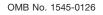
#### SCHEDULES M-1 and M-2 (Form 1120-F)

Department of the Treasury Internal Revenue Service Name of corporation

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

Attach to Form 1120-F.



Employer identification number

Sc			s With Income per Return d of Schedule M-1—see ins	
1 2 3 4	Net income (loss) per books Federal income tax per books Excess of capital losses over capital gains Income subject to tax not recorded on books this year (itemize):	a	Income recorded on books the included on this return (item Tax-exempt interest \$ Other (itemize):	ze): 
5 a b c d	Expenses recorded on books this year not deducted on this return (itemize): Depreciation \$ Charitable contributions \$ Travel and entertainment \$ Other (itemize):	b	Deductions on this return ne against book income this yea Depreciation \$ Charitable contributions \$ Other (itemize):	ot charged ar (itemize):
6	Add lines 1 through 5	9	Add lines 7 and 8 Income-line 6 less line 9	

#### Analysis of Unappropriated Retained Earnings per Books

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

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