

ProSystem *fx*[®] Tax



Schedule M-3
Examples










Icon Legend		Keys	Quick reference to the key aspects of a particular function
		Tip	Best practice tips and shortcuts
		Notes	Informational notes about functions
		Write	Steps or information to write down
		Caution	Important Warnings about a function

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Example #1 – Tax Journal Entries to Complete Parts II and III

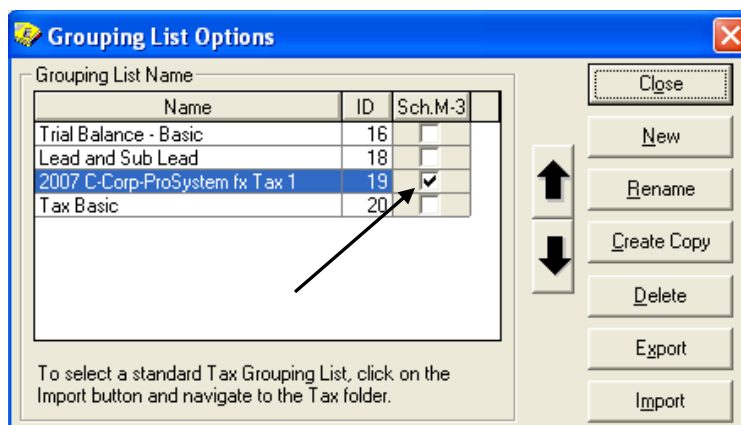
If you use CorpSystem Workpaper Manager, ProSystem fx Engagement, ProSystem fx Trial Balance, ProSystem fx Write-Up, or G/L Direct you can import Trial Balance Data directly into ProSystem fx Tax with book-to-tax differences created to flow to Schedule M-3. The following examples are from CorpSystem Workpaper Manager, and each program uses the same approach.

Writing tax journal entries with a “T” for Temporary or “P” for Permanent appear to be a one-sided entry in G/L Direct, ProSystem fx Trial Balance, ProSystem fx Write-Up, ProSystem fx Engagement and CorpSystem Workpaper Manager. However, using these codes result in a two-sided entry on the tax return. In the examples that follow, the Debit/Credit to the Tax Line or Account adjusts the imported balance and the “T” or “P” represents the offsetting entry.

If you debit an income account in the journal entry, the debit decreases the imported balance. The journal entry credit reports the Permanent or Temporary difference increasing the book amount for that line on Schedule M-3 Part II.

If you credit an income account in the journal entry, the credit increases the imported balance. The journal entry debit reports the Permanent or Temporary difference decreasing the book amount for that line on Schedule M-3, Part II.

Open the Trial Balance database in Workpaper Manager and select **Workpaper Manager/Account Groupings**. Click the **Options** button in the upper left hand corner for the Grouping List Options, and check the *Sch. M-3* box for your clients Tax Group.



Grouping List Options





Other Income Journal Entry

This example adjusts the book amount with a temporary difference for an Other Income account. On the journal entry detail line, set the Schedule M-3 code value to "T" for "Temporary". We suggest, as a best practice, posting an offsetting entry to an account grouped to Schedule M-1 to balance your Tax Working Trial Balance. If you are required to file Schedule M-3, the program will not print Schedule M-1 unless you check the option to print regardless of applicability. If you are not required to file Schedule M-3, the program will not use the entry in the Temporary column for the Other Income line.

This Corporation sells its left over scrap for a profit and has a Temporary book-to-tax difference this year.

- Book amount for Scrap Income is \$325,875
- Tax amount for Scrap Income is \$315,875
- The \$10,000 difference is Temporary

Journal Entry Detail

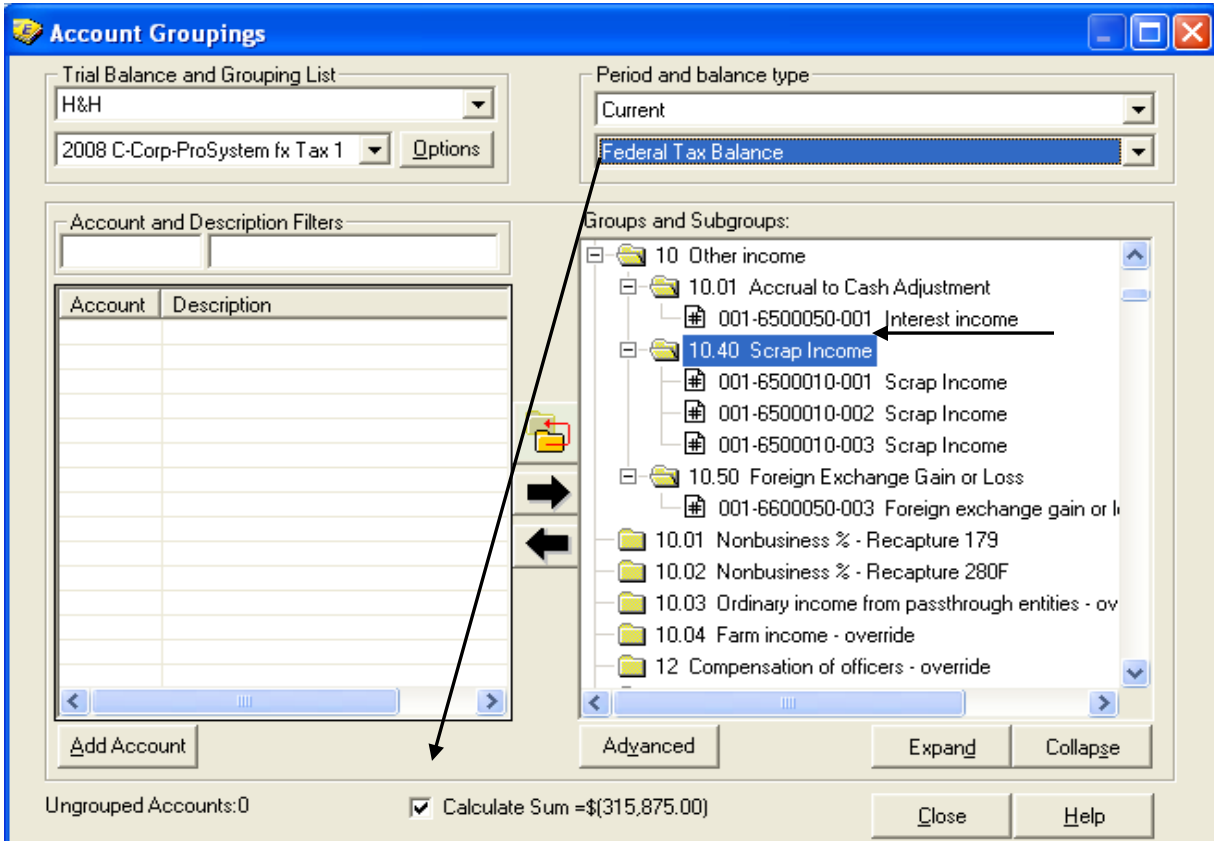


Select *Recurring journal entry* to save time next year.

The debit of \$10,000 reduces the imported amount to Tax and the "T" in the M-3 field results in a \$10,000 Temporary difference reported on Schedule M-3 to report the correct Book amount in column A of Schedule M-3 Part II.

We will discuss the credit to account M107.10 in the section on Book-to-Tax Workpapers.

Group the account in the Tax Journal entry to a sub-group of *Tax Group 10, Other Income* and named Scrap Income. The sub-group imports into its own line in Other Income in the tax return and will print on Form 1120, line 10.



Account Groupings

The book amount for Scrap Income was \$325,875 with a temporary difference of \$10,000, and Tax Amount of \$315,875. The Dynalink process imports Other Income to Income Deductions > Business > Other Income (Interview Form A-1).

Other Income

14

Select Import Export 1 of 6 Add Delete Insert

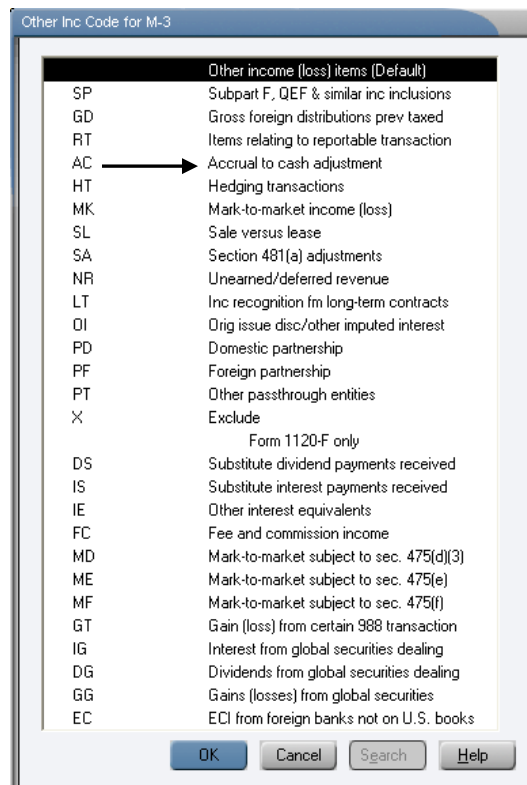
Description	Patron- age !/ Other ^	Total Amount	Temporary Diff ^^	Permanent Diff ^^	Book (See Help) ^^	M-3 Type ^^	Prior Year
ACCRUAL TO CASH ADJU		50,000				AC	
SCRAP INCOME		315,875	-10,000	0	325,875		
FOREIGN EXCHANGE GAI		-12,500					
	0	353,375	-10,000	0	325,875		0

Income Deductions > Business > Other Income



Be sure to identify each imported item with an M-3 code in the *Type* column if it has its own line on Schedule M-3; notice the M-3 *Type* code “AC” for the *Accrual to Cash ADJ*. However, we have not given Scrap Income an M-3 Type code since it belongs in Other Income Items with Differences on Schedule M-3 Part II, Line 25.

If you do not enter an M-3 code in the *Type* field, the program defaults to “Other income (loss) items.” The sale of Scrap for this business does not have a separate line on Schedule M-3 Part II, as does “Accrual to cash adjustment.”




Other Income Code for M-3

Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return (see instructions)				
Income (Loss) Items (Attach schedules for lines 1 through 8)	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
25 Other income (loss) items with differences (attach sch)	325,875.	-10,000.		315,875.
26 Total income (loss) items. Combine lines 1 through 25	-452,782.15.	-129,888.		-454,081.03.
27 Total expense/deduction items (from Part III, line 36)	-120,827.97.	20,000.	3,222,000.	-8,840,797.
28 Other items with no differences	63,345,479.			63,345,479.
29a Mixed groups, see instructions. All others, combine lines 26 through 28	5,984,467.	-109,888.	3,222,000.	9,096,579.
b PC insurance subgroup reconciliation totals				
c Life insurance subgroup reconciliation totals				
30 Reconciliation totals. Combine lines 29a through 29c	5,984,467.	-109,888.	3,222,000.	9,096,579.

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.

JWA Schedule M-3 (Form 1120) 2008

Schedule M-3, Part II, Line 25

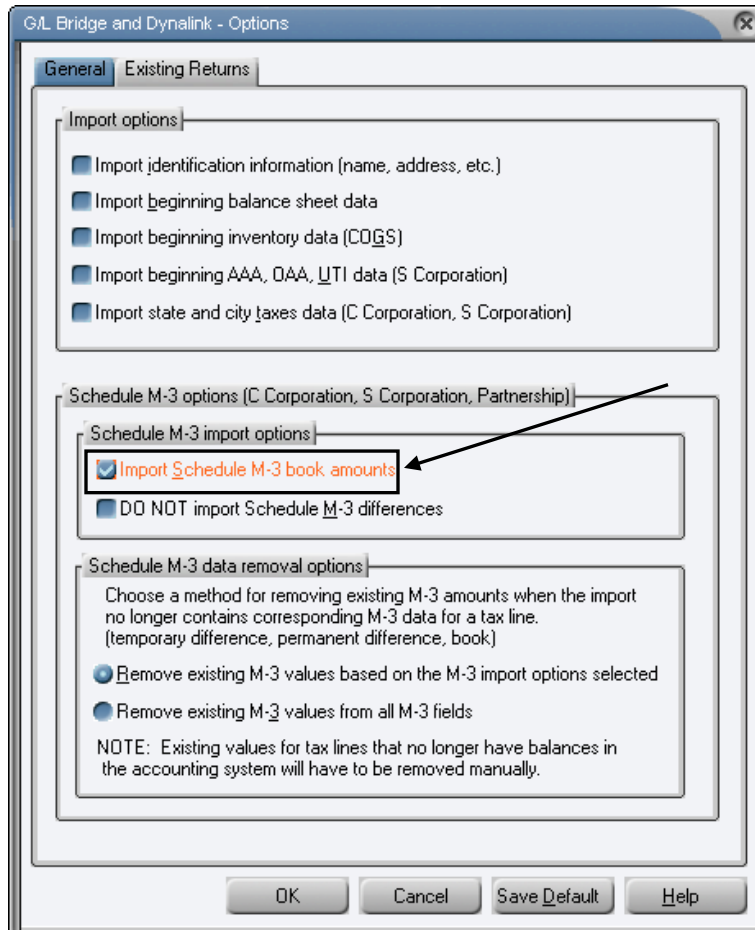
Click the **Statement** button  on the toolbar while on the Schedule M-3 to view your supporting statements.

SCHEDULE M-3	OTHER INCOME (LOSS) ITEMS WITH DIFFERENCES			STATEMENT	1
DESCRIPTION					
	INCOME (LOSS) PER INCOME STATEMENT	TEMPORARY DIFFERENCE	PERMANENT DIFFERENCE	INCOME (LOSS) PER TAX RETURN	
SCRAP INCOME	325,875.	-10,000.	0.	315,875.	
TOTAL TO M-3, PART II, LINE 25	325,875.	-10,000.	0.	315,875.	

Schedule M-3 Statement Detail



If you want to see the book amount as well as the Temporary/Permanent difference reflected on the Worksheet, go to the Import Options in Dynalink and check the box to *Import Schedule M-3 book amounts*. This process is not necessary, but you may find it helpful as you review the amounts imported into the tax program.



G/L Bridge and Dynalink Import Options

Book-to-Tax Workpapers – Suggested Best Practice

Enter the offset to an M-1 Tax Grouping.



- The offset entry keeps your Trial Balance Reports in balance
- Use the Tax Group as a TB Link for your clients Book-to-Tax Reconciliation workpaper(s)



The Drill Down TB Link from the M-1 Tax Group; M107.

The screenshot shows a spreadsheet titled "H & H UC Manufacturing Book-to-Tax Reconciliation December 31, 2008". The spreadsheet has columns for WP Ref and 2008. A dialog box titled "TB Link Drill Down" is open, showing a table of TB Links. The formula bar at the top of the spreadsheet shows `=ROUND(TBLink("H&H","FTAX[9]","M107","19","1"),0)`. The dialog box contains the same formula and a table with columns: TB Name, Account, Description, Balance Type, and Amount. The table lists three items: H&H M107.05 LT Contract Book FTAX -100,000.00; H&H M107.10 Scrap Income Boc FTAX -10,000.00; and H&H M107.15 Hedging Transact FTAX -5,000.00. A total row shows -115,000.00. Arrows point from the dialog box to the corresponding values in the spreadsheet.

WP Ref	2008
8200.03	5,984,467
8200.03	485,112
	(600,000)
	375,000
	368,000
	2,854,000
8200.02	(115,000)
8200.02	120,000
	3,487,112
	9,471,579
	375,000
	\$ 9,096,579

Book-to-Tax Reconciliation Workpaper

Reconcile your Book-to-Tax Reconciliation workpaper to Schedule M-3, Part II.

Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return (see instructions)				
Income (Loss) Items (Attach schedules for lines 1 through 11)	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
25 Other income (loss) items with differences (attach sch)	325,875.	-10,000.		315,875.
26 Total income (loss) items. Combine lines 1 through 25	-45278215.	-129,888.		-45408103.
27 Total expense/deduction items (from Part III, line 36)	-12082797.	20,000.	3,222,000.	-8,840,797.
28 Other items with no differences	63,345,479.			63,345,479.
29a Mixed groups, see instructions. All others, combine lines 26 through 28	5,984,467.	-109,888.	3,222,000.	9,096,579.
b PC insurance subgroup reconciliation totals				
c Life insurance subgroup reconciliation totals				
30 Reconciliation totals. Combine lines 29a through 29c	5,984,467.	-109,888.	3,222,000.	9,096,579.

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.

JWA

Schedule M-3 (Form 1120) 2008

Schedule M-3, Part II, Line 30

Pension and Profit-Sharing Journal Entry

This example adjusts the book amount with a book-to-tax temporary difference for Pension and Profit-Sharing expense. On the journal entry detail line, set the Schedule M-3 code value to "T" for "Temporary." To have your Tax Trial Balance remain in balance make the offsetting entry to an account grouped to Schedule M-1. As discussed previously, if you are required to file Schedule M-3, the program will not print Schedule M-1 unless you request to print regardless of applicability. If you are not required to file Schedule M-3, the program will not use the entry in the Temporary column for the Other Income line.

- Book Amount for Pension and Profit- Sharing is \$152,000
- Tax amount for Pension and Profit- Sharing is \$147,000
- The \$5,000 difference is Temporary

Journal Entry Detail

Trial Balance: H&H

Account and description filters:

#	Description
001-6500050-003	Interest income
001-6600010-001	Interest expense
001-6600010-002	Interest expense
001-6600010-003	Interest expense
001-6600050-003	Foreign exchange gain or loss
001-6600060-001	Pension expense
001-6700010-001	Provision for Federal income taxes
001-6700010-002	Provision for Federal income taxes
001-6700010-003	Provision for Federal income taxes
001-6700015-001	Provision for state income taxes
001-6700015-002	Provision for state income taxes
001-6700015-003	Provision for state income taxes

Journal entry info:

Type: Federal Tax Journal Entries

JE #: 0001

Description: Pension and Profit Sharing Book to Tax Difference

W/P Reference: 8200.03

#	Description	Debit	Credit	M-3
M105.05	Pension & Profit Sharing Book	5,000.00	0.00	N/A
001-6600060-001	Pension expense	0.00	5,000.00	T

Total: 5,000.00 5,000.00

Difference:

Do not include in roll forward

Recurring journal entry

Clear amounts

Reversing journal entry

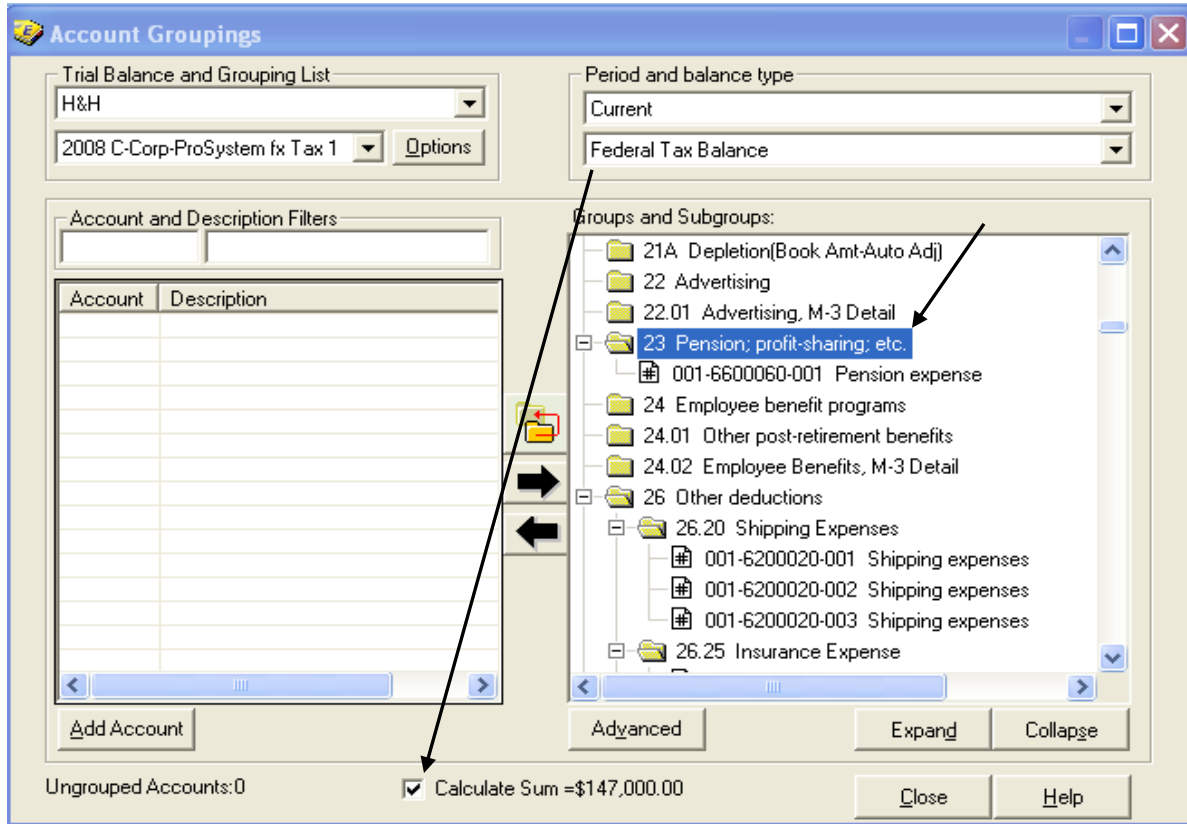
Buttons: Remove JE Line, Save and New, Save and Close, Cancel, Help

Journal Entry Detail



Select *Recurring journal entry* to save time next year.

The credit of \$5,000 to the Pension Expense account reduces the imported amount to Tax and the "T" in the M-3 field results in a \$5,000 Temporary difference reported on Schedule M-3 to report the correct Book amount in column A of Schedule M-3 Part III.



Account Groupings

The book amount for Pension and Profit Sharing was \$125,000 with a temporary difference of \$5,000, and Tax Amount of \$120,000. The Dynalink process imports Pension and Profit Sharing to Income Deductions > Business > Deductions (Interview Form A-3, Boxes 171 through 174).

5 - Deductions

** Schedule M-3 (1120 / F / PC / L) Only ^ Other Permanent Differences (1120-F Only)

	Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **	M-3 Code **	Prior Year
12 Advertising						
13 Pension and profit sharing plans	147,000	-5,000	0	152,000		120,000
14 Employee benefit programs						
15 Other post-retirement benefits						

Income Deductions > Business > Deductions



Part III Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return - Expense/Deduction Items				
Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
16 Pension and profit-sharing	152,000.	-5,000.		147,000.
17 Other post-retirement benefits				

Schedule M-3, Part III, Line 16

Example #2 – Entering Book or Temporary/Permanent Amounts

Enter Book or Temporary/Permanent amounts along with the related tax amounts to complete Parts II and III using the Income/Deductions > Business, Interest, Dividends, Gains and Losses, or Passthrough Items worksheets (Interview Form Series A, B, D, and O). All entries in these data entry areas flow to Schedule M-3 automatically regardless if there is a book-to-tax difference.

This Corporation has a book-to-tax difference on their Gross Receipts.

- The book amount for Gross Receipts is \$77,000,000
- The tax amount for Gross Receipts is \$75,095,558

We suggest this data entry method as a best practice if you are **not** preparing journal entries through one of CCH’s trial balance programs.

1 - Income

* N/A 1120-RIC # N/A 1120-FSC / PC / L / POL / DISC / H @ N/A 1120-REIT ** Schedule M-3 (1120 / F / ! 1120-C Only ^ Other Permanent Differences (1120-F Only)

	Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **	M-3 Code **
1 Gross receipts or gross sales * # @	75,095,558			77000000	
2 Less returns and allowances * # @					
3 Gross profit - override * # @					
4 Dividends - override					
5 Interest on U.S. obligations - override					
6 Other interest - override					
7 Gross rents - override @					
8 Gross royalties - override					
9 Capital gain net income - override *					
10 Form 4797 gain (loss) - override					
11 Farm income - override					
12 Ordinary income from passthrough entities - override					

Other Inc Code for M-3

SP	Other income (loss) items (Default)
GD	Subpart F, QEF & similar inc inclusions
RT	Gross foreign distributions prev taxed
AC	Items relating to reportable transaction
HT	Accrual to cash adjustment
HT	Hedging transactions
MK	Mark-to-market income (loss)
SL	Sale versus lease
SA	Section 481(a) adjustments
NR	Unearned/deferred revenue
LT	Inc recognition fm long-term contracts
OI	Orig issue disc/other imputed interest
PD	Domestic partnership
PF	Foreign partnership
PT	Other passthrough entities
X	Exclude

Income/Deductions > Business > Income





M-3 Code

Leave the *M-3 Code* field blank if all of the Gross Receipts appear on Schedule M-3 Part II as Other income (loss) items. If you need to split the amount into different lines on Schedule M-3, Part II, enter the multiple lines at Income/Deductions > Business > Income > Schedule M-3 Detail (Interview Form A-1, Boxes 180 through 187).

SCHEDULE M-3		OTHER INCOME (LOSS) ITEMS WITH DIFFERENCES			STATEMENT	1
DESCRIPTION						
	INCOME (LOSS) PER INCOME STATEMENT	TEMPORARY DIFFERENCE	PERMANENT DIFFERENCE		INCOME (LOSS) PER TAX RETURN	
NET RECEIPTS OR SALES	77,000,000.	-1,904,442.	0.		75,095,558.	
SCRAP INCOME	325,875.	-10,000.	0.		315,875.	
TOTAL TO M-3, PART II, LINE 25	77,325,875.	-1,914,442.	0.		75,411,433.	

Schedule M-3 Statement Detail



The program automatically considers the difference between book and tax entries as a temporary or permanent difference, based on the income/deduction line.

The entry above of \$77,000,000 for *Book, Gross Receipts* calculates a temporary difference of \$1,904,442 on Schedule M-3, Part II, line 25. Be sure to review each Book amount entered. If you disagree with the amount, force the book-to-tax difference as permanent or temporary.

The program treats Book Interest Income different from Tax Interest Income as tax exempt. When entering a Tax amount that differs from the Book amount for Interest Income, the program takes the difference to the Schedule M-3 as a permanent difference.

The program uses your entries in the *Temporary/Permanent Difference* fields to calculate the book amounts only if you do not enter amounts in the *Book* fields. If you make entries in both the *Book* and *Permanent/Temporary* fields, the program always uses the Book amount on Schedule M-3, and then adjusts the *Permanent* or *Temporary* fields according to your other entries for that line.





Example #3 – Schedule M-3 Detail

Income item to Multiple Schedule M-3 Lines

When an Income item needs to be broken out into different lines on Schedule M-3; enter the detail entries for Income with the applicable *Return Type* and *M-3 Code* at Income/Deductions > Business > Income > Schedule M-3 Detail (Interview Form A-1, Boxes 180 through 187).

Income Example:

- Taxpayer has \$75,095,558 gross receipts less \$3,955,163 Returns and allowances but is required to report the amount of Long-Term Contracts and Hedging Transactions on their respective lines on Schedule M-3
- Long-Term Contracts for tax equals \$1,000,000 and \$1,100,000 per Income Statement; reported on Line 21 of Schedule M-3, Part II
- Hedging Transactions for tax equals \$140,395 and \$145,395; per Income Statement; reported on Line 15 of Schedule M-3, Part II

Return Type

The result is \$73,955,163 ($75,095,558 - 1,000,000 - 140,395$) as Gross Receipts with a *Return Type* of “GRS,” as is the \$1,000,000 of Long Term Contracts, and the \$140,395 Hedging Transaction. Returns & Allowances of \$3,955,163 has a *Return Type* of “RTN.”



You can link the Schedule M-3 Detail input through grouping your client’s accounts to Tax Groupings in CorpSystem Workpaper Manager, ProSystem fx Engagement, ProSystem fx Trial Balance, ProSystem fx Write-Up, and G/L Direct.

M-3 Type

Leave the *M-3 Type* “blank” for Gross Receipts and Returns and Allowances to appear on Schedule M-3, Part II, line 28 if there are no differences or on Schedule M-3, Part II, line 25 if there are book-to-tax differences. For Long Term Contracts to appear on Schedule M-3, Part II, line 21; enter code “LT” for the *M-3 Type*. For Hedging Transactions to appear on Schedule M-3, Part II, line 15, enter code “HT” for the *M-3 Type*.



You can designate the M-3 Type for applicable Tax Groupings in CorpSystem Workpaper Manager, ProSystem fx Engagement (Version 5.0 or higher), ProSystem fx Write-Up, and G/L Direct.





Groups						Subgroups					
Index	Description	AccClass	RatioClass	M3 Opt		Index	Description	AccClass	RatioClass	M3 Opt	Send to Tax
01A	Gross receipts or gross sales					01A.05	Sales				Yes
01A.01	Gross Receipts/Sales, M-3 Detail					01A.10	LT Contract			LT	Yes
01B	Less returns and allowances					01A.15	Hedging Transaction			HT	Yes

Engagement > Account Groupings > Advanced

The tax grouping 01A.01 Gross Receipts/Sales M-3 Detail, and the related Subgroups with the M-3 Option will import the detail at Income/Deductions > Business > Income > Schedule M-3 Detail.

Description	Return Type	Other Perm Diff ^	Amount	Temporary Diff **	Permanent Diff **	Book (See Help) **	M-3 Type **	Prior Year
SALES	GRS		73,955,163					
LT CONTRACT	GRS		1,000,000	-100,000		01,100,000	LT	
HEDGING TRANSAC	GRS		140,395	-5,000		0 145,395	HT	
RETURNS & ALLOW	RTN		3,955,163					
			079,050,721	-105,000		01,245,395		0

Income/Deductions > Business > Income > Schedule M-3 Detail

The *Return Type* will complete Forms 1120, 1120S and 1065, and the data will pro forma to the next year.

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2008 or tax year		OMB No. 1545-0023 2008
	beginning _____, ending _____		
A Checkoff: 1 <input type="checkbox"/> Consolidated return (attach Form 851) 2 <input type="checkbox"/> Life nonlife consolidated return 3 <input type="checkbox"/> Personal holding co. (attach Sch. PH) 4 <input checked="" type="checkbox"/> Schedule M-3 attached	Use IRS label. Otherwise, print or type. Name H & H UC MANUFACTURING Number, street, and room or suite no. If a P.O. box, see instructions. 1234 H & H LANE City or town, state, and ZIP code ANYWHERE AZ 87010	B Employer identification number 74-4444444 C Date incorporated D Total assets (see instructions) \$ 27,825,517.	E Checkoff: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change
1a Gross receipts or sales: 75,095,558.	b Less returns and allowances: 3,955,163.	c Bal: 71,140,395.	1c

Form 1120 lines 1a, 1b, and 1c



Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return (see instructions)				
Income (Loss) Items (Attach schedules for lines 1 through 8)	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
13 Interest income (attach Form 9916-A)	150,000.			150,000.
14 Total accrual to cash adjustment	50,000.			50,000.
15 Hedging transactions	145,395.	-5,000.		140,395.
16 Mark-to-market income (loss)				
17 Cost of goods sold (attach Form 9916-A)	(47,074,485.)	-14,888.		(47,089,373.)
18 Sale versus lease (for sellers and/or lessors)				
19 Section 481(a) adjustments				
20 Unearned/deferred revenue				
21 Income recognition from long-term contracts	1,100,000.	-100,000.		1,000,000.
22 Original issue discount and other imputed interest				
23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities	25,000.	-25,000.		
b Gross capital gains from Schedule D, excluding amounts from pass-through entities				
c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
e Abandonment losses				
f Worthless stock losses (attach details)				
g Other gain/loss on disposition of assets other than inventory		25,000.		25,000.
24 Capital loss limitation and carryforward used				
25 Other income (loss) items with differences (attach)	325,875.	-10,000.		315,875.
26 Total income (loss) items. Combine lines 1 through 25	-45278215.	-129,888.		-45408103.
27 Total expense/deduction items (from Part III, line 36)	-12082797.	20,000.	3,222,000.	-8,840,797.
28 Other items with no differences	63,345,479.			63,345,479.
29a Mixed groups, see instructions. All others, combine lines 26 through 28	5,984,467.	-109,888.	3,222,000.	9,096,579.
b PC insurance subgroup reconciliation totals				
c Life insurance subgroup reconciliation totals				
30 Reconciliation totals. Combine lines 29a through 29c	5,984,467.	-109,888.	3,222,000.	9,096,579.

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.

JWA Schedule M-3 (Form 1120) 2008

Schedule M-3, Part II, lines 15, 21 and 28





Click the **View Statements**  button on the toolbar to reconcile Schedule M-3, Part II, line 28.

SCHEDULE M-3 OTHER INCOME (LOSS) ITEMS WITH NO DIFFERENCES		STATEMENT 2	
DESCRIPTION		INCOME (LOSS) PER INCOME STATEMENT	INCOME (LOSS) PER TAX RETURN
FOREIGN EXCHANGE GAIN OR LOSS		-12,500.	-12,500.
RETURNS & ALLOWANCES, M-3 DETAIL		-3955163.	-3955163.
SALES		73955163.	73955163.
TOTAL TO SCHEDULE M-3, PART II, LINE 28		69987500.	69987500.

SCHEDULE M-3 OTHER INCOME (LOSS) AND EXPENSE / DEDUCTION ITEMS WITH NO DIFFERENCES		STATEMENT 3	
DESCRIPTION		PER INCOME STATEMENT	PER TAX RETURN
OTHER INCOME (LOSS)		69987500.	69987500.
OTHER EXPENSE / DEDUCTION		-6642021.	-6642021.
TOTAL TO SCHEDULE M-3, PART II, LINE 28		63345479.	63345479.

Schedule M-3 Statement Detail



Your entries on the preprinted lines for Gross Receipts and Returns and Allowances override the entries in the Schedule M-3 Detail for lines 1a and 1b of Forms 1120, 1120S and 1065.

1 - Income

* N/A 1120-RIC # N/A 1120-FSC / PC / L / POL / DISC / H @ N/A 1120-REIT ** Schedule M-3 (1120 / F / PC / L) Only
! 1120-C Only ^ Other Permanent Differences (1120-F Only)

	Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **	M-3 Code **	Prior Year
1	Gross receipts or gross sales * # @					
2	Less returns and allowances * # @					

Income/Deductions > Business > Income



Deduction to Multiple Schedule M-3 Lines

When you need to split a Deduction into different lines on Schedule M-3; enter the detail entries with the applicable *Return Type* and *M-3 Code* at Income/Deductions > Business > Deductions > Schedule M-3 Detail (Interview Form A-4, Boxes 139 through 146). For example:

Deduction Example

- Taxpayer has \$6,592,759 of salaries and wages to report on line 13, page 1 of Form 1120, but is required to report it on multiple lines of Schedule M-3, Part III
- In this case \$500,000 is from Deferred Compensation for Tax and \$550,000 per Income Statement; to be reported on Line 18 of Schedule M-3, Part III
- The result is \$6,092,759 (6,592,759 – 500,000) for tax and the amount per Income Statement for Salaries and Wages is \$6,192,759; reported on Line 35 of Schedule M-3 Part III as Other expense/deduction items with differences

Enter the detailed deduction items at Income/Deductions > Business > Deductions > Schedule M-3 Detail (Interview Form A-4, Boxes 139 through 146).

Return Type

Enter the *Return Type* of “SAL” for both Salaries and Deferred Compensation.



You can link the Schedule M-3 Detail input through grouping your client’s accounts to Tax Groupings in CorpSystem Workpaper Manager, ProSystem fx Engagement, ProSystem fx Trial Balance, ProSystem fx Write-Up, and G/L Direct.

M-3 Type

Leave the *M-3 Type* “blank” for Salaries and Wages reported on Schedule M-3, Part II, Line 28 if there are no differences, or on Schedule M-3, Part III, line 35 if there are book-to-tax differences. Enter code “DC” for the *M-3 Type* for Deferred Compensation to appear on Schedule M-3, Part III, line 18.



You can designate the M-3 Type for applicable Tax Groupings in CorpSystem Workpaper Manager, ProSystem fx Engagement (Version 5.0 or higher), ProSystem fx Write-Up, and G/L Direct.

Group and Subgroup Classifications									
Groups					Subgroups				
Index	Description	AccClass	M3 Opt	Send to Tax	Index	Description	AccClass	M3 Opt	Send to Tax
13	Salaries and wages			Yes	13.05	Salaries and Wages			Yes
13.01	Employment credits wage reductor			Yes	13.10	Deferred Compensation		DC	Yes
13.02	Salaries & Wages, M-3 Detail			Yes	<new>	<description>			Yes

Engagement > Account Groupings > Advanced





The tax grouping 13.02 Salaries & Wages, M-3 Detail, and the related Subgroups with the M-3 Option will import the detail at Income/Deductions > Business > Deductions > Schedule M-3 Detail.

Schedule M-3 Detail									
Description	Return Type	Other Perm Diff	Amount	Temporary Diff ^{AA}	Permanent Diff ^{AA}	Book (See Help) ^{AA}	M-3 ^{AA}		Prior Year
							Type	Inter-est Code	
SALARIES AND	SAL		6,092,759	-100,000		06,192,759			
DEFERRED COMP	SAL		500,000	-5,000	0	505,000	DC		
INTEREST - LEINT			11,346					PUR	
INTEREST - OTINT			146,691	-10,000	0	156,691			
			06,750,796	-115,000		06,854,450			0

Income/Deductions > Business > Deductions > Schedule M-3 Detail

The Return Type of SAL will complete Forms 1120, 1120S and 1065, for Salaries and wages and the data will pro forma to the next year.

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2008 or tax year		OMB No. 1545-0022
beginning _____, ending _____	2008		
A Checkif: 1 <input type="checkbox"/> Consolidated return (attach Form 951) 2 <input type="checkbox"/> Life nonlife consolidated return 3 <input type="checkbox"/> Personal holding co. (attach Sch. PH)..... 4 <input type="checkbox"/> Personal service corp. (see instructions)..... 5 <input checked="" type="checkbox"/> Schedule M-3 attached	Use IRS label. Other-wise, print or type.	Name H & H UC MANUFACTURING Number, street, and room or suite no. If a P.O. box, see instructions. 1234 H & H LANE City or town, state, and ZIP code ANYWHERE AZ 87010	B Employer identification number 74-4444444 C Date incorporated D Total assets (see instructions) \$ 27,825,517.
E Checkif: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			
1 a Gross receipts or sales	75,095,558.	b Less returns and allowances	3,955,163.
1c	71,140,395.		
2 Cost of goods sold (Schedule A, line 8)		2	47,089,373.
3 Gross profit. Subtract line 2 from line 1c		3	24,051,022.
4 Dividends (Schedule C, line 19)		4	
5 Interest		5	150,000.
6 Gross rents		6	
7 Gross royalties		7	
8 Capital gain net income (attach Schedule D (Form 1120))		8	25,000.
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		9	
10 Other income (attach schedule)		10	353,375.
11 Total income. Add lines 3 through 10		11	24,579,397.
12 Compensation of officers (Schedule E, line 4)		12	
13 Salaries and wages (less employment credits)		13	6,592,759.

Form 1120, line 13

Part III Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return - Expense/Deduction Items				
Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
18 Deferred compensation	505,000.	-5,000.		500,000.
19 Charitable contribution of cash and tangible property	375,000.			375,000.
20 Charitable contribution of intangible property				
21 Charitable contribution limitation carryforward				
22 Domestic production activities deduction				
23 Current year acquisition or reorganization investment banking fees				
24 Current year acquisition or reorganization legal and accounting fees				
25 Current year acquisition or reorganization other costs				
26 Amortization/impairment of goodwill				
27 Amortization of acquisition, reorganization, and start-up costs				
28 Other amortization or impairment write-offs	100,000.			100,000.
29 Section 199 environmental remediation costs				
30 Depletion				
31 Depreciation	400,000.	100,000.		500,000.
32 Bad debt expense	350,000.			350,000.
33 Corporate owned life insurance premiums				
34 Purchase versus lease (for purchasers and/or lessees)				
35 Other expense/deduction items with differences (attach schedule)	6,192,759.	-100,000.		6,092,759.
36 Total expense/deduction items. Combine lines 1 through 35. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive	12,082,797.	-20,000.	-3,222,000.	8,840,797.

IWVA

Schedule M-3 (Form 1120) 2008

Schedule M-3, Part III, lines 18 and 35

Click the **View Statement** button on the toolbar to reconcile Schedule M-3, Part III, line 35.

SCHEDULE M-3 OTHER EXPENSE/DEDUCTION ITEMS WITH DIFFERENCES STATEMENT 1				
DESCRIPTION				
	EXPENSE/ DEDUCTION PER INCOME STATEMENT	TEMPORARY DIFFERENCE	PERMANENT DIFFERENCE	EXPENSE/ DEDUCTION PER TAX RETURN
SALARIES AND WAGES	6,192,759.	-100,000.	0.	6,092,759.
TOTAL TO M-3, PART III, LINE 35	6,192,759.	-100,000.	0.	6,092,759.

Schedule M-3 Statement Detail



Example #4 – Depreciation (Automatic Book-to-Tax Difference)

For Depreciation, Amortization, Depletion, Bad Debt expense, and State/City Taxes enter the Book amounts at Sch L/M > Book Amounts (Sch. M-1/M-3) (Interview Form L-3 for 1120 and 1120S; and Interview Form A-1 for 1065). Enter or import the Tax amounts and the program calculates the book-to-tax difference automatically on Schedule M-3.

	<u>Tax Amount</u>	<u>Tax Amount Output</u> Schedule M-3, Part III, Line 31 Column (d) Form 8916-A, Line 6, Column (d)	<u>Book Amount</u>	<u>Book Amount Output</u> Schedule M-3, Part III, Line 31, Column (a) Form 8916-A, Line 6, Column (a)
Other Depreciation	\$500,000		\$400,000	
COGS Depreciation	<u>100,000</u>		<u>85,112</u>	
Total Depreciation	<u>\$600,000</u>		<u>\$485,112</u>	

In the example above, total tax depreciation equals \$600,000, and total book depreciation equals \$485,112. Enter \$485,112 at Sch L/M > Book Amounts (Sch. M-1/M-3) > Depreciation (Interview Form L-3, Box 92 for Form 1120, and Form 1120S).



For Partnerships, enter the total Book Depreciation at Income/Deductions > Trade or Business > Book Amounts (Interview Form A-1, Box 182).

	<u>Amount</u>
1 Gain (loss) on disposition of assets	25,000
2 Amortization	100,000
3 Depreciation	485,112
4 Depletion (N/A 1120-RIC / REIT)	
5 Bad debt expense	350,000
6 State taxes	
7 City / local taxes	

Sch L/M > Book Amounts (Sch. M-1/M-3)

The tax depreciation for COGS equals \$100,000 and the book COGS depreciation equals \$85,112. You must enter the book depreciation of \$85,112 for COGS in the *Book* Column at Income/Deductions > Business > Cost of Goods Sold > Depreciation - override (Interview Form A-2, Box 113 for Forms 1120 and 1120S, Interview Form A-2, Box 101 for Form 1065).



3 - Cost of Goods Sold
 N/A 1120-RIC / REIT / PC / L / POL / H * Overrides Form 8916-A Detail (See Help) ** Schedule M
 ! 1120-C Only

	Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **
6 Additional Section 263A costs depreciation				
7 Depreciation - override				85,112

Sch L/M > Book Amounts (Sch. M-1/M-3)

Enter or import the tax depreciation for this client of \$100,000 in the Depreciation section of COGS, (Detail or Totals); or as an override these entries result in a Temporary Difference of \$14,888 on Form 8916-A, Line 2 I, column (b) (Interview Forms DP-1, DP-5, or A-2, as an override).

Form 8916-A		Supplemental Attachment to Schedule M-3		OMB No. 1545-2061
Department of the Treasury Internal Revenue Service		▶ Attach to Schedule M-3 for Form 1065, 1120, 1120-L, 1120-PC, or 1120S.		2008
Name of common parent H & H UC MANUFACTURING			Employer identification number 74-4444444	
Name of subsidiary			Employer identification number	

Part I Cost of Goods Sold				
Cost of Goods Sold Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 Amounts attributable to cost flow assumptions				
2 Amounts attributable to:				
a Stock option expense				
b Other equity based compensation				
c Meals and entertainment				
d Parachute payments				
e Compensation with section 162(m) limitation				
f Pension and profit sharing				
g Other post-retirement benefits				
h Deferred compensation				
i Section 198 environmental remediation costs				
j Amortization				
k Depletion				
l Depreciation	85,112.	14,888.		100,000.

Form 8916-A, line 2 I





For Other Tax Depreciation enter the tax depreciation at Income/Deductions >.Business > Other Depreciation and Amortization (Detail or Totals) or as an override at Income/Deductions > Business > Deductions > Depreciation override (Interview Form DP-1, DP-5, or A-3, override). In this example, enter Tax Depreciation as \$500,000.

The total Book Depreciation was \$485,112. Entering the Book Depreciation for COGS as \$85,112 the program subtracts that from the total Book Depreciation used for automatic adjustments; (\$485,112 – 85,112 = \$400,000) to arrive at the Book depreciation for Schedule M-3, Line 31, column (a). These entries results in a Temporary Difference of \$50,000 on Schedule M-3, line 31, column (b).

Part III Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return - Expense/Deduction Items <small>(see instructions)</small>				
Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
31 Depreciation	400,000.	100,000.		500,000.
32 Bad debt expense	350,000.			350,000.
33 Corporate owned life insurance premiums				
34 Purchase versus lease (for purchasers and/or lessees)				
35 Other expense/deduction items with differences (attach schedule)	6,192,759.	-100,000.		6,092,759.
36 Total expense/deduction items. Combine lines 1 through 35. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive	12,082,797.	-20,000.	-3,222,000.	8,840,797.

JW0

Schedule M-3 (Form 1120) 2008

Schedule M-3 Part III; line 31



Example #5 - Schedule M-3 Input "Override" Income and Deduction

Enter overrides **only for unique situations that are not** available in the Business, Interest, Dividends, Gains and Losses and Passthrough Items worksheets at Sch L/M > Schedule M-3 > Income (Loss) Items and Expense/Deduction Items (Interview Form Series A, B, D, and O, and for overrides, Interview Forms L-6 and L-7).



Each worksheet contains only those fields that apply to the specific return's Form M-3 requirement.

Options	Taxes	Payments/Penalties	Credits	Sch L/M	Consolidated	Other Returns	Foreign	Con
				Balance Sheet				
				Book Amounts (Sch. M-1/M-3)				
				Schedule M-1				
				Schedule M-2				
				Schedule M-3				
				1 - General and Net Income				
				2 - Income (Loss) Items				
				3 - Expense / Deduction Items				
				4 - Other Information				
				5 - Form 9916-A - COGS / Int Inc / Exp Items Overrides (N/A 1120-F)				

Sch L/M > Schedule M-3



Each line in the Sch L/M-1/M-2 > Schedule M-3 > Income (Loss) Items and Expense / Deduction Items sections correspond to a detail line in Part II or III of Schedule M-3, and overrides the automatic calculations of the program. When entering an override, you must know the total amount for the specific line and enter the amount.

Override Example – Income

As a best practice, we suggest you do not use overrides. When you use overrides, the program does not produce detailed supporting statements.

Using the same scenario as in the Income Reclassify example earlier:

- Taxpayer has \$75,095,558 gross receipts less \$3,955,163 Returns and allowances ($75,095,558 - 3,955,163 = 71,140,395$) but is required to report the amount of Long-Term Contracts and Hedging Transactions on their respective lines on Schedule M-3
- Long-Term Contracts for tax equals \$1,000,000 and \$1,100,000 per Income Statement; reported on Line 21 of Schedule M-3, Part II
- Hedging Transactions for tax equals \$140,395 and \$145,395; per Income Statement; reported on Line 15 of Schedule M-3, Part II
- The result is a net result of \$70,000,000 ($71,140,395 - 1,000,000 - 140,395$) reported as Other Income for both book and tax; reported on Line 28 Other items with no differences; Schedule M-3, Part II





Typically, other amounts flow to Schedule M-3 Part II, line 28, Other items without differences. Entering \$63,900,000 for book and tax can leave the return in error. When entering an override, you must know the total amount for the specific line and enter the amount.

- In this tax return, there was a Foreign Exchange Loss of \$12,500. The \$70,000,000 – 12,500 = **\$69,987,500** is an override entered at: *Other items with no differences*.

Enter the income overrides at Sch L/M > Schedule M-3 > Income (Loss) Items (Interview Form L-6).

2 - Income (Loss) Items				
	* Overrides all columns	@ Overrides per tax return column		
	# Overrides per income statement column	! Overrides per income statement and tax return columns		
	Income (Loss) per Income Statement	Temporary Difference - Override	Permanent Difference	Income (Loss) per Tax Return
15 Hedging transactions *	145,395			140,395
16 Mark-to-market income (loss) *				
17 Cost of goods sold * &				
18 Sale versus lease *				
19 Section 481(a) adjustments *				
20 Unearned / deferred revenue * &				
21 Income recognition from long-term contracts * - N/A 1120-F / L	1,100,000			1,000,000
22 OID and other imputed interest *				
23 Gain / loss on disposition of assets #				
24 Gross capital gains from Schedule D @				
25 Gross capital losses from Schedule D @				
26 Net gain / loss reported on Form 4797, line 17 @				
27 Abandonment losses *				
28 Worthless stock losses *				
29 Other gain / loss on disposition of assets @				
30 Capital loss limitation / carryforward used @				
31 Other items with differences *				
32 Other items with no differences !	69,987,500			69,987,500

Sch L/M > Schedule M-3 > Income (Loss) Items

You do not need to mark the Gross Receipts and Returns and Allowances *M-3 Code* with an "X" at Income/Deductions > Business > Income because you did not enter the Gross Receipts with a book-to-tax difference, and the override of \$69,987,500 for Other items without differences overrides the Gross Receipts less Returns and Allowances.



1 - Income					
* N/A 1120-RIC # N/A 1120-FSC / PC / L / POL / DISC / H @ N/A 1120-REIT ^ Schedule M-3 (1120 / F ! 1120-C Only ^ Other Permanent Differences (1120-F Only)					
	Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **	M-3 Code **
1	Gross receipts or gross sales *# @	65,725,000			
2	Less returns and allowances *# @	4,900,000			

Income/Deductions > Business > Income

Override Example – Expense

Using the same scenario as in the Expense Reclassify example earlier:

- Taxpayer has \$6,592,759 of salaries and wages to report on line 13, page 1 of Form 1120, but is required to report it on multiple lines of Schedule M-3, Part III
- In this case \$500,000 is from Deferred Compensation for Tax and \$550,000 per Income Statement; to be reported on Line 18 of Schedule M-3, Part III
- The result is \$6,092,759 (6,592,759 – 500,000) for tax and the amount per Income Statement for Salaries and Wages is \$6,192,759; reported on Line 35 of Schedule M-3 Part III as Other expense/deduction items with differences

Enter the expense overrides at Sch L/M > Schedule M-3 > Expense/Deduction Items (Interview Form L-7).





3 - Expense / Deduction Items

* Overrides all columns @ Overrides per tax return column
 # Overrides per income statement column ! Overrides per income statement and tax return columns

	Income (Loss) per Income Statement	Temporary Difference - Override	Permanent Difference	Income (Loss) per Tax Return
18 Deferred compensation *	505,000			500,000
Charitable contribution:				
19 Cash / tangible property *				
20 Intangible property *				
21 Limitation / carryforward @				
22 Domestic production activities deduction *				
Current year acquisition or reorganization fees:				
23 Investment banking *				
24 Legal and accounting *				
25 Other costs *				
26 Amortization / impairment of goodwill *				
27 Amortization of acquisition, reorganization and start-up costs *				
28 Other amort. or impairment write-offs *				
29 Section 198 environmental remediation costs * & ~				
30 Page 1 depletion ! &				
31 Depreciation *				
32 Bad debt expense *				
33 Corporate owned life insurance premiums*~				
34 Purchase versus lease *				
35 Other items with differences *	6,192,759			6,092,759
36 Other items with no differences !				

Sch L/M > Schedule M-3 > Expense/Deduction Items



If entering deductible Salaries and Wages without a book-to-tax difference at Income/Deductions >Business > Deductions you will either need to override *Other items with no differences* with the correct total amount for the return or enter the "X" to exclude Salaries and Wages at Income/Deductions >Business > Deductions as the program takes all amounts to the Schedule M-3 automatically.

5 - Deductions

** Schedule M-3 (1120 / F / PC / L) Only ^ Other Permanent Differences (1120-F Only)

	Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **	M-3 Code **
1 Compensation of officers - override					
2 Salaries and wages	6,592,759				X

Income/Deductions >Business > Deductions

Appendix - Engagement Add or Remove Tax Group Utility

The Add or Remove Tax Group Utility can be found by clicking on the Start button on your Windows Task bar and selecting CorpSystem Workpaper Manager / Utilities / CorpSystem Workpaper Manager Add or Remove Tax Group Utility. This utility includes the ProSystem fx Tax codes to increase or decrease the number of business entities or rental and farm property groups that transfer balances to C-Corporation, S Corporation, Partnership, and Individual returns.



Consider using this utility to remove tax groupings not used by a client. For example if you are using the M-3 Detail or 8916A groupings consider removing the corresponding grouping(s) to alleviate the chance of new accounts in the future being grouped to the incorrect tax group.



The instructions are on the Add or Remove Tax Group Utility spreadsheet. Step 4 includes adding or removing new Business Entities, Rental Properties and Farm Properties. Click on the correct worksheet at the bottom of the spreadsheet to add or remove each item.

The screenshot shows an Excel spreadsheet titled "Select Grouping List". The spreadsheet content is as follows:

Add or Remove Tax Group Utility													
INSTRUCTIONS:													
IMPORTANT: This utility provides the ability for you to add or remove groups from a selected 2005 or later ProSystem fx Tax grouping list. You may want to remove groups that do not have a balance to transfer to the tax return. Or, you may want to add back groups that were previously removed. You may also want to increase the number of property groups to be able to transfer all property balances to the tax return.													
NOTE: If you select to remove a group, the associated subgroups will also be removed. Any detail accounts assigned to the removed group / subgroup will be unassigned.													
1. Retrieve trial balance data													
The utility must be launched within the same instance of Excel as the open trial balance. Therefore, if you are using dual monitors, uncheck the "Launch separate instances of Excel (Dual monitors)" option in the ProSystem fx Engagement Options dialog. Open the current editor copy of the trial balance in Prosystem fx Engagement. Only one trial balance can be open at a time. After the trial balance is open, select the Retrieve Trial Balance Data button.													
Retrieve Trial Balance Data													
2. Select tax grouping list													
Select the tax grouping list to be modified. Click "Select Grouping List" to view the grouping list available for update.													
Grouping List: <input type="text" value="Select Grouping List"/>													
3. Select account classification assignment option													
Groups that are added to the selected tax grouping list can be assigned a system-defined account classification (See Account Classification column of Tax Grouping List worksheet). The system-defined account classifications are Current Assets (CA), Non-Current Assets (NA), Current Liabilities (CL), Non-Current Liabilities (NL), Equity (EQ), Revenues (REV), Cost of Sales (COS)													

At the bottom of the spreadsheet, there are tabs for: Process, Rental Properties, Farm Properties, Business Entities, and Tax Grouping List.

Schedule M-3 Tax Groupings



Many of the Schedule M-3 Tax Groupings go to override fields in the tax program, and the number one Best Practice with Schedule M-3 is not to use overrides! The Schedule M-3 Tax Groupings that have (Ovr) import to override fields in the tax program. To add the M-3 Tax Groupings that are not overrides use the Add or Remove Tax Group Utility.

