Engagement Schedule M-3 Tutorial

Schedule M-3 Tutorial

CCH
a Wolters Kluwer business

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Schedule M-3

- Schedule M-3 applies to:
  - C and S Corporations where Total Assets are equal or greater than $10 million OR consolidated entity
  - Partnerships where Total Assets or Adjusted Total Assets are equal to or greater than $10 million **OR** the Total Receipts for the taxable year is equal to $35 million or more **OR** a Reportable Entity Partner (a partner that is either a C Corp, S Corp or Partnership) with respect to this partnership owns or is deemed to own an interest of 50% or more in the Partnership's capital, profit or loss on **ANY ONE** day during the tax year of the Partnership

M-3 from the Engagement side

- For Engagement, the accountant has two choices for M-3:
  1. Create FTJEs with offsets grouped to new M-3 groupings (**NOTE: These are overrides in the Tax Software)**
  2. Create FTJEs with offsets grouped to old M-1 groupings (This is the recommended method and the method described in the Best Practices for Engagement)
- Method #2 is recommended because:
  - It does not require a change in how accounts are grouped
  - M-3 may be required one year, and M-1 the next year
  - M-3 groupings are all overrides that go to Worksheet **Sch L/M -> Schedule M-3** (Interview **Forms L-6 and L-7)**

M-3 from the Tax side

Two methods to create an M-3:

1) Worksheet **Sch L/M -> Schedule M-3** (Interview Forms **L-5, L-6, L-7, L-8)**

1120 1120CC	L-6	SCHEDULE M-3 - PART II, INCOME (LOSS) ITEMS	2005

Client Code CORP01
Taxpayer Name SAMPLE CORPORATION
Form -0296 Sheet 1

Income (Loss) Items	+ Income (Loss) per Income Statement	+ Temporary Difference - Override	+ Permanent Difference	+ Income (Loss) per Tax Return
Income (loss) from equity method foreign corporations	30	31	32	
Gross foreign dividends not previously taxed !	33	34	35	36
Subpart F, QEF, and similar income				

2)Enter book/tax differences on revenue/expense Interview Forms or Worksheet View (preferred)

1120 1120S 1120SCC	A-1	INCOME	2005

Client Code CORP01
Taxpayer Name SAMPLE CORPORATION
Form -0131 Sheet 1

X if Sale versus Lease **

Gross Income	+ Amount	+ Temporary Difference **	+ Permanent Difference **	+ Book (See Guide) **		Prior Year
Gross receipts or gross sales * # @	30	31	32	33	34	
Less returns and allowances * # @	35	36	37	38	39	
Gross profit - override * # @ - SCC	40					
Dividends - override - 1120 only	41					

Schedule M-3 for Engagement (Best Practice)

- Tax year 2004 will need to use the M-3 groupings or do the Schedule M-3 entries manually in the tax return.
- Beginning with tax year 2005 and Engagement v. 4.1, Schedule M-3 entries will support temporary and permanent balance transfers for C Corporations ONLY (M-3 box must be checked in the Account Grouping | Options dialog).
- Beginning with tax year 2006 and Engagement v. 4.7, Schedule M-3 entries will support temporary and permanent balance transfers for C Corporation, S Corporation and Partnership returns (M-3 box must be checked in the **Account Grouping -> Options dialog**).
- Beginning with tax year 2006 and Engagement v. 5.0, Schedule M-3 Option codes will be supported.
  - If the M-3 box is checked for the Tax Grouping, then users will be able to go into the Account Grouping dialog and edit the groups and subgroups via the Advance screen or right click on the group or subgroup and select Edit. There will be a new column/line that is titled M-3 Option. By default, these options are blank. Users will be able to mark the groups and subgroups for a specific line for the Schedule M-3 instead of having to go into the Tax Return and entering this code.

Schedule M-3 for Engagement Best Practice Continued

- Do not use the M3 groupings when using Engagement v. 4.1 or higher. These groupings import to Worksheet **Sch L/M -> Schedule M-3** (Interview **Forms L-6 and L-7**).
  - If you are using an Engagement version that does not support the M-3 checkbox, the M3 groupings will need to be used or the M-3 entries will need to be manually entered in the tax return.
- Do not import to the Schedule M-3 Worksheets or **L-6 and L-7** Interview Forms when possible
  - Worksheet **Sch L/M -> Schedule M-3** (Interview **Forms L-6 and L-7)** are overrides and if used will override all calculations performed by the tax return. This may cause the Schedule M-3 to be incorrect and cause balancing the tax return more complicated.
    - Some exceptions are (any line on the Schedule M-3 that the tax column is grayed out):
      - Income (loss) from equity method foreign corporations
      - Gross foreign distributions previously taxed
      - Income (loss) from equity method U.S. corporations
      - Minority interest for includible corporations US
      - Deferred Income Tax expense
      - State and local deferred income tax expense
      - Foreign deferred income tax expense

Schedule M-3 for Engagement Best Practice Continued

- To create a balanced journal entry, identify and use an offsetting account number that should be grouped to one of the following locations:
  - Grouped to a M1 grouping (Preferred Method – See next slide for reasons why)
    - NOTE: If the preparer or reviewer is wanting to see the Schedule M-1 in the Tax return or California is one of the states being prepared when Schedule M-3 is applicable for the Federal Return, the following is recommended to make reconciling the Schedule M-1 easier.
      - In Engagement, Set the Send to Tax option under **Account Groupings -> Advance** to **NO**
      - In Tax, Force the Schedule M-1 to print on:
        - 1120 – Worksheet **General->Return Options->Processing Options->Line 7 (Form 2 box 33)**
        - 1120S – Worksheet **General->Return Options->Processing Options->Line 11 (Form 2 box 49)**
        - 1065 – Worksheet **General->Return Options->Processing Options->Line 15 (Form 2 box 44)**
      - In Tax, Send the M-3 book/tax differences to the Schedule M-1
        - 1120/1120S – **Worksheet L/M->Schedule M-3->General and Net Income (Loss) Reconciliation->Line 4 (Form L-5 box 33)**
        - 1065 – Worksheet **L/M-1/M-2/M-3->Schedule M-3->General and Net Income (Loss) Reconciliation->Line 4 (Form L-5 box 33)**
  - Grouped to a M3 grouping and have that M3 grouping set to NO for the Send to Tax option
    - NOTE: If the **Send to Tax** option is set to **YES** for the M-3 groupings, these will export to Tax to the override entries in Tax and may cause reconciliation problems. Only use these groupings to export to Tax when the amount is going to the Schedule M-3 where there is not a Tax amount (i.e. there is not a place to enter this item on the actual Tax return (1120, 1120S or 1065).
  - Grouped to Z
  - Not grouped at all.

Schedule M-3 for Engagement Best Practice Continued

- Reasons why the best practice for doing Tax Journal Entries for the Schedule M-3 is to group the offsetting side of the Journal entry to a M-1 grouping:
  - You do not have to determine at the time of your journal entry if the M-3 will need to be produced
  - ProSystem Tax will determine if the M-3 is required and use the M-3 or M-1 information accordingly (NOTE: Engagement will only export the Temporary and Permanent differences to Tax when the M-3 box is checked in the **Account Groupings -> Options** dialog)
  - You do not have to change the journal entries between years that the Schedule M-3 is required and not required.
  - Does not require overwriting information in Engagement or Tax

Schedule M-3 for Engagement Best Practice Continued

- When completing a Tax Journal Entry, any account group/subgroup that is being zeroed out by the journal entry will not import to Tax on the initial import. (If the return and Engagement are already Dynalinked, then the zero will transfer over)
  - It is best if doing a Tax Journal Entry to zero out the balance to leave a few pennies/cents in the account so that when imported, the grouping will import to the tax return.
  - Example –
    - Account 9000 is grouped to an other deduction grouping (26) and has a balance of 500.00
    - A tax journal entry is entered to credit account 9000 for 500.00 and debit some other account.
    - The group that the account 9000 is grouped to will not go to tax on the initial Dynalink/GL bridge because the tax column is zero.
    - If the journal entry is done to credit account 9000 for 499.99 and debit another account for the same amount
    - Then that grouping will import .01 to the tax return but since most preparers don't use pennies/cents on their returns, then Engagement will import a zero to that line.
  - This is true even if they check the box to import the Schedule M-3 book amounts.
  - The import looks at the tax column and if there is a zero, then the import will skip that grouping/subgroup.

Schedule M-3 for Engagement Best Practice Continued

- Schedule M-3 page 1 line 11 MUST equal
  - C Corps – page 2 line 30 column A
  - S Corps – page 2 line 26 column A
  - Partnerships – page 2 line 26 column A
- Schedule M-3 page 2 line 30 column D MUST equal
  - C Corps - 1120 page 1 line 28 AND Schedule M-1 line 10.
  - S Corps – 1120S page 3 line 18 AND Schedule M-1 line 8.
  - Partnerships – 1065 page 4 Analysis of Net Income(Loss) line 1 AND Schedule M-1 line 9.
- Schedule M-3 page 2 line 30 must balance across (i.e. columns A+B+C=D)

Schedule M-3 for Engagement Best Practice Continued

- When preparing a return for CA, DC, NJ, OK or MS, ensure the Schedule M-3 entries are flowing correctly to the Schedule M-1 by doing the following:
  - C Corps
    - Worksheet **General -> Return Options -> 1. Processing Options -> line 7** (Interview **Form 2 box 33 = X**) (This will force print the Schedule M-1)
    - Worksheet **Sch L/M -> Schedule M-3 -> 1. General and Net Income (Loss) Reconciliation -> line 3** (Interview **Form L-5 box 33 = X**) (This will send all Schedule M-3 book/tax adjustments to the Schedule M-1)
  - S Corps
    - Worksheet **General -> Return Options -> 1. Processing Options -> line 11** (Interview **Form 2 box 49 = X**) (This will force print the Schedule M-1)
    - Worksheet **Sch L/M -> Schedule M-3 -> 1. General and Net Income (Loss) Reconciliation -> line 3** (Interview **Form L-5 box 33 = X (To Carry)**) (This will send all Schedule M-3 book/tax adjustments to the Schedule M-1)
  - Partnerships
    - Worksheet **General -> Return Options -> 1. Processing Options -> line 15** (Interview **Form 2 box 44 = X**) (This will force print the Schedule M-1)
    - Worksheet **L/M-1/M-2/M-3 -> Schedule M-3 -> 1. General and Net Income (Loss) Reconciliation -> line 3** (Interview **Form L-5 box 33 = X (To Carry)**) (This will send all Schedule M-3 book/tax adjustments to the Schedule M-1)

Schedule M-3 for Engagement Best Practice Continued

- Tax Interview Forms explanation of columns (refer to Worksheet **Income/Deductions -> Business -> Other Deductions** (Interview **Form A-1 or A-4**))
  - Amount = tax return amount – This amount flows to Form 1120 page 1, 1120S page 1-3 and 1065 page 1 and 3 AND Schedule M-3 column D.
  - Temporary and permanent difference columns – These amounts flow to the appropriate columns on the Schedule M-3. When using Tax v. 2005.04030 or higher, the Tax program will calculate the book amount when numbers are entered for these columns.
  - Book = Final "Book" amounts per the book income statement – These amounts flow to the Schedule M-3 column A. If no amounts are entered in the temporary or permanent difference columns, then the tax return will calculate the difference between the book and tax amount. This amount will be recorded as a temporary difference.
  - If there is no difference between the book and tax amounts, the Schedule M-3 column A and column D will be the same.
- When a line on the tax interview form does not allow the user to distinguish between the temporary, permanent or book numbers, then this line is an override or has an entry on a Automatic Adjustment field:
  - C Corp - The Book Amounts for Automatic Adjustment can be entered on Worksheet **Sch L/M -> Book Amounts** (Interview **Form L-3 lines 90 through 96**)
  - S Corp – The Book Amounts for Automatic Adjustment can be entered on Worksheet **Sch L/M -> Schedule M-1 -> 6. Book Amounts for Automatic Adjustments** (Interview **Form L-3 lines 90 through 95**)
  - Partnership - The Book Amounts for Automatic Adjustment can be entered in 2 places
    - Worksheet **Income/Deductions -> Trade or Business -> 11. Book amounts** (Interview **Form A-1 lines 130 through 133**)
    - Worksheet **Sch L/M -> Schedule M-1 -> 6. Book Amounts for Automatic Adjustments** (Interview **Form L-3 lines 90 through 93**)

Interview Form

M-1 linking from Engagement to Tax

When M-1 is used, Engagement sends FTAX balances only.

	E	F	G	H	I	J	R
1	Client:	*5.0 - Prosystem fx C-Corp Schedule M-3 Options*					
2	Engagement:	*5.0 - C-Corp 2006 Schedule M-3 Options*					
3	Period Ending:	*12/31/2006*					
4	Trial Balance:	*TB 2 - CCM3BP*					
11	Account	Description	1st PP-FTAX	FINAL	FTJE	FTAX	
12			12/31/2005	12/31/2006		12/31/2006	
29	12	Compensation of officers - override	0.00	0.00		0.00	
30	13	Salaries and wages	7,854,255.21	8,008,476.21		8,008,476.21	
31	13.01	Employment credits wage reduction	0.00	0.00		0.00	
32	14	Repairs	659,222.54	659,222.54		659,222.54	

M-1s will import directly to Worksheet **Sch L/M -> Schedule M-1** (Interview **Form L-3**).

1120 1120S 1120SCC	A-3	DEDUCTIONS	20

Client Code ccm3bp
Taxpayer Name Prosystem fx C-Corp Schedule M-3 Options
Form -0133 Sheet 1

Deductions	+ Amount	+ Temporary Difference **	+ Permanent Difference **	+ Book (See Guide) **	M-3 Code**	Prior
Compensation of officers - override - SCC	30	31	32	33	34	
Salaries and wages	35 8008476.	36	37	38	39	
Employment credits wage reduction - over-						

Worksheet View

M-1 linking from Engagement to Tax

When M-1 is used, Engagement sends FTAX balances only.

	E	F	G	H	I	J	R
1	Client:	*5.0 - Prosystem fx C-Corp Schedule M-3 Options*					
2	Engagement:	*5.0 - C-Corp 2006 Schedule M-3 Options*					
3	Period Ending:	*12/31/2006*					
4	Trial Balance:	*TB 2 - CCM3BP*					
11	Account	Description	1st PP-FTAX	FINAL	FTJE	FTAX	
12			12/31/2005	12/31/2006		12/31/2006	
29	12	Compensation of officers - override	0.00	0.00		0.00	
30	13	Salaries and wages	7,854,255.21	8,008,476.21		8,008,476.21	
31	13.01	Employment credits wage reduction	0.00	0.00		0.00	
32	14	Repairs	659,222.54	659,222.54		659,222.54	

M-1s will import directly to Worksheet **Sch L/M -> Schedule M-1** (Interview **Form L-3**).

5 - Deductions

** Schedule M-3 (1120 / PC / L) Only

		Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **	M-3 Code **	Prior Year
1	Compensation of officers - override						
2	Salaries and wages	8008476					
3	Employment credits wage reduction - override (N/A 1120-FSC / POL /						

M-3 linking from Engagement to Tax

When M-3 is used, Engagement sends both the BOOK and TAX balances to the return. Tax will only import the BOOK balance if the option under **File -> Import ->Dynalink (G/L Bridge) -> Options** is checked to **Import Schedule M-3 book amounts**.

	E	F	G	H	I	J
1	Client:	*5.0 - Prosystem fx C-Corp Schedule M-3 Options*				
2	Engagement:	*5.0 - C-Corp 2006 Schedule M-3 Options*				
3	Period Ending:	*12/31/2006*				
4	Trial Balance:	*TB 2 - CCM3BP*				
11	Account	Description	1st PP-FTAX	FINAL	FTJE	FTAX
12			12/31/2005	12/31/2006		12/31/2006
54	26|26.28	Management Mtgs and Employee Gatherings	8,327,347.47	8,327,347.47		8,327,347.47
55	26|26.29	Fines and penalties	(0.17)	50,617.83	(50,617.50)	0.33
56	26|26.31	Political contributions	0.03	169,064.03		169,064.03
57	26|26.32	Gambro Integration	9,819,387.05	9,819,387.05		9,819,387.05
58	26|26.33	Compensation with 162(m) Limitation	23,051,934.57	23,301,934.57	(301,934.57)	23,000,000.00
59	26|26.34	amortization - goodwill	0.00	1,500.00	500.00	2,000.00
60	26|26.35	amortization - startup	0.00	2,100.00	1,000.00	3,100.00
61	26|26.36	deferred compensation	0.00	260,000.00	(200,000.00)	60,000.00
62	26|26.37	corporate life insurance	0.00	120,197.00	(120,196.99)	0.01
63	26|26.38	meals & entertainment	0.00	65,722.00	(32,861.00)	32,861.00

Note the reversed order

1120 1120S 1120SCC	A-4	OTHER DEDUCTIONS AND CHARITABLE CONTRIBUTIONS DETAIL	2006

Other deductions:

	Description	+ Patronage Amount !	+ Total Amount	+ Temporary Difference **	+ Permanent Difference **	+ Book (See Guide) **	Other Deduction Code **	Prior Yea
35	Management Mtgs a	36	37 8327347.	38	39	40	41	
42	Fines and penalti	43	44 0.	45 0.	46 -50618.	47 50618.	48 4	
49	Political contrib	50	51 169064.	52	53	54	55	
56	Gambro Integratio	57	58 9819387.	59	60	61	62	
63	Compensation with	64	65 23000000.	66 -301935.	67 0.	68 23301935	69 7	

Interview Form

M-3 linking from Engagement to Tax

When M-3 is used, Engagement sends both the BOOK and TAX balances to the return. Tax will only import the BOOK balance if the option under **File -> Import ->Dynalink (G/L Bridge) -> Options** is checked to **Import Schedule M-3 book amounts**.

Worksheet View

	E	F	G	H	I	J
1	Client:	*5.0 - Prosystem fx C-Corp Schedule M-3 Options*				
2	Engagement:	*5.0 - C-Corp 2006 Schedule M-3 Options*				
3	Period Ending:	*12/31/2006*				
4	Trial Balance:	*TB 2 - CCM3BP*				
11	Account	Description	1st PP-FTAX	FINAL	FTJE	FTAX
12			12/31/2005	12/31/2006		12/31/2006
54	26|26.28	Management Mtgs and Employee Gatherings	8,327,347.47	8,327,347.47		8,327,347.47
55	26|26.29	Fines and penalties	(0.17)	50,617.83	(50,617.50)	0.33
56	26|26.31	Political contributions	0.03	169,064.03		169,064.03
57	26|26.32	Gambro Integration	9,819,387.05	9,819,387.05		9,819,387.05
58	26|26.33	Compensation with 162(m) Limitation	23,051,934.57	23,301,934.57	(301,934.57)	23,000,000.00
59	26|26.34	amortization - goodwill	0.00	1,500.00	500.00	2,000.00
60	26|26.35	amortization - startup	0.00	2,100.00	1,000.00	3,100.00
61	26|26.36	deferred compensation	0.00	260,000.00	(200,000.00)	60,000.00
62	26|26.37	corporate life insurance	0.00	120,197.00	(120,196.99)	0.01
63	26|26.38	meals & entertainment	0.00	65,722.00	(32,861.00)	32,861.00

Note the reversed order

9 - Other Deductions

** Schedule M-3 (1120 / PC / L) Only ! 1120-C Only

Other Deductions

Select | Import | Export 1 of 31 Add | Delete

Description	Patronage Amount !	Total Amount	Temporary Diff **	Permanent Diff **	Book (See Help) **	Type **	Prior
Management Mtgs and		8327347					
Fines and penalties		0	0	-50618	50618	4	

M-3 linking from Engagement to Tax

When M-3 is used, FTJEs determine Perm vs. Temp, depending on how they are entered in Engagement.

	E	F	G	H	I	J
1	Client:	*5.0 - Prosystem fx C-Corp Schedule M-3 Options*				
2	Engagement:	*5.0 - C-Corp 2006 Schedule M-3 Options*				
3	Period Ending:	*12/31/2006*				
4	Trial Balance:	*TB 2 - CCM3BP*				
11	**Account**	**Description**	**1st PP-FTAX**	**FINAL**	**FTJE**	**FTAX**
12			**12/31/2005**	**12/31/2006**		**12/31/2006**
54	26|26.28	Management Mtgs and Employee Gatherings	8,327,347.47	8,327,347.47		8,327,347.47
55	26|26.29	Fines and penalties	(0.17)	50,617.83	(50,617.50)	0.33
56	26|26.31	Political contributions	0.03	169,064.03		169,064.03
57	26|26.32	Gambro Integration	9,819,387.05	9,819,387.05		9,819,387.05
58	26|26.33	Compensation with 162(m) Limitation	23,051,934.57	23,301,934.57	(301,934.57)	23,000,000.00
59	26|26.34	amortization - goodwill	0.00	1,500.00	500.00	2,000.00
60	26|26.35	amortization - startup	0.00	2,100.00	1,000.00	3,100.00
61	26|26.36	deferred compensation	0.00	260,000.00	(200,000.00)	60,000.00
62	26|26.37	corporate life insurance	0.00	120,197.00	(120,196.99)	0.01
63	26|26.38	meals & entertainment	0.00	65,722.00	(32,861.00)	32,861.00

1120 1120S 1120SCC	A-4	OTHER DEDUCTIONS AND CHARITABLE CONTRIBUTIONS DETAIL	2006

Client Code ccm3bp
Taxpayer Name Prosystem fx C-Corp Schedule M-3 Options
Form -0134 Sheet 2

Other deductions:

Temp Perm

Other Deduction Code **

Description	+ Patronage Amount !	+ Total Amount	+ Temporary Difference **	+ Permanent Difference **	+ Book (See Guide) **		Prior Yea
35 Management Mtgs a	36	37 8327347.	38	39	40	41	
42 Fines and penalti	43	44 0.	45 0.	46 -50618.	47 50618.	48 4	
49 Political contrib	50	51 169064.	52	53	54	55	
56 Gambro Integratio	57	58 9819387.	59	60	61	62	
63 Compensation with	64	65 23000000.	66 -301935.	67 0.	68 23301935	69 7	

Interview Form

M-3 linking from Engagement to Tax

When M-3 is used, FTJEs determine Perm vs. Temp, depending on how they are entered in Engagement.

Worksheet View

	E	F	G	H	I	J
1	Client:	*5.0 - Prosystem fx C-Corp Schedule M-3 Options*				
2	Engagement:	*5.0 - C-Corp 2006 Schedule M-3 Options*				
3	Period Ending:	*12/31/2006*				
4	Trial Balance:	*TB 2 - CCM3BP*				
11	**Account**	**Description**	**1st PP-FTAX**	**FINAL**	**FTJE**	**FTAX**
12			**12/31/2005**	**12/31/2006**		**12/31/2006**
54	26|26.28	Management Mtgs and Employee Gatherings	8,327,347.47	8,327,347.47		8,327,347.47
55	26|26.29	Fines and penalties	(0.17)	50,617.83	(50,617.50)	0.33
56	26|26.31	Political contributions	0.03	169,064.03		169,064.03
57	26|26.32	Gambro Integration	9,819,387.05	9,819,387.05		9,819,387.05
58	26|26.33	Compensation with 162(m) Limitation	23,051,934.57	23,301,934.57	(301,934.57)	23,000,000.00
59	26|26.34	amortization - goodwill	0.00	1,500.00	500.00	2,000.00
60	26|26.35	amortization - startup	0.00	2,100.00	1,000.00	3,100.00
61	26|26.36	deferred compensation	0.00	260,000.00	(200,000.00)	60,000.00
62	26|26.37	corporate life insurance	0.00	120,197.00	(120,196.99)	0.01
63	26|26.38	meals & entertainment	0.00	65,722.00	(32,861.00)	32,861.00

9 - Other Deductions

** Schedule M-3 (1120 / PC / L) Only ! 1120-C Only

Temp Perm

Other Deductions

Select | Import | Export 1 of 31 Add

Description	Patronage Amount !	Total Amount	Temporary Diff **	Permanent Diff **	Book (See Help) **	Type **
Management Mtgs and		8327347				
Fines and penalties		0	0	-50618	506184	
Political contributi		169064				
Gambro Integration		9819387				
Compensation with 16		23000000	-301935	0	233019357	

Schedule M-3 'How To' for Engagement

- M-3 Checkbox
  - From within the trial balance select **Engagement -> Account Groupings -> Options**.
  - Check the M-3 box next to the ProSystem *fx* Tax grouping.
    - This will add a column to the Tax Journal Entry (**column ID 8**) screen to allow selection of **T** (temporary), **P** (permanent) or **N/A** (not applicable)
    - Tax years where the M-3 functionality is not supported will not allow this box to be checked.
- Group all accounts to the appropriate account groupings.
  - Do not group any accounts to the M3 groupings
  - Group offsetting entries for the Tax Journal entries to the M1 groupings
    - NOTE: If the preparer or reviewer is wanting to see the Schedule M-1 in the Tax return or California is one of the states being prepared when Schedule M-3 is applicable for the Federal Return, the following is recommended to make reconciling the Schedule M-1 easier.
      - In Engagement, Set the **Send to Tax** option under **Account Groupings -> Advanced** to **NO**
      - In Tax, Force the Schedule M-1 to print on:
        - 1120 – Worksheet **General->Return Options->Processing Options->Line 7 (Form 2 box 33)**
        - 1120S – Worksheet **General->Return Options->Processing Options->Line 11 (Form 2 box 49)**
        - 1065 – Worksheet **General->Return Options->Processing Options->Line 15 (Form 2 box 44)**
      - In Tax, Send the M-3 book/tax differences to the Schedule M-1
        - 1120/1120S – Worksheet **L/M->Schedule M-3->General and Net Income (Loss) Reconciliation->Line 4 (Form L-5 box 33)**
        - 1065 – Worksheet **L/M-1/M-2/M-3->Schedule M-3->General and Net Income (Loss) Reconciliation->Line 4 (Form L-5 box 33)**

Schedule M-3 'How To' for Engagement

- In the Account Groupings dialog, go to the Advanced screen (make sure that you have the Tax grouping selected)
  - Set the M-3 Option to the appropriate code.
    - Example – C Corp, Officer's life insurance account should be grouped to a subgroup of Other Deductions (26.xx) and then you do a tax journal entry to back out the non-deductible portion. Since there is a specific line item on the Schedule M-3 for this, you would want to make sure that on this Subgroup, you mark the M-3 Option to be for Officer Life Insurance Premiums (code 12).
    - If you have an item like Salaries and Wages that has to be broken out on the Schedule M-3 but not the 1120, 1120S or 1065,
      - With 2006 - you can use the M-3 Option code X (Exclude) to have the amount go to the 1120, 1120S, 1065 but NOT the Schedule M-3. Then you will then have to manually enter the detailed information for the Schedule M-3 on:
        - 1120 – Worksheet **Sch L/M->Schedule M-3->4. Other Information-> lines 7 (Other Income Items to Schedule M-3 Adjustment) and 8 (Other Deduction Items to Schedule M-3 Adjustment) (**Interview **Form L-8 boxes 140-173)**
        - **1120S -** Worksheet **Sch L/M->Schedule M-3->4. Other Information-> lines 7 (Other Income Items to Schedule M-3 Adjustment) and 8 (Other Deduction Items to Schedule M-3 Adjustment) (**Interview **Form L-8 boxes 140-173)**
        - 1065 - Worksheet **L/M-1/M-2/M-3->Schedule M-3->4. Other Information-> lines 7 (Other Income Items to Schedule M-3 Adjustment) and 8 (Other Deduction Items to Schedule M-3 Adjustment) (**Interview **Form L-8 boxes 140-173)**
      - With 2007 – You will be able to group accounts to Subgroups of Salaries & Wages, M-3 Detail grouping (C-Corp – 13.02, S-Corp – 08.02, Part – 09.02) and this information will flow to the Tax return input forms and flow to the 1120, 1120S, 1065 AND Schedule M-3.

Salaries Example with new Engagement 5.0 and 2007 Tax

Interview Form

This is the subgroup summary tab in the Trial Balance

Account	Description	FINAL 12/31/2007	FTJE	FTAX 12/31/2007
13.02|1302.07	PTO Cash Out	655,531.52		655,531.52
13.02|1302.08	DVN Teammate Contribution	0.00		0.00
13.02|26.33	Compensation with 162(m) Limitation	23,301,934.57	(301,934.57)	23,000,000.00
13.02|26.36	deferred compensation	260,000.00	(200,000.00)	60,000.00

These are subgroups created under new tax group 13.02 for Salaries M-3 detail

1120 1120S 1120SCC	A-4	OTHER DEDUCTIONS AND CHARITABLE CONTRIBUTIONS DETAIL	2007

Schedule M-3 detail:

Description	Return Code MANDA-TORY	+ Other Perm Diff	+ Amount	+ Temporary Difference **	+ Permanent Difference **	+ Book (See Guide) **	M-3 Code **	Prior
139 Compensation	140 SAL	141	142 23000000.	143 -301935.	144 0.	145 23301935	146 CP	
147 deferred com	148 SAL	149	150 60000.	151 -200000.	152 0.	153 260000.	154 DC	
Bonuses/Ince	SAL		4447975					

The M-3 Option codes can be set within Engagement in the Account Groupings > Advance

Subgroups

Index	Description	AccClass	RatioClass	M3 Opt	Send to Tax
1302.0	Bonuses/Incen	OPX			Yes
1302.0	Attendance Bor	OPX			Yes
1302.0	Sick Time Paid	OPX			Yes
1302.0	PTO Accrual	OPX			Yes
1302.0	Other Non-Prod	OPX			Yes
1302.0	PTO Used	OPX			Yes
1302.0	PTO Cash Out	OPX			Yes
1302.0	DVN Teammate	OPX			Yes
26.33	Compensation v	OPX		CP	Yes
26.36	deferred compe	OPX		DC	Yes
<new>	<description>				Yes

Salaries Example with new Engagement 5.0 and 2007 Tax

Worksheet View

This is the subgroup summary tab in the Trial Balance

Account	Description	FINAL 12/31/2007	FTJE	FTAX 12/31/2007
13.02|1302.07	PTO Cash Out	655,531.52		655,531.52
13.02|1302.08	DVN Teammate Contribution	0.00		0.00
13.02|26.33	Compensation with 162(m) Limitation	23,301,934.57	(301,934.57)	23,000,000.00
13.02|26.36	deferred compensation	260,000.00	(200,000.00)	60,000.00

These are subgroups created under new tax group 13.02 for Salaries M-3 detail

5 - Deductions

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

Schedule M-3 Detail

Select | Import | Export | 1 of 8 | Add | Delete | Ins

Description	Return Type	Other Perm Diff ^	Amount	Temporary Diff **	Permanent Diff **	Book (See Help) **	M-3 Type **	Prior Year
Compensation wi	SAL		23000000	-301935	0	23301935	CP	
deferred compen	SAL		60000	-200000	0	260000	DC	

The M-3 Option codes can be set within Engagement in the Account Groupings > Advance

Subgroups

Index	Description	AccClass	RatioClass	M3 Opt	Send to Tax
1302.0	Bonuses/Incen	OPX			Yes
1302.0	Attendance Bor	OPX			Yes
1302.0	Sick Time Paid	OPX			Yes
1302.0	PTO Accrual	OPX			Yes
1302.0	Other Non-Prod	OPX			Yes
1302.0	PTO Used	OPX			Yes
1302.0	PTO Cash Out	OPX			Yes
1302.0	DVN Teammate	OPX			Yes
26.33	Compensation v	OPX		CP	Yes
26.36	deferred compe	OPX		DC	Yes
<new>	<description>				Yes

Schedule M-3 'How To' for Engagement Continued

- Tax Journal Entries
  - When creating Tax Journal Entries, there will be a new column to designate that the journal entry is either a T (temporary), P (permanent) or N/A (not applicable).
    - The option for T (temporary) or P (permanent) will only be available for any groupings that export to the Tax input forms where there are all 4 columns for Amount, Temporary, Permanent and Book. The option for N/A is NOT available for these groupings.
    - The option for N/A is for all other groupings.
  - Only groups that allow the transfer of Permanent and Temporary balances will have the T and P codes available for the accounts. Groups that do not support the transfer of these balances will auto fill the associated accounts with N/A.
  - Journal entries are created similarly to the M-1 journal entry with a few differences
    - Use a offsetting account grouped to a M1 grouping (See slide 7 for other methods)
    - Do one sided (unbalanced) journal entries. (NOTE: This is only for those that do not want to create any Tax grouping reports)
  - Tax Software Interface
    - Ensure that the **view** selected on the Tax Software Interface dialog includes the **Federal Tax Balance** column.
    - Ensure the **balance** selected to transfer to Tax is **Federal Tax balance**.

Schedule M-1 and M-3 Automatic Adjustments

- Here are the book/tax automatic adjustments that Tax has and the Engagement groupings to be used.
  - C Corporation
    - Gain (loss) on disposition of assets
      - Use Engagement Groups
        - Book amount - 09.01
        - Tax amount - 09
    - Amortization
      - Use Engagement Groups
        - Book amount – 26.02A
        - Tax amount -26.02
    - Depreciation
      - Use Engagement Groups
        - Book amount - 20.01
        - Tax amount -20
    - Depletion (N/A 1120-RIC/REIT
      - Use Engagement Groups
        - Book amount – 21A
        - Tax amount -21

NOTE: When the book/tax automatic adjustments are used, the Net Income/Loss amount in Engagement will not match the Net Income/Loss per the Tax Return.

The areas in Engagement that show the Net Income/Loss amount is
- Trial Balance Database
- TB Reports
- Quickview
- Trial Balance Snapshot

A workpaper will need to be created to show the Net Income/Loss per the federal tax balance column. The adjustments should then be backed out or added to show the true Net Income/Loss per the tax return.

Schedule M-1 and M-3 Automatic Adjustments

- C Corporation Continued
  - Bad debt expense
    - Use Engagement Groups
      - Book amount – 15.01
      - Tax amount - 15
  - State taxes
    - Use Engagement Groups
      - Book amount – 17.01A
      - Tax amount – 17.01
  - City/local taxes
    - Use Engagement Groups
      - Book amount – 17.07A
      - Tax amount – 17.07

NOTE: When the book/tax automatic adjustments are used, the Net Income/Loss amount in Engagement will not match the Net Income/Loss per the Tax Return.

The areas in Engagement that show the Net Income/Loss amount is
- Trial Balance Database
- TB Reports
- Quickview
- Trial Balance Snapshot

A workpaper will need to be created to show the Net Income/Loss per the federal tax balance column. The adjustments should then be backed out or added to show the true Net Income/Loss per the tax return.

Schedule M-1 and M-3 Automatic Adjustments

- S Corporation
  - Gain (loss) on disposition of assets
    - Use Engagement Groups
      - Book amount – 04.01
      - Tax amount - 04
  - Amortization
    - Use Engagement Groups
      - Book amount – 19.03
      - Tax amount – 19.02
  - Depreciation
    - Use Engagement Groups
      - Book amount – 14.01
      - Tax amount - 14

NOTE: When the book/tax automatic adjustments are used, the Net Income/Loss amount in Engagement will not match the Net Income/Loss per the Tax Return.

The areas in Engagement that show the Net Income/Loss amount is
- Trial Balance Database
- TB Reports
- Quickview
- Trial Balance Snapshot

A workpaper will need to be created to show the Net Income/Loss per the federal tax balance column. The adjustments should then be backed out or added to show the true Net Income/Loss per the tax return.

Schedule M-1 and M-3 Automatic Adjustments

- S Corporation Continued
  - Depletion
    - Use Engagement Groups
      - Book amount – 15.01
      - Tax amount - 15
  - State taxes
    - Use Engagement Groups
      - Book amount – 12.01A
      - Tax amount – 12.01
  - City taxes
    - Use Engagement Groups
      - Book amount – 12.04A
      - Tax amount – 12.04

NOTE: When the book/tax automatic adjustments are used, the Net Income/Loss amount in Engagement will not match the Net Income/Loss per the Tax Return.

The areas in Engagement that show the Net Income/Loss amount is
•Trial Balance Database
•TB Reports
•Quickview
•Trial Balance Snapshot

A workpaper will need to be created to show the Net Income/Loss per the federal tax balance column. The adjustments should then be backed out or added to show the true Net Income/Loss per the tax return.

Schedule M-1 and M-3 Automatic Adjustments

- Partnership
  - Gain (loss) on disposition of assets -
    - Use Engagement Groups
      - Book amount – 06.01
      - Tax amount - 06
  - Amortization
    - Use Engagement Groups
      - Book amount – 20.04
      - Tax amount – 20.03
  - Depreciation
    - Use Engagement Groups
      - Book amount – 16A.01
      - Tax amount – 16A
  - Taxes
    - Use Engagement Groups
      - Book amount – 14.03
      - Tax amount - 14

NOTE: When the book/tax automatic adjustments are used, the Net Income/Loss amount in Engagement will not match the Net Income/Loss per the Tax Return.

The areas in Engagement that show the Net Income/Loss amount is
- Trial Balance Database
- TB Reports
- Quickview
- Trial Balance Snapshot

A workpaper will need to be created to show the Net Income/Loss per the federal tax balance column. The adjustments should then be backed out or added to show the true Net Income/Loss per the tax return.

Schedule M-3 - Tax Preparation

- Make the necessary manual entries in the tax return and/or make tax journal entries in Engagement to change data in the tax return.
  - A few of the manual entries that need to be made on the tax return side for Schedule M-3 are
    - Tax exempt interest income (Worksheet **Income/Deductions -> Interest** (Interview **Form B-1, B-2 or B-3**))
    - Other Deduction Code (Worksheet **Income/Deductions -> Business** (Interview **Form A-4**)) (Currently Engagement does not import to this field) **This is an enhancement for Engagement v. 5.0** **See slide 20 for more information**
    - Other Income Code (Worksheet **Income/Deductions -> Business** (Interview **Form A-1**)) (Currently Engagement does not import to this field) **This is an enhancement for Engagement v. 5.0** **See slide 20 for more information**
    - M-3 Option Code (Currently Engagement does not import to this field) See next slide for screen shots **This is an enhancement for Engagement v. 5.0** **See slide 20 for more information**
    - Schedule M-3 Other Information (Worksheet **L/M -> Schedule M-3 -> Other Information Section 7 and 8 for Other Income and Deduction Items to Schedule M-3 Adjustment** (Interview **Form L-8**)) (Currently Engagement does not import to these fields) **This is an enhancement for Engagement v. 5.0** **See slide 20 for more information**

Schedule M-3 - Tax Preparation

Unless you are on Engagement version 5.0 or new - Schedule M-3 Code MUST be manually entered in the Tax Return Worksheets/Interview Forms.

6 - Deductions

** Schedule M-3 only

		Amount	Temporary Difference **	Permanent Difference **	Book (See Help) **	M-3 Code **
1	Salaries and wages					
	Employment credits wage					

Other Ded Code for M-3

	Other expense/deduction items (Default)
1	Incentive stock options - 1120 only
2	Nonqualified stock options - 1120 only
3	Other equity-based compensation
4	Fines and penalties
5	Judgments, damages, and similar costs
6	Parachute payments - 1120 only
7	Compensation w/sec 162(m) limit.- 1120
8	C/Y acq/reorg investment banking fees
9	C/Y acq/reorg legal/accounting fees
10	C/Y acq/reorg other costs - N/A 1065
11	Sec 198 environmental remediation costs
12	Corp owned life insurance prem. N/A 1065
13	Purchase versus lease
14	Meals/entertainment NOT subj to 50% limit
15	Other post-retirement benefits
16	Deferred compensation
17	Amortization/impairment of goodwill
18	Amortization of acq, reorg, & start-up
19	Other amortization/impairment write-offs
20	Abandonment losses
21	Organizational exp per 1.709-2(a) -1065
22	Syndication exp per 1.709-2(a) - 1065
AC	Accrual to cash adjustment
BD	Bad debt expense
X	Exclude

OK Cancel Search Help

Reclassifying Income to Multiple Schedule M-3 lines in Tax

- Tax Preparation 2006 allows the ability to exclude an item from the Schedule M-3 but still include it on the 1120, 1120S or 1065. This is done by using the M-3 Code box (described in the previous slide) in either the Worksheets or Interview forms. This M-3 Code box contains different codes to tell the line item how to flow to the Schedule M-3 or Exclude that line item completely from the Schedule M-3.
  - If the Exclude option is selected, then entries would need to be entered to create the detail statement on Worksheet **L/M -> Schedule M-3 -> Other Information -> Sections 7 and 8 for Other Income and Deduction Items to Schedule M-3 Adjustment** (Interview **Form L-8**).
- For more information on this, refer to the Tax Schedule M-3 Examples.
- With Engagement 5.0 and Tax 2007, Users can now create these Detailed Schedule M-3 Statements in Engagement and export to Tax.

New for 2007 Tax Year

- New for Engagement for Schedule M-3
  - Added new Tax codes to C and S Corporations and Partnerships.
    - M3 Detail codes for
      - Gross Receipts/Sales
      - Returns & Allowances
      - Comp. of officers
      - Salaries & Wages
      - Repairs & Maint.
      - Rents
      - Advertising
      - Employee Benefits
    - M3 Temp and Perm option now available for
      - Interest Income – other than US Gov't
      - U.S. Gov't Interest Income
  - These new groups will allow users to create subgroups for detailed statements for Schedule M-3 within Engagement. This information will then Export to the new fields created in Tax for M-3 Detail.

New for 2007 Tax Year

- New for Tax dealing with Schedule M-3
  - New fields were added for M-3 Detail on the following input forms
    - C Corporation
      - Worksheet view Income/Deductions > Business > 1. Income > Line 15 (Interview Form A-1 Boxes 180-211)
      - Worksheet view Income/Deductions > Business > 5. Deductions > Line 16 (Interview Form A-4 Boxes 139-178)
    - S Corporation
      - Worksheet view Income/Deductions > Business > 1. Income > Line 9 (Interview Form A-1 Boxes 180-211)
      - Worksheet view Income/Deductions > Business > 4. Deductions > Line 15 (Interview Form A-4 Boxes 139-178)
    - Partnership
      - Worksheet view Income/Deductions > Trade or Business > 1. Gross Income > Line 12 (Interview Form A-1 Boxes 146-173)
      - Worksheet view Income/Deductions > Trade or Business > 6. Deductions > Line 16 (Interview Form A-4 Boxes 212-246)
  - These fields will allow more detail statements for the Schedule M-3. Engagement has the new Tax Codes for these fields so that you can create more detailed statements for these items on the Schedule M-3.
  - Worksheet view Income/Deductions > Interest Income (Interview Form B-1 now has Temporary and Permanent columns for Interest Income
    - Dividends is no longer located on this Interview Form B-1
    - Dividends is now on Interview Form B-2. (Which Engagement does not Import to)