

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

2018

Department of the Treasury
Internal Revenue Service

▶ Go to 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).

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

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books

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