Prelude to Schedule M-3: Schedule M-1 Corporate Book-Tax Difference Data, 1990-2003*

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For most large corporations, the new Schedule M-3 book-tax reconciliation replaces the 4-decade old Schedule M-1, effective December 2004. The goal of this paper is: (1) to present Schedule M-1 data and other selected tax return data for the immediately preceding 14-year period, 1990-2003; and (2) to address tax policy data interpretation issues related to U.S. intercompany dividends (ICD) improperly included on corporate tax returns by some large taxpayers.[1] First, we review events leading to the replacement of Schedule M-1 with Schedule M-3. We then present Schedule M-1 data and other selected tax data for 1990-2003 for two populations: (1) all corporations normally subject to the U.S. Federal corporate income tax; and (2) the subset that would have filed Schedule M-3 if the 2004-2006 requirements had been effective for the earlier years.[2] Most corporations with total assets of $10 million or more are subject to Schedule M-3 starting in December 2004, and others entities (corporations and partnerships) will be subject starting in December 2006; we focus our Schedule M-1 discussion on the 1990-2003 data for such corporations. We conclude by discussing certain tax policy issues in interpreting Schedule M-1 data for 1990-2003 relating to U.S. intercompany dividends (ICD) improperly included on corporate tax returns by some large taxpayers. These issues will likely remain unresolved until Schedule M-3 data replace Schedule M-1 data.

▶ Dissatisfaction With Schedule M-1

A Treasury report in 1999 and Treasury testimony in 2000 by Assistant Secretary (Tax Policy) Jonathan Talisman noted the growing book-tax gap from 1991 to 1997 between pretax book income on Schedule M-1 and tax net income on page 1 of Form 1120. Both the report and the testimony viewed the 1990s book-tax gap as a possible indicator of corporate tax shelter activity, but also noted the difficulty in interpreting Schedule M-1 book-tax difference data.[3] Mills-Plesko (2003) proposed a redesign of Schedule M-1 to increase the transparency of the corporate tax return book-tax reconciliation and to improve data interpretability.[4] The Mills-Plesko (2003) Schedule M-1 recommendations are largely reflected in Schedule M-3, particularly in Part I.[5]

▶ Schedule M-1 Versus Schedule M-3

Exhibit I presents a partial detail of Form 1120, page 1 and Schedule M-1. Schedule M-1 is intended to reconcile book income on Schedule M-1, line 1, with tax net income on Form 1120, page 1, line 28.

Exhibit II presents a partial detail of Schedule M-3 Part I and Part II. Part I reconciles worldwide consolidated financial statement income with income per income statement of includible corporations (members of the tax return consolidation group listed on Form 851). Parts II and III reconcile income per income statement of includible corporations ("book") with tax net income on Form 1120, page 1, line 28. Differences between book and tax are characterized as temporary or permanent.

Part I of Schedule M-3 is important. It defines the starting point for the book-tax reconciliation for the first time in corporate tax history. On Schedule M-1, we know where the reconciliation ends (tax net income) but not where it begins (book). Taxpayers choose Schedule M-1 line 1 book income to suit them. Schedule M-3, Part I, line 11 is what Schedule M-1, line 1 should have been all along. Schedule M-3 uses many of the Schedule M-1 revisions proposed by Mills-Plesko (2003), in particular, Schedule M-3, Part I.

The goal of Schedule M-3 is greater transparency and uniform organization in book-tax data at the time of return filing so that the data may be used to determine what returns will and will not be audited and to determine what issues will and will not be examined on the returns selected for audit.

Schedule M-3 Effective 2004

Effective for all tax years ending on or after December 31, 2004, U.S. corporations with end-of-year total assets of $10 million or more filing Form 1120, *U.S. Corporation Income Tax Return*, must complete Schedule M-3, *Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More*, in place of Schedule M-1, *Reconciliation of Income (Loss) per Books With Income per Return.* Effective tentatively for all tax years ending on or after December 31, 2006, the requirement to complete Schedule M-3 will be extended to U.S. insurance companies (life insurance companies filing Form 1120-L and property and casualty insurance companies filing Form 1120-PC), to S corporations filing Form 1120-S, and to partnerships filing Form 1065, all with total assets of $10 million or more.[6] The January 28, 2004, joint Treasury-IRS announcement of Schedule M-3 indicated that Schedule M-3 would become an important IRS audit selection tool both for the selection of corporate returns for audit and the identification of issues on a return for audit.[7]

Source of 1990-2003 Data[8]

A statistical sample of tax return data is electronically encoded annually by the Statistics of Income Division (SOI), Internal Revenue Service, for the use of the Office of Tax Analysis (OTA), U.S. Department of the Treasury, and the Joint Committee on Taxation (JCT), U.S. Congress. These data include Schedule M-1 data. Selected tax return data for all corporations normally subject to the U.S. Federal corporate income tax are summarized annually by SOI in Table 12 of Publication 16, *Statistics of Income, Corporation Income Tax Returns*. SOI Publication 16 tables do not present Schedule M-1 data. To date, only Plesko (2002) (for 1996-1998) and Plesko-Shumofsky (2005) (for 1995-2001) have presented Schedule M-1 data for the SOI Publication 16 Table 12 population.

Discussion of Tables 1-4

Tables 1 through 4 all have the same standardized format for presenting Schedule M-1 data and selected tax return data for 1990-2003.[9] The title of the table indicates the population or population split for which the table aggregates data. For example, Table 1 presents data for all corporations excluding those that file specialized Forms 1120 as S corporations, as regulated investment companies (RIC's), or as real estate investment trusts (REIT's). Table 2 restricts the Table 1 population to domestic corporations with total assets at end of year of $10 million or more as reported on Form 1120, Schedule L.[10]

Each table has three panels. The first row of each panel indicates the weighted number of returns for the year for the panel tabulated (N1, N2, and N3 for the first, second and third panels). Returns are weighted because a statistical sample of firms is used to represent the population. Generally, firms larger than $10 million in total assets have a weight of 1, that is, they represent only themselves in the sample. Smaller firms generally have weights of greater than 1 (for example, 5), that is, the selected firm represents several similar firms (for example, 5 firms). In preparing the tables, we had a "suppression" program check to see if any year (column) of data for any table panel was based on fewer than 10 weighted returns or fewer than three original records ("unweighted" returns). SOI does not allow reporting of data based on such low counts both for statistical reasons (not less than 10 weighted returns) and to preserve taxpayer confidentiality (not less than three original records, that is, unweighted returns). If our suppression program detects a low count for any "data cell", we must suppress not only that data cell but also an adjacent data cell so that the data cannot be recreated by subtraction using any other totals presented or available elsewhere. In Tables 3 and 4, we have suppressed all data in the second and third panels as an overly cautious and simplified response to the restrictions on low counts for any "data cell."

The first panel of each table is divided into two sections, "Summary" and "Schedule M-1 Detail." In the summary section, we present the weighted number of returns on which our data are based and selected aggregate data from Schedule M-1 or elsewhere in the return. For example, tax net income is from Form 1120, page 1, line 28. In some cases, the data are calculated. For example, pretax book income is the result of adding the amounts for Schedule M-1 line 1 and line 2. Book-tax difference is pretax book income minus tax

Table 1. All Corporations (Excluding S, RIC, and REIT)

Dollar amounts in millions. Table values may not add and may differ from SOI *Publication 16* values due to rounding.

Summary	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Returns [N1]	2,136,032	2,098,641	2,077,517	2,055,982	2,310,703	2,312,382	2,317,885	2,248,064	2,249,969	2,198,739	2,172,705	2,136,756	2,100,074	2,047,593
Total assets	16,164,132	16,678,060	17,244,251	18,548,429	19,876,869	21,739,737	23,511,425	26,398,625	29,539,696	32,202,629	36,892,288	39,088,335	40,436,428	42,224,867
Total receipts	9,689,005	9,660,584	9,821,790	10,154,951	11,020,931	11,955,287	12,709,002	13,445,455	13,996,496	15,238,419	16,607,285	16,214,517	15,582,599	16,200,948
Pretax book income	292,375	260,145	249,839	412,078	545,274	628,654	752,693	819,582	816,738	853,663	784,075	221,319	347,735	899,320
Tax net income	270,925	248,113	291,867	368,912	426,082	514,751	574,554	607,541	532,246	535,289	517,937	270,774	258,674	455,434
Book-tax difference	21,450	12,031	-42,028	43,166	119,192	113,903	178,139	212,040	284,492	318,374	266,138	-49,455	89,061	443,886
M-1 explains	-37,786	-67,672	-111,638	-24,115	43,759	29,345	61,640	87,597	130,355	172,188	141,482	-183,229	-44,341	289,386
Estimated ICD adj	65,233	71,308	68,806	66,255	76,959	83,549	113,377	107,778	159,381	154,849	129,975	142,549	154,352	140,399
Tabulated ICD adj	0	0	0	0	0	0	0	0	0	144,417	133,854	127,359	148,227	135,955
Tax net income > 0	416,617	401,582	426,078	496,152	554,084	641,754	714,272	765,753	736,810	783,499	859,531	709,004	676,337	780,053
NOL deduction	38,399	41,152	38,888	45,090	48,872	57,090	55,019	60,289	52,638	64,781	77,079	60,332	65,667	70,294
Special deductions	12,545	12,668	13,527	14,995	14,001	23,612	20,750	24,258	24,109	30,910	27,060	21,824	16,474	13,760
Taxable income	366,311	349,794	377,723	436,613	493,712	564,346	639,366	683,242	662,258	692,591	758,979	634,366	599,637	698,383
Tax before credits	128,007	120,989	131,154	154,359	172,644	198,578	223,454	239,134	230,912	241,430	265,645	220,496	209,252	243,261
Foreign tax credit	24,990	21,097	21,521	22,896	25,401	30,420	40,244	42,200	37,396	38,390	48,506	41,063	42,022	50,034
Tax after credits	96,224	92,435	101,402	119,848	135,387	156,184	170,362	183,916	181,058	192,473	203,408	166,334	153,173	176,956
Pretax book income >0	484,694	474,568	506,574	607,242	702,602	794,908	924,167	1,005,115	1,064,057	1,138,311	1,245,562	972,495	1,056,118	1,244,020
Book-tax difference>0	192,458	195,192	201,339	247,767	268,679	280,171	347,260	386,294	495,001	545,780	611,920	485,453	631,824	689,795
M-1 explains > 0	153,113	134,939	152,642	195,417	211,380	219,577	255,044	297,695	375,394	435,037	509,419	394,379	522,626	590,683
Depreciation explains	0	35,444	43,096	49,205	53,655	53,364	56,781	65,526	80,035	86,147	88,460	114,117	160,200	134,734
Stock options explains	0	0	0	0	0	0	0	0	0	0	0	0	26,753	35,810
Schedule M-1 Detail														
[+L1] Book net income	203,250	183,548	184,595	305,013	394,789	455,690	553,497	599,870	600,319	600,127	516,667	59,728	166,377	656,741
[+L2] Book federal tax	89,124	76,597	65,245	107,065	150,485	172,965	199,197	219,712	216,419	253,537	267,408	161,591	181,358	242,580
[=] Pretax book income	292,375	260,145	249,839	412,078	545,274	628,654	752,693	819,582	816,738	853,663	784,075	221,319	347,735	899,320
[+L7] Income for book	0	198,573	218,343	274,197	246,539	278,249	320,284	384,592	472,270	523,506	677,680	522,330	601,810	641,836
[+L8] Deduction for tax	0	395,214	422,021	456,629	479,405	517,522	574,240	656,745	743,899	809,100	944,726	955,829	1,000,989	1,051,470
[-L3] Capital loss limit	0	-7,452	-8,443	-6,929	-7,653	-7,781	-8,646	-14,204	-15,404	-21,785	-20,869	-35,177	-68,958	-76,174
[-L4] Income for tax	0	-224,123	-218,376	-238,425	-228,897	-254,185	-298,656	-348,626	-372,892	-405,478	-501,662	-499,598	-463,934	-468,576
[-L5] Expense for book	0	-429,883	-525,184	-509,586	-445,635	-504,461	-525,582	-590,910	-697,518	-733,155	-958,392	-1,126,614	-1,114,248	-859,172
[=] M-1 explains	-37,786	-67,672	-111,638	-24,115	43,759	29,345	61,640	87,597	130,355	172,188	141,482	-183,229	-44,341	289,386
[+L8a] Depreciation for tax	0	110,842	124,957	131,629	140,239	151,985	154,489	177,232	205,270	212,646	229,469	270,189	314,269	298,132
[-L5a] Depreciation for book	0	-75,398	-81,861	-82,424	-86,584	-98,622	-97,709	-111,705	-125,235	-126,499	-141,009	-156,072	-154,068	-163,398
[=] Depreciation explains	0	35,444	43,096	49,205	53,655	53,364	56,781	65,526	80,035	86,147	88,460	114,117	160,200	134,734
[+L7a] Tax-exempt interest	22,043	20,504	20,415	20,567	21,101	21,010	20,492	20,123	22,455	22,972	22,205	21,112	21,601	22,467
[+L8c] Stock options	0	0	0	0	0	0	0	0	0	0	0	0	26,753	35,810
[-L5c] Travel-entertainment	0	-2,579	-2,876	-2,963	-7,842	-8,084	-8,771	-9,127	-9,914	-10,002	-10,747	-9,948	-9,626	-15,178
[-L3] Capital loss limit	0	-7,452	-8,443	-6,929	-7,653	-7,781	-8,646	-14,204	-15,404	-21,785	-20,869	-35,177	-68,958	-76,174
M-1 detail explains [5 above]	22,043	45,917	52,192	59,880	59,261	58,508	59,855	62,319	77,173	77,332	79,049	90,105	129,971	101,659
M-1 other explains [balance]	-59,829	-113,588	-163,830	-83,994	-15,502	-29,163	1,784	25,279	53,182	94,857	62,433	-273,334	-174,312	187,727
Pretax Book Income Only														
Returns [N2]	697,321	735,882	682,766	642,260	673,048	669,826	661,701	630,176	651,937	620,207	616,381	616,536	588,560	558,472
Assets	523,627	581,113	548,239	507,901	494,373	532,796	662,690	772,284	964,253	1,007,857	1,169,540	1,313,572	1,311,099	1,279,301
Receipts	322,070	375,260	336,727	353,948	318,683	322,574	379,168	403,338	438,697	467,937	508,472	511,943	476,754	444,808
Pretax book income	-1,086	8,711	6,953	7,326	3,527	3,423	8,713	11,298	11,975	9,859	6,758	5,496	1,620	12,280
Net-Income	-1,608	3,318	3,344	4,915	2,796	4,698	6,870	7,144	10,350	8,946	7,406	6,647	6,622	10,046
BTD	522	5,393	3,609	2,410	730	-1,274	1,843	4,154	1,625	913	-648	-1,151	-5,001	2,234
Tax After Credits	1,467	2,539	2,642	3,316	2,181	2,655	3,160	3,924	4,743	4,070	4,451	4,525	3,033	3,676
No Pretax Book Income														
Returns [N3]	177,400	161,191	194,254	231,359	254,577	252,065	247,354	247,898	243,544	246,668	255,714	253,143	277,716	298,155
Assets	159,399	117,770	63,022	153,342	156,995	115,407	269,671	162,129	415,768	374,267	350,925	496,727	328,039	266,268
Receipts	91,410	112,164	70,548	86,262	124,863	81,403	122,370	98,590	156,836	272,055	208,028	240,755	139,081	161,076
Net-Income	-663	892	-272	2,703	5,736	719	1,791	-160	2,451	14,887	1,690	4,487	-1,197	1,363
BTD	663	-892	272	-2,703	-5,736	-719	-1,791	160	-2,451	-14,887	-1,690	-4,487	1,197	-1,363
Tax After Credits	535	621	315	929	820	460	1,038	454	1,117	3,631	1,253	2,539	1,079	1,062

Table 2. U.S. Corporations (Excluding F, S, RIC, and REIT) With Assets of $10 Million or More

Dollar amounts in millions. Table values may not add and may differ from SOI *Publication 16* values due to rounding.

Summary	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Returns [N1]	41,625	41,161	40,815	41,662	43,068	44,063	45,319	45,324	45,068	45,976	47,056	45,339	43,760	43,155
Total assets	15,362,220	15,889,853	16,469,258	17,764,760	19,040,111	20,881,409	22,636,159	25,527,012	28,652,482	31,311,114	36,005,051	38,224,360	39,605,830	41,408,040
Total receipts	7,605,263	7,674,997	7,884,246	8,175,249	8,738,525	9,587,949	10,254,740	10,919,097	11,418,473	12,654,017	13,955,969	13,758,278	13,286,373	13,909,128
Pretax book income	295,142	267,890	250,195	398,154	533,071	619,879	738,348	797,156	790,466	829,575	788,014	255,005	380,674	910,546
Tax net income	267,997	247,142	287,375	361,044	418,265	500,042	561,328	589,627	518,597	529,328	533,547	300,639	301,025	486,457
Book-tax difference	27,145	20,748	-37,179	37,110	114,806	119,837	177,020	207,528	271,869	300,247	254,467	-45,634	79,649	424,089
M-1 explains	-30,988	-59,909	-106,505	-29,819	40,586	33,352	61,905	85,755	121,305	162,700	133,846	-174,128	-52,462	270,771
Estimated ICD adj	64,618	70,755	68,622	66,131	76,093	83,290	112,965	106,021	156,082	147,565	126,738	140,163	154,212	140,127
Tabulated ICD adj	0	0	0	0	0	0	0	0	0	137,200	130,263	124,991	148,114	135,697
Tax net income > 0	365,177	351,712	377,460	444,111	494,917	578,353	647,549	689,964	656,620	702,927	784,256	645,974	622,273	727,903
NOL deduction	26,500	27,906	26,450	32,249	34,184	42,394	39,284	44,352	35,137	48,480	59,601	44,506	49,757	54,300
Special deductions	11,850	11,969	12,867	14,310	13,169	22,842	19,808	23,277	23,163	29,822	26,040	20,714	15,864	12,654
Taxable income	327,437	313,845	342,168	398,144	449,967	516,357	589,374	624,309	600,210	629,065	702,012	588,011	561,917	662,875
Tax before credits	117,397	111,377	121,341	143,682	160,344	184,856	209,155	221,547	212,473	222,337	248,760	207,173	198,854	233,676
Foreign tax credit	24,745	21,023	21,474	22,852	25,345	30,235	40,082	41,700	36,500	36,905	47,964	40,510	41,938	49,767
Tax after credits	86,262	83,424	91,978	109,848	123,592	143,033	156,746	167,380	164,054	175,332	187,585	154,080	143,285	167,872
Pretax book income >0	433,972	425,341	454,650	546,865	636,179	730,604	853,187	923,110	968,813	1,035,449	1,150,095	904,474	991,681	1,173,917
Book-tax difference>0	175,928	179,394	183,506	223,637	240,340	261,116	321,607	355,742	453,673	496,755	563,462	451,821	584,731	640,388
M-1 explains > 0	139,505	120,816	136,599	173,056	185,600	202,689	232,443	270,526	339,389	396,103	467,366	366,181	479,220	544,300
Depreciation explains	0	34,784	42,721	48,369	52,702	51,748	54,522	63,480	77,702	81,803	86,372	112,451	155,284	131,137
Stock options explains	0	0	0	0	0	0	0	0	0	0	0	0	26,561	35,097
Schedule M-1 Detail														
[+L1] Book net income	214,360	198,752	193,022	299,973	393,003	458,074	551,620	592,455	588,748	592,373	534,295	103,654	206,766	675,567
[+L2] Book federal tax	80,781	69,138	57,173	98,181	140,068	161,805	186,727	204,700	201,718	237,202	253,719	151,350	173,908	234,978
[=] Pretax book income	295,142	267,890	250,195	398,154	533,071	619,879	738,348	797,156	790,466	829,575	788,014	255,005	380,674	910,546
[+L7] Income for book	0	178,215	192,522	241,354	218,986	249,019	282,395	340,561	416,985	476,568	595,416	467,940	555,089	590,905
[+L8] Deduction for tax	0	370,323	400,157	433,394	440,859	486,544	537,754	607,051	681,783	755,569	880,520	904,426	949,084	1,007,719
[-L3] Capital loss limit	0	-6,525	-6,116	-5,870	-6,620	-6,805	-6,325	-12,585	-13,363	-19,541	-16,326	-30,928	-65,136	-71,088
[-L4] Income for tax	0	-210,586	-208,586	-228,115	-219,265	-240,937	-284,552	-331,033	-348,847	-387,491	-472,976	-478,363	-442,790	-454,734
[-L5] Expense for book	0	-391,336	-484,481	-470,582	-393,373	-454,469	-467,367	-518,239	-615,252	-662,404	-852,788	-1,037,201	-1,048,708	-802,031
[=] M-1 explains	-30,988	-59,909	-106,505	-29,819	40,586	33,352	61,905	85,755	121,305	162,700	133,846	-174,128	-52,462	270,771
[+L8a] Depreciation for tax	0	106,732	121,470	127,840	135,689	147,147	148,075	168,756	195,531	202,141	220,047	263,599	304,676	289,620
[-L5a] Depreciation for book	0	-71,948	-78,749	-79,471	-82,987	-95,399	-93,553	-105,276	-117,830	-120,339	-133,675	-151,148	-149,392	-158,484
[=] Depreciation explains	0	34,784	42,721	48,369	52,702	51,748	54,522	63,480	77,702	81,803	86,372	112,451	155,284	131,137
[+L7a] Tax-exempt interest	21,546	20,099	20,014	20,142	20,731	20,485	20,034	19,531	21,783	22,388	21,603	20,760	21,248	22,132
[+L8c] Stock options	0	0	0	0	0	0	0	0	0	0	0	0	26,561	35,097
[-L5c] Travel-entertainment	0	-1,718	-2,010	-2,059	-5,680	-5,619	-6,227	-6,566	-7,220	-7,455	-8,198	-7,481	-7,253	-12,895
[-L3] Capital loss limit	0	-6,525	-6,116	-5,870	-6,620	-6,805	-6,325	-12,585	-13,363	-19,541	-16,326	-30,928	-65,136	-71,088
M-1 detail explains [5 above]	21,546	46,639	54,609	60,582	61,133	59,809	62,004	63,860	78,901	77,195	83,450	94,802	130,703	104,383
M-1 other explains [balance]	-52,534	-106,548	-161,114	-90,401	-20,547	-26,458	-99	21,895	42,404	85,505	50,396	-268,930	-183,165	166,389
Pretax Book Income Only														
Returns [N2]	1,404	1,512	1,489	1,397	1,318	1,346	1,282	1,339	1,400	1,422	1,432	1,478	1,458	1,474
Assets	421,196	446,246	421,133	384,444	365,426	403,163	528,867	638,897	830,200	874,652	1,037,732	1,179,462	1,182,833	1,154,880
Receipts	136,527	135,144	121,149	123,303	85,504	93,568	134,483	162,636	201,801	225,503	248,101	270,657	235,755	198,020
Pretax book income	2,799	9,006	7,852	7,337	4,151	6,004	7,378	10,187	10,219	8,966	6,989	4,254	2,571	11,779
Net-Income	2,670	3,623	3,982	5,025	3,424	4,907	6,037	6,132	8,626	8,621	8,332	6,990	7,358	9,573
BTD	129	5,383	3,870	2,313	728	1,098	1,341	4,055	1,593	345	-1,342	-2,736	-4,788	2,206
Tax After Credits	1,024	1,589	1,793	2,410	1,265	1,711	2,026	2,657	3,273	3,008	3,331	3,248	1,993	2,718
No Pretax Book Income														
Returns [N3]	392	386	334	319	329	321	361	385	425	429	471	480	428	420
Assets	148,138	109,238	54,961	143,550	146,980	106,362	260,171	152,046	405,871	364,501	339,672	486,811	319,178	257,376
Receipts	45,049	56,758	18,543	41,847	63,518	18,611	60,891	24,803	82,525	182,916	100,065	151,341	70,176	79,386
Net-Income	-550	1,231	228	2,984	5,998	747	2,666	495	3,167	16,167	1,935	5,747	687	2,339
BTD	550	-1,231	-228	-2,984	-5,998	-747	-2,666	-495	-3,167	-16,167	-1,935	-5,747	-687	-2,339
Tax After Credits	125	349	69	730	588	227	781	220	803	3,197	680	2,104	702	698

Table 3. ICD Adjustment Required: All Corporations (Excluding F, S, RIC, and REIT) With Assets of $10 Million or More

Dollar amounts in millions. Table values may not add and may differ from SOI *Publication 16* values due to rounding.

Summary	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Returns [N1]	1,845	1,706	1,647	1,659	1,516	1,471	1,457	1,451	1,335	1,333	1,284	1,194	1,141	1,000
Total assets	4,574,526	4,430,581	4,591,330	5,281,177	5,664,100	5,321,909	6,277,836	8,236,197	8,652,226	11,143,376	13,680,997	14,326,198	15,704,660	15,041,004
Total receipts	1,929,575	1,831,758	1,924,403	2,033,054	2,088,626	1,966,866	2,266,975	2,453,235	2,553,234	3,312,601	4,154,112	3,797,227	4,045,988	3,982,062
Pretax book income	135,048	135,518	128,479	145,605	208,376	222,486	291,485	294,786	313,651	377,314	441,489	284,465	340,224	417,076
Tax net income	97,119	86,740	95,924	115,536	130,667	150,054	169,587	186,439	174,490	181,775	262,592	165,295	151,857	225,703
Book-tax difference	37,929	48,779	32,555	30,068	77,709	72,432	121,898	108,347	139,161	195,540	178,897	119,170	188,367	191,373
M-1 explains	-26,408	-26,295	-36,255	-38,423	-2,361	-12,009	3,792	-4,112	-17,103	46,265	49,621	-23,395	43,756	41,557
Estimated ICD adj	64,618	70,755	68,622	66,131	76,093	83,290	112,965	106,021	156,082	147,565	126,738	140,163	154,212	140,127
Tabulated ICD adj	0	0	0	0	0	0	0	0	0	137,200	130,264	124,991	148,114	135,697
Tax net income > 0	112,884	102,307	107,989	126,147	138,804	158,267	177,471	196,941	184,349	204,741	284,959	220,697	215,675	258,410
NOL deduction	5,211	5,388	5,079	4,855	4,083	5,209	6,820	9,703	5,762	9,394	15,049	9,039	13,731	14,290
Special deductions	4,078	3,667	3,899	3,781	4,600	11,900	5,872	8,432	7,638	8,096	9,204	8,171	6,232	4,096
Taxable income	104,747	94,094	99,863	118,030	130,624	141,752	164,931	180,012	171,413	189,736	262,367	207,311	199,200	240,403
Tax before credits	36,189	33,593	35,331	42,201	46,608	50,510	58,417	63,824	60,653	67,125	92,978	73,189	70,455	84,708
Foreign tax credit	10,947	10,221	11,098	13,497	13,621	15,259	20,424	19,907	16,476	21,309	31,194	24,706	22,105	28,246
Tax after credits	24,757	22,324	23,268	26,406	30,358	33,247	35,862	41,619	41,439	43,308	57,435	44,416	43,394	51,025
Pretax book income >0	159,246	154,678	158,476	172,538	222,203	232,071	303,021	305,530	326,952	400,275	484,063	373,267	438,686	451,648
Book-tax difference>0	71,302	75,031	72,231	81,542	101,358	96,057	144,145	137,701	167,325	227,804	247,962	200,728	276,520	230,103
M-1 explains > 0	33,692	27,886	33,580	39,164	49,587	44,819	59,714	63,717	60,387	138,184	157,656	117,799	172,713	143,718
Depreciation explains	0	8,529	14,574	13,963	18,163	17,177	9,956	12,622	24,761	26,309	26,015	34,486	45,034	35,472
Stock options explains	0	0	0	0	0	0	0	0	0	0	0	0	8,883	7,647
Schedule M-1 Detail														
[+L1] Book net income	108,662	114,913	110,692	124,669	169,443	182,129	241,084	238,661	253,045	305,214	360,828	238,522	285,948	344,668
[+L2] Book federal tax	26,386	20,605	17,787	20,935	38,934	40,356	50,400	56,125	60,606	72,100	80,661	45,943	54,276	72,408
[=] Pretax book income	135,048	135,518	128,479	145,605	208,376	222,486	291,485	294,786	313,651	377,314	441,489	284,465	340,224	417,076
[+L7] Income for book	0	69,625	61,222	77,158	75,876	68,865	91,993	100,039	90,742	162,874	219,536	181,787	221,296	223,530
[+L8] Deduction for tax	0	111,533	120,867	132,323	130,781	118,275	145,046	172,024	199,925	231,771	280,133	300,013	294,388	286,799
[-L3] Capital loss limit	0	-2,484	-3,020	-2,602	-1,388	-2,086	-1,140	-4,439	-4,630	-9,274	-5,022	-8,601	-16,179	-17,700
[-L4] Income for tax	0	-82,621	-82,838	-88,398	-88,770	-91,720	-111,284	-141,031	-150,219	-175,452	-212,996	-207,417	-190,451	-200,130
[-L5] Expense for book	0	-122,349	-132,485	-156,904	-118,860	-105,342	-120,823	-130,706	-152,921	-163,655	-232,030	-289,177	-265,298	-250,942
[=] M-1 explains	-26,408	-26,295	-36,255	-38,423	-2,361	-12,009	3,792	-4,112	-17,103	46,265	49,621	-23,395	43,756	41,557
[+L8a] Depreciation for tax	0	30,684	37,406	40,734	41,113	40,027	35,387	43,085	57,419	56,161	69,414	84,438	90,499	88,341
[-L5a] Depreciation for book	0	-22,155	-22,832	-26,772	-22,950	-22,849	-25,431	-30,463	-32,657	-29,853	-43,399	-49,952	-45,465	-52,869
[=] Depreciation explains	0	8,529	14,574	13,963	18,163	17,177	9,956	12,622	24,761	26,309	26,015	34,486	45,034	35,472
[+L7a] Tax-exempt interest	4,060	3,781	4,381	5,554	5,441	4,177	5,740	5,647	5,381	8,045	8,608	9,087	9,738	7,771
[+L8c] Stock options	0	0	0	0	0	0	0	0	0	0	0	0	8,883	7,647
[-L5c] Travel-entertainment	0	-438	-559	-522	-1,973	-1,216	-1,478	-1,615	-1,642	-2,069	-2,390	-2,148	-2,054	-1,767
[-L3] Capital loss limit	0	-2,484	-3,020	-2,602	-1,388	-2,086	-1,140	-4,439	-4,630	-9,274	-5,022	-8,601	-16,179	-17,700
M-1 detail explains [5 above]	4,060	9,388	15,376	16,392	20,243	18,053	13,078	12,215	23,871	23,010	27,211	32,824	45,423	31,423
M-1 other explains [balance]	-30,468	-35,683	-51,631	-54,816	-22,604	-30,062	-9,286	-16,328	-40,974	23,255	22,410	-56,219	-1,667	10,134

Data suppressed for "Pretax Book Income Only" and "No Pretax Book Income."

Table 4. ICD Adjustment Not Required: All Corporations (Excluding F, S, RIC, and REIT) With Assets of $10 Million or More

Dollar amounts in millions. Table values may not add and may differ from SOI *Publication 16* values due to rounding.

Summary	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Returns [N1]	39,780	39,456	39,168	40,003	41,552	42,592	43,862	43,873	43,733	44,643	45,773	44,145	42,619	42,155
Total assets	10,787,694	11,459,273	11,877,928	12,483,583	13,376,011	15,559,500	16,358,323	17,290,815	20,000,256	20,167,738	22,324,054	23,898,161	23,901,170	26,367,037
Total receipts	5,675,689	5,843,240	5,959,844	6,142,195	6,649,899	7,621,083	7,987,765	8,465,862	8,865,239	9,341,416	9,801,857	9,961,051	9,240,385	9,927,066
Pretax book income	160,094	132,372	121,717	252,550	324,695	397,393	446,863	502,370	476,816	452,261	346,525	-29,461	40,450	493,469
Tax net income	170,878	160,403	191,451	245,508	287,598	349,988	391,741	403,188	344,108	347,553	270,955	135,344	149,168	260,754
Book-tax difference	-10,784	-28,031	-69,734	7,042	37,097	47,405	55,122	99,182	132,708	104,708	75,570	-164,804	-108,718	232,716
M-1 explains	-4,579	-33,614	-70,250	8,604	42,948	45,361	58,113	89,867	138,408	116,435	84,225	-150,732	-96,217	229,214
Estimated ICD adj	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tabulated ICD adj	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax net income > 0	252,294	249,405	269,471	317,964	356,113	420,085	470,079	493,023	472,271	498,186	499,296	425,278	406,598	469,493
NOL deduction	21,290	22,519	21,370	27,394	30,101	37,185	32,464	34,649	29,375	39,086	44,552	35,467	36,026	40,010
Special deductions	7,772	8,303	8,969	10,529	8,569	10,942	13,936	14,844	15,525	21,727	16,836	12,543	9,632	8,557
Taxable income	222,691	219,752	242,306	280,115	319,342	374,605	424,443	444,297	428,797	439,328	439,645	380,700	362,717	422,473
Tax before credits	81,208	77,784	86,010	101,481	113,736	134,346	150,738	157,723	151,820	155,212	155,781	133,984	128,399	148,968
Foreign tax credit	13,798	10,801	10,376	9,355	11,724	14,976	19,658	21,793	20,024	15,596	16,770	15,804	19,833	21,521
Tax after credits	61,505	61,100	68,710	83,442	93,234	109,786	120,885	125,760	122,615	132,024	130,150	109,664	99,891	116,847
Pretax book income >0	274,726	270,664	296,174	374,327	413,976	498,533	550,166	617,580	641,861	635,174	666,032	531,208	552,995	722,269
Book-tax difference>0	104,626	104,363	111,275	142,095	138,982	165,059	177,462	218,041	286,348	268,951	315,499	251,093	308,210	410,284
M-1 explains > 0	105,814	92,930	103,019	133,892	136,013	157,870	172,728	206,809	279,002	257,919	309,710	248,383	306,507	400,581
Depreciation explains	0	26,255	28,147	34,406	34,539	34,571	44,566	50,858	52,940	55,494	60,357	77,965	110,250	95,665
Stock options explains	0	0	0	0	0	0	0	0	0	0	0	0	17,678	27,450
Schedule M-1 Detail														
[+L1] Book net income	105,698	83,839	82,330	175,304	223,560	275,945	310,536	353,794	335,703	287,158	173,467	-134,868	-79,182	330,899
[+L2] Book federal tax	54,395	48,533	39,386	77,246	101,134	121,448	136,327	148,576	141,112	165,103	173,058	105,407	119,632	162,570
[=] Pretax book income	160,094	132,372	121,717	252,550	324,695	397,393	446,863	502,370	476,816	452,261	346,525	-29,461	40,450	493,469
[+L7] Income for book	0	108,590	131,300	164,196	143,109	180,154	190,402	240,522	326,242	313,694	375,880	286,153	333,792	367,375
[+L8] Deduction for tax	0	258,790	279,290	301,071	310,078	368,269	392,708	435,027	481,859	523,797	600,387	604,413	654,697	720,921
[-L3] Capital loss limit	0	-4,041	-3,096	-3,268	-5,232	-4,720	-5,185	-8,146	-8,733	-10,267	-11,304	-22,327	-48,957	-53,389
[-L4] Income for tax	0	-127,965	-125,748	-139,717	-130,495	-149,217	-173,268	-190,003	-198,628	-212,039	-259,979	-270,947	-252,339	-254,605
[-L5] Expense for book	0	-268,987	-351,996	-313,678	-274,513	-349,126	-346,544	-387,533	-462,332	-498,750	-620,758	-748,024	-783,410	-551,089
[=] M-1 explains	-4,579	-33,614	-70,250	8,604	42,948	45,361	58,113	89,867	138,408	116,435	84,225	-150,732	-96,217	229,214
[+L8a] Depreciation for tax	0	76,048	84,064	87,105	94,576	107,121	112,688	125,671	138,112	145,980	150,633	179,161	214,177	201,279
[-L5a] Depreciation for book	0	-49,793	-55,917	-52,699	-60,037	-72,550	-68,122	-74,813	-85,172	-90,486	-90,276	-101,195	-103,927	-105,615
[=] Depreciation explains	0	26,255	28,147	34,406	34,539	34,571	44,566	50,858	52,940	55,494	60,357	77,965	110,250	95,665
[+L7a] Tax-exempt interest	17,486	16,318	15,633	14,588	15,291	16,308	14,294	13,883	16,402	14,344	12,995	11,674	11,510	14,361
[+L8c] Stock options	0	0	0	0	0	0	0	0	0	0	0	0	17,678	27,450
[-L5c] Travel-entertainment	0	-1,281	-1,451	-1,538	-3,708	-4,403	-4,749	-4,951	-5,579	-5,386	-5,808	-5,334	-5,200	-11,127
[-L3] Capital loss limit	0	-4,041	-3,096	-3,268	-5,232	-4,720	-5,185	-8,146	-8,733	-10,267	-11,304	-22,327	-48,957	-53,389
M-1 detail explains [5 above]	17,486	37,251	39,234	44,189	40,890	41,757	48,926	51,645	55,030	54,185	56,239	61,978	85,281	72,959
M-1 other explains [balance]	-22,065	-70,865	-109,483	-35,585	2,057	3,604	9,187	38,222	83,378	62,250	27,986	-212,711	-181,498	156,255

Data suppressed for "Pretax Book Income Only" and "No Pretax Book Income."

net income. We present both the SOI tabulated amount for the U.S. intercompany dividend (ICD) adjustment (available from SOI for 1999 on) and our estimate of that adjustment for all years 1990-2003 (more about this later). We calculate an amount we term "M-1 Explains" which is the net amount of book-tax difference reported by the taxpayer on Schedule M-1.[11] We also calculate a net error amount indicating the amount of the book-tax difference not included in either M-1 Explains or our estimate of the ICD adjustment.

In the second section of the first panel of each table ("Schedule M-1 Detail"), we present the aggregate amounts from the Schedule M-1 line items and certain calculated amounts. The sign is shown consistently in terms of the effect on a positive book-tax difference. A positive amount increases the book-tax difference; a negative amount decreases the book-tax difference. Consistent with the literature since Talisman (2000), we treat pretax book greater than tax net income as a positive book-tax difference.

The second panel on each table (unless suppressed) presents aggregate data for those corporations in the first panel that, for some reason, reported only pretax book income, that is, no other data appeared in the body of Schedule M-1. [12]

The third panel on each table (unless suppressed) presents aggregate data for those corporations in the first panel that, for some reason, do not even report amounts for Schedule M-1 line 1 and line 2.[13]

Schedule M-1 data for 1990 are not as complete as for other years. SOI only tabulated: line 1, net income (loss) per books; line 2, Federal income tax per books; line 6, total of lines 1 through 5; line 9, total of lines 7 and 8; and line 10, the reconciliation amount corresponding to unedited tax net income (tax net income before the U.S. intercompany dividend (ICD) adjustment). [14]

▶ Book-Tax Difference Data 1990-2003[15]

For comparison with Table 12 in Publication 16, *Statistics of Income, Corporation Income Tax Returns,* and with Plesko (2002) and Plesko-Shumofsky (2005), we first present, in this section of the paper, aggregate net data for all corporations normally subject to the U.S. Federal corporate income tax. We then present, in the next section of the paper, the aggregate net data for domestic corporations with assets of $10 million or more, the corporations that would have been subject to Schedule M-3 if the 2004-2006 requirements had been effective for the earlier years.

Figure 1 based on Table 1 presents aggregate net pretax book income and aggregate tax net income for all corporations for 1990-2003. It also presents the calculated book-tax differences and an amount we term M-1 Explains. Finally, it presents an amount we term "estimated intercompany dividend (ICD) adjustment."

- Pretax book income is the sum of Schedule M-1, line 1, Net income (loss) per books, and Schedule M-1, line 2, Federal income tax per books.

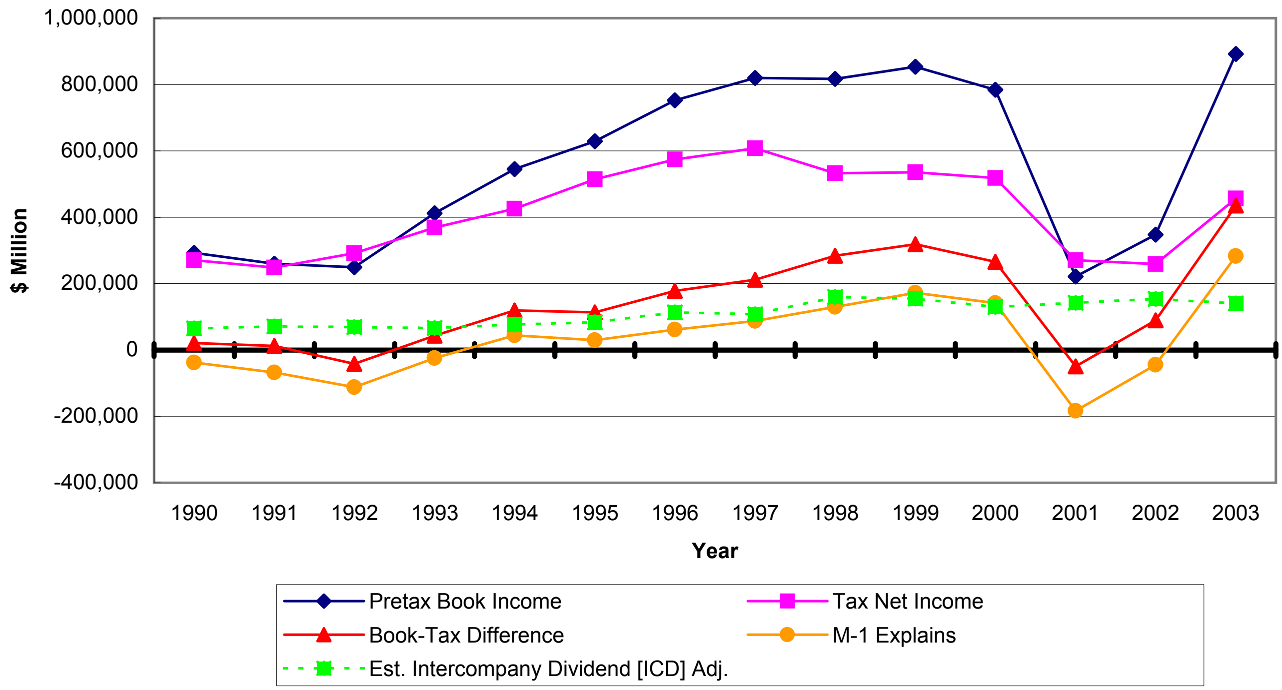
- Tax net income is Form 1120 line 28 taxable income before net operating loss deduction (line 29a) and special deductions (dividends received deductions) (line 29b).

- Book tax difference is pretax book income minus tax net income. This definition has been in general use since the Talisman (2000) Senate testimony on tax shelters and the possible effect of tax shelters on the corporate tax base.

- M-1 Explains is our term for the book-tax difference actually reported by the taxpayer on Schedule M-1 as originally filed.[16] M-1 Explains and book-tax difference calculated using the Talisman (2000) approach differ by the amount of the U.S. intercompany dividend (ICD) adjustment to tax net income.[17]

Some taxpayers improperly include U.S. intercompany dividends (ICD) in tax net income on Form 1120, page 1, line 28, the reconciliation target for Schedule M-1.[18] The taxpayer then removes the same amount as a 100-percent dividends-received deduction on line 29b so that it does not increase final income subject to tax on line 30.

Figure 1. Pretax Book Income, Tax Net Income, Book-Tax Difference, M-1 Explains, and Estimated Intercompany Dividend (ICD) Adjustment For All Corporations (Excluding S, RIC, REIT)



ICD should be eliminated in determining tax net income. SOI removes all ICD amounts that it identifies in tax net income. Taxpayers who include ICD in tax net income must also include it somewhere in Schedule M-1. SOI does not know where in Schedule M-1 the ICD is in general, and, therefore, SOI does not remove ICD from the body of Schedule M-1 but rather, starting in 1999, from Schedule M-1, line 10.[19] The result is that M-1 Explains and book-tax difference as defined by Talisman (2000) differ by the amount of the ICD adjustment to tax net income.

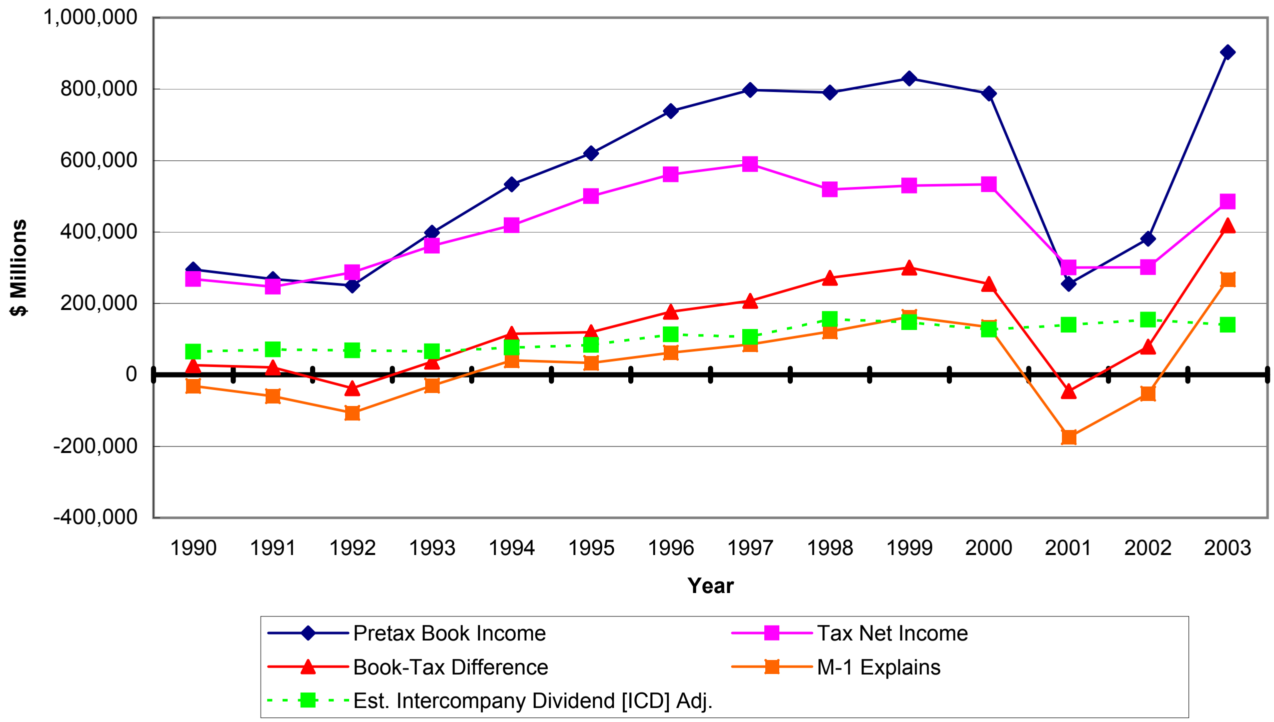
SOI began tabulating the ICD adjustment in 1999, although it made the adjustment without tabulation as a separate file variable starting in 1990. We estimate the ICD adjustment for all years studied: 1990-2003. We estimate the ICD adjustment as unedited Schedule M-1, line 10 minus edited Form 1120, page 1, line 28 (if it is a positive difference) for corporations filing a consolidated return.[20] For 1999-2003, we present our estimate and the tabulated ICD. For consistency across years, our discussion uses our estimate of the ICD adjustment unless otherwise stated.

▸ Assets of $10 Million or More [21]

In this and later sections of the paper, we present the data for domestic corporations with assets of $10 million or more, the corporations that would have been subject to Schedule M-3 if the 2004-2006 requirements had been effective for the earlier years.

Figure 1 is for all corporations (excluding S, RIC, and REIT). Figure 2 based on Table 2 is for domestic corporations with total assets of $10 million or more (excluding S, RIC, REIT, and F) and presents a picture of aggregate net pretax book income, tax net income, book-tax difference, M-1 Explains, and ICD adjustment similar to that in Figure 1. This is because most of the aggregate net Schedule M-1 line item amounts (including most of the aggregate net pretax book income, which is the sum of Schedule M-1, line 1 plus line 2), aggregate

Figure 2. Pretax Book Income, Tax Net Income, Book-Tax Difference, M-1 Explains, and Estimated Intercompany Dividend (ICD) Adjustment For U.S. Corporations With Assets>=$10 Million (Excluding S, RIC, REIT, F)



net tax net income, and aggregate ICD adjustment of all corporations are in fact reported by those domestic corporations with $10 million or more in assets.

▶ What Drives Schedule M-1 Swings?[22]

Schedule M-1 offers detail breakout for depreciation, tax-exempt interest, stock options (starting 2002), travel and entertainment limitations, and capital loss limitation. "M-1 Detail Explains" is our term for the net effect of these items on M-1 Explains. "M-1 Other Explains" is our term for the balance of M-1 Explains not included in M-1 Detail Explains.

Figure 3 presents M-1 Explains, M-1 Detail Explains, M-1 Other Explains, and depreciation explains for corporations with total assets of $10 million or more. M-1 Detail Explains is essentially depreciation. The other detail items tend to net out. The swings in M-1 Explains are driven by the swings in M-1 Other Explains, that is, by the amounts without detail breakouts. We will not know what is behind M-1 Other Explains until we have the standardized transparent structure of Schedule M-3.[23]

▶ Issues in Interpreting Schedule M-1 Data

Figure 4 based on Tables 3 and 4 shows that, for 1993-2000, among corporations with total assets of $10 million or more, those requiring the U.S. intercompany dividend (ICD) adjustment (to be discussed in Figure 5 under two alternative assumptions labeled Case 1 and Case 2) reported lower net aggregate M-1 Explains than those that did not require the ICD adjustment (to be discussed in Figure 5 as reference Case 3). In particular, the corporations requiring the ICD adjustment appeared to have an aggregate net M-1 Explains of approximately

Figure 3. Schedule M-1 Explains, Schedule M-1 Detail Explains, Schedule M-1 Other Explains, and Depreciation Explains For U.S. Corporations With Asset >=$10 Million

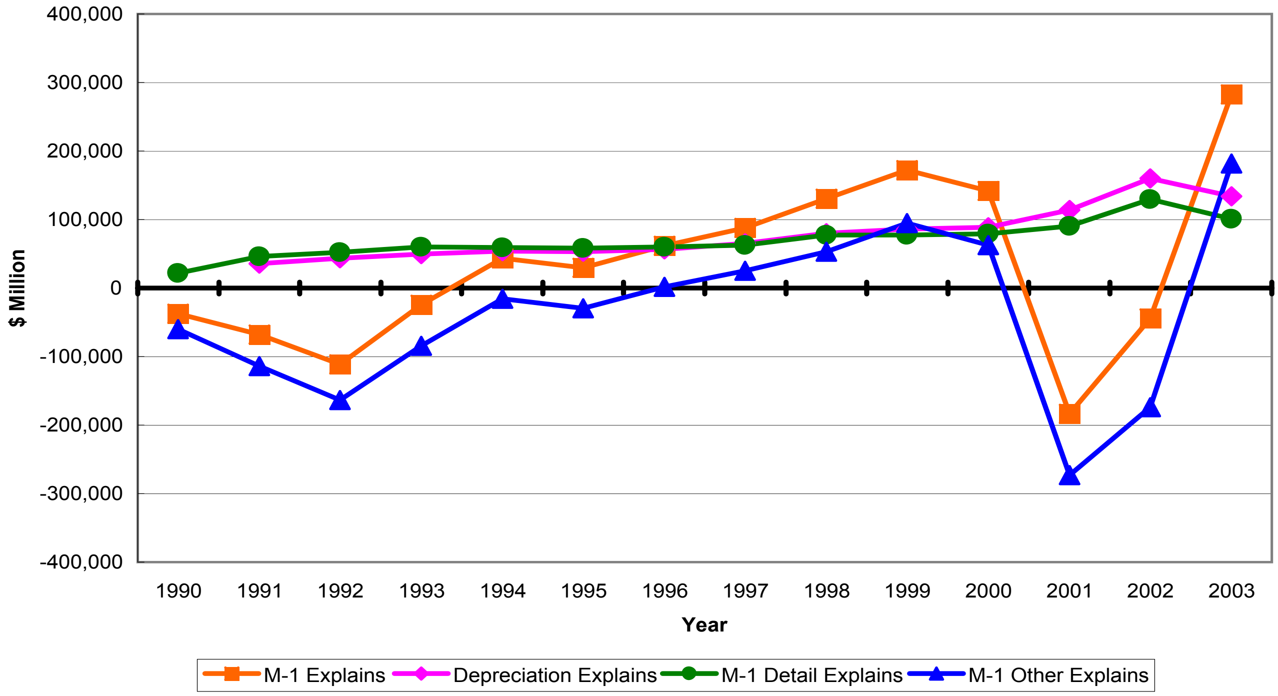
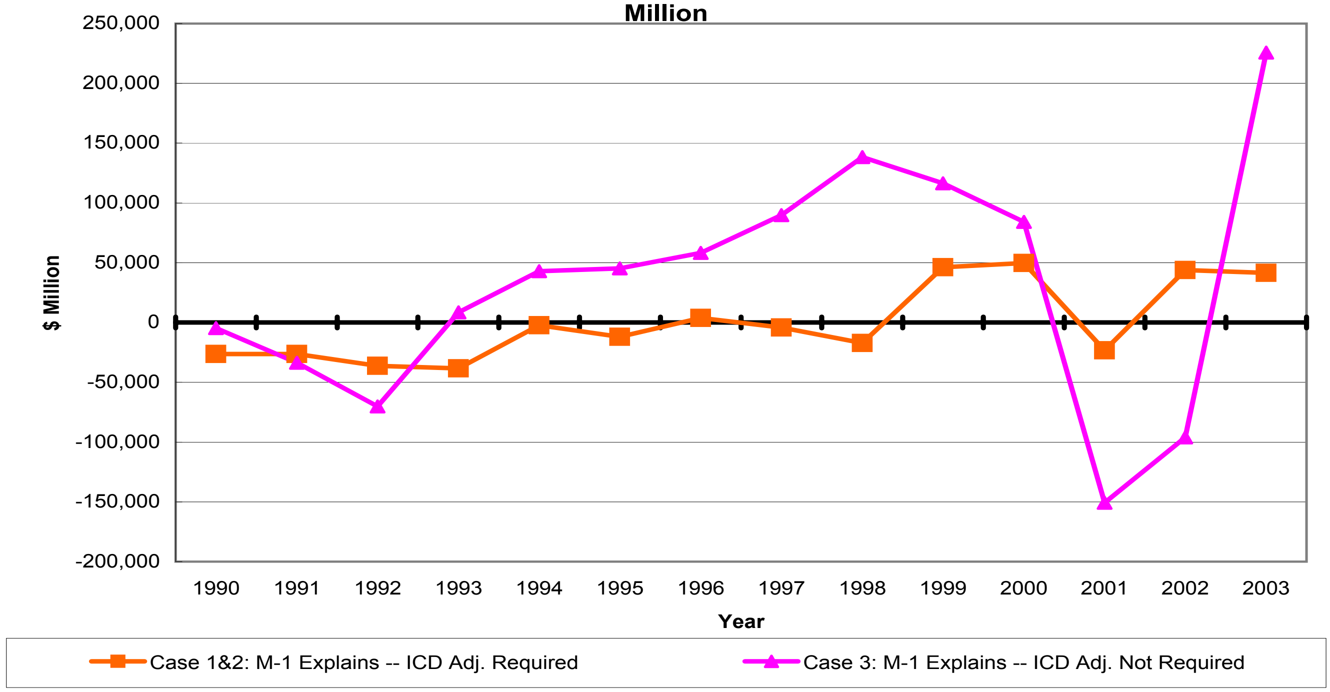


Figure 4. M-1 Explains For Corporations Requiring The Intercompany Dividend (ICD) Adjustment (Cases 1&2) Versus M-1 Explains For Corporations Not Requiring The ICD Adjustment (Case 3) For U.S. Corporations With Assets >=$10 Million



zero during the boom years of 1994-1998. Corporations not requiring the ICD adjustment had a large aggregate net positive M-1 Explains those years.

▶ We Develop "What If" Cases:

- Case 1: ICD adjustment present, and we back it out of Schedule M-1, line 1.

- Case 2: ICD adjustment present, and we back it out of Schedule M-1, line 4. Here, line 4 is simply a surrogate for any line in the body of Schedule M-1.

- Case 3: ICD adjustment not present. Case 3 is our reference for analysis for Case 1, M-1, line 1 versus Case 2, M-1, line 4. Case 3 controls for changes in the economy across years.

Effect of Case 1: If the ICD adjustment should be removed from Schedule M-1, line 1, pretax book income and book-tax difference will be reduced, and book-tax difference will equal M-1 Explains as observed.

Effect of Case 2: If the ICD adjustment should be removed from the body of Schedule M-1, say, Schedule M-1, line 4, income for tax not for book, M-1 Explains will be increased, and M-1 Explains will equal book-tax difference as calculated using the Talisman (2000) approach that we and others generally follow.

Effect of firm size on our analysis: The approximately 1,100 corporations in 2002 with total assets of $10 million or more requiring the ICD adjustment are about 25 times larger in mean assets than the approximately 42,000 corporations that year with total assets of $10 million or more not requiring the ICD adjustment (Cases 1 and 2, $13.8 billion; Case 3, $561 million). In the following analysis, we control for the possible effects of size differences by calculating aggregate M-1 Explains as a percentage of aggregate total receipts for the group requiring the ICD adjustment (Cases 1 and 2) and for the group not requiring the ICD adjustment (Case 3).

In Figure 5 based on Tables 3 and 4, the top two lines lie along each other and represent our Case 1 and Case 2 calculated book-tax difference as a percent of total receipts for corporations requiring the ICD adjustment and Case 2 restated M-1 Explains as a percentage of total receipts after the ICD adjustment is removed from Schedule M-3, line 4. In essence, we move Case 2 M-1 Explains up to equal book-tax difference.

In Figure 5, the bottom two lines lie along each other and represent our Case 1 and Case 2 observed M-1 Explains as a percent of total receipts for those requiring the ICD adjustment and the Case 1 recalculated book-tax difference after the ICD adjustment is removed from Schedule M-1, line 1. In essence, we move Case 1 book-tax difference down to equal M-1 Explains.

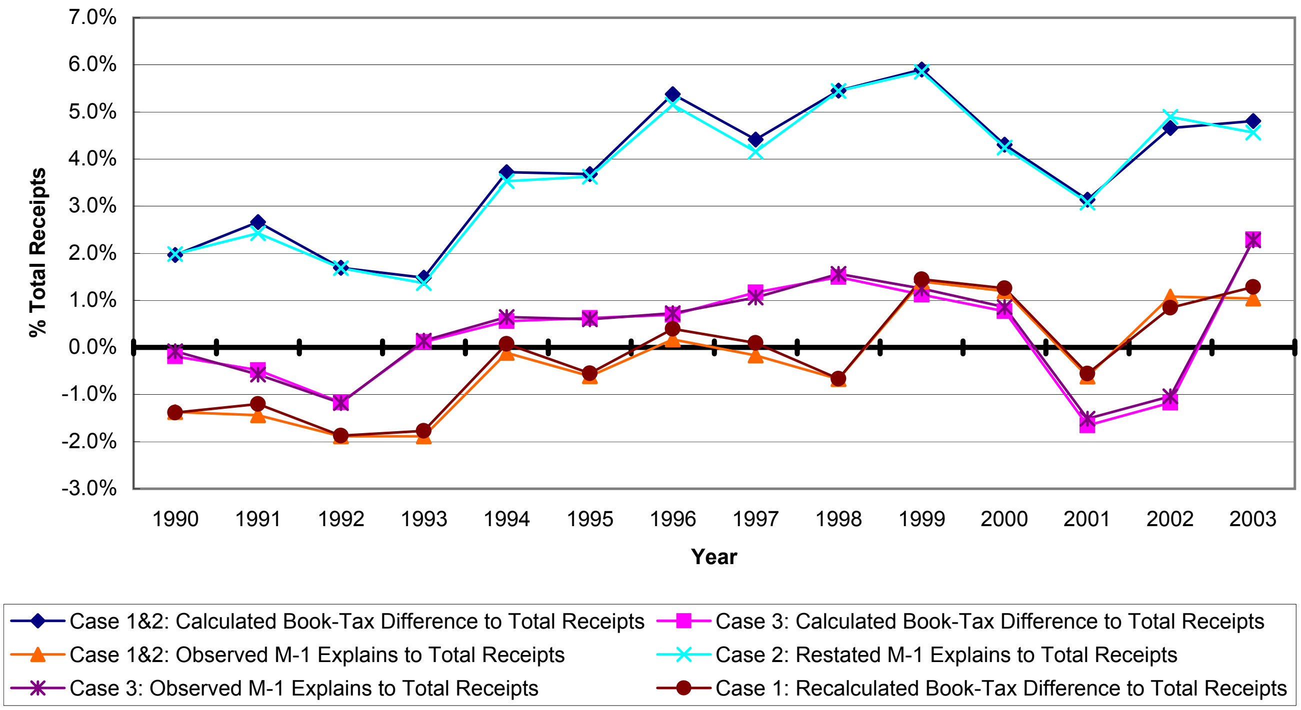
In Figure 5, the middle two lines lie along each other and represent our Case 3 calculated book-tax difference and our Case 3 observed M-1 Explains, each as a percentage of total receipts, for corporations not requiring the ICD adjustment.

In Figure 5, the middle two lines are our reference. If the lower two lines are plausible for corporations requiring the ICD adjustment, then we remove the ICD adjustment from Schedule M-1, line 1, and book-tax difference, effectively recalculating book-tax difference to agree with what taxpayers declared in M-1 Explains. We question whether large corporations would have essential no book-tax difference during the boom years of the 1990's at a time when corporations not requiring the ICD adjustment had a large aggregate net positive book-tax difference and M-1 Explains.[24]

If the lower two lines are not plausible, or if the upper two lines are more plausible, then we remove the ICD adjustment from Schedule M-1, line 4, accept book-tax difference as calculated under the Talisman (2000) approach, and restate M-1 Explains to agree with our calculated book-tax difference.

The question about where we should remove the ICD adjustment in Schedule M-1 is important. If the ICD adjustment should be removed from Schedule M-1, line 1, book-tax difference as generally calculated involves an overstatement. The worry has been that the ICD adjustment often seemed to be about half of the book-tax gap for the boom years of the 1990's. But we

Figure 5. Book-Tax Difference and M-1 Explains To Total Receipts for U.S. Corporations With Assets>=$10 Million Requiring ICD Adjustment (Case 1 Assumes in M-1 Line 1, Case 2 Assumes in M-1 Line 4) and Not Requiring ICD Adjustment (Case 3 Reference Case)



show it is often essentially a question of the existence of any book-tax gap for corporations requiring the ICD adjustment.

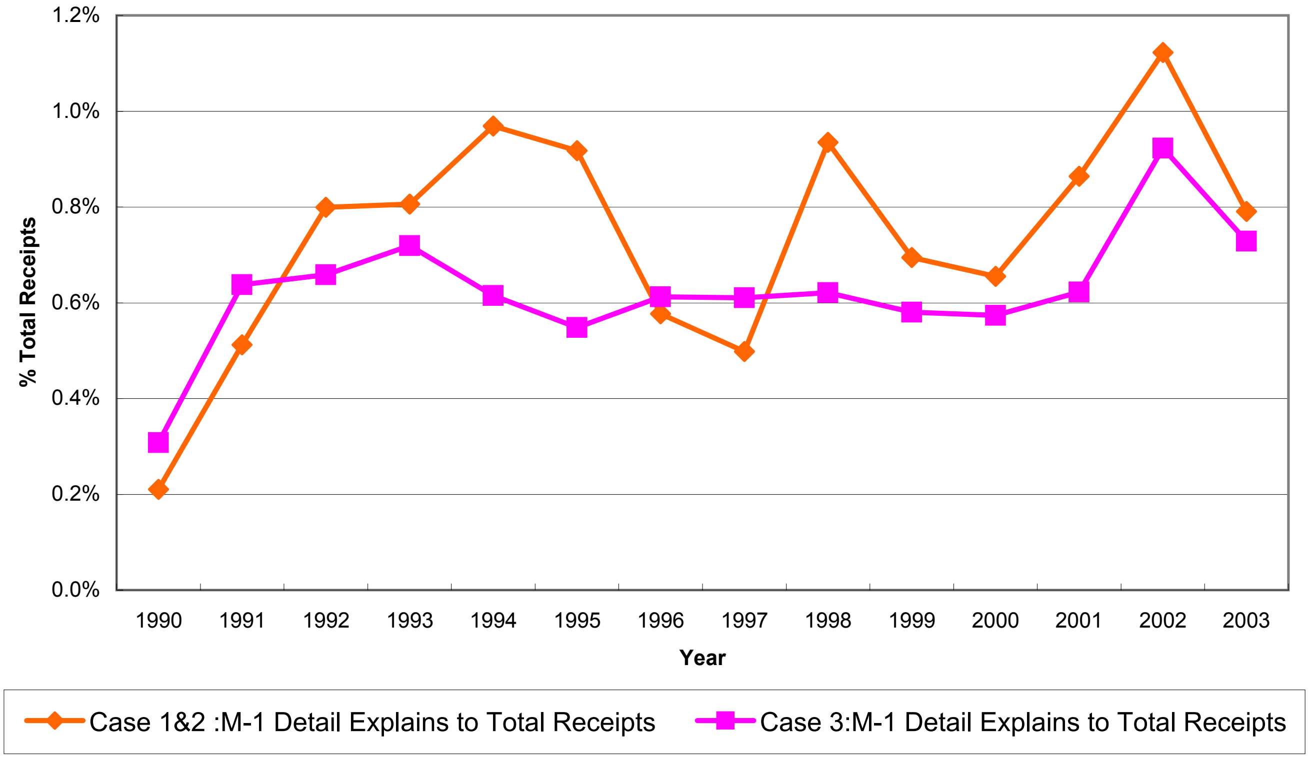
Figure 6 based on Tables 3 and 4 indicated that the corporations requiring the ICD adjustment generally have more aggregate net positive M-1 Detail Explains (essentially depreciation) as a percentage of total receipts than corporations not requiring the adjustment. We suggest it is not plausible that these corporations would have no other net aggregate book-tax difference.

▶ Evidence From Large Corporations

We also supplemented our analytical research on the ICD adjustment discussed in the prior section with a limited search of large corporation tax returns by SOI. We wished to determine if there was tax return evidence indicating whether Schedule M-1, line 1 or line 4, was generally used by large corporate taxpayers as the line for inclusion of the matching entry within Schedule M-1 for U.S. intercompany dividends (ICD) improperly included on Form 1120, page 1, line 28 (tax net income), and line 29b (dividends received deduction). In particular, we wished to determine if the relative size of the ICD adjustment compared to the total amount on Schedule M-1, line 4, might function as a flag as to the location of the ICD item within Schedule M-1.[25]

We first identified all returns for 2003 that involved an ICD adjustment of at least $1 billion. We then selected for examination five of the returns with an ICD adjustment greater than the total amount on Schedule M-1, line 4, and five of the returns with an ICD adjustment less than the total amount on line 4. One coauthor then searched the supporting detail for these 10 returns for Form 1120, Schedule C (Dividends and Special Deduction) and Schedule M-1, line 4, to identify a caption indi-

Figure 6. M-1 Detail Explains To Total Receipts For Case 1 And Case 2 (ICD Adjustment Required) With Case 3 (No ICD Adjustment) As Reference For U.S. Corporations With Assets>=$10 Million



cating U.S. dividends included on Form 1120, Schedule C, and, therefore, on Form 1120, page 1, line 28, but not included in book income and an amount similar to the amount of the ICD adjustment.

Note that these returns are each thousands of pages. Searching for a caption and amount in the supporting detail is time-consuming and averaged an hour each even though the coauthor doing the search is very familiar with working with the supporting detail for Form 1120, Schedule C, and Schedule M-1. In the case of all five returns with an ICD adjustment less than the total amount on Schedule M-1, line 4, it was possible to identify an appropriate caption and approximate amount in the supporting detail for line 4. In the case of the five returns with an ICD adjustment greater than the total amount on Schedule M-1, line 4, the pattern was less clear with some support found for the ICD amount being included on Schedule M-1, line 1, some for line 4, and some totally unclear.

We realize a search on 10 returns out of a much larger number does not prove that the pattern of captions and amounts we found would be found on the returns that were not searched. Further, our search does not prove what would be found if the IRS were to undertake a larger audit of large corporation Schedule M-1 detail. An IRS audit is unlikely because the better-structured Schedule M-3 is replacing the poorer-structured Schedule M-1 for larger corporate taxpayers. We do believe that our search on the 10 returns searched indicates that line 4 of Schedule M-1 is at least a likely location for the matching entry within Schedule M-1 for U.S. intercompany dividends (ICD) improperly included on Form 1120, page 1, line 28 (tax net income), and line 29b (dividends received deduction). We also know from our search that some corporations do include the ICD amount on Schedule M-1, line 1. If a taxpayer includes the matching ICD amount on line 4 of Schedule M-1, the taxpayer will, either intentionally or innocently, minimize the total book-tax difference reported on Schedule M-1. If the taxpayer includes the matching ICD amount on Schedule M-1, line 1, use of the Talisman (2000) approach will inflate the measure of the taxpayer's book-tax difference by the amount of the ICD adjustment.

We believe that, on balance and given the uncertainties associated with Schedule M-1 data, the Talisman (2000) approach for calculating book-tax differences is the appropriate approach when the goal is the assessment of aggregate compliance risk in the population.

▶ Summary and Conclusion

For most large corporations, the new Schedule M-3 book-tax reconciliation replaces the 4-decade-old Schedule M-1, effective December 2004. The goal of this paper has been: (1) to present Schedule M-1 data and other selected tax return data for the immediately preceding 14-year period, 1990-2003; and (2) to discuss tax policy data interpretation issues related to U.S. intercompany dividends (ICD) improperly included on corporate tax returns by some large taxpayers.

- The method of calculating book-tax differences in general use since Talisman (2000) inflates the reported book-tax gap for the 1990's for those corporations requiring the ICD adjustment that included the matching ICD amount in Schedule M-1, line 1.
- On the other hand, corporations that included the matching ICD amount within the body of Schedule M-1, say on line 4, minimized the total book-tax difference reported on Schedule M-1.
- The authors are aware that some large taxpayers in fact used Schedule M-1, line 1, and some used line 4 for the matching amount to balance the ICD amount improperly included on Form 1120, page 1.
- In light of the ICD interpretation uncertainties, the authors recommend the Talisman (2000) approach to measuring the book-tax gap of the 1990's for purposes of assessing compliance risk.
- Those issues will likely remain unresolved until Schedule M-3 data replace Schedule M-1 data.

▶ Acknowledgment

We thank Lillian Mills for her many conversations and suggestions as this paper developed. We also thank the participants in the October 5, 2005, OTA Brownbag Seminar, the October 28 SOI Advisory Panel, the November 4 University of North Texas Accounting Workshop, and the November 17 National Tax Association Annual Meeting Concurrent Session on Corporate Book-Tax Differences and Tax Avoidance. Further, we thank each of the following for detailed comments: David Brazell, Curtis Carlson, Geraldine Gerardi, Henry Louie, John McClelland, Susan Nelson, George Plesko, Linden Smith, and Bill Wilson. All errors are ours. Lastly, but not least, we thank Jonathan Mable for his PowerPoint presentation and Erin Sullivan for her assistance.

▶ Endnotes

* Published on December 19, 2005, in *Tax Notes*, pages 1579-1599. Reprinted with permission of Tax Analysts.

1 Our table values may not add and may differ from official Publication 16 *Statistics of Income (SOI), Corporation Income Tax Returns*. values due to rounding. The SOI corporate data file for year t includes all tax years ending between July of Calendar Year and June of Calendar Year t+1.

2 Corporations normally subject to the U.S. Federal income tax include U.S. corporations filing Form 1120 (no asset limitation) or Form 1120-A (assets of $500,000 or less), U.S. insurance companies filing Form 1120-L or Form 1120-PC, and foreign corporations with effectively connected U.S. income filing Form 1120-F. Corporations not normally subject to the U.S. Federal income tax include corporations filing Form 1120-S (Subchapter S corporations), Form 1120-REIT (Real Estate Investment Trusts), and Form 1120-RIC

(Regulated Investment Companies) that normally report their incomes proportionately to their owners for taxation imposed on the owners rather than the corporation.

3 See U.S. Department of the Treasury (1999) and Talisman (2000). See also Mills (1998) cited by Treasury (1999, page 32, note 118): "Mills finds evidence that the IRS is more likely to assert deficiencies on firms with large book-tax disparities, indicating that such disparities are correlated with aggressive tax planning."

4 See Mills and Plesko (2003) for the proposed redesign of Schedule M-1. For discussions of problems in interpreting Schedule M-1 book-tax reconciliation data and problems with the related Schedule L book balance sheet data, see Boynton, Dobbins, DeFilippes, and Cooper (2002), Mills, Newberry, and Trautman (2002), and Boynton, DeFilippes, Lisowsky, and Mills (2005). For discussions of the problems in reconciling financial accounting income and tax income, see McGill and Outslay (2002), Hanlon (2003), McGill and Outslay (2004), Plesko (2004), and Hanlon and Shevlin (2005).

5 For a discussion of the development of Schedule M-3, see Boynton and Mills (2004).

6 Schedule M-1 will continue to apply to domestic corporations with assets of $250 thousand to $10 million of total assets or of less than $250 thousand in total assets but total receipts of $250 thousand or more. Schedule M-1 will also continue to apply to foreign corporations filing Form 1120-F.

7 U.S. Department of the Treasury~~,~~ press release dated January 28, 2004, "Treasury and IRS Propose New Tax Form for Corporate Tax Returns."

"The new Schedule M-3 would expand the current Schedule M-1, which has not been updated in several decades.

"The proposed Schedule M-3 will make differences between financial accounting net income and taxable income more transparent. This will help agents determine from the return whether the return should be audited and identify the differences that matter most in the audit of the return. We see benefits to taxpayers and the IRS from the new ~~S~~schedule: a reduction in unnecessary audits and a swifter focus on those differences that are more likely to arise when taxpayers take aggressive positions or engage in aggressive transactions. In addition, the increased transparency will have a deterrent effect," stated Treasury Assistant Secretary for Tax Policy Pam Olson.

"The new Schedule will let the IRS sharpen and improve monitoring of corporate compliance," said IRS Commissioner Mark W. Everson. "Our objective is to identify and resolve potential audit issues promptly. This information will help us do so."

"These changes will enable us to focus our compliance resources on returns and issues that need to be examined and avoid those that do not," said Deborah M. Nolan, IRS Large and Mid-Size Business Division Commissioner. "Increasing the transparency of corporate tax returns is critical to our objectives to provide certainty to taxpayers sooner and to improve overall compliance."

8 Our table values may not add and may differ from official SOI Publication 16 values due to rounding.

9 Our table values may not add and may differ from official SOI Publication 16 values due to rounding.

10 Our Table 1 and SOI Publication 16 Table 12 include data from foreign corporations with effectively connected U.S. income required to file Form 1120-F. Our Tables 2-4 include only domestic corporations with $10 million or more in assets and exclude data from foreign corporations filing Form 1120-F. Corporations filing Form 1120-F are not subject to Schedule M-3 and will continue to complete Schedule M-1.

11 We calculate "M-1 Explains," the net book-tax difference reported on Schedule M-1, as (line 7

plus line 8 minus the sum of lines 3, 4, and 5). This is the amount that must be subtracted from pretax book income, the sum of lines 1 and 2, to obtain line 10, the reconciliation amount corresponding to unedited tax net income, that is, tax net income before any U.S. intercompany dividend adjustment. See below for a discussion of the ICD adjustment.

12 This is the normal result for one group of corporations, namely, life insurance companies. Form 1120-L does not have a Schedule M-1. Rather the companies attach a financial statement (Annual Statement) prepared according to statutory accounting principles prescribed by the National Association of Insurance Commissioners. The companies also attach a reconciliation of taxable income with the income in the Annual Statement. There is not a fixed form for the reconciliation. SOI creates a dummy Schedule M-1 for life insurance companies with only line 1 and line 2 amounts derived from the Annual Statement.

13 Corporations with total assets of less than $250 thousand and total receipts of less than $250 thousand are no longer required to complete Schedule M-1 starting with 2002.

14 We infer the 1990 amount of ˉM-1 Explains,--the net book-tax difference reported by the taxpayer on Schedule M-1, as {M-1 line 9 minus line 6 plus line 1 plus line 2} which equals {[line 7 + line 8] –[line 1 + line 2 + line 3 + line 4 +line 5] + [line 1 + line 2]} which equals {[line 7 + line 8] – [line 3 + line 4 + line 5]} which is our defined ˉM-1 Explains as stated in footnote 11. See below for a discussion of the ICD adjustment.

15 Our table values may not add and may differ from official SOI Publication 16 values due to rounding.

16 We calculate M-1 Explains, the net book-tax difference reported on Schedule M-1, as [line 7 plus line 8 minus the sum of lines 3, 4, and 5]. This is the amount that must be subtracted from pretax book income, the sum of lines 1 and 2, to obtain line 10, the reconciliation amount corresponding to unedited tax net income, that is, tax net income before any U.S. intercompany dividend adjustment.

17 In addition to the ICD adjustment, the difference between M-1 Explains and book-tax difference includes other taxpayer errors, but the amount of other errors is small compared to the ICD adjustment.

18 Tax net income on Form 1120, page 1, line 28 is also the reconciliation target for Schedule M-3. See above.

19 As discussed later, even an extensive search of Schedule M-1 documentation for evidence of the location of the matching ICD amount may prove inconclusive.

20 Starting in 1999, we calculate unedited Schedule M-1 line 10 as edited line 10 plus the ICD adjustment for all corporations with an ICD adjustment.

21 Our table values may not add and may differ from official SOI Publication 16 values due to rounding.

22 Our table values may not add and may differ from official SOI Publication 16 values due to rounding.

23 We note that IRS examiners have always been able to investigate the supporting documentation for the line item amounts on Schedule M-1 not on detail breakout lines on a single-firm basis. However, such Schedule M-1 amounts are not useful in return classification and issue identification because supporting details are not standardized and not available in machine-readable form. See below for a discussion of the difficulties of searching the supporting documentation for Schedule M-1.

24 There is a plausible explanation for a large multinational taxpayer having a modest, zero, or even negative book-tax difference reported on Schedule M-1 (modest, zero, or negative M-1 Explains in our terminology). If the taxpayer began the

Schedule M-1 with its U.S. domestic income from its financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP), then its taxable income would be higher due to foreign dividends and other payments from affiliates included in its tax net income, and these amounts would need to be reflected in Schedule M-1, presumably on line 4. If such a taxpayer also improperly included U.S. intercompany dividends (ICD) on Form 1120, page 1, and on Schedule M-1, line 4, any modest, zero, or slightly negative balance for M-1 Explains would probably become very negative. We would expect such a taxpayer to be consistent and to include the U.S. ICD on line 4 if that is where it included the foreign subsidiary dividends and other income. In that case, backing out the ICD from line 4 would only restore M-1 Explains to a modest, zero, or slightly negative balance. It would not cause the restated balance to exceed our Case 3 reference. If the taxpayer included on Schedule M-1, line 1, the sum of its GAAP domestic income and its foreign subsidiary dividends and other income and any improperly included ICD, the foreign subsidiary dividends and income would have no effect on either M-1 Explains or book-tax difference under the Talisman (2000) approach, but the improperly included ICD would inflate the book-tax difference under the Talisman (2000) approach.

25 Negative amount representing accrual reversals may be among the items included on Schedule M-1, line 4, or for that matter, on lines 5, 7, or 8, making simple tests of Schedule M-1 line amounts difficult.

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Exhibit I
Partial Detail of 2004 Form 1120 Page 1 and Schedule M-1

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2004 or tax year beginning .... , 2004, ending .... , 20 ....
▶ See separate instructions.

OMB No. 1545-0123

2004

A Check if:
1 Consolidated return (attach Form 851) . ☐
2 Personal holding co. (attach Sch. PH) . ☐
3 Personal service corp. (see instructions) . ☐
4 Schedule M-3 required (attach Sch. M-3) . ☐

Use IRS label. Otherwise, print or type.
Name
Number, street, and room or suite no. If a P.O. box, see page 9 of instructions.
City or town, state, and ZIP code

B Employer identification number
C Date incorporated
D Total assets (see page 8 of instructions)
$

E Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

Income

1a	Gross receipts or sales ______ b Less returns and allowances ______ c Bal ▶	1c	
2	Cost of goods sold (Schedule A, line 8)	2	
3	Gross profit. Subtract line 2 from line 1c	3	
4	Dividends (Schedule C, line 19)	4	
5	Interest	5	
6	Gross rents	6	
7	Gross royalties	7	
8	Capital gain net income (attach Schedule D (Form 1120))	8	
9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	9	
10	Other income (see page 11 of instructions—attach schedule)	10	
11	**Total income.** Add lines 3 through 10 ▶	11	

Deductions (See instructions for limitations on deductions.)

12	Compensation of officers (Schedule E, line 4)	12	
13	Salaries and wages (less employment credits)	13	
14	Repairs and maintenance	14	
15	Bad debts	15	
16	Rents	16	
17	Taxes and licenses	17	
18	Interest	18	
19	Charitable contributions (see page 14 of instructions for 10% limitation)	19	
20	Depreciation (attach Form 4562) — 20		
21	Less depreciation claimed on Schedule A and elsewhere on return — 21a	21b	
22	Depletion	22	
23	Advertising	23	
24	Pension, profit-sharing, etc., plans	24	
25	Employee benefit programs	25	
26	Other deductions (attach schedule)	26	
27	**Total deductions.** Add lines 12 through 26 ▶	27	
28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	28	
29	**Less:** a Net operating loss deduction (see page 16 of instructions) — 29a		
	b Special deductions (Schedule C, line 20) — 29b	29c	
30	**Taxable income.** Subtract line 29c from line 28 (see instructions if Schedule C, line 12, was completed)	30	
31	**Total tax** (Schedule J, line 11)	31	

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income per Return** (see page 24 of instructions)

1	Net income (loss) per books		7	Income recorded on books this year not included on this return (itemize): Tax-exempt interest $ ______	
2	Federal income tax per books				
3	Excess of capital losses over capital gains				
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	Travel and entertainment $ ______		9	Add lines 7 and 8	
6	Add lines 1 through 5		10	Income (page 1, line 28)—line 6 less line 9	

Exhibit II
Partial detail of 2004 Schedule M-3

SCHEDULE M-3 (Form 1120)

Department of the Treasury
Internal Revenue Service

Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More

▶ Attach to Form 1120.
▶ See separate instructions.

OMB No. 1545-0123

2004

Name of corporation (common parent, if consolidated return)

Employer identification number

Part I **Financial Information and Net Income (Loss) Reconciliation**

1a Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☐ **No.** Go to line 1b.

5a	Net income from nonincludible foreign entities (attach schedule)	5a	( )
b	Net loss from nonincludible foreign entities (attach schedule and enter as a positive amount)	5b	
6a	Net income from nonincludible U.S. entities (attach schedule)	6a	( )
b	Net loss from nonincludible U.S. entities (attach schedule and enter as a positive amount)	6b	
7a	Net income of other includible corporations (attach schedule)	7a	
b	Net loss of other includible corporations (attach schedule)	7b	( )
8	Adjustment to eliminations of transactions between includible corporations and nonincludible entities (attach schedule)	8	
9	Adjustment to reconcile income statement period to tax year (attach schedule)	9	
10	Other adjustments to reconcile to amount on line 11 (attach schedule)	10	
11	**Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10	11	

Part II **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return**

	Income (Loss) Items	(a) Income (Loss) per Income Statement (optional)	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return (optional)
1	Income (loss) from equity method foreign corporations				
2	Gross foreign dividends not previously taxed				
3	Subpart F, QEF, and similar income inclusions				
4	Section 78 gross-up				
5	Gross foreign distributions previously taxed				
6	Income (loss) from equity method U.S. corporations				
7	U.S. dividends not eliminated in tax consolidation				
26	Other income (loss) items with differences (attach schedule)				
27	**Total income (loss) items.** Combine lines 1 through 26				
28	**Total expense/deduction items** (from Part III, line 36)				
29	Other income (loss) and expense/deduction items with no differences				
30	**Reconciliation totals.** Combine lines 27 through 29				

Note. Line 30, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

▶ Appendix

There are 34 tables which accompany this article. They may be found on the IRS Web site at http://www.irs.gov/taxstats/productsandpubs/article/0,,id=141315,00.html. Select the report for "2005." The tables may also be found at http:// www.irs.gov/taxstats/ productsandpubs/article/0,,id=135621.html. Select the NTA Conference for "2005." The first four tables appeared with the paper presented at the National Tax Association November 17, 2005, and in the article published in *Tax Notes* December 19, 2005. The remaining 30 tables were developed by the authors as part of the study and are presented here for other researchers.

The authors of this paper request that the following citation be used if data from the 34 Appendix tables are used by other researchers:

> "Data are from the aggregate tables of SOI corporate file data prepared for the studies summarized in Boynton, DeFilippes, and Legel (2005, 2006) and are used with the permission of SOI, of the authors, and of Tax Analysts, publisher of *Tax Notes*. Table values may differ from official SOI Publication 16 values due to rounding."

Table 7 (Identified as Public), Table 9 (Book-Tax Difference of $10 Million or More Within 1995-1997), Table 13 (Manufacturing), Table 14 (Finance/Real-Estate/Holding-Companies), Table 15 (Transportation/Utilities/Information), and Table 28 (Assets of $2.5 Million or More) are discussed in Boynton, DeFilippes, and Legel (2006), "Distribution of Schedule M-1 Corporate Book-Tax Difference Data 1990-2003 for Three Large-Size and Three Large-Industry Subpopulations."

See Boynton, DeFilippes, and Legel (2005) for a discussion of Tables 1-4. Table 1 presents selected tax return and Schedule M-1 data for the population of all corporations (excluding S, RIC, and REIT). The population for Table 1 is the same as for SOI Publication 16, Table 12. Table 2 presents data for U.S. corporations (excluding F, S, RIC, and REIT) with assets of $10 million or more. Table 3 presents data for U.S. corporations (excluding F, S, RIC, and REIT) with assets of $10 million or more requiring an adjustment for intercompany dividends (ICD). Table 4 presents data for U.S. corporations (excluding F, S, RIC, and REIT) with assets of $10 million or more not requiring an ICD adjustment.

Tables 5 and 6 divide the population of all corporations (excluding S, RIC, and REIT) by the sign of Tax Net Income. The population for Table 5 is the same as for SOI Publication 16 Table 13.

Tables 7 and 8 for each year divide the population of all corporations (excluding S, RIC, and REIT) by "Identified as Public" or "Not Identified as Public." A corporation is "Identified as Public" if we identify the corporation as public for any year within the period 1982-2005. Our method classifies a firm as "Identified as Public" for every SOI year in which it is present regardless of whether it was in fact public that year. The COMPUSTAT database prepared by Standards and Poor (S&P) reports Employer Identification Numbers (EIN) reported by firms on their most recent SEC Form 10-K. The COMPUSTAT record covers financial statements for public firms for the most recent 20 years as of the monthly release of a COMPUSTAT database. Data including the most recently reported EIN is reported for a firm by COMPUSTAT in each database release to the extent that the firm had any publicly available financial statements during the 20-year period then ending. We pool the COMPUSTAT EIN data from one database release selected from each of five release years, 2001 through 2005. The first year of a 20-year record for the 2001 release is 1982. The last year for the 2005 release is 2005. If we were able to identify the EIN for a corporation on a SOI annual corporate file as belonging to our pool of COMPUSTAT EIN data, we classify the corporation "Identified as Public." COMPUSTAT has two files of companies, "active" and "research." Active companies are currently filing public financial statements (SEC Form 10-K). Research companies are not currently filing public financial statements but have done so in one or more prior years. The research companies may have either ceased to exist through bankruptcy, dissolution, or merger, or have gone private. Early years on the 20-year COMPUSTAT record may be missing for both active and research companies. We use both the active and research files in order to be as inclusive as possible. EIN data on COMPUSTAT may include errors. We cannot ascertain if the EIN errors are made by the corporation on the SEC Form 10-K or by COMPUSTAT in reporting the data. The following is the breakout of our EIN data for 2003 reflected in Table 7. The number of weighted returns we report in Table 7 for 2003 is 7,702 and corresponds to (3) below in the first column.

COMPUSTAT EIN Counts:

Five-Year Pool	2005 Release	Not 2005 Release	All unique EIN count
17,331	10,624	6,707	(1) Unique EIN count [unweighted count]
6,691	6,165	526	(2) Unique EIN count matched to 2003 SOI corporate file [unweighted count] (excluding S, RIC, and REIT)
7,702	7,004	698	(3) Unique EIN count matched to 2003 SOI corporate file [weighted count] (excluding S, RIC, and REIT)
5,550	5,550	0	(4) Unique EIN count matched to 2003 SOI corporate file and with a 2003 COMPUSTAT non-missing, non-zero financial statement [unweighted count] (excluding S, RIC, and REIT)

Tables 9 and 10 divide the population of all corporations (excluding S, RIC, and REIT) by “Book-Tax Difference of $10 Million or More Within 1995-1999” or “No Book-Tax Difference of $10 Million or More Within 1995-1999.” If we were able to identify a book-tax difference of $10 million or more within 1995-1999 for the corporation, we labeled the corporation “Book-Tax Difference of $10 Million or More Within 1995-1999.”

Tables 11 and 12 divide the population of all corporations (excluding S, RIC, and REIT) by “Stock Option Expense on Schedule M-1 Within 2002-2003” or “No Stock Option Expense on Schedule M-1 Within 2002-2003.” Stock option expense is tabulated on Schedule M-1 only for 2002 and 2003. If we were able to identify stock option expense on Schedule M-1 within 2002-2003 for the corporation, we labeled the corporation “Stock Option Expense on Schedule M-1 Within 2002-2003.”

Tables 13 through 20 divide the population of all corporations (excluding S, RIC, and REIT) by SOI major industry code. For 1990-1997, the population for each of Tables 13-20 is the same as for one of the major industry total columns in SOI Publication 16, Table 12. For 1998-2003 we have combined the revised industry codes to approximate the 1990-1997 divisions. For 1998-2003, the population for each of Tables 13-20 is the same as for one of the major industry total columns in SOI Publication 16, Table 12, or is the sum of two or more columns. We indicate the SOI major industry codes involved for each period in the table heading.

Tables 21 through 28 divide the population of all corporations (excluding S, RIC, and REIT) by reported asset size for the given year.

Tables 29 and 30 divide the population of Table 28, U.S. corporations (excluding F, S, RIC, and REIT) with assets of $2.5 billion or more by whether the corporation required an ICD adjustment for the given year. This division is similar to the ICD division of Table 2, U.S. corporations (excluding F, S, RIC, and REIT) with assets of $10 million or more by ICD in Tables 3 and 4.

Table 31 is the sum of Tables 26 through 28.

Tables 32 through 34 are the component SOI major industries for 1998-2003 that comprise Table 15.

▶ References

Boynton, Charles; DeFilippes, Portia; and Legel, Ellen. “Distribution of Schedule M-1 Corporate Book-Tax Difference Data 1990-2003, for Three Large-Size and Three Large-Industry Subpopulations,” Tax Notes 111, No. 2 (April 10, 2006), pages 177-212.

Boynton, Charles; DeFilippes, Portia; and Legel, Ellen. “Prelude to Schedule M-3: Schedule M-1 Corporate Book-Tax Difference Data, 1990-2003.” Tax Notes 109, No. 12 (December 19, 2005), pages 1579-1599.