

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

2009

Department of the Treasury  
Internal Revenue Service  
Name of corporation

▶ Attach to Form 1120-F.

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

**Analysis of Unappropriated Retained Earnings per Books**

<p><b>1</b> Balance at beginning of year . . . . .</p> <p><b>2</b> Net income (loss) per books . . . . .</p> <p><b>3</b> Other increases (itemize): _____</p> <p>_____</p> <p><b>4</b> Add lines 1, 2, and 3 . . . . .</p>	<p><b>5</b> Distributions: <b>a</b> Cash . . . . .</p> <p style="padding-left: 20px;"><b>b</b> Stock . . . . .</p> <p style="padding-left: 20px;"><b>c</b> Property . . . . .</p> <p><b>6</b> Other decreases (itemize): _____</p> <p>_____</p> <p><b>7</b> Add lines 5 and 6 . . . . .</p> <p><b>8</b> 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.