

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

**2020**

Department of the Treasury  
Internal Revenue Service

▶ Go to [www.irs.gov/Form1120F](http://www.irs.gov/Form1120F) for the latest information.  
▶ 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).

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

**Schedule M-2**

**Analysis of Unappropriated Retained Earnings per Books**

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

**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(s) of books taken into account on Schedule L.

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

- Entertainment expenses not deductible under section 274(a).
- Meal 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 of non-tangible property or of tangible property if the value is over \$400 (\$1,600 if part of a qualified plan).

- 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).