



News Release

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IRS Releases Schedules M-3 for Insurance and S Corporations

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WASHINGTON -- The Internal Revenue Service today released draft Schedules M-3 and instructions for corporations that file Forms 1120PC, 1120L and 1120S. When finalized, these Schedules M-3 will be used by property and casualty insurance corporations, life insurance corporations, and S corporations that have total assets of \$10 million or more, starting with tax years ending on or after December 31, 2006.

Schedule M-3 increases transparency of compliance risk in income tax return filings by requiring affected companies to provide a more detailed reconciliation between financial accounting net income and taxable income than in the past.

"The increased disclosure provided by Schedule M-3 enables IRS to more readily distinguish returns with potentially higher compliance risk from those with lower compliance risk. The ability to select or de-select returns for examination more quickly and with more visibility to potential compliance risk will lead to reduced examination cycle time and increased currency. Ultimately that translates to reduced taxpayer burden and improved tax compliance," said Deborah M. Nolan, IRS Large and Mid-Size Business Division Commissioner.

In coming months IRS and Treasury plan to meet with affected stakeholder groups to discuss the new Schedules M-3 and instructions. It is expected that the schedules will be finalized this coming summer.

The new draft Schedules M-3 and instructions can be found on IRS.gov. The drafts are located on the "corporations" page, which can be accessed from Web site section that provides information for businesses. The Web site also offers interested taxpayers a subscription to the Schedule M-3 email news service so they can automatically receive future information about Schedule M-3.

During the first year taxpayers are required to file Schedule M-3, certain portions will be optional as was the case with Schedule M-3 for C-corporation Form 1120 filers.

The draft instructions for the Schedules M-3 released today were modeled after the 2005 Form 1120 M-3 instructions released for comment on June 23, 2005. Final changes to the 2005 Form 1120 M-3 instructions are expected later in December 2005 and will be incorporated into the new Schedules M-3 released today following the comment period.

IRS is seeking comments regarding the new draft Schedules M-3 for Forms 1120PC, 1120L and 1120S. Comments should be submitted by February 10, 2006 to:

Judy McNamara
Internal Revenue Service
860 E. Algonquin Road
Schaumburg, IL 60173
Email address SchM3@irs.gov (preferred)
Telephone number: 312-566-2001, Ext. 9380

Schedule M-3 for Form 1120 corporate tax filers was introduced last year, and IRS expects to release a Form 1065 Schedule M-3 shortly.

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