Corporate & Individual Tax Reconciliations (Form 1120 M-1) Cheat Sheet

Schedule M-1 & M-3 Book-to-Tax Reconciliations, Permanent vs. Temporary Tax Adjustments | IRS Form 1120

1. FORM 1120 SCHEDULE M-1 BOOK-TO-TAX RECONCILING ENGINE

Schedule M-1 Section	Income Adjustment Mechanics	Key Adjustment Items
Line 1: Net Income Per Books	Starting point taken directly from audited GAAP Income Statement.	Pre-tax or post-tax accounting net income.
ADDITIONS to Book Income (Lines 2 - 5)	Items that increase Taxable Income relative to Book Income: • **Expenses on Books NOT on Tax Return** • **Income on Tax Return NOT on Books**	• **Federal Income Tax Expense** (non-deductible) • **50% Business Meals Disallowance** • Fines and government penalties • Excess of Book Depreciation over Tax MACRS • Prepaid rent/royalties received in cash
SUBTRACTIONS from Book Income (Lines 7 - 8)	Items that decrease Taxable Income relative to Book Income: • **Income on Books NOT on Tax Return** • **Deductions on Tax Return NOT on Books**	• **Municipal Bond Interest** (tax-exempt) • Life insurance proceeds on key officers • **Excess of Tax MACRS over Book Depreciation** (Section 179 / Bonus) • Net Operating Loss (NOL) carryforwards
Line 10: Taxable Income	**Taxable Income = Book Net Income + Additions - Subtractions**	Transfers directly to Form 1120 Page 1, Line 28/30 to calculate corporate tax.

2. PERMANENT VS. TEMPORARY M-1 ITEMS SUMMARY TABLE

Item Description	Book vs. Tax Timing	Difference Classification
Tax-Exempt Municipal Interest	Included in Book Income; NEVER included on Tax Return.	**Permanent Difference** (Reduces ETR; no DTA/DTL)
Meals & Entertainment	100% expensed in Book; 50% non-deductible for tax; entertainment 0%.	**Permanent Difference** (Increases ETR; no DTA/DTL)
MACRS vs. Straight-Line Depreciation	Tax takes accelerated MACRS in early years; Book takes straight-line.	**Temporary Difference** (Creates Deferred Tax Liability)
Warranty Liability Accrual	Expensed under GAAP matching; deducted on tax return only when paid.	**Temporary Difference** (Creates Deferred Tax Asset)