



Changes to Schedule M-3 Filing Requirement for Corporations and Partnerships for 2014

On its website, IRS has announced that corporations and partnerships with assets between \$10 million and \$50 million will be allowed to file Schedule M-1 in place of the Schedule M-3, Parts II and III, effective for tax years ending on Dec. 31, 2014 and later. These changes to the Schedule M-3 filing requirement will affect corporate returns Forms 1120, 1120-C, 1120-F, and 1120S, and partnership returns Forms 1065 and 1065-B. No changes are planned to the Schedule M-3 requirements for Forms 1120-L or 1120-PC, or for Form 1120 taxpayers filing as a mixed group.

Background on corporations' Schedule M-3. Corporations that report total assets of \$10 million or more on Schedule L (Balance Sheets per Books) of Form 1120 must complete and file Schedule M-3 (Net Income (Loss) Reconciliation for Corporations With Total Assets of \$10 Million or More) instead of Schedule M-1 (Reconciliation of Income (Loss) per Books with Income per Return). Schedule M-3 provides substantially more detail than Schedule M-1 in reconciling book income or loss with taxable income or loss for corporations with assets of at least \$10 million.

The following corporations had to file Schedule M-3 for 2012:

- ... any domestic corporation or group of corporations required to file Form 1120 (U.S. Corporation Income Tax Return) that reported on Form 1120, Schedule L total assets at the end of the corporation's tax year that equaled or exceeded \$10 million;
- ... a corporation filing a non-consolidated Form 1120 that reported on Schedule L total assets that equaled or exceeded \$10 million; and
- ... any U.S. consolidated tax group consisting of a U.S. parent corporation and additional includible corporations listed on Form 851 (Affiliations Schedule) required to file Form 1120 that reported on Schedule L total consolidated assets at the end of the tax year that equaled or exceeded \$10 million.

A U.S. corporation filing Form 1120 that wasn't required to file Schedule M-3 could voluntarily file Schedule M-3 instead of Schedule M-1.

Background on partnerships' Schedule M-3. Any entity that files Form 1065 (U.S. Return of Partnership Income) or Form 1065-B (U.S. Return of Income for Electing Large Partnerships) had to file Schedule M-3 (Net Income (Loss) Reconciliation for Certain Partnerships) instead of Schedule M-1 (Reconciliation of Income Return) for 2012 if:

- ... the amount of total assets at the end of the tax year reported on Schedule L (line 14, column (d)) was equal to \$10 million or more;
- ... the amount of adjusted total assets for the tax year was equal to \$10 million or more;
- ... the amount of total receipts for the tax year was equal to \$35 million or more; or
- ... an entity that was a reportable entity partner with respect to the partnership owned or was deemed to own, directly or indirectly, an interest of 50% or more in the partnership's capital, profit, or loss, on any

day during the tax year of the partnership.

A U.S. partnership filing Form 1065 or Form 1065-B that wasn't required to file Schedule M-3 could voluntarily file Schedule M-3 in place of Schedule M-1.

New filing requirements for 2014. To reduce filing burden and to simplify reporting, effective for tax years ending Dec. 31, 2014 and later, corporations and partnerships with at least \$10 million but less than \$50 million in total assets at tax year end will be permitted to file Schedule M-1 in place of Schedule M-3, Parts II and III. Schedule M-3, Part I (lines 1-12) will continue to be required for these taxpayers. (See <http://www.irs.gov/Businesses/Corporations/>, and click on "Schedule M-3 for Large Business & International (LB&I)")

Taxpayers electing to file Schedule M-1 must report book income on Schedule M-1 (line 1) equal to the book income amount reported on Schedule M-3, Part I (line 11).

Corporations and partnerships filing Forms 1120, 1120-C, 1120-F, 1120S, 1065 and 1065B with \$10 million to \$50 million in total assets will not be required to file Form 1120 Schedule B, Form 1065 Schedule C or Form 8916-A (Supplemental Attachment to Schedule M-3).

Partnerships with less than \$10 million in total assets currently required to file Schedule M-3 (i.e., adjusted total assets of \$10 million or more, total receipts for \$35 million or more, or a reportable entity partner also required to file Schedule M-3) will continue to file Schedule M-3, Part I and may elect to file Schedule M-1 in place of Schedule M-3, Parts II and III. Partnerships with less than \$10 million in assets will not be required to file Form 1065 Schedule C or Form 8916-A.

Voluntary filers. Corporations and partnerships with less than \$10 million in total assets not otherwise required to file Schedule M-3 are currently permitted to voluntarily file Schedule M-3. Such taxpayers may continue to voluntarily file Schedule M-3 and may elect to file Schedule M-3 Parts I, II, and III or to file Schedule M-3 Part I and to file Schedule M-1 in place of Schedule M-3 Parts II and III. Such corporations and partnerships will not be required to file Form 1120 Schedule B, Form 1065 Schedule C, or Form 8916-A.

Under review. IRS's Large Business & International (LB&I) division noted that it continues to consider changes to Schedule M-3 and to the requirements for the book-to-tax reconciliation for corporations with \$10 million to \$50 million in total assets filing Form 1120-L, 1120-PC, or filing as a mixed group including the requirement that mixed groups sub-consolidate and file Form 8916 (Reconciliation of Schedule M-3 Taxable Income with Tax Return Taxable Income for Mixed Groups).

References: For corporations required to file Schedule M-3, see [FTC 2d/FIN ¶ S-1902.1](#); [United States Tax Reporter ¶ 60,114.02](#); [TaxDesk ¶ 609,801](#); [TG ¶ 5908](#).