

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

2016

Department of the Treasury
Internal Revenue Service

▶ Information about Schedules M-1 and M-2 (Form 1120-F) and its instructions is at www.irs.gov/form1120f.

▶ 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. The corporation may be required to file Schedule M-3 (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>a Depreciation \$ _____</p> <p>b Charitable contributions \$ _____</p> <p>c Travel and entertainment \$ _____</p> <p>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>a Tax-exempt interest \$ _____</p> <p>b Other (itemize): _____</p> <p>_____</p> <p>8 Deductions on this return not charged against book income this year (itemize):</p> <p>a Depreciation . . . \$ _____</p> <p>b Charitable contributions \$ _____</p> <p>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>_____</p> <p>4 Add lines 1, 2, and 3</p>	<p>5 Distributions: a Cash</p> <p>b Stock</p> <p>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 (Form 1120-F). However, the following rules apply.

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.

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 may voluntarily file Schedule M-3 instead of Schedule M-1. See the Instructions for Schedule M-3 (Form 1120-F) for more information.

Foreign corporations that **(a)** are required to file a Schedule M-3 (Form 1120-F) and have less than \$50 million in total assets at the end of the tax year or **(b)** are not required to file a Schedule M-3 (Form 1120-F) and voluntarily file a Schedule M-3 (Form 1120-F) must either **(1)** complete Schedule M-3 (Form 1120-F) entirely or **(2)** complete Schedule M-3 (Form 1120-F) through Part I and

complete Schedule M-1 instead of completing Parts II and III of Schedule M-3 (Form 1120-F). If the foreign corporation chooses **(2)**, then Schedule M-1, line 1 must equal Schedule M-3 (Form 1120-F), Part I, line 11. 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.

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.

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.

Note. For additional information for Schedule M-2 reporting, see the Instructions for Schedule M-3 (Form 1120-F).