs. The addition of this line will improve reporting transparency and compliance efforts. We also changed other line references, when necessary, to account for the addition of this new line to Schedule M-3 (Form 1065).

**SCHEDULE M-3  
(Form 1065)**

**Net Income (Loss) Reconciliation  
for Certain Partnerships**

OMB No. 1545-0099

**2010**

Department of the Treasury  
Internal Revenue Service

▶ Attach to Form 1065 or Form 1065-B.

▶ See separate instructions.

Name of partnership

Employer identification number

**This Schedule M-3 is being filed because (check all that apply):**

- A  The amount of the partnership's total assets at the end of the tax year is equal to \$10 million or more. delete
- B  The amount of the partnership's adjusted total assets for the year is equal to \$10 million or more. If box B is checked, enter the amount of adjusted total assets for the tax year \_\_\_\_\_.
- C  The amount of total receipts for the taxable year is equal to \$35 million or more. If box C is checked, enter the total receipts for the tax year \_\_\_\_\_.
- D  An entity that is a reportable entity partner with respect to the partnership owns or is deemed to own an interest of 50 percent or more in the partnership's capital, profit, or loss, on any day during the tax year of the partnership.

Name of Reportable Entity Partner	Identifying Number	Maximum Percentage Owned or Deemed Owned

E  Voluntary Filer

**Part I Financial Information and Net Income (Loss) Reconciliation**

- 1a Did the partnership file SEC Form 10-K for its income statement period ending with or within this tax year?
  - Yes.** Skip lines 1b and 1c and complete lines 2 through 11 with respect to that SEC Form 10-K.
  - No.** Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.
- b Did the partnership prepare a certified audited non-tax-basis income statement for that period?
  - Yes.** Skip line 1c and complete lines 2 through 11 with respect to that income statement.
  - No.** Go to line 1c.
- c Did the partnership prepare a non-tax-basis income statement for that period?
  - Yes.** Complete lines 2 through 11 with respect to that income statement.
  - No.** Skip lines 2 through 3b and enter the partnership's net income (loss) per its books and records on line 4a.
- 2 Enter the income statement period: Beginning \_\_\_\_ / \_\_\_\_ / \_\_\_\_ Ending \_\_\_\_ / \_\_\_\_ / \_\_\_\_
- 3a Has the partnership's income statement been restated for the income statement period on line 2?
  - Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
  - No.**
- b Has the partnership's income statement been restated for any of the five income statement periods preceding the period on line 2?
  - Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
  - No.**

4a Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1	<b>4a</b>
b Indicate accounting standard used for line 4a (see instructions):	
1 <input type="checkbox"/> GAAP      2 <input type="checkbox"/> IFRS      3 <input type="checkbox"/> 704(b)	
4 <input type="checkbox"/> Tax-basis      5 <input type="checkbox"/> Other: (Specify) ▶ _____	
5a Net income from nonincludible foreign entities (attach schedule) . . . . .	<b>5a</b> (                    )
b Net loss from nonincludible foreign entities (attach schedule and enter as a positive amount) . . . . .	<b>5b</b> (                    )
6a Net income from nonincludible U.S. entities (attach schedule) . . . . .	<b>6a</b> (                    )
b Net loss from nonincludible U.S. entities (attach schedule and enter as a positive amount) . . . . .	<b>6b</b> (                    )
7a Net income (loss) of other foreign disregarded entities (attach schedule) . . . . .	<b>7a</b> (                    )
b Net income (loss) of other U.S. disregarded entities (attach schedule) . . . . .	<b>7b</b> (                    )
8 Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach schedule) . . . . .	<b>8</b> (                    )
9 Adjustment to reconcile income statement period to tax year (attach schedule) . . . . .	<b>9</b> (                    )
10 Other adjustments to reconcile to amount on line 11 (attach schedule) . . . . .	<b>10</b> (                    )
11 <b>Net income (loss) per income statement of the partnership.</b> Combine lines 4 through 10 . . . . .	<b>11</b> (                    )

**Note.** Part I, line 11, must equal the amount on Part II, line 26, column (a).

12 Enter the total amount (not just the partnership's share) of the assets and liabilities of all entities included or removed on the following lines:

	Total Assets	Total Liabilities
a Included on Part I, line 4		
b Removed on Part I, line 5		
c Removed on Part I, line 6		
d Included on Part I, line 7		

Name of partnership

Employer identification number

**Part II Reconciliation of Net Income (Loss) per Income Statement of Partnership with Income (Loss) per Return**

Income (Loss) Items	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
(Attach schedules for lines 1 through 9)				
<b>1</b> Income (loss) from equity method foreign corporations				
<b>2</b> Gross foreign dividends not previously taxed . . . . .				
<b>3</b> Subpart F, QEF, and similar income inclusions . . . . .				
<b>4</b> Gross foreign distributions previously taxed . . . . .				
<b>5</b> Income (loss) from equity method U.S. corporations				
<b>6</b> U.S. dividends . . . . .				
<b>7</b> Income (loss) from U.S. partnerships . . . . .				
<b>8</b> Income (loss) from foreign partnerships . . . . .				
<b>9</b> Income (loss) from other pass-through entities . . . . .				
<b>10</b> Items relating to reportable transactions (attach details)				
<b>11</b> Interest income (attach Form 8916-A) . . . . .				
<b>12</b> Total accrual to cash adjustment . . . . .				
<b>13</b> Hedging transactions . . . . .				
<b>14</b> Mark-to-market income (loss) . . . . .				
<b>15</b> Cost of goods sold (attach Form 8916-A) . . . . .	( )			( )
<b>16</b> Sale versus lease (for sellers and/or lessors) . . . . .				
<b>17</b> Section 481(a) adjustments . . . . .				
<b>18</b> Unearned/deferred revenue . . . . .				
<b>19</b> Income recognition from long-term contracts . . . . .				
<b>20</b> Original issue discount and other imputed interest . . . . .				
<b>21a</b> Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities . . . . .				
<b>b</b> Gross capital gains from Schedule D, excluding amounts from pass-through entities . . . . .				
<b>c</b> Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses . . . . .				
<b>d</b> Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses . . . . .				
<b>e</b> Abandonment losses . . . . .				
<b>f</b> Worthless stock losses (attach details) . . . . .				
<b>g</b> Other gain/loss on disposition of assets other than inventory . . . . .				
<b>22</b> Other income (loss) items with differences (attach schedule)				
<b>23 Total income (loss) items.</b> Combine lines 1 through 22 . . . . .				
<b>24 Total expense/deduction items.</b> (from Part III, line 31) (see instructions) . . . . .				
<b>25</b> Other items with no differences . . . . .				
<b>26 Reconciliation totals.</b> Combine lines 23 through 25				

**Note.** Line 26, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1065, page 5, Analysis of Net Income (Loss), line 1.

Name of partnership

Employer identification number

**Part III Reconciliation of Net Income (Loss) per Income Statement of Partnership With Income (Loss) per Return—Expense/Deduction Items**

Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 State and local current income tax expense . . . . .				
2 State and local deferred income tax expense . . . . .				
3 Foreign current income tax expense (other than foreign withholding taxes) . . . . .				
4 Foreign deferred income tax expense . . . . .				
5 Equity-based compensation . . . . .				
6 Meals and entertainment . . . . .				
7 Fines and penalties . . . . .				
8 Judgments, damages, awards, and similar costs . . . . .				
9 Guaranteed payments . . . . .				
10 Pension and profit-sharing . . . . .				
11 Other post-retirement benefits . . . . .				
12 Deferred compensation . . . . .				
13 Charitable contribution of cash and tangible property . . . . .				
14 Charitable contribution of intangible property . . . . .				
15 Organizational expenses as per Regulations section 1.709-2(a) . . . . .				
16 Syndication expenses as per Regulations section 1.709-2(b) . . . . .				
17 Current year acquisition/reorganization investment banking fees . . . . .				
18 Current year acquisition/reorganization legal and accounting fees . . . . .				
19 Amortization/impairment of goodwill . . . . .				
20 Amortization of acquisition, reorganization, and start-up costs . . . . .				
21 Other amortization or impairment write-offs . . . . .				
22 Section 198 environmental remediation costs . . . . .				
23a Depletion—Oil & Gas . . . . .				
b Depletion—Other than Oil & Gas . . . . .				
24 Intangible drilling & development costs . . . . .				
25 Depreciation . . . . .				
26 Bad debt expense . . . . .				
27 Interest expense (attach Form 8916-A) . . . . .				
28 Purchase versus lease (for purchasers and/ or lessees) . . . . .				
29 Research and development costs (attach schedule) . . . . .				
30 Other expense/deduction items with differences (attach schedule) . . . . .				
31 <b>Total expense/deduction items.</b> Combine lines 1 through 30. Enter here and on Part II, line 24, reporting positive amounts as negative and negative amounts as positive . . . . .				

DRAFT AS OF  
June 16, 2010