2011–2012 Schedule M-3 Profiles of Schedule UTP Filers by IRC Section Cited*

Charles Boynton, Ellen Legel, and Lisa Rupert, Large Business and International Division, Internal Revenue Service, *and Portia DeFilippes,* Office of Tax Analysis, U.S. Department of the Treasury[1]

Part I. Schedules M-3 and UTP Background

1. Schedule M-3 Overview

Taxpayers prepare corporate and partnership tax returns by adjusting amounts from their financial statements or books and records. The goal of the Schedule M-3 reconciliation is to increase taxpayer transparency to the Internal Revenue Service (IRS) with respect to the book-to-tax differences (BTD) resulting from adjustments made to financial statements or books and records in preparing the tax return and to assist the IRS in selecting returns and issues for audit where tax compliance risk is present and in not selecting returns and issues where such risk is not present.

Schedule M-3 was first introduced in 2004 for U.S. corporations with total assets of $10 million or more filing U.S. income tax return Form 1120. It replaced four decades of use of the less structured Schedule M-1 for these corporations for the required reconciliation of financial statement income to tax income.[2]

A Treasury report in 1999 and Treasury testimony in 2000 by Assistant Secretary (Tax Policy) Jonathan Talisman viewed the 1990s widening difference between the sum of corporate financial statement income (book income) and Federal income tax expense reported on Form 1120, Schedule M-1, lines 1 and 2, and tax income reported on Form 1120, page 1, line 28, as a possible indicator of corporate tax shelter activity, but also noted the difficulty in interpreting Schedule M-1 BTD data.[3]

Mills and Plesko (2003) proposed a redesign of Schedule M-1 to increase the transparency of the corporate book-to-tax reconciliation and to improve data interpretability.[4] The Mills and Plesko (2003) Schedule M-1 redesign recommendations are largely reflected in Schedule M-3, particularly in Part I.[5]

Schedule M-3, Part I, is important and unique in tax reporting in that it lists the adjustments made to worldwide consolidated income in the parent corporation's financial statements to determine the book income

* First published in *Tax Notes* Volume 149, No. 2, (October 12, 2015), page 249. Reprinted with permission. Prepared for the 2015 IRS-TPC Research Conference.

1 The opinions expressed are those of the authors and do not necessarily represent positions of the U.S. Department of the Treasury or the Internal Revenue Service.

2 The current paper repeats certain material from Boynton, DeFilippes, and Legel (2005, 2006a, 2006b, and 2008), Boynton, DeFilippes, Legel, and Reum (2011 and 2014), Boynton, DeFilippes, Legel, and Rupert (2014), Boynton and Wilson (2006), and Boynton and Livingston (2010) used with permission. Our tax return table values may not add due to rounding. The SOI corporate data file for year *t* includes all tax years ending between July of Calendar Year *t* and June of Calendar Year *t*+1. Effective for tax years ending on or after December 31, 2004, Schedule M-3 replaced Schedule M-1 for corporations filing Form 1120 and reporting total assets of $10 million or more on Form 1120, Schedule L. Effective for tax years ending on or after December 31, 2006, for corporations with total assets of $10 million or more, Schedule M-3 applies to Form 1120S for S corporations, to Form 1120-C for cooperative associations, and to Form 1120-L for life insurance companies and Form 1120-PC for property and casualty insurance companies. Effective for tax years ending on or after December 31, 2006, Schedule M-3 also applies to Forms 1065 and 1065-B for partnerships with total assets of $10 million or more and to certain other partnerships. Effective for tax years ending on or after December 31, 2007, a special Schedule M-3 applies to Form 1120-F for foreign corporations with effectively connected U.S. income and total assets of $10 million or more. Schedule M-1 continues to apply to Form 1120-RIC for regulated investment companies, to Form 1120-REIT for real estate investment trusts, and to all corporations with total assets of less than $10 million. Effective for tax years ending December 31, 2014, and later, corporations and partnerships with $10 million or more in assets but less than $50 million in assets and those partnerships with less than $10 million in assets required to file Schedule M-3 would be permitted to file Schedule M-3, Part I, and to file Schedule M-1 in place of Schedule M-3, Parts II and III, if they so choose.

3 See U.S. Department of the Treasury (1999) and Talisman (2000). See also Mills (1998) cited by Treasury (1999, page 32, note 118).

4 See Mills and Plesko (2003) for the proposed redesign of Schedule M-1.

5 For a discussion of the development of Schedule M-3, see Boynton and Mills (2004).

of the includible corporations in the tax return.[6] We also use Part I data to identify each corporation financial statement type as Securities and Exchange Commission (SEC) 10K/Public, Audited, or Unaudited.[7]

Schedule M-3, Parts II and III, are a more structured listing of BTD than Schedule M-1 and specify a number of fixed categories as well as two "other with difference" categories. The fixed categories are machine readable. The book income and tax income amounts generating the BTD are listed as well as the BTD and the name for the line.

On Schedule M-3, Parts II and III, BTD are characterized as temporary or permanent. Temporary differences are items of income or expense that are recognized for both financial and tax reporting, but appear in different time periods. Permanent differences are items of income or expense that are recognized for either financial or tax reporting, but not both.[8]

Parts II and III contain four columns. Column (a) represents financial statement (book) income or expense amounts using the financial statement source determined in Part I. Column (d) represents amounts as shown on the tax return. The BTD between the amount shown in column (a) and the amount shown in column (d) is reported either as a temporary difference amount in column (b) or as a permanent difference amount in column (c).

Note that on Schedule M-3, a negative total BTD adjustment occurs if tax income is below book income. Further note that in our study we conform the sign of Part III data to agree with Part II so that a negative book income or tax income item always reduces total book income or tax income and a negative BTD reduces tax income.[9]

We impose certain minimum reconciliation requirements on the returns included in our study.[10]

This is the eighth paper in a series of articles by the authors researching the differences between financial statement income (often called book income) and tax income as reported on U.S. corporate income tax returns.[11] This eighth paper compares 2011–2012 Schedule M-3 and Form 1120 tax return data profiles for Schedule

---

[6] A major problem with interpreting Schedule M-1 data in the past was the fact that the taxpayer was allowed to report a starting Schedule M-1, line 1, book income amount without reconciling the reported book income amount to financial accounting income on the taxpayer's financial statements. *Schedule M-3, Part I, line 11, defines the starting book income for the book-to-tax reconciliation in Parts II and III.* The May 10, 2013, IRS notice, effective December 31, 2014, permitting the use of Schedule M-1 by corporations and partnerships with $10 million but less than $50 million in assets in place of Schedule M-3, Parts II and III, requires Schedule M-3, Part I, and requires that Schedule M-1, line 1, book income must equal Schedule M-3, line 11.

[7] We define "SEC 10K/Public" to include any tax return on which: (1) Schedule M-3, Part I, line 1a, indicated that an SEC 10K was filed; or (2) Part I, line 3a, indicated that the corporation had publicly traded common stock. Some firms indicate the first without the second which may mean publicly traded debt or a reporting error. Other firms report the second without the first suggesting a reporting error. We make use of the presence of either indicator. We define "Audited" to include any tax return on which Schedule M-3, Part I, line 1b, indicates that certified audited financial statements were prepared and our requirements for "SEC 10K/Public" are not met. We define "Unaudited" to include all other returns.

[8] Temporary differences are important in tax administration because they may identify that an item is being included in the wrong tax year. For example, deferring the recognition of $1 billion of income for 30 years (or accelerating the recognition of $1 billion of deductions by 30 years) involves a substantial time value of money change in the value of the tax due. In contrast to temporary differences, permanent differences are adjustments that arise as a result of fundamental permanent differences in financial and tax accounting rules. These differences result from transactions that will not reverse in subsequent periods. In financial statements reporting under generally accepted accounting principles (GAAP), permanent differences are not considered in the FAS No.109 (ASC 740) computation of deferred tax assets and liabilities, but do have a direct impact on the effective tax rate. Therefore, permanent differences have the potential to substantially influence reported financial earnings per share computations, and, in the case of public companies, stock prices. Accordingly, permanent differences of a given size may represent a greater audit risk than temporary differences of the same size.

[9] See Section 3 of this report for a discussion of sign conventions.

[10] Some companies with assets less than $10 million voluntarily filed Schedule M-3. We do not analyze that data. Our minimum reconciliation tests require Schedule M-3 data agreement within tolerances of 1 percent of the maximum absolute value of the amounts on Part II, line 30, for income between Part I, line 11, and Part II, line 30, column (a), and for expenses/deductions between Part III, line 38 (line 36 through 2009), and the carryover line Part II, line 27. *In addition, effective for data from the 2012 SOI corporate file, we require that the amounts reported on Part I, lines 4a through line 10, reconcile with the total amount reported on line 11. If Part I, lines 4a to line 10, are blank, we set Part I, line 4a, worldwide income, to line 11, book income.* The reconciliations of the subset of corporations meeting our minimum data and reconciliation tests for this 2011–2012 Schedule M-3 study with the full 2011 and 2012 SOI corporate files are presented in Distribution Table D3 of the full M-3 First Look data sets for 2011 and 2012 available on request.

[11] See Boynton, DeFilippes, and Legel (2005, 2006a, 2006b, and 2008), Boynton, DeFilippes, Legel, and Reum (2011 and 2014) and Boynton, DeFilippes, Legel, and Rupert (2014). The first two articles analyze corporate Form 1120, Schedule M-1, reporting for Tax Years 1990-2003. The third paper in this series analyzes advance file data for the 2004 corporate Form 1120, Schedule M-3. The fourth paper analyzes final data for the 2005 corporate Form 1120, Schedule M-3, and updates the prior 2004 report using final 2004 data. The fifth paper analyzes final data for the 2006 and 2007 corporate Form 1120, Schedule M-3, as well as earlier Schedule M-1 data from 1994 through 2005 and Schedule M-3 data from 2004–2005 . The sixth paper analyzes final data for 2008, 2009, and 2010 corporate Form 1120, Schedule M-3, as well as earlier Schedule M-3 data for 2006 and 2007 and information on 2010 Schedule UTP filing status. The seventh paper analyzes the Schedule M-3 profiles of Schedule UTP filers and nonfilers with $100 million or more in assets in 2010 and 2011.

UTP (Uncertain Tax Position Statement) filers and nonfilers.[12] For Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets, the study further compares Schedule M-3 profiles of corporations that cite or do not cite, on Schedule UTP, Part I, any of the five most commonly cited Internal Revenue Code (IRC) sections: 482 (transfer pricing); 41 (research credit); 162 (trade or business expense); 199 (domestic production activities deduction); and 263 (capitalized cost).

2. *Schedule M-3 versus Schedule UTP*

Schedule M-3 was introduced in 2004 for corporations with assets of $10 million or more in order to assist the IRS in reconciling financial statement income to tax income including identifying temporary and permanent BTD. Taxpayers prepare corporate and partnership tax returns by adjusting amounts from their financial statements. The goal is to increase taxpayer transparency with respect to the adjustments made to the financial statements to prepare the tax return. Many but not all of the items that must be listed on Schedule UTP generate or impact BTD that must be included on Schedule M-3. Schedule M-3 reports dollar amounts; Schedule UTP does not.

Schedule UTP was introduced in 2010 for corporations with assets of $100 million or more with audited financial statements reporting uncertain tax positions in the income tax footnote and for certain related corporations.[13] The purpose was to share with the IRS some of the taxpayer information calculated as part of preparing the income tax footnote for the financial statements.[14] The goal was to increase taxpayer transparency with respect to items giving rise to Federal income tax UTPs in the taxpayer's financial statements.

Schedule UTP asks for relevant code sections and a concise description of issues, *without dollar amounts*, for the UTPs that affect the financial statements' reported U.S. Federal income tax liabilities of certain corporations that issue or are included in audited financial statements. The corporate asset reporting threshold is assets of $100 million or more in tax years beginning in 2010 and 2011, $50 million or more in tax years beginning in 2012 and 2013, and $10 million or more in tax years beginning in 2014 or later.[15]

Items listed on the Schedule UTP relate to amounts and/or positions reported on other forms or schedules of the current tax return or a prior tax return. Many of the Schedule UTP items relate to the temporary or permanent BTD reported on Parts II and III of the Schedule M-3. (Note that adjustments can be made during an examination for amounts reported on Part I of the Schedule M-3 due to errors in the calculations of the income/(loss) of the includible and excludable entities. However, it is unlikely taxpayers would report a Schedule UTP item that would relate to whether an entity should be included or excluded from the U.S. consolidated tax return group.) Other Schedule UTP items may relate to tax credit amounts or international issues that are not reported on the Schedule M-3, but are instead reported on the forms and schedules specific to those items (i.e., Form 6765, *Credit for Increasing Research Activities*, or Form 5471, *Information Return of U.S. Persons with Respect to Certain Foreign Corporations*).[16]

---

[12] The asset threshold that requires filing of Schedule UTP is $100 million or more, effective for tax years beginning in 2010 or later, $50 million or more for tax years beginning in 2012 or later, and $10 million or more for tax years beginning in 2014 or later. Other conditions also apply as discussed in the next section. Except as otherwise indicated, this study is limited to Schedule UTP filers and nonfilers with SEC 10K/Public financial statements and $100 million or more in assets. A Schedule UTP filer may file because it is required to file or because it files voluntarily. A Schedule UTP nonfiler may be a nonfiler either because it is not required to file or because it is required to file but failed to file. For tax years beginning in 2012 and later, the asset threshold for Schedule UTP drops to $50 million or more. This study does not include the new asset range of $50 million to $100 million for Schedule UTP in the detailed analysis in Part III because a 2-year comparison is not possible.

[13] For a discussion of the uncertain tax positions reported on Schedule UTP and an analysis of how Schedule UTP reporting requirements affect corporate tax and financial reporting behavior, see Towery (2015).

[14] Footnote reporting of uncertain tax positions is required by U.S. GAAP under FAS No. 109 (ASC 740) and FIN 48 (ASC 740–10).

[15] Schedule UTP requires the reporting of each U.S. Federal income tax position taken by an applicable corporation on its U.S. Federal income tax return for which two conditions are satisfied: (1) The corporation has taken a tax position on its U.S. Federal income tax return for the current tax year or for a prior tax year; and (2) either the corporation or a related party has recorded a reserve with respect to that tax position for U.S. Federal income tax in audited financial statements, or the corporation or related party did not record a reserve for that tax position because the corporation expects to litigate the position. A tax position for which a reserve was recorded (or for which no reserve was recorded because of an expectation to litigate) must be reported regardless of whether the audited financial statements are prepared based on U.S. GAAP, International Financial Reporting Standards (IFRS), or other country-specific accounting standards, including a modified version of any of the above (for example, modified GAAP).

[16] Although Schedule M-3 does not deal with credits, a direct correlation may exist between an item on Schedule M-3 and a credit. For example, there is a direct correlation between Schedule M-3 R&D costs on Part III, line 36, column (d), and credit-eligible expenses on Form 6765, and therefore with the R&D credit. IRC section 41 relating to the R&D credit is the most frequent code section cited in 2011 and 2012 on Schedule UTP, Part I. The second frequent code section cited is IRC section 482 relating to transfer pricing.

Summary

- Schedule M-3:
  - Schedule M-3 is a crosswalk from the taxpayer's financial statements to their tax return.
  - Part I removes the income (loss) of all entities included in the financial statements but not included in the consolidated tax return and adds the income (loss) of all entities not included in the financial statements but included in the consolidated tax return.
  - Parts II and III require taxpayers to report the dollar amounts of the temporary and permanent adjustments they make to create their tax return from their financial statements as well as the initial book income and final tax income amounts for each scheduled item.
- Schedule UTP:
  - Schedule UTP reports the Federal income tax UTPs reserved on the taxpayer's financial statements with respect to items on the tax return the taxpayer acknowledges the IRS may challenge.
  - Schedule UTP discloses relevant IR Code sections and provides a concise description of the UTPs *without reporting the dollar amounts.*
  - Items listed on Schedule UTP may relate to the amounts reported on Schedule M-3.
  - Some items reported on Schedule UTP may relate to items not reported on Schedule M-3 (i.e., tax credit items).[17]

Schedule M-3 and Schedule UTP are complementary sources of taxpayer transparency that do not overlap and do not contain duplicative information.

3. Book-to-Tax Differences (BTD) and Signs

Book income is the financial statement income of the entity filing a corporation or partnership income tax return. For consolidated corporations filing U.S. Form 1120, book income is the consolidated financial statement income of the includible corporations joining in the consolidated tax return and will often differ from the worldwide consolidated income reported by the parent corporation's worldwide consolidated financial statements. Schedule M-3, Part I, reconciles worldwide consolidated financial statement income to book income.

We compare pretax book income (book income measured before Federal income tax expense) with tax income and calculate BTD as pretax differences, consistent with the BTD literature since Talisman (2000).[18]

The BTD literature prior to the introduction of Schedule M-3 defined the sign of the difference between pretax book income and tax income as "book minus tax" resulting in a positive difference if the book amount *is higher* than the tax amount. Schedule M-3 reverses this prior convention to "tax minus book" by its reconciliation rules.

For Schedule M-3 the temporary and permanent adjustment amounts reported in columns (b) and (c) of Parts II and III are the amounts that are *added* to column (a) book income to determine column (d) tax income. A *positive* total BTD in columns (b) and (c) of Schedule M-3, Parts II and III, means that the tax amount is *higher* than the book amount. A *negative* total BTD in columns (b) and (c) of Schedule M-3, Parts II and III, means that the tax amount is *lower* than the book amount.

In our report the sign of Schedule M-3, Part III, expense/deduction data including BTD has been changed to agree with the effect of such expense/deduction items and BTD on net income reported on Part II, line 30. If a Part III expense/deduction item or BTD reduces Part II, line 30, net income, it is shown as a negative amount in our report.[19]

---

17 See prior footnote on R&D credits and Schedule M-3.

18 We calculate total pretax book income and total pretax temporary and permanent BTD by adding back Federal income tax expense and differences reported on Schedule M-3, Part III, lines 1 and 2, columns (a), (b), and (c), to book income and differences reported on Schedule M-3, Part II, line 30, columns (a), (b), and (c), column by column. Total BTD is the sum of total temporary and permanent BTD.

19 Schedule M-3 instructions require that column (a) book expense and column (d) tax deduction amounts that reduce net book income and reduce net tax income be shown on Part III as positive amounts. However, some taxpayers fail to follow the instructions. For a discussion of the problem and how we deal with it, see Boynton, DeFilippes, and Legel (2006b and 2008) and Boynton, DeFilippes, Legel, and Reum (2011).

4. *Source of Schedules M-3 Data and UTP Status*

A weighted statistical sample of tax return data is electronically encoded annually by the IRS Statistics of Income (SOI) Division for use by Treasury's Office of Tax Analysis (OTA), and the congressional Joint Committee on Taxation (JCT).[20] Planning, Analysis, Inventory, and Research (PAIR), within the IRS Large Business & International Division (LB&I), also receives a copy of the file.[21] The SOI corporate file includes Schedule M-1 data and, beginning with the 2004 file, Schedule M-3 data. Starting with 2010, the SOI corporate file reports if the taxpayer indicates on Form 1120, Schedule K, that Schedule UTP is required, if a Schedule UTP, Part I, identifying a UTP is attached to the return with any data, and the number of lines on Schedule UTP, Part I, with any data on the line.[22] The 2012 SOI corporate file was issued to OTA, JCT, and LB&I in October 2014.[23]

Beginning May 2011, researchers using SOI data must report tax data as an aggregate for a minimum of five taxpayers to protect taxpayer confidentiality.[24] For statistical reasons, SOI prefers that reported aggregate data are for 10 or more taxpayers when possible.[25]

5. *Limits of Schedule M-3 Data*

With the exception of Schedule M-3, Part I, amounts reported on the Form 1120 tax return and the Schedule M-3, Parts II and III:

- are limited to the tax information and pretax book income information of the includible corporations in the tax consolidated return; and
- do not include the tax information or pretax book income information of the nonincludible corporations and partnerships (both foreign and domestic) that are included in the worldwide consolidated after-tax income reported on Schedule M-3, Part I, line 4 (the worldwide book income reported in the financial statements for consolidated book purposes).

The after-tax income of the nonincludible corporations and partnerships is removed, in gross after-tax amounts, on Schedule M-3, Part I, lines 5 and 6, as one step in determining the book income of the includible corporations reported on Schedule M-3, Part I, line 11.

Form 1120 tax return and Schedule M-3 data do not yield generalizations about the financial statement pretax consolidated worldwide income. In particular, amounts reported on Form 1120 and Schedule M-3 do not provide the data needed to calculate the pretax worldwide effective tax rate for the entities included in the worldwide financial statements.

---

20 The SOI corporate file is a statistical sample. The record for a smaller tax return (usually measured by total assets) may be weighted to represent more than one tax return. Generally tax returns for corporations with $50 million or more in assets have a weight of one, that is, the record represents only itself. The record for a smaller tax return generally has a weight greater than one (for example five), that is, the record represents several similar tax returns (for example, five tax returns). The SOI corporate data file for year *t* includes all tax years ending between July of Calendar Year *t* and June of Calendar Year *t+1*.

21 Use of the SOI file by PAIR and LB&I is limited under a formal Memorandum of Understanding between SOI and LB&I to research studies. SOI file data are not used for IRS audit case building.

22 The regular 2011 and 2012 SOI corporate files do not tabulate what is reported on Schedule UTP, Part I, and do not report if an attached Schedule UTP, Part I, contains relevant data. A special SOI supplement to each of the regular 2011 and 2012 SOI corporate files tabulates the limited information reported on Schedule UTP, Part I, lines 1 through 10, for current year UTPs such as IRC sections cited, temporary and permanent effect, whether the position is a major position, and relative rank of the position. Part II, relating to prior-year UTPs, and Part III, relating to the concise descriptions for the positions listed in Parts I and II, are not tabulated by SOI.

23 The final SOI corporate file may contain placeholder records representing returns for some reason not available at the time the SOI file is issued but desired by SOI for statistical purposes. Placeholder data are commonly the edited return data from the prior tax year, but may also be current-year data from the IRS Business Master File (limited return data tabulated by the IRS when the return is first received and processed) or data from the IRS Employee User Portal. Placeholder returns are not included in the Schedule M-3 First Look data files.

24 Prior to May 2011, the minimum aggregation requirement for SOI and for other government agencies was data aggregation for three or more taxpayers or individuals. SOI has increased the required minimum for the use of SOI data to five or more. The change for SOI data applies to Tax Year 2008 and to new studies of data from earlier tax years. A data count of zero is permitted. Tests must be performed to assure that data cannot be generated by subtraction that would violate the minimum aggregation requirement. For a discussion of the older requirement of three or more taxpayers or individuals for aggregate data, see U.S. Office of Management and Budget Working Paper 22 (2005) and IRS Publication 1075 (Rev 2007).

25 Our tax return table values may not add and may differ from official 2011 and 2012 SOI values due to rounding. SOI publications do not include Schedules M-1 or M-3 data. Prior to the publication of Boynton, DeFilippes, and Legel (2005 and 2006a), only Plesko (2002) (for 1996–1998) and Plesko and Shumofsky (2005) (for 1995–2001) presented public Schedule M-1 data for the SOI corporate file population. The year-by-year reconciliations of the subset of corporations meeting our minimum data and reconciliation tests for this 2011–2012 Schedule M-3 study with the full 2011–2012 SOI corporate files are presented in Distribution Table D3 of the full M-3 First Look data set for each year, 2011–2012, available on request. Our minimum data and reconciliation tests require that Part I, line 11, and Part II, line 30, column (a), agree and that Part III, line 38, and Part II, line 27, agree within 1 percent of the maximum absolute value of the amounts on Part II, line 30. In addition, effective for data from the 2012 SOI corporate file, we require that the amounts reported on Part I, line 4a through line 10, reconcile with the total amount reported on line 11. If Part I, line 4a to line 10, are blank, we set Part I, line 4a, worldwide income to line 11, book income.

6. Reconciling Counts of Schedule UTP

The number of Schedule UTP reported in this paper for Tax Years 2011 and 2012 differ from the number reported by the LB&I Schedule UTP Web page for the 2011 and 2012 form years.[26] The differences are a result of: (1) including different corporate income tax return forms (LB&I counts include Form 1120-F and Forms 1120, 1120-L, and 1120-PC filed by parents of insurance companies, and this report does not); (2) using different tax year ending months for Tax Years 2011 and 2012 (for example, July 2012 to June 2013 for SOI Tax Year 2012 versus December 2012 to November 2013 for LB&I Form Year 2012); (3) using different standards as to whether Schedule UTP is filed (this study requires only that either SOI reports that on Form 1120, Schedule K, line 10, the taxpayer indicates Schedule UTP is required or SOI indicates Schedule UTP, Part I, Current Year, is present and has one or more lines with data; LB&I requires both Schedule UTP, Parts I, Current Year, or II, Prior Year ,and also requires Part III, Concise Descriptions);[27] and (4) different minimum asset recognition thresholds (LB&I includes Schedule UTP filing by a corporation without regard to assets and, except as otherwise noted, this study includes only corporations with assets of $100 million or more).

The frequency of Schedule UTP filers citing an IRC section reported in this paper for Tax Years 2011 and 2012 differ from the frequency reported by the LB&I Schedule UTP Web page for the 2011 and 2012 form years for the frequency of UTPs described by an IRC section. The differences are a result of: (1) differences discussed in the prior paragraph in the Schedule UTP included for Tax Years 2011 and 2012 for this study and the Schedule UTP included in Form Years 2011 and 2012 for the LB&I Schedule UTP Web page; (2) this study reports the frequency with which an IRC section is cited by any Schedule UTP filer for any UTP (note that taxpayers may cite up to three IRC sections for any UTP and may cite a particular IRC section for more than one UTP); and (3) the LB&I Schedule UTP Web page reports the frequency with which UTP concise statements across all Schedule UTP filers are categorized in terms of a single most descriptive IRC section. (The LB&I Schedule UTP team determines a single most descriptive IRC section for each UTP concise description, which may differ from the IRC sections cited by the taxpayer.)

7. Mini M-3: Specified versus Other Lines

The “other-with-difference” lines on Schedule M-3 with BTD are Part II, line 25, and Part III, line 37. The “other-with-no-difference” line is Part II, line 28. In two prior studies in this series we noted both the large dollar magnitude of the book income, tax income, and BTD amounts reported on the “other-with-difference” lines and the documentation problems found on the lines.[28]

We use a “Mini M-3” format to compare the aggregate amounts reported on the Schedule M-3, Parts II and III, “other-with-difference” or “other-with-no-difference” lines, with the aggregate amounts reported on the Schedule M-3, Parts II and III, “specified” lines, that is, the lines with specific captions.[29]

A Schedule M-3 cost-of-goods-sold (COGS) adjustment discussed in the next section is used to remove the cost of securities, commodity contracts, and other financial products reported in COGS by some corporations and to reconcile to the COGS amount reported by the IRS SOI corporate data file. The Mini M-3 format also makes related special adjustments to other-income-with-difference and other-items-with-no-difference lines and decomposes the adjusted other-items-with-no-difference line into other-income-with-no-difference and other-expense/deduction-with-no-difference lines. Finally, the other-income-with-no-difference line is adjusted to reconcile to the gross receipts amount reported by the IRS SOI corporate data file.

---

[26] The LB&I Schedule UTP Web page is at http://www.irs.gov/Businesses/Corporations/UTPFilingStatistics.

[27] The regular 2011 and 2012 SOI corporate files do not tabulate what is reported on Schedule UTP, Part I, and do not report if an attached Schedule UTP, Part I, contains relevant data. A special SOI supplement to each of the regular 2011 and 2012 SOI corporate files tabulates the limited information reported on Schedule UTP, Part I, lines 1 through 10, for current year UTPs, such as IRC sections cited, temporary and permanent effect, whether the position is a major position, and relative rank of the position. Part II, relating to prior-year UTPs, and Part III, relating to the concise descriptions for the positions listed in Parts I and II, are not tabulated by SOI.

[28] For discussions of the other-with-difference documentation by large taxpayers in 2005 and 2007, see Boynton, DeFilippes, and Legel (2008) and Boynton, DeFilippes, Legel, and Reum (2011).

[29] Amounts reported on the other-with-difference lines require attached documentation. The documentation must separately state and adequately disclose the BTD for the line. The other-items-with-no-difference line has no documentation. Reporting on the other-with-difference lines is similar to but more detailed than reporting on Schedule M-1. Both allow descriptions determined by the taxpayer. Schedule M-1 requires only a description and a BTD. Schedule M-3 requires a description, a book income amount, a temporary BTD amount, a permanent BTD amount, and a tax income amount.

After making the data adjustments, the Mini M-3 format has 10 categories of specified lines, other-with-difference or no-difference lines, and subtotals or totals:[30]

- Other income with no difference (Part II, line 28, adjusted) (gross receipts);
- COGS (Part II, line 17, adjusted);
- Adjusted gross profit;
- Specified income (Part II, lines 1–16, 18–24, and 29a–29c);
- Other income with difference (Part II, line 25, adjusted);
- Adjusted total income;
- Specified expense/deduction (Part III, lines 3–36);[31]
- Other expense/deduction with difference (Part III, line 37);
- Other expense/deduction with no difference (an adjustment to Part II, line 28); and
- Pretax book income.

We used the adjusted-total-income book amount as a common-size scaling factor and compare percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers and nonfilers for the three financial statement types, total pretax income BTD is expressed as a percentage of total pretax book income.

8. *COGS and Other Adjustments*

We make a Schedule M-3 COGS adjustment for the Mini M-3. The adjustment reconciles the Schedule M-3 COGS tax income amount with Form 1120, page 1, line 2, COGS reported by SOI for the corporations in our study. SOI removes the cost of securities, commodity contracts, and other financial products reported in Form 1120, page 1, line 2, COGS.[32] We make the equal adjustments to Part II, line 17, COGS book income and tax income with the result that COGS BTD are not changed. SOI also makes adjustments to Form 1120, page 1, line 1, gross receipts to match the amounts SOI removes from COGS. We match our COGS adjustments with adjustments to other-income-with-difference and to other-items-with-no-difference. We also decompose the adjusted other-items-with-no-difference into other-income-with-no difference and other-expense/deduction-with-no difference.[33] Finally, the other-income-with-no difference line is adjusted to reconcile to the gross receipts amount reported by the SOI corporate data file.

SOI has adjusted Form 1120, page 1, line 1, gross receipts and line 2, COGS; Schedule A, COGS; and Schedule L, inventory amounts, since the 1980s to remove the cost of securities and commodities transactions. SOI-adjusted COGS, gross receipts, and inventory amounts are used by the Bureau of Economic Analysis (BEA) for national income accounts. At the request of OTA, SOI has not adjusted Schedule M-3 data since their introduction in 2004.

We wish to develop a consistent Schedule M-3 measure of total book income before expenses to scale or common-size book income and tax income components and book expense and tax deduction components for different size corporations. Adopting the SOI adjustments to COGS and gross receipts facilitates development of a consistent measure of total income applicable to different size corporations.[34]

---

[30] All BTD in adjusted gross profit are from adjusted COGS. The adjustments we make to COGS are made equally to the unadjusted book amount and tax amount and have no effect on the BTD.

[31] We exclude Federal income tax expense reported on Schedule M-3, Part III, lines 1 and 2, from our pretax analysis. See our discussion of pretax income and BTD in Section 3 of this study.

[32] Note that changes on the SOI corporate file do not change the amounts on the tax return and do not impact IRS audits (or lack of audits) for corporate tax returns.

[33] We have introduced adjustment lines into our 2011–2012 M-3 First Look FORM tables to show the frequency of adjustment and the amounts needed to reconcile Schedule M-3, Part II, line 17, COGS to the SOI amount reported for Form 1120, page 1, line 2.

[34] Aggregate unadjusted book income and tax income reported on Schedule M-3, Part II, line 26, for all corporations are both *negative* because the large absolute amount of COGS for all corporations on Part II, line 17, exceeds the income reported on the specified income lines and the other-income-with-difference line combined. A majority of gross receipts is reported on Part II, line 28, other items, with no difference.

We adjust 2012 Schedule M-3 COGS book and tax income amounts to agree with the SOI Form 1120, page 1, line 2, COGS. In doing so, we need to determine where on Schedule M-3 to make the matching gross receipts adjustment. Using 2010 data, we developed a rule to allocate the matching gross receipts reduction between Schedule M-3, Part II, line 25, other income with difference, and line 28, other items without difference.[35]

In addition, we compare the Form 1120, page 1, line 27, total deduction amount with the total Part III deduction amount carried over to Part II as reported on Part II, line 27, column (d), to determine the total deductions-with-no-difference amount currently included in Part II, line 28, other items with no difference.[36] We then decompose the adjusted other-items-with-no-difference book and tax income amounts into other-income-with-no difference and other-expense/deduction-with-no difference. Finally, the other-income-with-no difference book and tax income amounts are adjusted to reconcile to the gross receipts amount reported by the SOI corporate data file on Form 1120, page 1, line 1, with a matching adjustment to the other-income-with-difference book and tax income amounts on Schedule M-3, Part II, line 25.

The adjustments do not affect pretax net income and do not affect BTD. BTD are not affected by the COGS and other adjustments described because equal adjustments are made to book income and tax income amounts.

We will use the adjusted book income and tax income amounts in our Mini M-3 analysis in Part III of this study and will scale by adjusted total income, the sum of the adjusted other-income-with-no-difference, adjusted COGS, specified-income, and adjusted other-income-with-difference amounts.

Part II. 2011–2012 U.S. Corporation Overview: Asset Size, FS Type, and UTP Status

Part II of this study describes the general population of Schedule UTP filers and nonfilers in terms of asset ranges ($10 million to $100 million, $100 million to $1 billion, and $1 billion or more), by financial statement type (SEC 10K/Public, Audited, Unaudited), and by Schedule UTP filing status (filer or nonfiler).[37]

Part III of this study will focus on data describing characteristics of Schedule UTP filers and nonfilers having SEC 10K/Public financial statements and $100 million or more in assets because of the size and economic importance of such corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more, but with Audited (but not SEC 10K/Public) or Unaudited financial statements.[38]

The LB&I Division of the IRS is responsible for auditing corporations and partnerships with $10 million or more in assets. Tables 1A and 1B along with Tables 2A and 2B highlight relevant Form 1120 corporation income tax return data for LB&I taxpayers with assets greater than $10 million for years 2011 and 2012, respectively.

---

35 We verified our rule on the 2010 data using the top 25 returns which, for 2010, accounted for 99 percent of the aggregate adjustment of approximately $32 trillion. See Boynton, DeFilippes, Legel, and Reum (2014).

36 Our allocation rule:

ADJ COGS1 and ADJ COGS2: If the absolute value of P2L17 column D COGS is greater than Form 1120, page 1, line 2, COGS, then the excess difference is the COGS adjustment and the matching gross receipts adjustment. The adjustments reduce the absolute magnitude of P2L17, P2L25, and P2L28.

ADJ COGS1: The gross receipts adjustment is applied to P2L25 other income with difference if P2L25D other income with difference is greater than P2L28D other income without difference AND P2L25D is greater than 80 percent of the gross receipts adjustment

ELSE use

ADJ COGS2: The gross receipts adjustment goes to P2L28 other income without difference.

ADJ COGS3: If the absolute value of [P2L17 column (d) COGS] is less than [1120, page 1, line 2, COGS], the adjustment is an increase to P2L17 and P2L28 in absolute magnitude.

ADJ EXPDED: We estimate expenses/deductions without differences as the amount if any by which Form 1120, page 1, line 27, total deductions exceed the absolute value of P2L27 column (d). We show it as an additional expense/deduction line and as an increase to P2L28. The adjusted P2L28 amount changes from "other items without difference" to "other income without difference."

37 A Schedule UTP filer may file because it is required to file or because it files voluntarily. A Schedule UTP nonfiler may be a nonfiler either because it is not required to file or because it is required to file but failed to file.

38 For tax years beginning in 2012 and later, the asset threshold for Schedule UTP drops to $50 million or more. This study does not include the new asset range of $50 million to $100 million for Schedule UTP in the detailed analysis in Part III because a 2-year comparison is not possible.

TABLE 1A. UTP Presence by Asset Size and Financial Statement for Tax Year 2011 (Dollar amounts in millions)

	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%
All	41,636	100%	51,095,020	100%	820,641	100%	-776,435	100%	879,279	100%	715,873	100%	190,756	100%	104,882	100%
No Schedule UTP Filed	39,476	95%	15,207,307	30%	50,936	6%	-80,134	10%	76,819	9%	104,741	15%	65,479	34%	15,946	15%
Schedule UTP Filers	2,160	5%	35,887,713	70%	769,705	94%	-696,301	90%	802,460	91%	611,132	85%	125,278	66%	88,936	85%
Assets > $100M	12,307	30%	50,193,758	98%	821,100	100%	-768,079	99%	882,033	100%	721,723	101%	180,792	95%	104,489	100%
No Schedule UTP Filed	10,233	25%	14,310,291	28%	51,096	6%	-72,253	9%	78,817	9%	110,125	15%	55,568	29%	15,577	15%
Schedule UTP Filers	2,074	5%	35,883,467	70%	770,004	94%	-695,826	90%	803,216	91%	611,598	85%	125,224	66%	88,912	85%
IRC 41 Cited	894	2%	12,968,969	25%	401,950	49%	-447,672	58%	396,657	45%	282,142	39%	60,800	32%	27,412	26%
IRC 482 Cited	580	1%	11,900,515	23%	436,914	53%	-547,900	71%	362,366	41%	346,609	48%	51,918	27%	61,459	59%
IRC 162 Cited	266	1%	6,835,859	13%	236,615	29%	-107,329	14%	266,196	30%	202,600	28%	35,093	18%	38,649	37%
IRC 199 Cited	184	0%	3,555,282	7%	219,551	27%	-164,848	21%	222,904	25%	209,271	29%	31,877	17%	38,495	37%
IRC 263 Cited	121	0%	3,203,219	6%	105,703	13%	-74,662	10%	131,983	15%	87,612	12%	18,169	10%	16,498	16%
Assets > $1B	2,751	7%	47,199,385	92%	782,195	95%	-753,264	97%	833,435	95%	687,664	96%	157,550	83%	101,499	97%
No Schedule UTP Filed	1,679	4%	11,711,321	23%	24,801	3%	-64,184	8%	41,953	5%	88,008	12%	37,266	20%	13,533	13%
Schedule UTP Filers	1,072	3%	35,488,064	69%	757,395	92%	-689,080	89%	791,482	90%	599,656	84%	120,283	63%	87,966	84%
IRC 41 Cited	412	1%	12,775,960	25%	395,007	48%	-444,033	57%	390,541	44%	276,399	39%	58,363	31%	27,010	26%
IRC 482 Cited	360	1%	11,806,232	23%	432,743	53%	-544,478	70%	358,381	41%	342,434	48%	50,789	27%	60,883	58%
IRC 162 Cited	203	0%	6,805,328	13%	235,094	29%	-106,177	14%	264,557	30%	200,591	28%	34,488	18%	38,502	37%
IRC 199 Cited	123	0%	3,528,857	7%	216,904	26%	-163,805	21%	220,023	25%	206,980	29%	31,248	16%	38,362	37%
IRC 263 Cited	100	0%	3,193,308	6%	105,202	13%	-74,655	10%	131,367	15%	87,342	12%	18,079	9%	16,465	16%
$100M < Assets < $1B	9,556	23%	2,994,373	6%	38,905	5%	-14,814	2%	48,597	6%	34,058	5%	23,241	12%	2,990	3%
No Schedule UTP Filed	8,554	21%	2,598,970	5%	26,295	3%	-8,068	1%	36,863	4%	22,116	3%	18,301	10%	2,044	2%
Schedule UTP Filers	1,002	2%	395,403	1%	12,610	2%	-6,746	1%	11,734	1%	11,942	2%	4,940	3%	946	1%
IRC 41 Cited	482	1%	193,009	0%	6,942	1%	-3,639	0%	6,116	1%	5,743	1%	2,437	1%	402	0%
IRC 482 Cited	220	1%	94,283	0%	4,171	1%	-3,422	0%	3,985	0%	4,175	1%	1,130	1%	576	1%
IRC 162 Cited	63	0%	30,531	0%	1,521	0%	-1,152	0%	1,639	0%	2,009	0%	605	0%	147	0%
IRC 199 Cited	61	0%	26,425	0%	2,647	0%	-1,043	0%	2,881	0%	2,291	0%	628	0%	133	0%
IRC 263 Cited	21	0%	9,911	0%	501	0%	-7	0%	616	0%	270	0%	91	0%	33	0%
$10M < Assets < $100M	29,329	70%	901,262	2%	-459	0%	-8,357	1%	-2,754	0%	-5,850	-1%	9,965	5%	393	0%
No Schedule UTP Filed	29,243	70%	897,016	2%	-160	0%	-7,881	1%	-1,998	0%	-5,384	-1%	9,911	5%	369	0%
Schedule UTP Filers	86	0%	4,246	0%	-299	0%	-475	0%	-756	0%	-467	0%	54	0%	24	0%
SEC 10K/Public																
All	4,488	11%	7,697,048	74%	867,248	106%	-748,596	96%	878,771	100%	637,691	89%	137,090	72%	94,412	90%
No Schedule UTP Filed	3,250	8%	6,346,372	12%	134,769	16%	-65,676	8%	138,573	16%	79,351	11%	28,086	15%	11,170	11%
Schedule UTP Filers	1,238	3%	31,350,676	61%	732,479	89%	-682,920	88%	740,198	84%	558,340	78%	109,004	57%	83,242	79%
Assets > $100M	1,227	3%	31,349,918	61%	732,811	89%	-682,842	88%	740,593	84%	558,750	78%	108,995	57%	83,242	79%
IRC 41 Cited	594	1%	12,017,709	24%	382,692	47%	-445,473	57%	361,667	41%	256,933	36%	54,004	28%	26,484	25%
IRC 482 Cited	335	1%	9,422,154	18%	418,507	51%	-542,484	70%	332,959	38%	319,426	45%	44,339	23%	58,663	56%
IRC 162 Cited	188	0%	6,354,718	12%	235,892	29%	-106,759	14%	265,144	30%	200,297	28%	33,426	18%	38,577	37%
IRC 199 Cited	135	0%	3,238,242	6%	210,439	26%	-164,334	21%	203,127	23%	200,197	28%	29,584	16%	38,199	36%
IRC 263 Cited	93	0%	2,574,949	5%	106,345	13%	-74,654	10%	132,747	15%	84,418	12%	17,001	9%	16,292	16%
Assets > $1B	748	2%	31,148,090	61%	723,340	88%	-677,128	87%	732,578	83%	551,856	77%	106,199	56%	82,680	79%
IRC 41 Cited	313	1%	11,901,987	23%	377,192	46%	-442,147	57%	357,238	41%	253,245	35%	52,472	28%	26,219	25%
IRC 482 Cited	246	1%	9,379,195	18%	415,226	51%	-539,710	70%	330,331	38%	317,175	44%	43,839	23%	58,332	56%
IRC 162 Cited	159	0%	6,339,808	12%	234,372	29%	-105,620	14%	263,577	30%	198,735	28%	32,963	17%	38,438	37%
IRC 199 Cited	96	0%	3,221,419	6%	208,264	25%	-163,359	21%	200,802	23%	198,261	28%	29,080	15%	38,101	36%
IRC 263 Cited	83	0%	2,569,772	5%	106,082	13%	-74,601	10%	132,482	15%	84,165	12%	16,937	9%	16,259	16%

TABLE 1B. UTP Presence by Asset Size and Financial Statement for Tax Year 2011 (Dollar amounts in millions)

	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%
SEC 10K/Public Filers of Schedule UTP (continued)																
$100M < Assets < $1B	479	1%	201,828	0%	9,471	1%	-5,714	1%	8,015	1%	6,894	1%	2,797	1%	562	1%
IRC 41 Cited	281	1%	115,722	0%	5,500	1%	-3,326	0%	4,428	1%	3,688	1%	1,532	1%	265	0%
IRC 482 Cited	89	0%	42,959	0%	3,281	0%	-2,774	0%	2,628	0%	2,251	0%	500	0%	330	0%
IRC 162 Cited	29	0%	14,910	0%	1,520	0%	-1,139	0%	1,567	0%	1,562	0%	463	0%	139	0%
IRC 199 Cited	39	0%	16,823	0%	2,175	0%	-974	0%	2,325	0%	1,936	0%	504	0%	98	0%
IRC 263 Cited	10	0%	5,177	0%	263	0%	-53	0%	264	0%	252	0%	64	0%	33	0%
Assets < $100M	11	0%	758	0%	-332	0%	-77	0%	-394	0%	-409	0%	8	0%	0	0%
Audited	17,298	42%	6,354,953	12%	63,688	8%	-22,616	3%	92,621	11%	45,882	6%	27,160	14%	5,769	6%
No Schedule UTP Filed	16,723	40%	3,791,167	7%	36,225	4%	-10,438	1%	48,223	5%	23,611	3%	20,233	11%	1,620	2%
Schedule UTP Filers	575	1%	2,563,786	5%	27,463	3%	-12,179	2%	44,398	5%	22,270	3%	6,927	4%	4,149	4%
Assets > $100M	535	1%	2,561,995	5%	27,278	3%	-11,768	2%	44,613	5%	22,246	3%	6,914	4%	4,125	4%
Assets > $1B	159	0%	2,428,108	5%	24,472	3%	-10,914	1%	41,776	5%	18,276	3%	5,364	3%	3,864	4%
$100M < Assets < $1B	376	1%	133,887	0%	2,805	0%	-853	0%	2,837	0%	3,970	1%	1,551	1%	261	0%
Assets < $100M	39	0%	1,791	0%	185	0%	-411	0%	-215	0%	24	0%	13	0%	24	0%
Unaudited	19,850	48%	7,043,018	14%	-110,295	-13%	-5,223	1%	-92,114	-10%	32,300	5%	26,506	14%	4,701	4%
No Schedule UTP Filed	19,503	47%	5,069,768	10%	-120,058	-15%	-4,020	1%	-109,977	-13%	1,779	0%	17,159	9%	3,156	3%
Schedule UTP Filers	347	1%	1,973,250	4%	9,763	1%	-1,203	0%	17,864	2%	30,521	4%	9,347	5%	1,545	1%
Assets > $100M	311	1%	1,971,553	4%	9,915	1%	-1,216	0%	18,011	2%	30,603	4%	9,314	5%	1,545	1%
Assets > $1B	165	0%	1,911,866	4%	9,582	1%	-1,037	0%	17,128	2%	29,524	4%	8,721	5%	1,422	1%
$100M < Assets < $1B	146	0%	59,687	0%	333	0%	-178	0%	883	0%	1,079	0%	592	0%	123	0%
Assets < $100M	36	0%	1,697	0%	-152	0%	13	0%	-147	0%	-82	0%	33	0%	0	0%
Non-Public Filers of Schedule UTP																
Assets > $100M	846	2%	4,533,548	9%	37,193	5%	-12,983	2%	62,624	7%	52,849	7%	16,228	9%	5,670	5%
IRC 41 Cited	300	1%	951,260	2%	19,257	2%	-2,199	0%	34,990	4%	25,209	4%	6,796	4%	928	1%
IRC 482 Cited	245	1%	2,478,361	5%	18,407	2%	-5,416	1%	29,407	3%	27,182	4%	7,580	4%	2,796	3%
IRC 162 Cited	78	0%	481,141	1%	724	0%	-570	0%	1,052	0%	2,303	0%	1,667	1%	73	0%
IRC 199 Cited	49	0%	317,040	1%	9,112	1%	-515	0%	19,777	2%	9,074	1%	2,293	1%	296	0%
IRC 263 Cited	28	0%	628,270	1%	-642	0%	-8	0%	-764	0%	3,195	0%	1,168	1%	206	0%
Assets > $1B	324	1%	4,339,974	8%	34,054	4%	-11,952	2%	58,904	7%	47,800	7%	14,085	7%	5,286	5%
IRC 41 Cited	99	0%	873,973	2%	17,815	2%	-1,886	0%	33,303	4%	23,155	3%	5,891	3%	791	1%
IRC 482 Cited	114	0%	2,427,037	5%	17,517	2%	-4,768	1%	28,050	3%	25,258	4%	6,950	4%	2,550	2%
IRC 162 Cited	44	0%	465,520	1%	722	0%	-556	0%	980	0%	1,857	0%	1,524	1%	64	0%
IRC 199 Cited	27	0%	307,438	1%	8,641	1%	-446	0%	19,222	2%	8,719	1%	2,168	1%	261	0%
IRC 263 Cited	17	0%	623,536	1%	-880	0%	-54	0%	-1,115	0%	3,177	0%	1,142	1%	206	0%
$100M < Assets < $1B	522	1%	193,575	0%	3,139	0%	-1,032	0%	3,720	0%	5,048	1%	2,143	1%	384	0%
IRC 41 Cited	201	0%	77,288	0%	1,442	0%	-313	0%	1,687	0%	2,055	0%	906	0%	137	0%
IRC 482 Cited	131	0%	51,324	0%	890	0%	-648	0%	1,357	0%	1,924	0%	629	0%	246	0%
IRC 162 Cited	34	0%	15,621	0%	1	0%	-13	0%	71	0%	447	0%	143	0%	8	0%
IRC 199 Cited	22	0%	9,603	0%	471	0%	-69	0%	556	0%	355	0%	124	0%	35	0%
IRC 263 Cited	11	0%	4,734	0%	238	0%	46	0%	351	0%	18	0%	27	0%	0	0%

TABLE 2A. UTP Presence by Asset Size and Financial Statement for Tax Year 2012 (Dollar amounts in millions)

	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%
All	42,301	100%	50,897,122	100%	969,512	100%	-669,129	100%	1,027,879	100%	889,481	100%	228,822	100%	81,349	100%
No Schedule UTP Filed	40,069	95%	21,188,137	42%	277,831	29%	-87,779	13%	288,354	28%	235,288	26%	83,278	36%	16,285	20%
Schedule UTP Filers	2,232	5%	29,708,985	58%	691,680	71%	-581,350	87%	739,525	72%	654,193	74%	145,545	64%	65,064	80%
Assets > $100M	12,427	29%	49,983,146	98%	963,762	99%	-660,668	99%	1,030,820	100%	886,343	100%	217,370	95%	80,912	99%
No Schedule UTP Filed	10,409	25%	20,288,895	40%	271,450	28%	-79,495	12%	290,672	28%	231,653	26%	72,184	32%	15,868	20%
Schedule UTP Filers	2,018	5%	29,694,251	58%	692,312	71%	-581,173	87%	740,148	72%	654,690	74%	145,186	63%	65,044	80%
IRC 41 Cited	772	2%	8,090,907	16%	276,498	29%	-247,853	37%	280,587	27%	218,371	25%	52,915	23%	14,168	17%
IRC 482 Cited	554	1%	9,469,654	19%	359,576	37%	-467,124	70%	292,600	28%	277,767	31%	55,008	24%	35,997	44%
IRC 162 Cited	247	1%	9,704,072	19%	164,886	17%	-66,778	10%	213,091	21%	167,669	19%	40,398	18%	15,480	19%
IRC 199 Cited	179	0%	2,417,199	5%	195,509	20%	-165,073	25%	152,274	15%	140,281	16%	30,823	13%	14,709	18%
IRC 263 Cited	128	0%	2,550,571	5%	95,932	10%	-63,867	10%	153,750	15%	92,352	10%	19,080	8%	13,348	16%
Assets > $1B	2,856	7%	46,971,632	92%	924,509	95%	-648,604	97%	979,508	95%	830,805	93%	189,923	83%	78,418	96%
No Schedule UTP Filed	1,777	4%	17,661,062	35%	240,752	25%	-72,165	11%	250,620	24%	191,121	21%	50,237	22%	14,107	17%
Schedule UTP Filers	1,079	3%	29,310,570	58%	683,757	71%	-576,439	86%	728,888	71%	639,684	72%	139,686	61%	64,311	79%
IRC 41 Cited	336	1%	7,912,481	16%	271,784	28%	-245,475	37%	274,310	27%	210,782	24%	50,211	22%	13,859	17%
IRC 482 Cited	355	1%	9,378,297	18%	357,220	37%	-464,672	69%	290,308	28%	273,463	31%	53,768	23%	35,754	44%
IRC 162 Cited	190	0%	9,677,327	19%	164,318	17%	-66,397	10%	212,558	21%	166,824	19%	40,059	18%	15,451	19%
IRC 199 Cited	119	0%	2,389,447	5%	192,749	20%	-163,897	24%	149,121	15%	137,030	15%	29,921	13%	14,573	18%
IRC 263 Cited	99	0%	2,538,822	5%	95,806	10%	-63,811	10%	153,568	15%	92,098	10%	18,993	8%	13,313	16%
$100M < Assets < $1B	9,571	23%	3,011,515	6%	39,254	4%	-12,064	2%	51,313	5%	55,538	6%	27,446	12%	2,494	3%
No Schedule UTP Filed	8,632	20%	2,627,833	5%	30,699	3%	-7,330	1%	40,053	4%	40,531	5%	21,946	10%	1,761	2%
Schedule UTP Filers	939	2%	383,682	1%	8,555	1%	-4,734	1%	11,260	1%	15,006	2%	5,500	2%	733	1%
IRC 41 Cited	436	1%	178,425	0%	4,714	0%	-2,378	0%	6,277	1%	7,589	1%	2,703	1%	309	0%
IRC 482 Cited	199	0%	91,357	0%	2,356	0%	-2,453	0%	2,292	0%	4,304	0%	1,240	1%	243	0%
IRC 162 Cited	57	0%	26,745	0%	567	0%	-382	0%	533	0%	845	0%	339	0%	30	0%
IRC 199 Cited	60	0%	27,752	0%	2,760	0%	-1,175	0%	3,153	0%	3,251	0%	903	0%	136	0%
IRC 263 Cited	29	0%	11,749	0%	126	0%	-56	0%	182	0%	254	0%	87	0%	35	0%
$10M < Assets < $100M	29,874	71%	913,975	2%	5,749	1%	-8,461	1%	-2,942	0%	3,138	0%	11,453	5%	437	1%
No Schedule UTP Filed	29,660	70%	899,242	2%	6,381	1%	-8,284	1%	-2,318	0%	3,635	0%	11,094	5%	417	1%
Schedule UTP Filers	214	1%	14,733	0%	-632	0%	-178	0%	-623	0%	-498	0%	359	0%	20	0%
SEC 10K/Public																
All	4,339	10%	37,053,332	73%	830,523	86%	-633,774	95%	856,373	83%	691,661	78%	161,981	71%	65,826	81%
No Schedule UTP Filed	3,109	7%	12,117,934	24%	180,927	19%	-67,760	10%	171,559	17%	128,538	14%	36,666	16%	9,789	12%
Schedule UTP Filers	1,230	3%	24,935,398	49%	649,596	67%	-566,014	85%	684,814	67%	563,123	63%	125,314	55%	56,037	69%
Assets > $100M	1,176	3%	24,931,339	49%	649,845	67%	-565,835	85%	685,232	67%	563,578	63%	125,261	55%	56,034	69%
IRC 41 Cited	506	1%	7,203,724	14%	259,401	27%	-246,431	37%	257,066	25%	187,595	21%	44,633	20%	12,504	15%
IRC 482 Cited	326	1%	7,798,171	15%	331,638	34%	-459,800	69%	262,031	25%	244,930	28%	46,929	21%	32,918	40%
IRC 162 Cited	164	0%	8,576,916	17%	155,503	16%	-62,374	9%	204,080	20%	149,999	17%	36,415	16%	12,927	16%
IRC 199 Cited	130	0%	2,255,147	4%	192,757	20%	-164,726	25%	148,203	14%	131,989	15%	28,669	13%	14,514	18%
IRC 263 Cited	91	0%	2,304,560	5%	91,407	9%	-63,933	10%	146,988	14%	85,809	10%	16,465	7%	13,329	16%
Assets > $1B	734	2%	24,734,481	49%	643,929	66%	-562,254	84%	678,196	66%	554,893	62%	122,233	53%	55,550	68%
IRC 41 Cited	241	1%	7,091,740	14%	255,743	26%	-244,305	37%	252,709	25%	182,306	20%	42,867	19%	12,287	15%
IRC 482 Cited	236	1%	7,751,584	15%	329,690	34%	-457,717	68%	260,638	25%	242,481	27%	46,359	20%	32,727	40%
IRC 162 Cited	140	0%	8,565,492	17%	155,244	16%	-62,002	9%	203,803	20%	149,392	17%	36,212	16%	12,905	16%
IRC 199 Cited	93	0%	2,236,003	4%	190,479	20%	-163,783	24%	145,799	14%	129,651	15%	28,007	12%	14,436	18%
IRC 263 Cited	82	0%	2,299,717	5%	91,210	9%	-63,831	10%	146,760	14%	85,625	10%	16,414	7%	13,297	16%

TABLE 2B. UTP Presence by Asset Size and Financial Statement for Tax Year 2012 (Dollar amounts in millions)

	Returns		Total Assets		Worldwide Income (Part I, Line 4)		Nonincludible Foreign Income		Pretax Book		Tax Net Income		Tax After Credits		Foreign Tax Credit	
	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%	Sum	Col%
SEC 10K/Public Filers of Schedule UTP (continued)																
$100M < Assets < $1B	442	1%	196,857	0%	5,917	1%	-3,581	1%	7,035	1%	8,685	1%	3,028	1%	484	1%
IRC 41 Cited	265	1%	111,985	0%	3,658	0%	-2,126	0%	4,357	0%	5,289	1%	1,766	1%	217	0%
IRC 482 Cited	90	0%	46,587	0%	1,949	0%	-2,083	0%	1,393	0%	2,449	0%	570	0%	190	0%
IRC 162 Cited	24	0%	11,424	0%	259	0%	-372	0%	277	0%	606	0%	202	0%	22	0%
IRC 199 Cited	37	0%	19,144	0%	2,278	0%	-943	0%	2,404	0%	2,338	0%	662	0%	77	0%
IRC 263 Cited	9	0%	4,843	0%	198	0%	-102	0%	228	0%	184	0%	51	0%	32	0%
Assets < $100M	54	0%	4,059	0%	-249	0%	-179	0%	-417	0%	-455	0%	53	0%	3	0%
Audited	17,192	41%	6,933,274	14%	66,555	7%	-24,750	4%	81,973	8%	100,536	11%	36,403	16%	8,336	10%
No Schedule UTP Filed	16,545	39%	4,168,814	8%	52,168	5%	-11,975	2%	61,781	6%	52,981	6%	26,116	11%	2,008	2%
Schedule UTP Filers	647	2%	2,764,460	5%	14,387	1%	-12,775	2%	20,192	2%	47,555	5%	10,287	4%	6,328	8%
Assets > $100M	533	1%	2,756,837	5%	14,812	2%	-12,765	2%	20,519	2%	47,611	5%	10,097	4%	6,312	8%
Assets > $1B	174	0%	2,629,659	5%	12,901	1%	-12,173	2%	17,166	2%	42,602	5%	8,229	4%	6,137	8%
$100M < Assets < $1B	359	1%	127,178	0%	1,911	0%	-593	0%	3,352	0%	5,009	1%	1,868	1%	175	0%
Assets < $100M	114	0%	7,624	0%	-425	0%	-10	0%	-327	0%	-56	0%	190	0%	15	0%
Unaudited	20,770	49%	6,910,516	14%	72,433	7%	-10,605	2%	89,533	9%	97,284	11%	30,438	13%	7,187	9%
No Schedule UTP Filed	20,415	48%	4,901,389	10%	44,736	5%	-8,044	1%	55,014	5%	53,769	6%	20,496	9%	4,488	6%
Schedule UTP Filers	355	1%	2,009,126	4%	27,697	3%	-2,561	0%	34,519	3%	43,515	5%	9,943	4%	2,699	3%
Assets > $100M	309	1%	2,006,076	4%	27,655	3%	-2,573	0%	34,398	3%	43,501	5%	9,828	4%	2,697	3%
Assets > $1B	171	0%	1,946,429	4%	26,928	3%	-2,012	0%	33,526	3%	42,189	5%	9,224	4%	2,624	3%
$100M < Assets < $1B	138	0%	59,647	0%	727	0%	-560	0%	872	0%	1,312	0%	603	0%	74	0%
Assets < $100M	46	0%	3,050	0%	42	0%	11	0%	121	0%	14	0%	115	0%	1	0%
Non-Public Filers of Schedule UTP																
Assets > $100M	842	2%	4,762,913	9%	42,467	4%	-15,338	2%	54,917	5%	91,112	10%	19,925	9%	9,009	11%
IRC 41 Cited	266	1%	887,182	2%	17,097	2%	-1,422	0%	23,521	2%	30,777	3%	8,282	4%	1,664	2%
IRC 482 Cited	228	1%	1,671,483	3%	27,938	3%	-7,324	1%	30,569	3%	32,836	4%	8,079	4%	3,080	4%
IRC 162 Cited	83	0%	1,127,156	2%	9,383	1%	-4,405	1%	9,011	1%	17,670	2%	3,983	2%	2,553	3%
IRC 199 Cited	49	0%	162,052	0%	2,752	0%	-346	0%	4,071	0%	8,292	1%	2,155	1%	195	0%
IRC 263 Cited	37	0%	246,011	0%	4,525	0%	66	0%	6,762	1%	6,543	1%	2,615	1%	19	0%
Assets > $1B	345	1%	4,576,088	9%	39,829	4%	-14,185	2%	50,692	5%	84,791	10%	17,453	8%	8,761	11%
IRC 41 Cited	95	0%	820,742	2%	16,041	2%	-1,170	0%	21,601	2%	28,477	3%	7,345	3%	1,572	2%
IRC 482 Cited	119	0%	1,626,713	3%	27,530	3%	-6,955	1%	29,670	3%	30,981	3%	7,409	3%	3,027	4%
IRC 162 Cited	50	0%	1,111,835	2%	9,074	1%	-4,395	1%	8,755	1%	17,432	2%	3,847	2%	2,546	3%
IRC 199 Cited	26	0%	153,444	0%	2,270	0%	-114	0%	3,322	0%	7,379	1%	1,914	1%	137	0%
IRC 263 Cited	17	0%	239,105	0%	4,596	0%	21	0%	6,808	1%	6,473	1%	2,580	1%	16	0%
$100M < Assets < $1B	497	1%	186,825	0%	2,638	0%	-1,153	0%	4,225	0%	6,321	1%	2,471	1%	248	0%
IRC 41 Cited	171	0%	66,441	0%	1,056	0%	-252	0%	1,920	0%	2,300	0%	937	0%	92	0%
IRC 482 Cited	109	0%	44,769	0%	408	0%	-370	0%	899	0%	1,855	0%	670	0%	53	0%
IRC 162 Cited	33	0%	15,321	0%	309	0%	-10	0%	256	0%	238	0%	137	0%	7	0%
IRC 199 Cited	23	0%	8,608	0%	482	0%	-232	0%	749	0%	913	0%	241	0%	58	0%
IRC 263 Cited	20	0%	6,905	0%	-71	0%	46	0%	-46	0%	70	0%	36	0%	3	0%

Figure 1 summarizes all Form 1120 corporate filers and nonfilers of Schedule UTP with assets of $10 million or more for both 2011 and 2012. This figure shows that a minority percentage of Form 1120 corporate taxpayers filed a Schedule UTP for both years. However, this minority percentage of filers represents a majority of the percentage of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit.

Figure 2A compares the percentages of Form 1120 corporate taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012 to the Form 1120 corporate taxpayers with assets of $1 billion or more that filed a Schedule UTP for those same years. Figure 2A shows that Form 1120 corporate taxpayers with assets of $1 billion or more comprise most of the percentages of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for all taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012.

Figure 2B compares the percentages of Form 1120 corporate taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012 to the Form 1120 corporate taxpayers with SEC financial statements and assets of $10 million or more that filed a Schedule UTP for those same years. Figure 2B shows that Form 1120 corporate taxpayers with SEC financial statements and assets of $10 million or more make up most of the percentages of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for all taxpayers with assets of $10 million or more that filed a Schedule UTP for 2011 and 2012.

Figure 2C contrasts the percentages of Form 1120 corporate taxpayers with assets of $10 million or more that filed a Schedule UTP in 2011 and 2012 to the Form 1120 corporate taxpayers with SEC financial statements and assets of $1 billion or more that filed a Schedule UTP for those same years. This figure shows that Form 1120 corporate taxpayers with SEC financial statements and assets of $1 billion or more make up most of the percentages of total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for all taxpayers with assets of $10 million or more that filed a Schedule UTP for 2011 and 2012.

Details for the 2011 LB&I corporation filers and nonfilers of Schedule UTP show:

- Only about 5 percent of the total LB&I Form 1120 population filed a Schedule UTP (2,160 taxpayers). However, this small minority represents 70 percent of the total assets of the LB&I Form 1120 population, 94 percent of the worldwide income, 90 percent of the nonincludible foreign income, 91 percent of the pretax book income, 85 percent of the tax net income, 66 percent of the tax after credits, and 85 percent of the foreign tax credit.
- Of the 2,160 taxpayers that filed a Schedule UTP (5 percent of the total returns), 2,074 of those returns were for taxpayers with $100 million or more in assets. These 2,074 taxpayers represent the exact same percentages reported in the bullet point above. Therefore, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those LB&I Form 1120 taxpayers with assets under $100 million are negligible in aggregate compared to the aggregate amounts for those LB&I Form 1120 taxpayers with assets of $100 million or more.

Highlights of the 2011 Form 1120 corporation Schedule UTP filers by asset size show:

- 1,072 taxpayers (3 percent of the total returns) with assets of $1 billion or greater filed a Schedule UTP. This group of LB&I Form 1120 taxpayers is significant as they represent 69 percent of the total assets, 92 percent of the worldwide income, 89 percent of the nonincludible foreign income, 90 percent of the pretax book income, 84 percent of the tax net income, 63 percent of the tax after credits, and 84 percent of the foreign tax credit. The percentages for these 1,072 taxpayers with assets of $1 billion or greater are almost identical to those percentages in the first bullet point of the section above for the 2,160 taxpayers that filed a Schedule UTP. In other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those LB&I Form 1120 taxpayers with assets of $100 million to $1 billion are small in aggregate compared to the aggregate amounts for those LB&I Form 1120 taxpayers with assets of $1 billion or more.

FIGURE 1. 2011–2012 U.S. Corporation Schedule UTP Filers and Nonfilers (Assets of $10M or More): Percentages of Returns/Assets/Income Categories/Tax After Credits

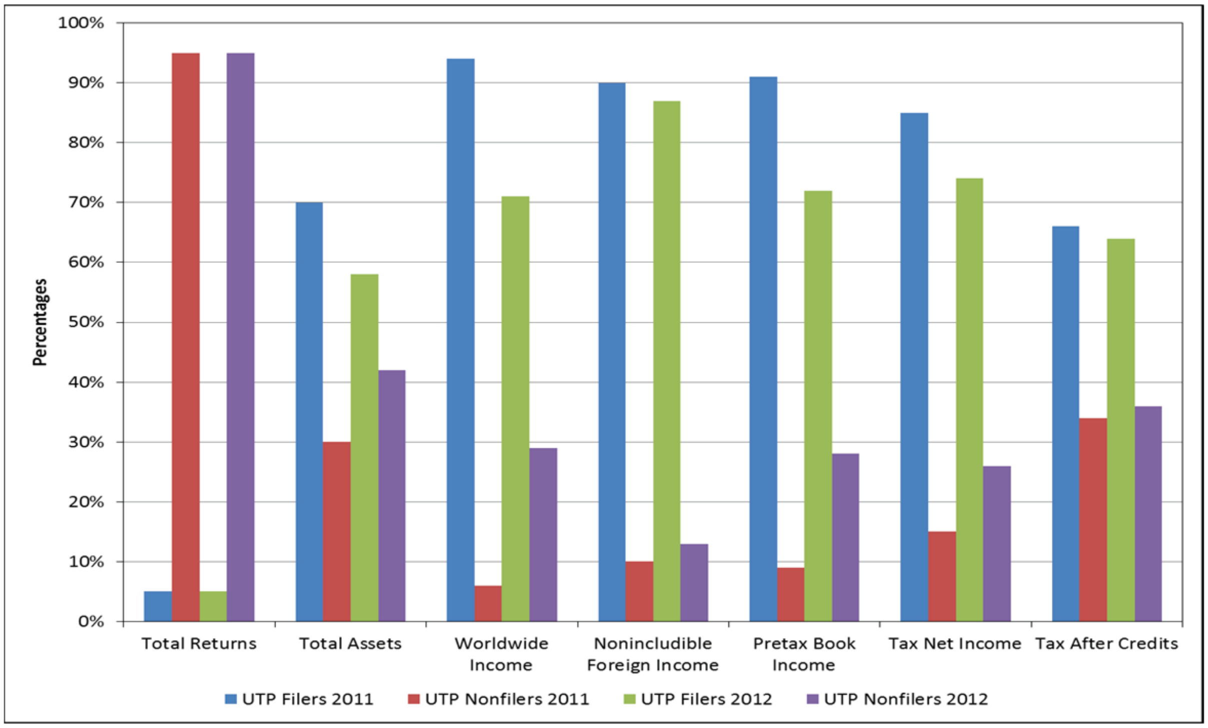


FIGURE 2A. 2011–2012 U.S. Corporation Schedule UTP Filers with Assets of $10M or More and Filers with Assets of $1B or More: Percentages of Returns/Assets/Income Categories/Tax After Credits

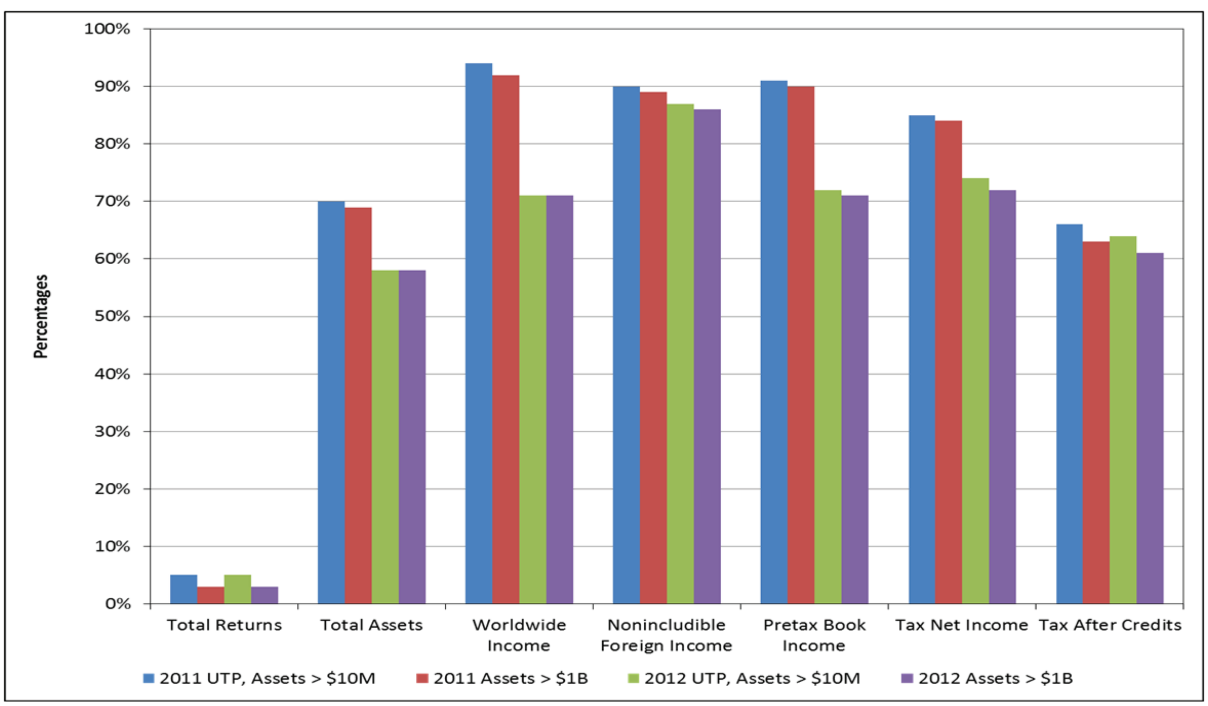


FIGURE 2B. 2011–2012 U.S. Corporation Schedule UTP Filers with Assets of $10M or More and SEC Filers with Assets of $10M or More: Percentages of Returns/Assets/Income Categories/Tax After Credits

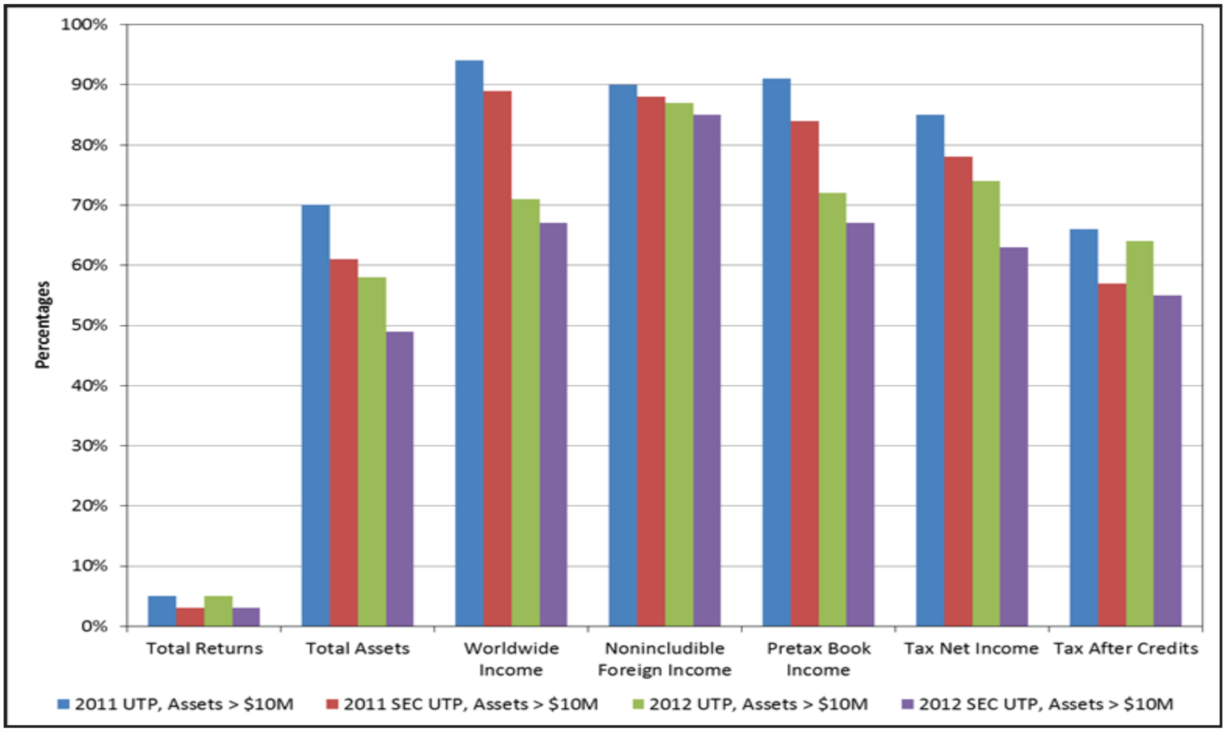
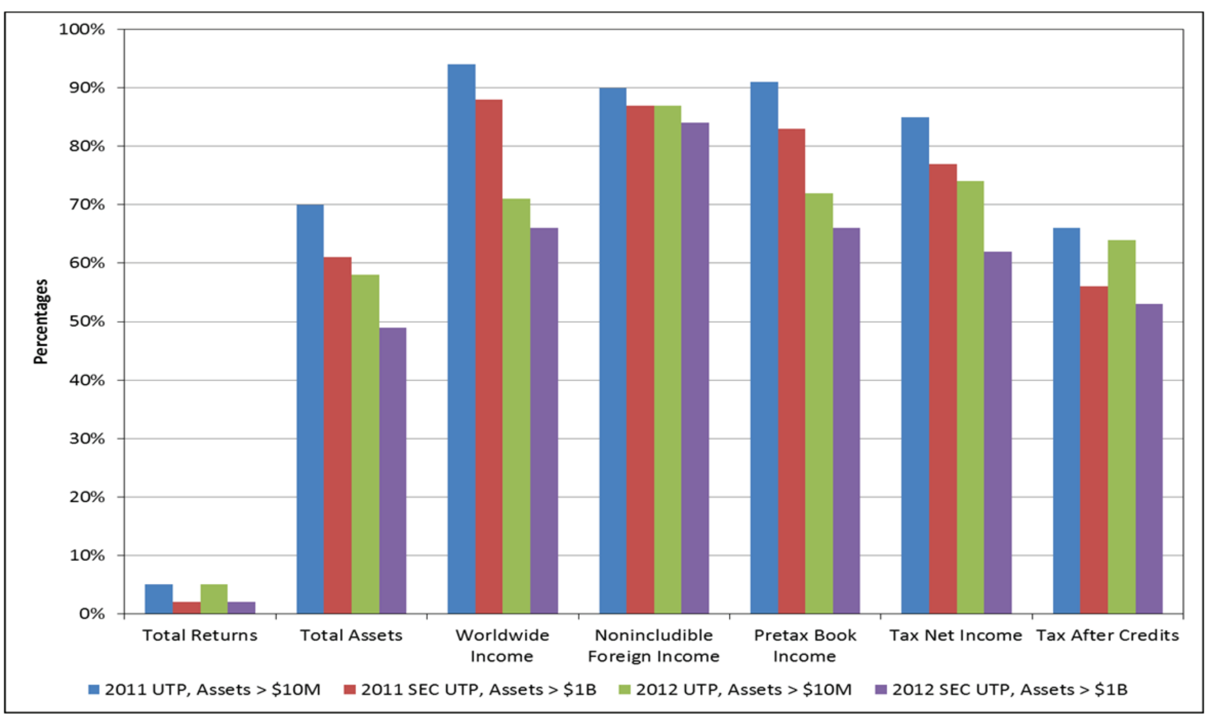


FIGURE 2C. 2011–2012 U.S. Corporation Schedule UTP Filers with Assets of $10M or More and SEC Filers with Assets of $1B or More: Percentages of Returns/Assets/Income Categories/Tax After Credits



- For LB&I Form 1120 taxpayers with assets between $100 million and $1 billion, 1,002 (2 percent of the total returns) filed a Schedule UTP. This represents 1 percent of the total assets, 2 percent of the worldwide income, 1 percent of the nonincludible foreign income, 1 percent of the pretax book income, 2 percent of the tax net income, 3 percent of the tax after credits, and 1 percent of the foreign tax credit.

There are several key observations about the 2011 Form 1120 corporation Schedule UTP filers by financial statement type:

- Of the 4,488 taxpayers that reported filing a 10K with the SEC (SEC 10K/Public), 1,238 (3 percent of the total returns) filed a Schedule UTP. This signifies another important group of taxpayers, as they represent 61 percent of the total assets of LB&I Form 1120 taxpayers, 89 percent of the worldwide income, 88 percent of the nonincludible foreign income, 84 percent of the pretax book income, 78 percent of the tax net income, 57 percent of the tax after credits, and 79 percent of the foreign tax credit.
- Of the 1,238 SEC 10K/Public taxpayers that filed a Schedule UTP as noted in the bullet above, 1,227 (3 percent of the total returns) were SEC 10K/Public taxpayers with $100 million or more in assets. These 1,227 taxpayers represent the exact same percentages reported in the bullet point above. Therefore, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those LB&I Form 1120 taxpayers with assets under $100 million are negligible in aggregate compared to the aggregate amounts for those LB&I taxpayers with assets of $100 million or more.
- Looking further into the 1,238 SEC 10K/Public taxpayers that filed a Schedule UTP (see the first bullet point of this section), 748 of these taxpayers (2 percent of the total returns) have assets of $1 billion or greater. This group of LB&I Form 1120 taxpayers is significant, as they represent almost the exact same percentages noted in the first bullet point of this section for all SEC 10K/Public filers since these 748 taxpayers report 61 percent of the total assets, 88 percent of the worldwide income, 87 percent of the nonincludible foreign income, 83 percent of the pretax book income, 77 percent of the tax net income, 56 percent of the tax after credits, and 79 percent of the foreign tax credit. In other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those SEC 10K/public taxpayers with assets of $100 million to $1 billion are small in aggregate compared to the aggregate amounts for those SEC 10K/Public taxpayers with assets of $1 billion or more.

Finally, a review of the Non-Public taxpayers (with Audited or Unaudited financial statements) that filed a Schedule UTP in 2011 shows that 846 Non-Public taxpayers with assets greater than $100 million filed a Schedule UTP. This represents 2 percent of the total LB&I Form 1120 returns, 9 percent of the total assets, 5 percent of the worldwide income, 2 percent of the nonincludible foreign income, 7 percent of the pretax book income, 7 percent of the tax net income, 9 percent of the tax after credits, and 5 percent of the foreign tax credit.

Analysis of the 2012 LB&I Form 1120 corporation filers and nonfilers of Schedule UTP shows:

- Again, only about 5 percent of the total LB&I population filed a Schedule UTP (2,232 taxpayers). However, this small minority represents 58 percent of the total assets of LB&I Form 1120 taxpayers (compared to 70 percent in 2011), 71 percent of the worldwide income (compared to 94 percent in 2011), 87 percent of the nonincludible foreign income(compared to 90 percent in 2011), 72 percent of the pretax book income (compared to 91 percent in 2011), 74 percent of the tax net income (compared to 85 percent in 2011), 64 percent of the tax after credits (compared to 66 percent in 2011), and 80 percent of the foreign tax credit (compared to 85 percent in 2011).
- As discussed in the next two bullets, the number of SEC 10K/Public Schedule UTP filers with $100 million or more in assets decreased a net 51 returns from 2011 to 2012 and the total assets of such filers decreased a net $6.4 trillion. A small number of very large corporations with SEC 10K/Public financial statements that filed Schedule UTP in 2011, but did not file Schedule UTP in 2012, decreased the aggregate percentage dollar amounts reported in 2012 by Schedule UTP filers as shown in the prior bullet.
- In 2011, Schedule UTP filers included 1,227 with SEC 10K/Public financial statements and $100 million or more in assets reporting $31.3 trillion in assets, 61 percent of total assets of all corporations with $10 million or more assets filing Form 1120.

- In 2012, Schedule UTP filers included 1,176 with SEC 10K/Public financial statements and $100 million or more in assets reporting $24.9 trillion in assets, 49 percent of total assets of all corporations with $10 million or more in assets filing Form 1120.
- Of the 2,232 LB&I Form 1120 taxpayers that filed a Schedule UTP in 2012 (5 percent of the total returns), 2,018 were taxpayers with $100 million or more in assets. These 2,018 taxpayers again represent the exact same percentages reported in the bullet point above except for tax after credits (63 percent were filers with assets of $100 million or greater rather than the 64 percent for all Schedule UTP filers). Again in 2012, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those LB&I Form 1120 taxpayers with assets under $100 million are negligible in aggregate compared to the aggregate amounts for those LB&I Form 1120 taxpayers with assets of $100 million or more.

There are several key observations about the 2012 LB&I Form 1120 corporation Schedule UTP filers by asset size:

- 1,079 taxpayers in 2012 (3 percent of the total returns and almost the exact same number of 1,072 taxpayers for 2011) with assets of $1 billion or greater filed a Schedule UTP. This group of taxpayers is significant, as they represent 58 percent of the total assets of LB&I Form 1120 taxpayers (compared to 69 percent for 2011), 71 percent of the worldwide income (compared to 92 percent for 2011), 86 percent of the nonincludible foreign income (compared to 89 percent for 2011), 71 percent of the pretax book income (compared to 90 percent for 2011), 72 percent of the tax net income (compared to 84 percent for 2011), 61 percent of the tax after credits (compared to 63 percent for 2011), and 79 percent of the foreign tax credit (compared to 84 percent for 2011). The percentages for these 1,079 taxpayers with assets of $1 billion or greater are almost identical to those percentages in the first bullet point of the section above for the 2,232 taxpayers that filed a Schedule UTP. In other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those LB&I Form 1120 taxpayers with assets of $100 million to $1 billion are small in aggregate compared to the aggregate amounts for those LB&I Form 1120 taxpayers with assets of $1 billion or more.
- For taxpayers with assets between $100 million and $1 billion, 939 (2 percent of the total returns) filed a Schedule UTP in 2012. This represents 1 percent of the total assets, 1 percent of the worldwide income, 1 percent of the nonincludible foreign income, 1 percent of the pretax book income, 2 percent of the tax net income, 2 percent of the tax after credits, and 1 percent of the foreign tax credit (almost identical percentages to 2011).

Analysis of the 2012 LB&I Form 1120 Schedule UTP filers by financial statement type shows:

- Of the 4,339 taxpayers in 2012 (4,488 in 2011) that reported filing a 10K with the SEC (SEC 10K/Public), 1,230 (3 percent of the total returns) filed a Schedule UTP (compared to 1,238 in 2011). This signifies another important group of taxpayers, as they represent 49 percent of the LB&I Form 1120 taxpayer total assets (compared to 61 percent in 2011), 67 percent of the worldwide income (compared to 89 percent in 2011), 85 percent of the nonincludible foreign income (compared to 88 percent in 2011), 67 percent of the pretax book income (compared to 84 percent in 2011), 63 percent of the tax net income (compared to 78 percent in 2011), 55 percent of the tax after credits (compared to 57 percent in 2011), and 69 percent of the foreign tax credit (compared to 79 percent in 2011).
- Of the 1,230 SEC 10K/Public taxpayers that filed a Schedule UTP for 2012 as noted in the bullet above, 1,176 of those returns (3 percent of the total returns) were for SEC 10K/Public taxpayers with $100 million or more in assets. These 1,176 taxpayers represent the exact same percentages reported in the bullet point above. Again this year, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those LB&I Form 1120 taxpayers with assets under $100 million are negligible in aggregate compared to the aggregate amounts for those LB&I taxpayers with assets of $100 million or more.
- Looking further into the 1,230 SEC 10K/Public taxpayers that filed a Schedule UTP (see the first bullet point of this section for 2012), 734 of these taxpayers (2 percent of the total returns) have assets of

$1 billion or greater (compared to 748 taxpayers for 2011). As with 2011, this group of taxpayers is significant, as they represent almost the exact same percentages noted in the first bullet point of this section for all SEC 10K/Public filers since these 734 taxpayers report 49 percent of the total assets, 66 percent of the worldwide income, 84 percent of the nonincludible foreign income, 66 percent of the pretax book income, 62 percent of the tax net income, 53 percent of the tax after credits, and 68 percent of the foreign tax credit. The percentages for these 734 SEC 10K/Public taxpayers that file a Schedule UTP are once again also very close to the percentages noted in the first bullet point under the section for 2012 detailing the filers and nonfilers. In other words, total assets, worldwide income, nonincludible foreign income, pretax book income, tax net income, tax after credits, and foreign tax credit for those SEC 10K/public taxpayers with assets of $100 million to $1 billion are small in aggregate compared to the aggregate amounts for those SEC 10K/Public taxpayers with assets of $1 billion or more.

Lastly, the review of the Non-Public taxpayers that filed a Schedule UTP in 2012 shows that 842 Non-Public taxpayers with assets greater than $100 million filed a Schedule UTP in 2012 (compared to 846 in 2011). This represents 2 percent of the total returns, 9 percent of the total assets, 4 percent of the worldwide income, 2 percent of the nonincludible foreign income, 5 percent of the pretax book income, 10 percent of the tax net income, 9 percent of the tax after credits, and 11 percent of the foreign tax credit (almost the exact same percentages as 2011 in all categories except foreign tax credit was 5 percent in 2011).

Overall Comments:

- The top two IRC sections cited in both 2011 and 2012 are Section 41 (Credit for increasing research activities) and Section 482 (Allocation of income and deductions among taxpayers—"Transfer Pricing"). These IRC sections represent large calculations that occur annually for large multi-national taxpayers. It is unlikely that the entire amounts reported on the filed tax returns are uncertain. Rather, the uncertainty probably exists due to the complexity of these calculations and the methodologies used to compute the amounts reported on the returns. If examined, the IRS may contend the methodologies used to calculate the amounts should be changed.
- The SEC 10K/Public sub-population with assets of $100M or more essentially account for all of the dollar amounts for the Form 1120 population with assets of $10 million or more. For both 2011 and 2012, a minority of taxpayers with $100 million or more in assets and an SEC 10K/Public financial statement filed a Schedule UTP. This is the group that will be examined in detail in Part III of this study.
- The number of SEC 10K/Public Schedule UTP filers with total assets of $100 million or more decreased a net 51 returns from 2011 to 2012 and the total assets of such filers decrease a net $6.4 trillion. A small number of very large corporations with SEC 10K/Public financial statements that filed Schedule UTP in 2011 but did not file Schedule UTP in 2012 decrease the aggregate percentage dollar amounts reported in 2012 by Schedule UTP filers.

Part III. 2011–2012 Analysis of M-3 Profiles

1. UTP Filers vs Nonfilers

The balance of this study will focus on data describing characteristics of Schedule UTP filers and nonfilers with SEC 10K/Public financial statements and $100 million or more in assets because of the size and economic importance of such corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with Audited (but not SEC 10K/Public) or Unaudited financial statements.[39]

Tables 3A and 3B and Figures 3A and 3B present 2012 data describing characteristics of Schedule UTP filers and nonfilers with SEC 10K/Public financial statements and $100 million or more in assets. Figures 3A and 3B include 2011 data for comparison. Figure 3C presents 2011 and 2012 average data.

[39] A Schedule UTP filer may file because it is required to file or because it files voluntarily. A Schedule UTP nonfiler may be a nonfiler either because it is not required to file or because it is required to file but failed to file. For tax years beginning in 2012 and later, the asset threshold for Schedule UTP drops to $50 million or more. This study does not include the new asset range of $50 million to $100 million for Schedule UTP in the detailed analysis in Part III because a 2-year comparison is not possible.

TABLE 3A. 2012 U.S. Corporation 1120 Schedule M-3: Mini M-3 by UTP Status: SEC 10K/Public: Assets $100 Million or More

	$ Million					Percentage of Adjusted Total Income Book					Percentage of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
UTP Filers													
Adj. Other income—no difference	6,615,611	0	0	6,615,611	0	179.17%	0.00%	0.00%	179.17%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-4,071,080	-7,006	-201	-4,078,286	-7,208	-110.25%	-0.19%	-0.01%	-110.45%	-0.20%	-1.02%	-0.03%	-1.05%
Adjusted gross profit	2,544,531	-7,006	-201	2,537,325	-7,208	68.91%	-0.19%	-0.01%	68.72%	-0.20%	-1.02%	-0.03%	-1.05%
Specified income	999,311	29,906	-32,262	996,825	-2,356	27.06%	0.81%	-0.87%	27.00%	-0.06%	4.36%	-4.71%	-0.34%
Adj. Other income—difference	148,617	24,110	-16,732	155,995	7,378	4.02%	0.65%	-0.45%	4.22%	0.20%	3.52%	-2.44%	1.08%
Adjusted total income	3,692,459	47,010	-49,195	3,690,145	-2,186	100.00%	1.27%	-1.33%	99.94%	-0.06%	6.86%	-7.18%	-0.32%
Specified expense/deduction	-987,005	-35,760	8,245	-1,014,390	-27,515	-26.73%	-0.97%	0.22%	-27.47%	-0.75%	-5.22%	1.20%	-4.02%
Other exp./ded.—difference	-1,090,550	-40,776	119	-1,131,208	-40,657	-29.53%	-1.10%	0.00%	-30.64%	-1.10%	-5.95%	0.02%	-5.93%
Other exp./ded.—no difference	-929,673	0	0	-929,673	0	-25.18%	0.00%	0.00%	-25.18%	0.00%	0.00%	0.00%	0.00%
Pretax net income	685,231	-29,526	-40,831	614,874	-70,358	18.56%	-0.80%	-1.11%	16.65%	-1.91%	-4.31%	-5.96%	-10.27%
UTP Nonfilers													
Adj. Other income—no difference	2,365,953	0	0	2,365,959	0	157.66%	0.00%	0.00%	157.66%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-1,372,691	-15,165	1,927	-1,385,952	-13,238	-91.47%	-1.01%	0.13%	-92.36%	-0.88%	-8.57%	1.09%	-7.48%
Adjusted gross profit	993,262	-15,165	1,927	980,007	-13,238	66.19%	-1.01%	0.13%	65.31%	-0.88%	-8.57%	1.09%	-7.48%
Specified income	440,252	-89,400	13,397	364,261	-76,003	29.34%	-5.96%	0.89%	24.27%	-5.06%	-50.54%	7.57%	-42.96%
Adj. Other income—difference	67,118	11,920	-3,818	75,222	8,103	4.47%	0.79%	-0.25%	5.01%	0.54%	6.74%	-2.16%	4.58%
Adjusted total income	1,500,632	-92,645	11,506	1,419,490	-81,138	100.00%	-6.17%	0.77%	94.59%	-5.41%	-52.37%	6.50%	-45.86%
Specified expense/deduction	-493,009	61,604	-708	-432,107	60,896	-32.85%	4.11%	-0.05%	-28.80%	4.06%	34.82%	-0.40%	34.42%
Other exp./ded.—difference	-402,488	-19,387	1,339	-420,537	-18,048	-26.82%	-1.29%	0.09%	-28.02%	-1.20%	-10.96%	0.76%	-10.20%
Other exp./ded.—no difference	-428,228	0	0	-428,228	0	-28.54%	0.00%	0.00%	-28.54%	0.00%	0.00%	0.00%	0.00%
Pretax net income	176,907	-50,428	12,137	138,618	-38,290	11.79%	-3.36%	0.81%	9.24%	-2.55%	-28.51%	6.86%	-21.64%

TABLE 3B. 2012 U.S. Corporation 1120 Schedule M-3: M-3, Part I, by UTP Status: SEC 10K/Public: Assets $100 Million or More

	Mean Amount Reported ($ Million)		
	UTP Filer	UTP Nonfiler	Difference
Worldwide financial net income	553	87	466
(Foreign nonincludible income)	-481	-31	-450
(U.S. nonincludible income)	-32	-8	-23
Other includible income	1	-1	2
Adjustments to eliminations	294	5	289
Other adjustments	131	12	119
Book net income includible corp.	472	64	408
Pretax net income—book	583	84	499
Tax net income	523	66	457
Total BTD Difference	-60	-18	-42
Total assets—Schedule L	21,200	5,719	15,481
Assets—Financial statements	18,980	3,018	15,962
Assets—Foreign nonincludible	7,571	530	7,041
Assets—U.S. nonincludible	653	233	419
Assets—Other includible	118	18	100
	Percentage of Adjusted Total Income Book		
	UTP Filer	UTP Nonfiler	Difference
Worldwide financial net income	17.60%	12.21%	5.39%
(Foreign nonincludible income)	-15.32%	-4.40%	-10.92%
(U.S. nonincludible income)	-1.01%	-1.15%	0.15%
Other includible income	0.03%	-0.11%	0.14%
Adjustments to eliminations	9.37%	0.72%	8.66%
Other adjustments	4.16%	1.69%	2.47%
Book net income includible corp.	15.02%	9.00%	6.03%
Pretax net income—book	18.56%	11.79%	6.77%
Tax net income	16.65%	9.24%	7.41%
Total BTD difference	-1.91%	-2.55%	0.65%
	Distribution of Returns		
	UTP Filer	UTP Nonfiler	Total
Number of Returns	1,176	2,112	3,288
Share of Returns	35.8%	64.2%	100.0%

Schedule UTP filers are generally larger than nonfilers when study is restricted to the 3,288 Form 1120 corporate returns in 2012 with SEC 10K/Public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120 Schedule L by such Schedule UTP filers and nonfilers is $21,200 million for the 1,176 filers and $5,719 million for the 2,112 nonfilers (see Table 3B). The mean worldwide financial net income of the filers (reported on Schedule M-3, Part I, line 4) is $553 million compared to $87 million for the nonfilers. The mean foreign nonincludible income of filers (reported on Schedule M-3, Part I, line 5) is -$481 million (shown as negative since the income is removed in calculating book income) compared to -$31 million for nonfilers. After the required Schedule M-3, Part I, adjustments, the mean book income for filers (reported on Schedule M-3, Part I, line 11) is $472 million compared to $64 million for the nonfilers. Adding back U.S. Federal tax expense, mean pretax book income is $583 million for the filers compared to $84 million for the nonfilers. Filers introduce mean BTD of -$60 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column D, and on Form 1120 page 1, line 28) of $523 million compared to nonfilers that introduce mean BTD of -$18 million to adjust pretax book to mean tax net income of $66 million.[40]

[40] Negative total BTD adjustments added to pretax book income result in tax net income that is lower than pretax book income.

FIGURE 3A. 2011–2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC/10K Public Financial Statements by UTP Filing Status

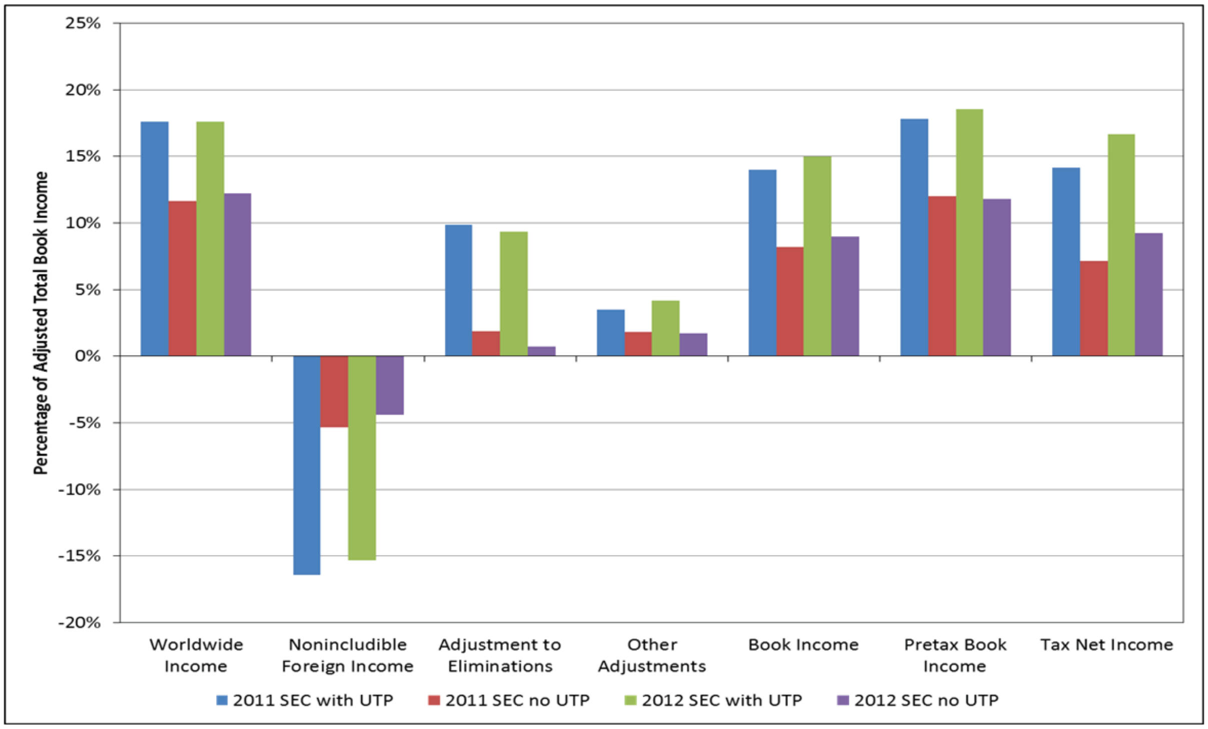


FIGURE 3B. 2011–2012 U.S. Corporation M-3: BTD as Percentage of Pretax Book Income for SEC 10K/Public Financial Statements by UTP Filing Status

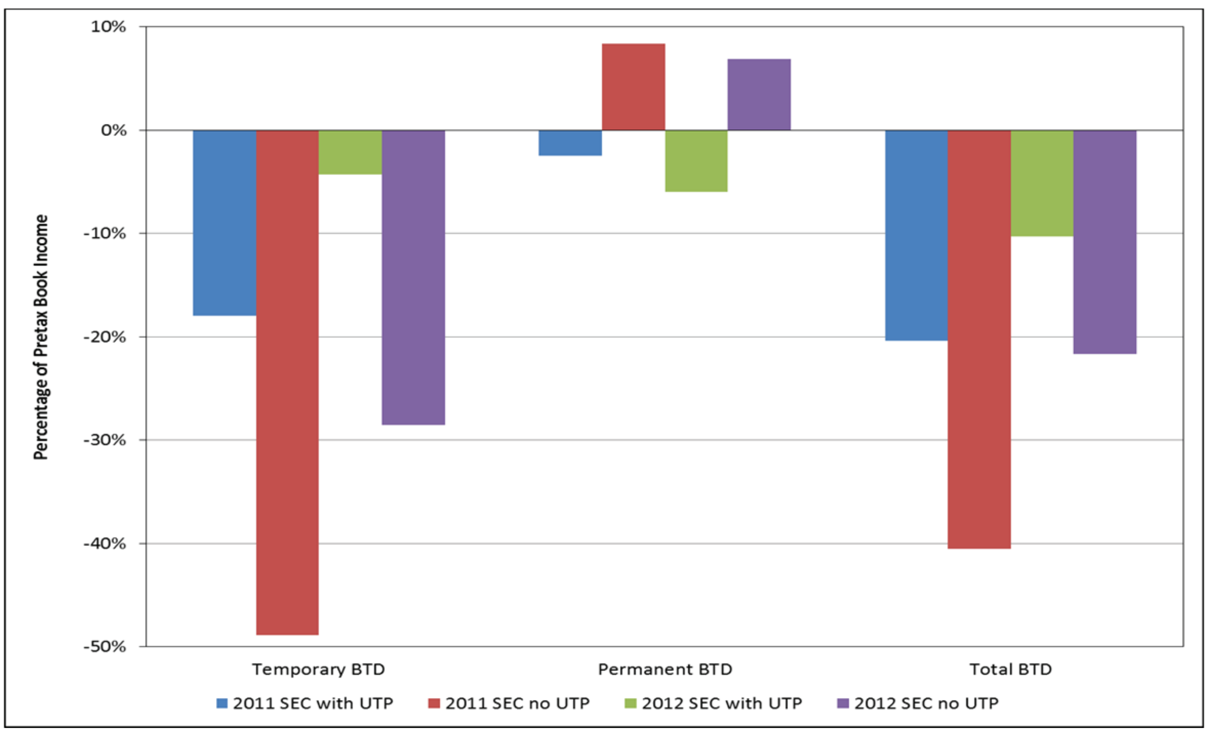
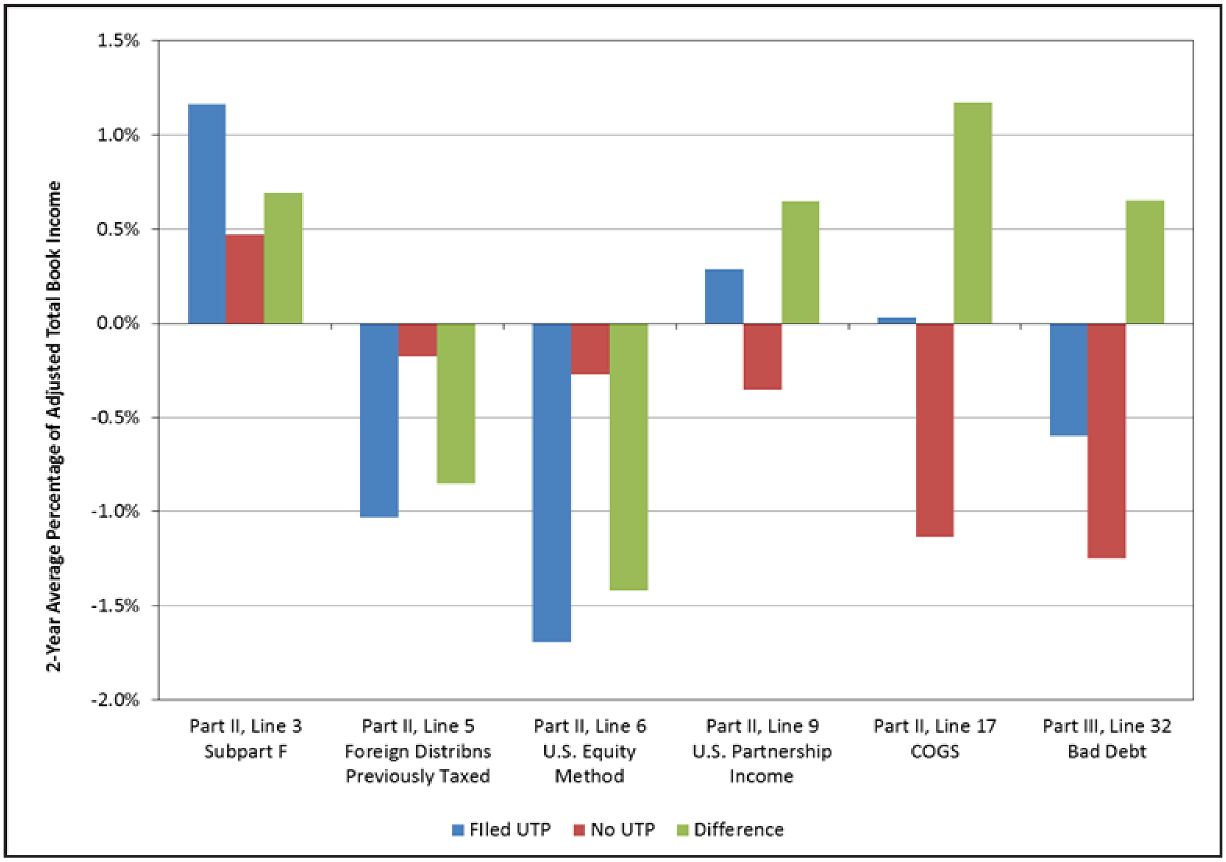


FIGURE 3C. 2011–2012 U.S. Corporation M-3: 2-Year Average Total BTD as Percentage of Adjusted Total Book Income for Top 6 Lines—UTP Filers and Nonfilers (SEC/10K Public Financial Statements)



We scaled our initial aggregate dollar data by the adjusted-total-income measure we developed for our Mini M-3 analysis to make data for filers and nonfilers more comparable. We used the adjusted-total-income book amount as a common-size scaling factor and compared percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers and nonfilers, total pretax income BTD is expressed as a percentage of total pretax book income (see Tables 3A and 3B).

Table 3B shows that Schedule UTP filers in 2012 having SEC 10K/Public financial statements and $100 million or more in assets report:

- more worldwide income scaled as a percentage of adjusted total income than similar nonfilers (17.60 percent compared to 12.21 percent);
- more scaled foreign nonincludible income (-15.32 percent versus -4.40 percent);
- more scaled book income (15.02 percent versus 9.00 percent);
- more scaled pretax book income (18.56 percent versus 11.79 percent);
- more scaled tax net income (16.65 percent versus 9.24 percent); but
- *less* negative scaled BTD (-1.91 percent versus -2.55 percent).

If the BTD is scaled by pretax book income, the filers reduce pretax book income by -10.27 percent to determine tax net income compared to a reduction of -21.64 percent by nonfilers (see Table 3A, last row, last column, in each panel).[41]

Figure 3A compares Schedule M-3 data as a percentage of adjusted total income for 2011 and 2012 Schedule UTP filers and nonfilers with SEC 10K/Public financial statements and $100 million or more in assets for seven key items: worldwide financial income (Part I, line 4); nonincludible foreign income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. For both years filers report larger scaled amounts for the seven items than nonfilers.

Figure 3B uses pretax book income for scaling 2011 and 2012 BTD, temporary, permanent, and total, for Schedule UTP filers and nonfilers with SEC 10K/Public financial statements and $100 million or more in assets. Filers have less negative temporary BTD than nonfilers, but more negative permanent BTD. In aggregate, the nonfilers report positive permanent BTD partially offsetting their large negative temporary BTD. Filers have less negative total BTD than nonfilers even after the offsetting effects of the permanent BTD for the nonfilers. Stated differently, the otherwise similar nonfilers use negative total BTD to reduce tax net income *more* than the filers.

In developing filters and quantitative models for return selection it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that, in fact, have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data items with extreme absolute differences. The models would generally operate at the microdata level and generally use both the sign and amount of the data items.

Figure 3C reports total BTD for six specific Schedule M-3 lines for Schedule UTP filers and nonfilers with SEC 10K/Public financial statements and $100 million or more in assets. The six lines are selected from and represent approximately 10 percent of the 68 specified and other-with-difference lines on Schedule M-3, Parts II and III.[42] The total BTD for each of the six lines is expressed as a percentage of adjusted total income and averaged for 2011 and 2012. The lines are the top (that is, the most extreme) six lines on Schedule M-3, Parts II and III, in terms of the absolute value of the difference in 2-year-average scaled BTD between filers and nonfilers.[43] The percentages for each of these lines are provided below.

Schedule M-3 Lines Featured in Figure 3C		Filers	Nonfilers	Difference
Part II, line 3:	Inclusion in tax income of subpart F foreign income	1.17%	0.47%	0.69%
Part II, line 5:	Exclusion in tax income of previously taxed foreign distributions	-1.03%	-0.18%	-0.85%
Part II, line 6:	Exclusion from tax income of U.S. equity method income	-1.69%	-0.27%	-1.42%
Part II, line 9:	Adjustments to U.S. partnership income to include all Schedule K-1 income in tax income	0.29%	-0.36%	0.65%
Part II, line 17:	Adjustments to COGS in tax income	0.03%	-1.14%	1.17%
Part III, line 32:	Adjustments to bad debt expense/deduction recognition in tax income	-0.60%	-1.25%	0.65%

[41] A similar pattern of BTD reductions for Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets occured in 2010 and 2011. See Boynton, DeFilippes, Legel, and Rupert (2014). See Towery (2015): "My results suggest firms found ways to change their financial reporting for tax uncertainty to avoid disclosing positions unknown to the IRS on Schedule UTP. Specifically, I find that although firms decrease financial statement reserves for tax uncertainty in response to Schedule UTP, firms continue claiming uncertain tax positions with the adoption of Schedule UTP. Overall, my results imply that linking tax return disclosures of uncertain tax positions to financial reporting for tax uncertainty can distort financial reporting disclosures of tax uncertainty."

[42] There are 31 lines on Part II and 37 on Part III for a total of 68, but that is effectively reduced to 60 for our study. We exclude Federal tax expense (Part II, lines 1 and 2) because it is not part of pretax book. We combine, that is, net, BTD reported for asset dispositions on the multiple lines of Part II, lines 23a through 23g, because corporations use line 23a to reverse out all book income for asset disposition and use lines 23b though 23g to bring in the tax income effects.

[43] For the current study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. A number of corporations with SEC 10K/Public financial statements and $100 million or more in assets in both 2011 and 2012 were Schedule UTP 2011 filers but 2012 nonfilers. This group of 2011 filers and 2012 nonfilers includes corporations reporting large temporary BTD in *both* 2011 and 2012 on *both* interest income and interest expense. The temporary BTD in 2012 for interest income and interest expense are particularly large when the corporations are nonfilers. Assuming the taxpayers made the correct decisions to file Schedule UTP in 2011 and not to file in 2012, the large temporary BTD for interest income and interest expense in both years are not associated with the decision to file Schedule UTP in 2011 and not to file in 2012. In both 2011 and 2012 the large temporary BTD on interest income approximately offset the large temporary BTD on interest expense with the result that the impact on total BTD for 2011 filers and 2012 nonfilers was small.

2. IRC Section 482 Citers

Schedule UTP filers are required to list one to three applicable IRC sections for each listed UTP concise description. Schedule UTP, Part I, tabulates the IRC information for each current year UTP concise description listed in Schedule UTP, Part III. SOI tabulates the first 10 rows of data on Schedule UTP, Part I. The five IRC sections appearing most frequently in the SOI file for Tax Years 2011 and 2012 are: 482 (transfer pricing); 41 (research credit); 162 (trade or business expense); 199 (domestic production activities deduction); and 263 (capitalized costs). In 2012, seventy-two percent of such filers cited at least one of the five IRC sections. We categorize Schedule UTP filers as citing or not citing a specific IRC section. In this part of our study we focus on data describing Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 482.[44]

Tables 4A and 4B and Figures 4A and 4B present 2012 data describing characteristics of Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 482. Figures 4A and 4B include 2011 data for comparison. Figure 4C presents 2011 and 2012 average data.

Schedule UTP filers citing IRC section 482 are generally larger than nonciters when study is restricted to the 1,176 Schedule UTP filers in 2012 with SEC 10K/Public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120 Schedule L by such Schedule UTP filers is $23,921 million for the 326 filers citing IRC section 482 and $20,157 million for the 850 filers not citing IRC section 482 (see Table 4B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $1,017 million compared to $374 million for the nonciters. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$1,410 million (shown as negative since the income is removed in calculating book income) compared to -$125 million for nonfilers. After the required Schedule M-3, Part I, adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $631 million compared to $410 million for the nonciters. Adding back U.S. Federal tax expense, mean pretax book income is $804 million for the citers compared to $498 million for the nonciters. Citers introduce mean BTD of -$11 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column D, and on Form 1120 page 1, line 28) of $793 million compared to nonciters that introduce mean BTD of -$79 million to adjust pretax book to mean tax net income of $419 million.[45]

We scale our initial aggregate dollar data by the adjusted-total-income measure we develop for our Mini M-3 analysis to make data for filers that cite or do not cite a specific IRC section more comparable. We used the adjusted-total-income book amount as a common-size scaling factor and compare percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific IRC section, total pretax income BTD is expressed as a percentage of total pretax book income (see Tables 4A and 4B).

Table 4B shows that Schedule UTP filers in 2012 having SEC 10K/Public financial statements and $100 million or more in assets, and citing IRC section 482 report:

- more worldwide income scaled as a percentage of adjusted total income than similar filers not citing IRC section 482 (24.03 percent compared to 13.76 percent);
- more scaled foreign nonincludible income (-33.31 percent versus -4.59 percent);
- *less* scaled book income (14.91 percent versus 15.09 percent);
- more scaled pretax book income (18.98 percent versus 18.30 percent);
- more scaled tax net income (18.73 percent versus 15.41 percent); but
- *less* negative scaled BTD (-0.25 percent versus -2.89 percent).

[44] We focus on Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets because of the size and economic importance of such corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with Audited (but not SEC 10K/Public) or Unaudited financial statements.

[45] Negative total BTD adjustments added to pretax book income result in tax net income that is lower than pretax book income.

TABLE 4A. 2012 U.S. Corporation 1120 Schedule M-3: Mini M-3—IRC 482 Cited: SEC 10K/Public: Assets $100 Million or More

	$ Million					Percentage of Adjusted Total Income					Percentage of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
UTP Filers Citing IRC 482													
Adj. Other income—no difference	2,504,196	0	0	2,504,196	0	181.42%	0.00%	0.00%	181.42%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-1,618,979	-841	-420	-1,620,239	-1,261	-117.29%	-0.06%	-0.03%	-117.38%	-0.09%	-0.32%	-0.16%	-0.48%
Adjusted gross profit	885,217	-841	-420	883,957	-1,261	64.13%	-0.06%	-0.03%	64.04%	-0.09%	-0.32%	-0.16%	-0.48%
Specified income	316,896	22,232	-2,769	336,358	19,464	22.96%	1.61%	-0.20%	24.37%	1.41%	8.48%	-1.06%	7.43%
Adj. Other income—difference	178,192	9,659	-14,290	173,560	-4,632	12.91%	0.70%	-1.04%	12.57%	-0.34%	3.69%	-5.45%	-1.77%
Adjusted total income	1,380,305	31,050	-17,479	1,393,875	13,571	100.00%	2.25%	-1.27%	100.98%	0.98%	11.85%	-6.67%	5.18%
Specified expense/deduction	-408,004	-11,419	70	-419,352	-11,349	-29.56%	-0.83%	0.01%	-30.38%	-0.82%	-4.36%	0.03%	-4.33%
Other exp./ded.—difference	-366,729	-5,317	-338	-372,383	-5,655	-26.57%	-0.39%	-0.02%	-26.98%	-0.41%	-2.03%	-0.13%	-2.16%
Other exp./ded.—no difference	-343,541	0	0	-343,541	0	-24.89%	0.00%	0.00%	-24.89%	0.00%	0.00%	0.00%	0.00%
Pretax net income	262,031	14,314	-17,747	258,599	-3,433	18.98%	1.04%	-1.29%	18.73%	-0.25%	5.46%	-6.77%	-1.31%
UTP Filers Not Citing IRC 482													
Adj. Other income—no difference	4,111,415	0	0	4,111,415	0	177.82%	0.00%	0.00%	177.82%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-2,452,101	-6,165	219	-2,458,047	-5,946	-106.05%	-0.27%	0.01%	-106.31%	-0.26%	-1.46%	0.05%	-1.41%
Adjusted gross profit	1,659,314	-6,165	219	1,653,368	-5,946	71.76%	-0.27%	0.01%	71.51%	-0.26%	-1.46%	0.05%	-1.41%
Specified income	682,415	7,674	-29,493	660,467	-21,819	29.51%	0.33%	-1.28%	28.56%	-0.94%	1.81%	-6.97%	-5.16%
Adj. Other income—difference	-29,574	14,451	-2,442	-17,565	12,009	-1.28%	0.63%	-0.11%	-0.76%	0.52%	3.41%	-0.58%	2.84%
Adjusted total income	2,312,155	15,960	-31,716	2,296,270	-15,756	100.00%	0.69%	-1.37%	99.31%	-0.68%	3.77%	-7.49%	-3.72%
Specified expense/deduction	-579,000	-24,341	8,175	-595,038	-16,166	-25.04%	-1.05%	0.35%	-25.74%	-0.70%	-5.75%	1.93%	-3.82%
Other exp./ded.—difference	-723,822	-35,459	457	-758,824	-35,002	-31.31%	-1.53%	0.02%	-32.82%	-1.51%	-8.38%	0.11%	-8.27%
Other exp./ded.—no difference	-586,132	0	0	-586,132	0	-25.35%	0.00%	0.00%	-25.35%	0.00%	0.00%	0.00%	0.00%
Pretax net income	423,201	-43,840	-23,084	356,276	-66,924	18.30%	-1.90%	-1.00%	15.41%	-2.89%	-10.36%	-5.45%	-15.81%

If the BTD is scaled by pretax book income, the filers citing IRC section 482 reduce pretax book income by -1.31 percent to determine tax net income compared to a reduction of -15.81 percent by nonciters (see Table 4A, last row, last column, in each panel).

TABLE 4B. 2012 U.S. Corporation 1120 Schedule M-3: M-3, Part I—IRC 482 Cited: SEC 10K/ Public: Assets $100 Million or More

	Mean Amount Reported ($ Million)		
	IRC 482 Cited	IRC 482 Not Cited	Difference
Worldwide financial net income	1,017	374	643
(Foreign nonincludible income)	-1,410	-125	-1,286
(U.S. nonincludible income)	-16	-38	22
Other includible income	-1	2	-3
Adjustments to eliminations	836	87	749
Other adjustments	183	110	73
Book net income includible corp.	631	410	221
Pretax net income—book	804	498	306
Tax net income	793	419	374
Total BTD difference	-11	-79	68
Total assets—Schedule L	23,921	20,157	3,764
Assets—Financial statements	24,143	17,000	7,143
Assets—Foreign nonincludible	14,961	4,737	10,223
Assets—U.S. nonincludible	757	612	145
Assets—Other includible	137	110	27
	Percentage of Adjusted Total Income Book		
	IRC 482 Cited	IRC 482 Not Cited	Difference
Worldwide financial net income	24.03%	13.76%	10.26%
(Foreign nonincludible income)	-33.31%	-4.59%	-28.73%
(U.S. nonincludible income)	-0.37%	-1.39%	1.02%
Other includible income	-0.03%	0.07%	-0.10%
Adjustments to eliminations	19.74%	3.18%	16.56%
Other adjustments	4.33%	4.06%	0.28%
Book net income includible corp.	14.91%	15.09%	-0.18%
Pretax net income—book	18.98%	18.30%	0.68%
Tax net income	18.73%	15.41%	3.33%
Total BTD difference	-0.25%	-2.89%	2.65%
	Distribution of Returns		
	IRC 482 Cited	IRC 482 Not Cited	Total
Number of returns	326	850	1,176
Share of returns	27.7%	72.3%	100.0%

Figure 4A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 482, for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of book income for 2012, for both years, filers citing IRC section 482 report larger scaled amounts for the seven items than nonciters.

Figure 4B uses pretax book income for scaling 2011 and 2012 BTD, temporary, permanent, and total, for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 482. In 2011, citers have less negative temporary BTD than nonciters, and have positive permanent BTD compared to negative permanent BTD for nonciters. In 2012, citers have positive temporary BTD compared to negative temporary BTD for nonciters, and have more negative permanent BTD than nonciters. In aggregate, the citers report approximately offsetting temporary and permanent BTD. Citers have less negative total BTD than nonciters after the offsetting effects of the temporary BTD and permanent BTD for the citers. Stated differently, the otherwise similar nonciters use negative total BTD to reduce tax net income more than the citers.

FIGURE 4A. 2011–2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC/10K Public Financial Statements by IRC Section 482

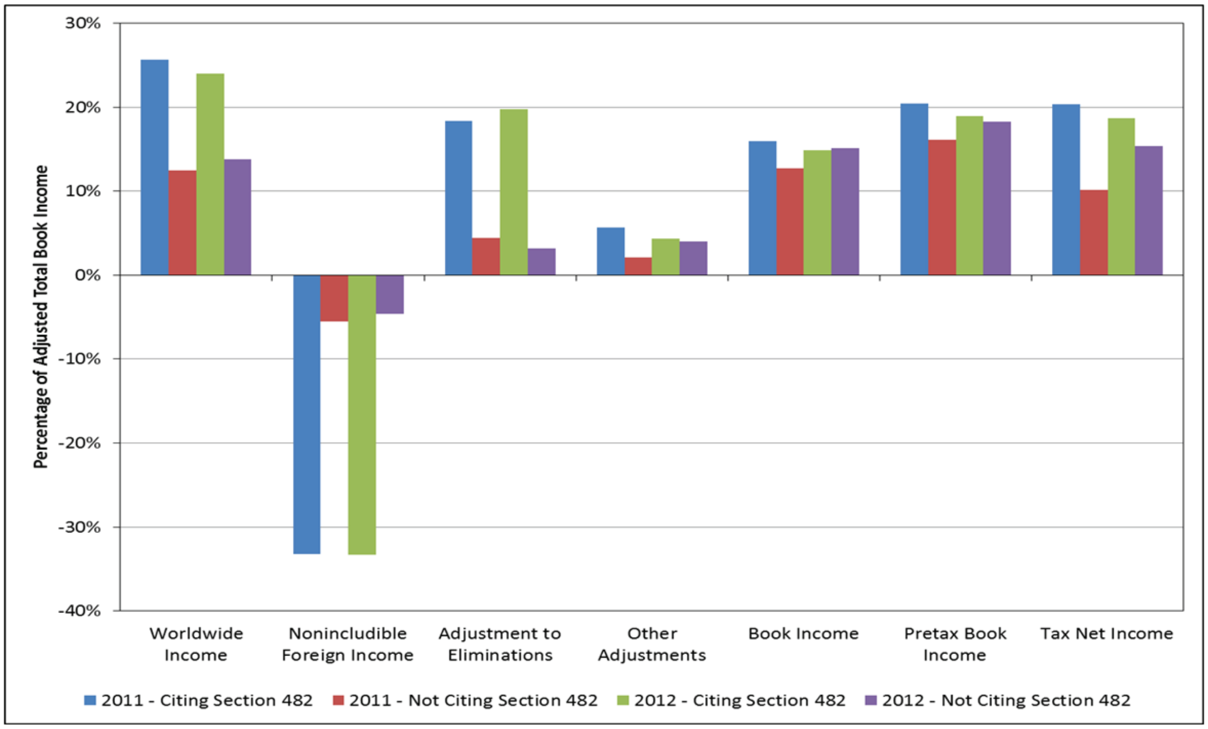


FIGURE 4B. 2011–2012 U.S. Corporation M-3: BTD as Percentage of Pretax Book Income for SEC/10K Public Financial Statements by IRC Section 482

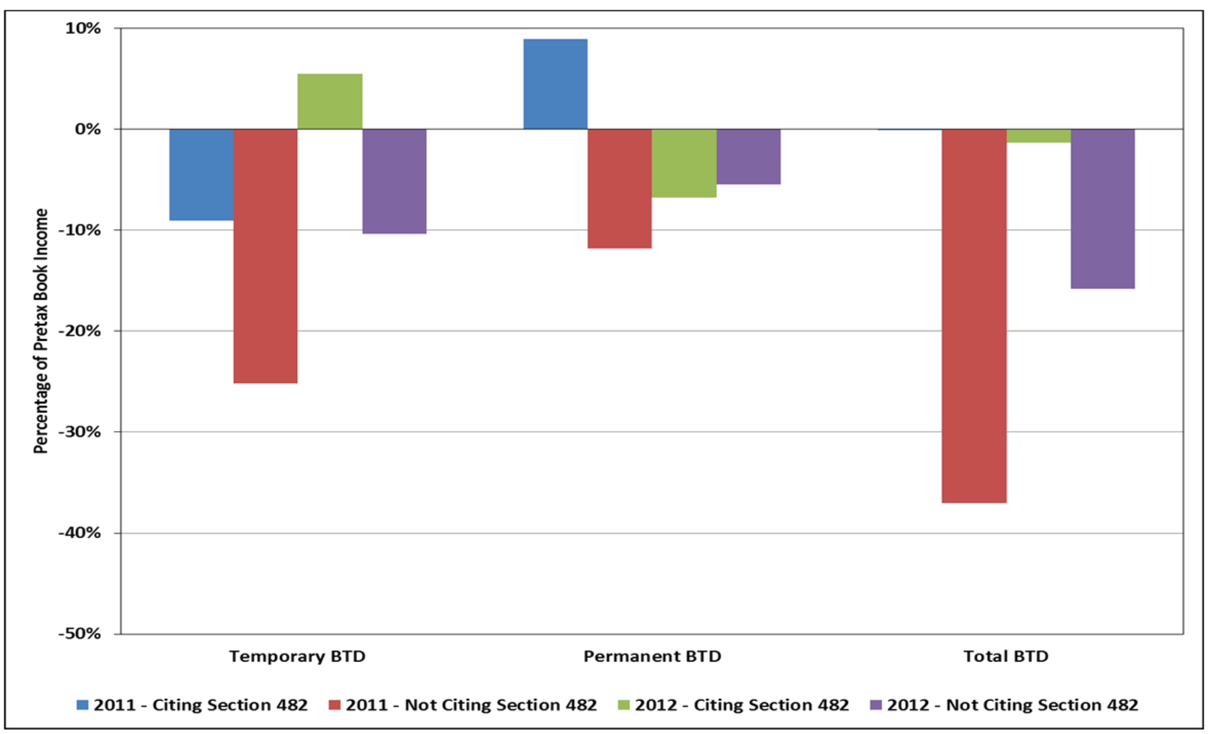
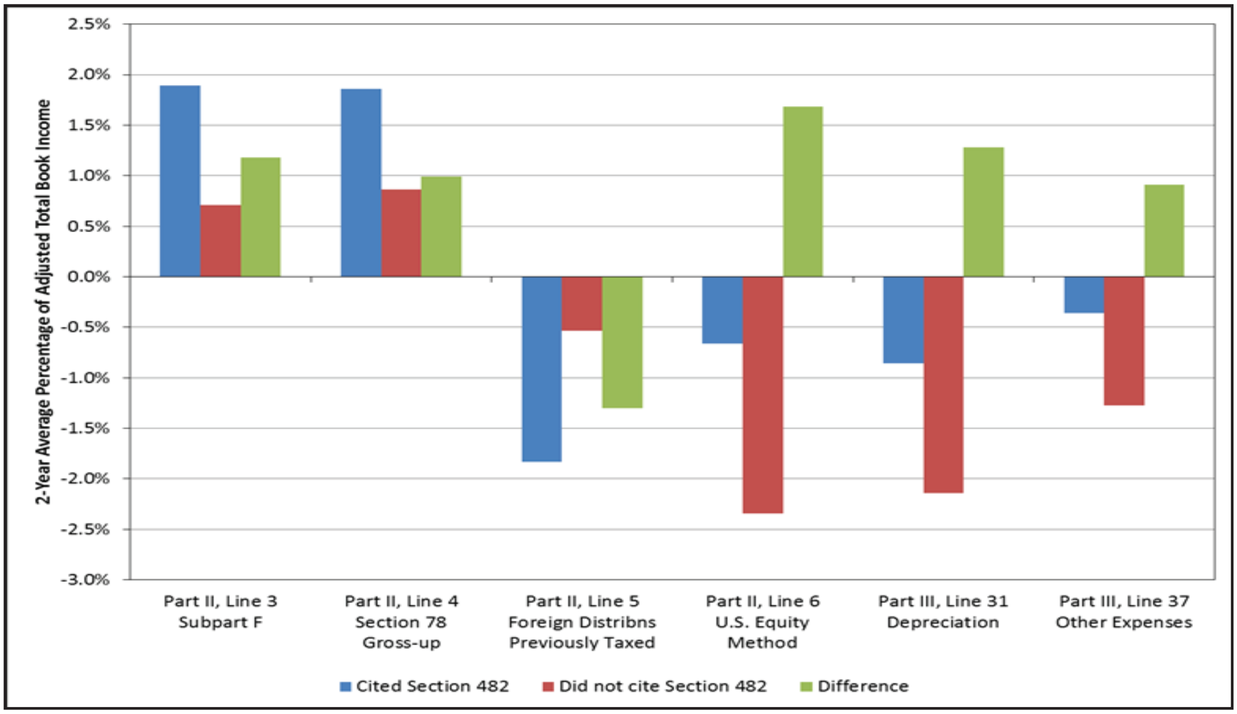


FIGURE 4C. 2011–2012 U.S. Corporation M-3: 2-Year Average Total BTD as Percentage of Adjusted Total Book Income for Top 6 Lines—UTP Filers Citing/Not Citing IRC 482 (SEC/10K Public Financial Statements)



In developing filters and quantitative models for return selection it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that, in fact, have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data items with extreme absolute differences. The models would generally operate at the microdata level and generally use both the sign and amount of the data items.

Figure 4C reports total BTD for six specific Schedule M-3 lines for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 482.[46] The total BTD for each of the six lines are expressed as a percentage of adjusted total income and averaged for 2011 and 2012. The lines are the top (that is, the most extreme) six lines on Schedule M-3, Parts II and III, in terms of the absolute value of the difference in 2-year-average scaled BTD between citers and nonciters.[47] The percentages for each of these lines are provided below.

Schedule M-3 Lines Featured in Figure 4C		Citers	Nonciters	Difference
Part II, line 3:	Inclusion in tax income of subpart F foreign income	1.89%	0.71%	1.18%
Part II, line 4:	Inclusion in tax income of Section 78 gross-up	1.86%	0.86%	0.99%
Part II, line 5:	Exclusion in tax income of previously taxed foreign distributions	-1.83%	-0.54%	-1.30%
Part II, line 6:	Exclusion from tax income of U.S. equity method income	-0.66%	-2.34%	1.68%
Part III, line 31:	Adjustment to depreciation expense/deduction in tax income	-0.86%	-2.14%	1.28%
Part III, line 37:	Adjustment to other expense/deduction with difference in tax income	-0.36%	-1.28%	0.91%

[46] The six lines are selected from and represent approximately 10 percent of the 68 specified and other-with-difference lines on Schedule M-3, Parts II and III. See the discussion and footnotes for Figure 3C.

[47] For the current study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. See the discussion and footnotes for Figure 3C.

3. *IRC Section 41 Citers*

Schedule UTP filers are required to list one to three applicable IRC sections for each listed UTP concise description. Schedule UTP, Part I, tabulates the IRC information for each current year UTP concise description listed in Schedule UTP, Part III. SOI tabulates the first 10 rows of data on Schedule UTP, Part I. The five IRC sections appearing most frequently in the SOI file for Tax Years 2011 and 2012 are: 482 (transfer pricing); 41 (research credit); 162 (trade or business expense); 199 (domestic production activities deduction); and 263 (capitalized costs). In 2012, seventy-two percent of such filers cited at least one of the five IRC sections. We categorize Schedule UTP filers as citing or not citing a specific IRC section. In this part of our study we focus on data describing Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 41.[48]

Tables 5A and 5B and Figures 5A and 5B present 2012 data describing characteristics of Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 41. Figures 5A and 5B include 2011 data for comparison. Figure 5C presents 2011 and 2012 average data.

Schedule UTP filers citing IRC section 41 are generally smaller than nonciters when study is restricted to the 1,176 Schedule UTP filers in 2012 with SEC 10K/Public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120, Schedule L, by such Schedule UTP filers is $14,237 million for the 506 filers citing IRC section 41 and $26,459 million for the 670 filers not citing IRC section 41 (see Table 5B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $513 million compared to $583 million for the nonciters. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$487 million (shown as negative since the income is removed in calculating book income) compared to -$477 million for nonfilers. After the required Schedule M-3, Part I, adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $420 million compared to $511 million for the nonciters. Adding back U.S. Federal tax expense, mean pretax book income is $508 million for the citers compared to $639 million for the nonciters. Citers introduce mean BTD of -$138 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column D, and on Form 1120, page 1, line 28) of $370 million compared to nonciters that introduce mean BTD of -$1 million to adjust pretax book to mean tax net income of $638 million. [49]

We scale our initial aggregate dollar data by the adjusted-total-income measure we develop for our Mini M-3 analysis to make data for filers that cite or do not cite a specific IRC section more comparable. We used the adjusted-total-income book amount as a common-size scaling factor and compare percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific IRC section, total pretax income BTD is expressed as a percentage of total pretax book income (see Tables 5A and 5B).

Table 5B shows that Schedule UTP filers in 2012 having SEC 10K/Public financial statements and $100 million or more in assets, and citing IRC section 41 report:

- more worldwide income scaled as a percentage of adjusted total income than similar filers not citing IRC section 41 (21.10 percent compared to 15.85 percent);
- more scaled foreign nonincludible income (-20.05 percent versus -12.97 percent);
- more scaled book income (17.29 percent versus 13.89 percent);
- more scaled pretax book income (20.91 percent versus 17.38 percent);
- *less* scaled tax net income(15.25 percent versus 17.35 percent); and
- more negative scaled BTD (-5.66 percent versus -0.03 percent).

[48] We focus on Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets because of the size and economic importance of such corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with Audited (but not SEC 10K/Public) or Unaudited financial statements.

[49] Negative total BTD adjustments added to pretax book income result in tax net income that is lower than pretax book income.

TABLE 5A. 2012 U.S. Corporation 1120 Schedule M-3: Mini M-3—IRC 41 Cited: SEC 10K/Public: Assets $100 Million or More

	$ Million					Percentage of Adjusted Total Income					Percentage of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
UTP Filers Citing IRC 41													
Adj. Other income—no difference	2,186,076	0	0	2,186,076	0	177.82%	0.00%	0.00%	177.82%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-1,320,017	-1,233	35	-1,321,213	-1,198	-107.37%	-0.10%	0.00%	-107.47%	-0.10%	-0.48%	0.01%	-0.47%
Adjusted gross profit	866,059	-1,233	35	864,863	-1,198	70.45%	-0.10%	0.00%	70.35%	-0.10%	-0.48%	0.01%	-0.47%
Specified income	610,166	394	-41,824	568,727	-41,430	49.63%	0.03%	-3.40%	46.26%	-3.37%	0.15%	-16.27%	-16.12%
Adj. Other income—difference	-246,846	-2,285	-8,166	-257,297	-10,451	-20.08%	-0.19%	-0.66%	-20.93%	-0.85%	-0.89%	-3.18%	-4.07%
Adjusted total income	1,229,379	-3,124	-49,955	1,176,293	-53,079	100.00%	-0.25%	-4.06%	95.68%	-4.32%	-1.22%	-19.43%	-20.65%
Specified expense/deduction	-316,779	-8,578	472	-324,877	-8,106	-25.77%	-0.70%	0.04%	-26.43%	-0.66%	-3.34%	0.18%	-3.15%
Other exp./ded.—difference	-396,530	-6,331	-2,117	-404,978	-8,448	-32.25%	-0.51%	-0.17%	-32.94%	-0.69%	-2.46%	-0.82%	-3.29%
Other exp./ded.—no difference	-259,004	0	0	-259,004	0	-21.07%	0.00%	0.00%	-21.07%	0.00%	0.00%	0.00%	0.00%
Pretax net income	257,066	-18,033	-51,600	187,434	-69,633	20.91%	-1.47%	-4.20%	15.25%	-5.66%	-7.01%	-20.07%	-27.09%
UTP Filers Not Citing IRC 41													
Adj. Other income—no difference	4,429,536	0	0	4,429,536	0	179.84%	0.00%	0.00%	179.84%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-2,751,063	-5,773	-237	-2,757,073	-6,010	-111.69%	-0.23%	-0.01%	-111.94%	-0.24%	-1.35%	-0.06%	-1.40%
Adjusted gross profit	1,678,473	-5,773	-237	1,672,463	-6,010	68.15%	-0.23%	-0.01%	67.90%	-0.24%	-1.35%	-0.06%	-1.40%
Specified income	389,146	29,513	9,562	428,099	39,075	15.80%	1.20%	0.39%	17.38%	1.59%	6.89%	2.23%	9.13%
Adj. Other income—difference	395,461	26,395	-8,566	413,290	17,829	16.06%	1.07%	-0.35%	16.78%	0.72%	6.16%	-2.00%	4.16%
Adjusted total income	2,463,080	50,135	759	2,513,852	50,894	100.00%	2.04%	0.03%	102.06%	2.07%	11.71%	0.18%	11.89%
Specified expense/deduction	-670,225	-27,182	7,773	-689,513	-19,409	-27.21%	-1.10%	0.32%	-27.99%	-0.79%	-6.35%	1.82%	-4.53%
Other exp./ded.—difference	-694,020	-34,445	2,235	-726,230	-32,209	-28.18%	-1.40%	0.09%	-29.48%	-1.31%	-8.04%	0.52%	-7.52%
Other exp./ded.—no difference	-670,669	0	0	-670,669	0	-27.23%	0.00%	0.00%	-27.23%	0.00%	0.00%	0.00%	0.00%
Pretax net income	428,166	-11,492	10,767	427,440	-724	17.38%	-0.47%	0.44%	17.35%	-0.03%	-2.68%	2.51%	-0.17%

If the BTD is scaled by pretax book income, the filers citing IRC section 41 reduce pretax book income by -27.09 percent to determine tax net income compared to a reduction of -0.17 percent by nonciters (see Table 5A, last row, last column, in each panel). In short, those SEC 10K/Public Schedule UTP filers that cite IRC section 41 are both more profitable and declare less tax net income than those that do not cite IRC section 41.

TABLE 5B. 2012 U.S. Corporation 1120 Schedule M-3: M-3, Part I—IRC 41 Cited: SEC 10K/Public: Assets $100 Million or More

	Mean Amount Reported ($ Million)		
	IRC 41 Cited	IRC 41 Not Cited	Difference
Worldwide financial net income	513	583	-70
(Foreign nonincludible income)	-487	-477	-10
(U.S. nonincludible income)	-9	-49	39
Other includible income	2	0	2
Adjustments to eliminations	366	240	125
Other adjustments	36	202	-166
Book net income includible corp.	420	511	-91
Pretax net income—book	508	639	-131
Tax net income	370	638	-268
Total BTD difference	-138	-1	-137
Total assets—Schedule L	14,237	26,459	-12,223
Assets—Financial statements	13,715	22,957	-9,242
Assets—Foreign nonincludible	7,053	7,963	-910
Assets—U.S. nonincludible	445	809	-365
Assets—Other includible	12	197	-186
	Percentage of Adjusted Total Income Book		
	IRC 41 Cited	IRC 41 Not Cited	Difference
Worldwide financial net income	21.10%	15.85%	5.25%
(Foreign nonincludible income)	-20.05%	-12.97%	-7.08%
(U.S. nonincludible income)	-0.37%	-1.32%	0.95%
Other includible income	0.09%	0.00%	0.09%
Adjustments to eliminations	15.05%	6.54%	8.51%
Other adjustments	1.47%	5.50%	-4.03%
Book net income includible corp.	17.29%	13.89%	3.39%
Pretax net income—book	20.91%	17.38%	3.53%
Tax net income	15.25%	17.35%	-2.11%
Total BTD difference	-5.66%	-0.03%	-5.63%
	Distribution of Returns		
	IRC 41 Cited	IRC 41 Not Cited	Total
Number of returns	506	670	1,176
Share of returns	43.0%	57.0%	100.0%

Figure 5A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 41, for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of other adjustments for 2011 and 2012 and tax net income for 2012, for both years, filers citing IRC section 41 report larger scaled amounts for the seven items than nonciters.

Figure 5B uses pretax book income for scaling 2011 and 2012 BTD, temporary, permanent, and total, for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 41. In 2011, citers have less negative temporary BTD than nonciters, and have negative permanent BTD compared to positive permanent BTD for nonciters. In 2012, citers have more negative

FIGURE 5A. 2011–2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC/10K Public Financial Statements by IRC Section 41

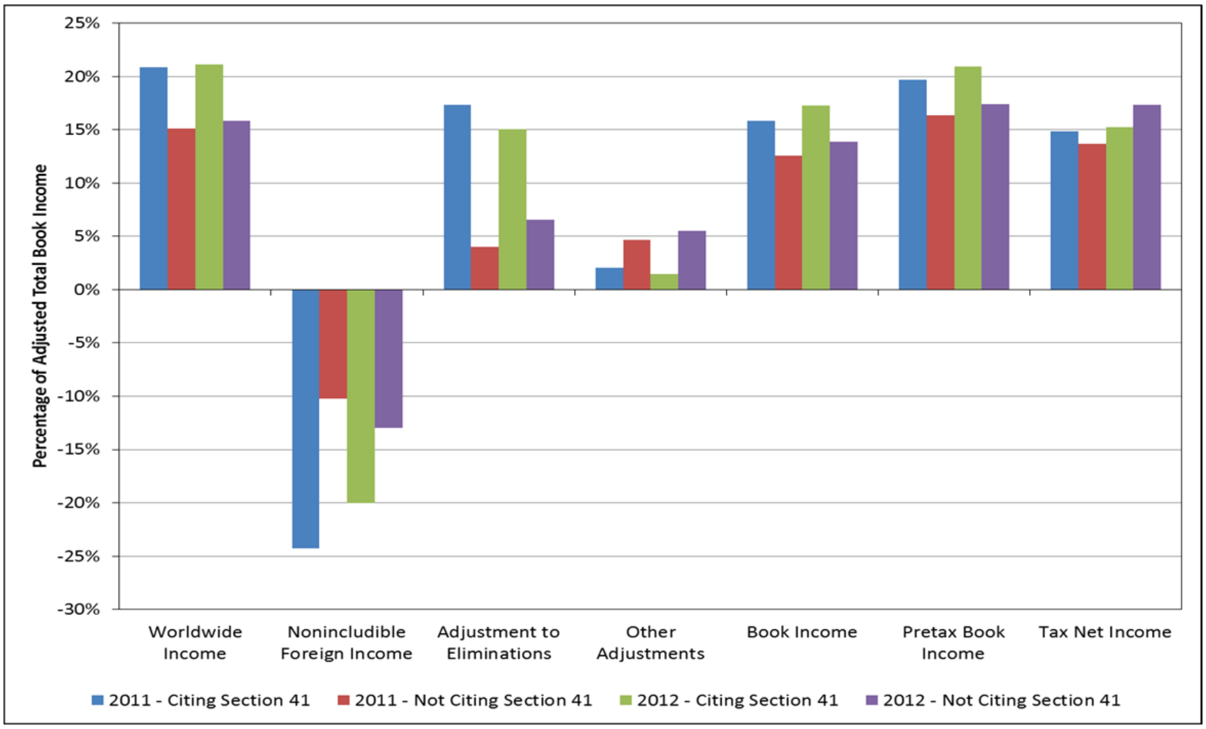


FIGURE 5B. 2011–2012 U.S. Corporation M-3: BTD as Percentage of Pretax Book Income for SEC/10K Public Financial Statements by IRC Section 41

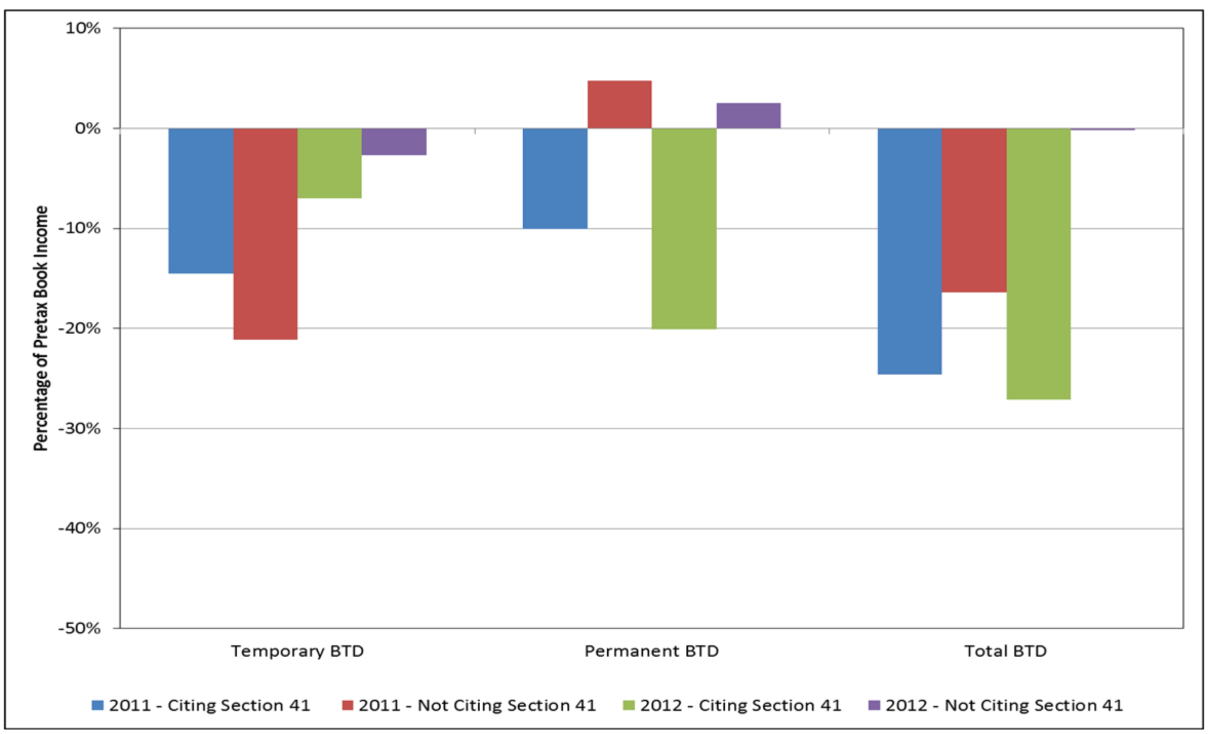
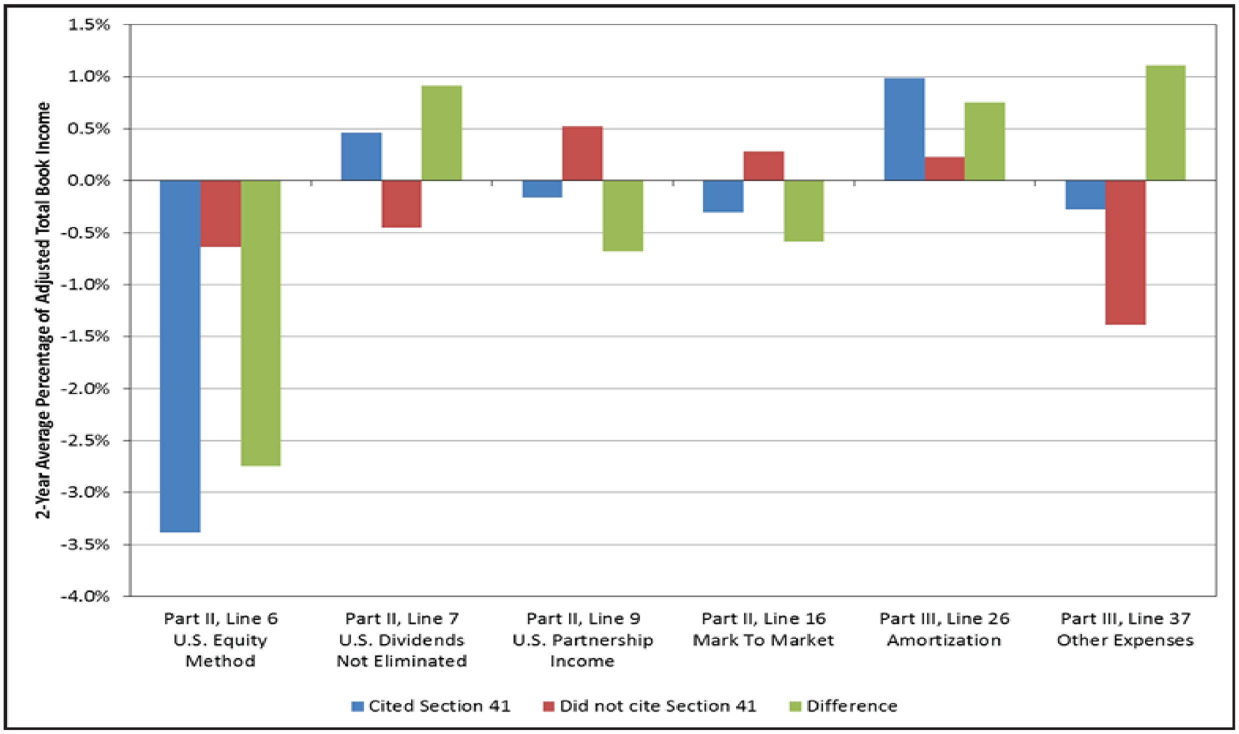


FIGURE 5C. 2011–2012 U.S. Corporation M-3: 2-Year Average Total BTD as Percentage of Adjusted Total Book Income for Top 6 Lines—UTP Filers Citing/Not Citing IRC Section 41 (SEC/10K Public Financial Statements)



temporary BTD than nonciters, and have negative permanent BTD compared to positive permanent BTD for nonciters. In aggregate, citers of IRC section 41 have more negative total BTD than nonciters in both 2011 and 2012. Stated differently, the otherwise similar nonciters use negative total BTD to reduce tax net income less than the citers.

In developing filters and quantitative models for return selection it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that, in fact, have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data items with extreme absolute differences. The models would generally operate at the microdata level and generally use both the sign and amount of the data items.

Figure 5C reports total BTD for six specific Schedule M-3 lines for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 41.[50] The total BTD for each of the six lines are expressed as a percentage of adjusted total income and averaged for 2011 and 2012. The lines are the top (that is, the most extreme) six lines on Schedule M-3, Parts II and III, in terms of the absolute value of the difference in 2-year-average scaled BTD between citers and nonciters.[51] The percentages for each of these lines are provided below.

[50] The six lines are selected from and represent approximately 10 percent of the 68 specified and other-with-difference lines on Schedule M-3, Parts II and III. See the discussion and footnotes for Figure 3C.

[51] For the current study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. See the discussion and footnotes for Figure 3C.

Schedule M-3 Lines Featured in Figure 5C		Citers	Nonciters	Difference
Part II, line 6:	Exclusion from tax income of U.S. equity method income	-3.39%	-0.64%	-2.75%
Part II, line 7:	Adjustments to U.S. dividends, not eliminated in consolidation, in tax income	0.46%	-0.45%	0.92%
Part II, line 9:	Adjustments to U.S. partnership income to include all Schedule K-1 income in tax income	-0.16%	0.52%	-0.68%
Part II, line 16:	Adjustments for mark-to-market in tax income	-0.30%	0.28%	-0.59%
Part III, line 26:	Adjustment to amortization/impairment of goodwill expense/deduction in tax income	0.98%	0.23%	0.75%
Part III, line 37:	Adjustment to other expense/deduction with difference in tax income	-0.28%	-1.38%	1.11%

Schedule UTP filers citing IRC section 162 are generally larger than nonciters when study is restricted to the 1,176 Schedule UTP filers in 2012 with SEC 10K/Public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120, Schedule L, by such Schedule UTP filers is $52,298 million for the 164 filers citing IRC section 162 and $16,160 million for the 1,012 filers not citing IRC section 162 (see Table 6B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $948 million compared to $488 million for the nonciters. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$380 million (shown as negative since the income is removed in calculating book income) compared to -$497 million for nonfilers. After the required Schedule M-3, Part I, adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $1,004 million compared to $385 million for the nonciters. Adding back U.S. Federal tax expense, mean pretax book income is $1,244 million for the citers compared to $475 million for the nonciters. Citers introduce mean BTD of -$90 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column D, and on Form 1120, page 1, line 28) of $1,154 million compared to nonciters that introduce mean BTD of -$55 million to adjust pretax book to mean tax net income of $421 million.[52]

We scale our initial aggregate dollar data by the adjusted-total-income measure we develop for our Mini M-3 analysis to make data for filers that cite or do not cite a specific IRC section more comparable. We used the adjusted-total-income book amount as a common-size scaling factor and compare percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific IRC section, total pretax income BTD is expressed as a percentage of total pretax book income (see Tables 6A and 6B).

4. *IRC Section 162 Citers*

Schedule UTP filers are required to list one to three applicable IRC sections for each listed UTP concise description. Schedule UTP, Part I, tabulates the IRC information for each current year UTP concise description listed in Schedule UTP, Part III. SOI tabulates the first 10 rows of data on Schedule UTP, Part I. The five IRC sections appearing most frequently in the SOI file for Tax Years 2011 and 2012 are: 482 (transfer pricing); 41 (research credit); 162 (trade or business expense); 199 (domestic production activities deduction); and 263 (capitalized costs). In 2012, seventy-two percent of such filers cited at least one of the five IRC sections. We categorize Schedule UTP filers as citing or not citing a specific IRC section. In this part of our study we focus on data describing Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 162.[53]

Tables 6A and 6B and Figures 6A and 6B present 2012 data describing characteristics of Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 162. Figures 6A and 6B include 2011 data for comparison. Figure 6C presents 2011 and 2012 average data.

[52] We focus on Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets because of the size and economic importance of such corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with Audited (but not SEC 10K/Public) or Unaudited financial statements.

[53] Negative total BTD adjustments added to pretax book income result in tax net income that is lower than pretax book income.

TABLE 6A. 2012 U.S. Corporation 1120 Schedule M-3: Mini M-3—IRC 162 Cited: SEC 10K/Public: Assets $100 Million or More

	$ Million					Percentage Adjusted Total Income					Percentage Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
UTP Filers Citing IRC 162													
Adj. Other income—no difference	1,631,130	0	0	1,631,130	0	145.56%	0.00%	0.00%	145.56%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-843,911	-2,620	234	-846,297	-2,386	-75.31%	-0.23%	0.02%	-75.52%	-0.21%	-1.28%	0.11%	-1.17%
Adjusted gross profit	787,219	-2,620	234	784,833	-2,386	70.25%	-0.23%	0.02%	70.04%	-0.21%	-1.28%	0.11%	-1.17%
Specified income	267,582	693	5,490	273,644	6,183	23.88%	0.06%	0.49%	24.42%	0.55%	0.34%	2.69%	3.03%
Adj. Other income—difference	65,758	16,679	-1,571	80,866	15,108	5.87%	1.49%	-0.14%	7.22%	1.35%	8.17%	-0.77%	7.40%
Adjusted total income	1,120,559	14,752	4,153	1,139,343	18,905	100.00%	1.32%	0.37%	101.68%	1.69%	7.23%	2.03%	9.26%
Specified expense/deduction	-281,815	-11,320	-485	-293,499	-11,805	-25.15%	-1.01%	-0.04%	-26.19%	-1.05%	-5.55%	-0.24%	-5.78%
Other exp./ded.—difference	-330,478	-21,829	-73	-352,379	-21,902	-29.49%	-1.95%	-0.01%	-31.45%	-1.95%	-10.70%	-0.04%	-10.73%
Other exp./ded.—no difference	-304,187	0	0	-304,187	0	-27.15%	0.00%	0.00%	-27.15%	0.00%	0.00%	0.00%	0.00%
Pretax net income	204,079	-18,397	3,595	189,278	-14,802	18.21%	-1.64%	0.32%	16.89%	-1.32%	-9.01%	1.76%	-7.25%
UTP Filers Not Citing IRC 162													
Adj. Other income—no difference	4,984,482	0	0	4,984,482	0	193.81%	0.00%	0.00%	193.81%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-3,227,169	-4,386	-436	-3,231,989	-4,821	-125.48%	-0.17%	-0.02%	-125.67%	-0.19%	-0.91%	-0.09%	-1.00%
Adjusted gross profit	1,757,313	-4,386	-436	1,752,493	-4,821	68.33%	-0.17%	-0.02%	68.14%	-0.19%	-0.91%	-0.09%	-1.00%
Specified income	731,729	29,214	-37,752	723,181	-8,538	28.45%	1.14%	-1.47%	28.12%	-0.33%	6.07%	-7.85%	-1.77%
Adj. Other income—difference	82,858	7,431	-15,161	75,128	-7,730	3.22%	0.29%	-0.59%	2.92%	-0.30%	1.54%	-3.15%	-1.61%
Adjusted total income	2,571,900	32,259	-53,349	2,550,802	-21,089	100.00%	1.25%	-2.07%	99.18%	-0.82%	6.70%	-11.09%	-4.38%
Specified expense/deduction	-705,189	-24,440	8,730	-720,891	-15,710	-27.42%	-0.95%	0.34%	-28.03%	-0.61%	-5.08%	1.81%	-3.27%
Other exp./ded.—difference	-760,073	-18,947	191	-778,828	-18,756	-29.55%	-0.74%	0.01%	-30.28%	-0.73%	-3.94%	0.04%	-3.90%
Other exp./ded.—no difference	-625,486	0	0	-625,486	0	-24.32%	0.00%	0.00%	-24.32%	0.00%	0.00%	0.00%	0.00%
Pretax net income	481,152	-11,128	-44,428	425,597	-55,555	18.71%	-0.43%	-1.73%	16.55%	-2.16%	-2.31%	-9.23%	-11.55%

TABLE 6B. 2012 U.S. Corporation 1120 Schedule M-3: M-3, Part I—IRC 162 Cited: SEC 10K/ Public: Assets $100 Million or More

	Mean Amount Reported ($ Million)		
	IRC 162 Cited	IRC 162 Not Cited	Difference
Worldwide financial net income	948	488	460
(Foreign nonincludible income)	-380	-497	117
(US nonincludible income)	-54	-28	-26
Other includible income	-1	1	-2
Adjustments to eliminations	-75	354	-429
Other adjustments	565	60	505
Book net income includible corp.	1,004	385	619
Pretax net income—book	1,244	475	769
Tax net income	1,154	421	734
Total BTD difference	-90	-55	-35
Total asets—Schedule L	52,298	16,160	36,138
Assets—Financial statements	43,792	14,960	28,832
Assets—Foreign nonincludible	8,060	7,492	568
Assets—US nonincludible	1,033	591	442
Assets—Other includible	51	128	-78
	Percentage of Adjusted Total Income Book		
	IRC 162 Cited	IRC 162 Not Cited	Difference
Worldwide financial net income	13.88%	19.22%	-5.34%
(Foreign nonincludible income)	-5.57%	-19.58%	14.01%
(U.S. nonincludible income)	-0.79%	-1.10%	0.31%
Other includible income	-0.01%	0.05%	-0.05%
Adjustments to eliminations	-1.10%	13.94%	-15.04%
Other adjustments	8.27%	2.37%	5.91%
Book net income includible corp.	14.70%	15.16%	-0.46%
Pretax net income—book	18.21%	18.71%	-0.50%
Tax net income	16.89%	16.55%	0.34%
Total BTD difference	-1.32%	-2.16%	0.84%
	Distribution of Returns		
	IRC 162 Cited	IRC 162 Not Cited	Total
Number of returns	164	1,012	1,176
Share of returns	13.9%	86.1%	100.0%

Table 6B shows that Schedule UTP filers in 2012 having SEC 10K/Public financial statements and $100 million or more in assets, and citing IRC section 162 report:

- *less* worldwide income scaled as a percentage of adjusted total income than similar filers not citing IRC section 162 (13.88 percent compared to 19.22 percent);
- less scaled foreign nonincludible income (-5.57 percent versus -19.58 percent);
- less scaled book income (14.70 percent versus 15.16 percent);
- less scaled pretax book income (18.21 percent versus 18.71 percent);
- *more* scaled tax net income (16.89 percent versus 16.55 percent); and
- less negative scaled BTD (-1.32 percent versus -2.16 percent).

If the BTD is scaled by pretax book income, the filers citing IRC section 162 reduce pretax book income by -7.25 percent to determine tax net income compared to a reduction of -11.55 percent by nonciters (see Table 6A, last row, last column, in each panel).

Figure 6A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 162, for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of worldwide income for 2011, other adjustments for 2012, book income for 2011, pretax book income for 2011, and tax net income for 2011 and 2012, for both years, filers citing IRC section 162 report smaller scaled amounts for the seven items than nonciters.

Figure 6B uses pretax book income for scaling 2011 and 2012 BTD, temporary, permanent, and total, for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 162. In 2011 and 2012, citers have more negative temporary BTD than nonciters, and have positive permanent BTD compared to negative permanent BTD for nonciters. In aggregate, citers of IRC section 162 have less negative total BTD than nonciters in both 2011 and 2012. Stated differently, the otherwise similar nonciters use negative total BTD to reduce tax net income more than the citers.

In developing filters and quantitative models for return selection it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that, in fact, have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data items with extreme absolute differences. The models would generally operate at the microdata level and generally use both the sign and amount of the data items.

FIGURE 6A. 2011–2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC/10K Public Financial Statements by IRC Section 162

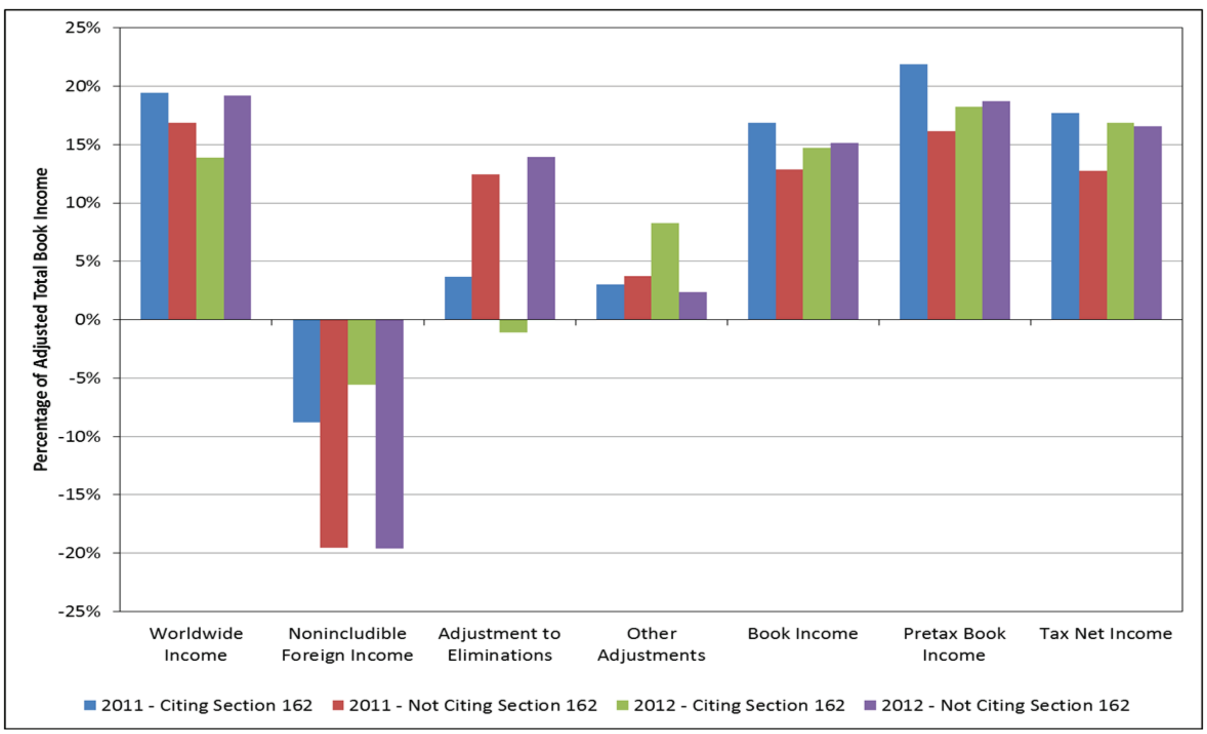


FIGURE 6B. 2011–2012 U.S. Corporation M-3: BTD as Percentage of Pretax Book Income for SEC/10K Public Financial Statements by IRC Section 162

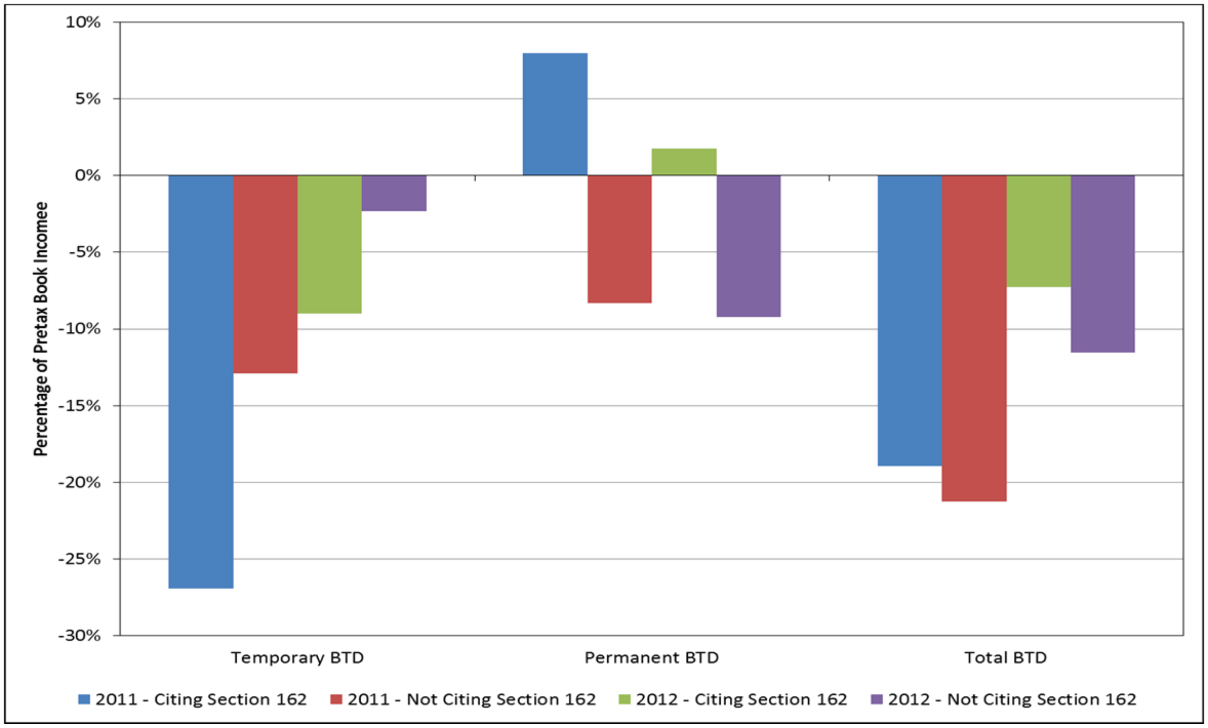


FIGURE 6C. 2011–2012 U.S. Corporation M-3: 2-Year Average Total BTD as Percentage of Adjusted Total Book Income for Top 6 Lines—UTP Filers Citing/Not Citing IRC Section 162 (SEC/10K Public Financial Statements)

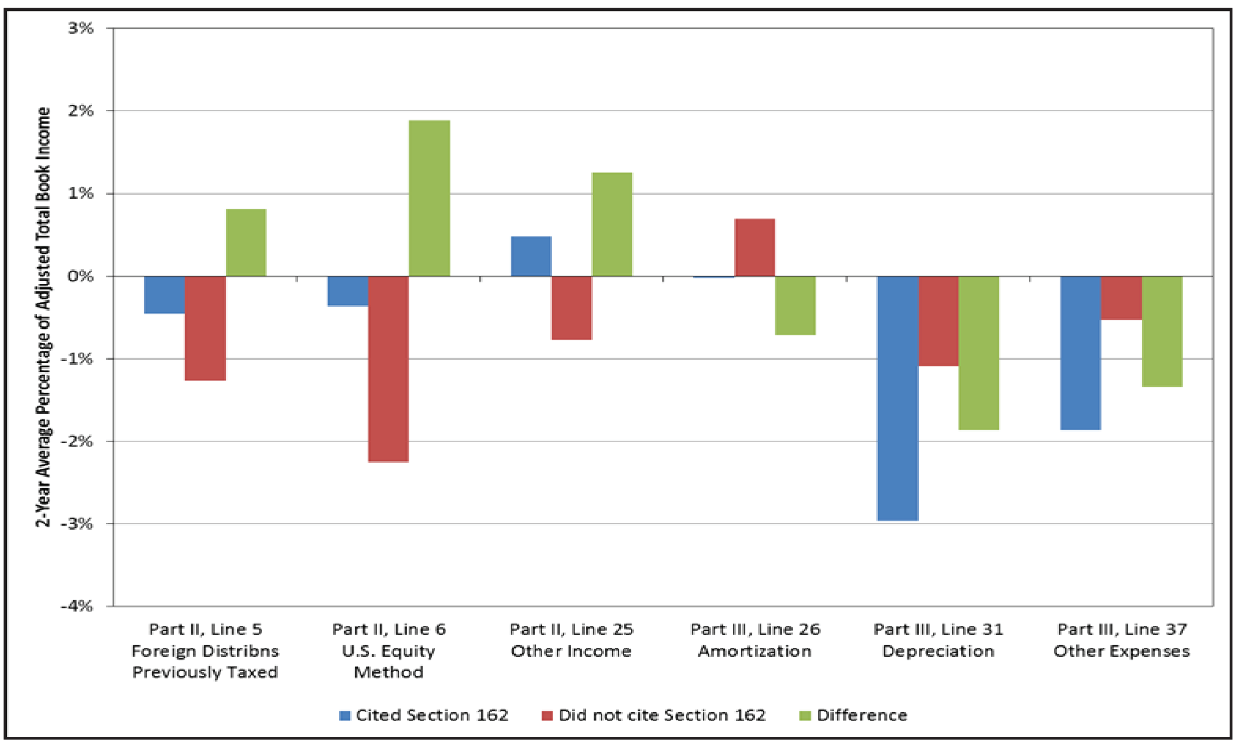


Figure 6C reports total BTD for six specific Schedule M-3 lines for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 162.[54] The total BTD for each of the six lines are expressed as a percentage of adjusted total income and averaged for 2011 and 2012. The lines are the top (that is, the most extreme) six lines on Schedule M-3, Parts II and III, in terms of the absolute value of the difference in 2-year-average scaled BTD between citers and nonciters.[55] The percentages for each of these lines are provided below.

Schedule M-3 Lines Featured in Figure 6C		Citers	Nonciters	Difference
Part II, line 5:	Exclusion in tax income of previously taxed foreign distributions	-0.46%	-1.27%	0.81%
Part II, line 6:	Exclusion from tax income of U.S. equity method income	-0.36%	-2.25%	1.89%
Part II, line 25:	Adjustment to other income with difference in tax income	0.48%	-0.77%	1.25%
Part III, line 26:	Adjustment to amortization/impairment of goodwill expense/deduction in tax income	-0.02%	0.69%	-0.72%
Part III, line 31:	Adjustment to depreciation expense/deduction in tax income	-2.96%	-1.09%	-1.86%
Part III, line 37:	Adjustment to other expense/deduction with difference in tax income	-1.87%	-0.53%	-1.34%

5. IRC Section 199 Citers

Schedule UTP filers are required to list one to three applicable IRC sections for each listed UTP concise description. Schedule UTP, Part I, tabulates the IRC information for each current year UTP concise description listed in Schedule UTP, Part III. SOI tabulates the first 10 rows of data on Schedule UTP, Part I. The five IRC sections appearing most frequently in the SOI file for Tax Years 2011 and 2012 are: 482 (transfer pricing); 41 (research credit); 162 (trade or business expense); 199 (domestic production activities deduction); and 263 (capitalized costs). In 2012, seventy-two percent of such filers cited at least one of the five IRC sections. We categorize Schedule UTP filers as citing or not citing a specific IRC section. In this part of our study we focus on data describing Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 199.[56]

Tables 7A and 7B and Figures 7A and 7B present 2012 data describing characteristics of Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 199. Figures 7A and 7B include 2011 data for comparison. Figure 7C presents 2011 and 2012 average data.

Schedule UTP filers citing IRC section 199 are, with the exception of total assets, generally larger than nonciters when study is restricted to the 1,176 Schedule UTP filers in 2012 with SEC 10K/Public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120, Schedule L, by such Schedule UTP filers is $17,347 million for the 130 filers citing IRC section 199 and $21,679 million for the 1,046 filers not citing IRC section 199 (see Table 7B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $1,483 million compared to $437 million for the nonciters. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$1,267 million (shown as negative since the income is removed in calculating book income) compared to -$383 million for nonfilers. After the required Schedule M-3, Part I, adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $764 million compared to $435 million for the nonciters. Adding back U.S. Federal tax expense, mean pretax book income is $1,140 million for the citers compared to $513 million for the

[54] The six lines are selected from and represent approximately 10 percent of the 68 specified and other-with-difference lines on Schedule M-3, Parts II and III. See the discussion and footnotes for Figure 3C.

[55] For the current study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. See the discussion and footnotes for Figure 3C.

[56] We focus on Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets because of the size and economic importance of such corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with Audited (but not SEC 10K/Public) or Unaudited financial statements.

TABLE 7A. 2012 U.S. Corporation 1120 Schedule M-3: Mini M-3—IRC 199 Cited: SEC 10K/Public: Assets $100 Million or More

	$ Million					Percentage of Adjusted Total Income					Percentage of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
UTP Filers Citing IRC 199													
Adj. Other income—no difference	1,429,379	0	0	1,429,379	0	206.12%	0.00%	0.00%	206.12%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-903,090	-1,421	-390	-904,902	-1,812	-130.23%	-0.20%	-0.06%	-130.49%	-0.26%	-0.96%	-0.26%	-1.22%
Adjusted gross profit	526,289	-1,421	-390	524,477	-1,812	75.89%	-0.20%	-0.06%	75.63%	-0.26%	-0.96%	-0.26%	-1.22%
Specified income	94,921	-9,698	14,867	100,090	5,169	13.69%	-1.40%	2.14%	14.43%	0.75%	-6.54%	10.03%	3.49%
Adj. Other income—difference	72,261	-1,339	-2,722	68,199	-4,062	10.42%	-0.19%	-0.39%	9.83%	-0.59%	-0.90%	-1.84%	-2.74%
Adjusted total income	693,471	-12,458	11,755	692,766	-705	100.00%	-1.80%	1.70%	99.90%	-0.10%	-8.41%	7.93%	-0.48%
Specified expense/deduction	-162,336	4,489	-8,080	-165,927	-3,590	-23.41%	0.65%	-1.17%	-23.93%	-0.52%	3.03%	-5.45%	-2.42%
Other exp./ded.—difference	-225,980	-8,006	-2,375	-236,362	-10,381	-32.59%	-1.15%	-0.34%	-34.08%	-1.50%	-5.40%	-1.60%	-7.00%
Other exp./ded.—no difference	-156,951	0	0	-156,951	0	-22.63%	0.00%	0.00%	-22.63%	0.00%	0.00%	0.00%	0.00%
Pretax net income	148,204	-15,975	1,300	133,526	-14,676	21.37%	-2.30%	0.19%	19.25%	-2.12%	-10.78%	0.88%	-9.90%
UTP Filers Not Citing IRC 199													
Adj. Other income—no difference	5,186,232	0	0	5,186,232	0	172.93%	0.00%	0.00%	172.93%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-3,167,989	-5,585	189	-3,173,384	-5,396	-105.64%	-0.19%	0.01%	-105.82%	-0.18%	-1.04%	0.04%	-1.00%
Adjusted gross profit	2,018,243	-5,585	189	2,012,848	-5,396	67.30%	-0.19%	0.01%	67.12%	-0.18%	-1.04%	0.04%	-1.00%
Specified income	904,390	39,604	-47,129	896,735	-7,525	30.16%	1.32%	-1.57%	29.90%	-0.25%	7.37%	-8.78%	-1.40%
Adj. Other income—difference	76,357	25,449	-14,010	87,796	11,439	2.55%	0.85%	-0.47%	2.93%	0.38%	4.74%	-2.61%	2.13%
Adjusted total income	2,998,990	59,468	-60,950	2,997,379	-1,482	100.00%	1.98%	-2.03%	99.95%	-0.05%	11.07%	-11.35%	-0.28%
Specified expense/deduction	-824,668	-40,249	16,325	-848,463	-23,925	-27.50%	-1.34%	0.54%	-28.29%	-0.80%	-7.49%	3.04%	-4.46%
Other exp./ded.—difference	-864,570	-32,770	2,494	-894,846	-30,276	-28.83%	-1.09%	0.08%	-29.84%	-1.01%	-6.10%	0.46%	-5.64%
Other exp./ded.—no difference	-772,722	0	0	-772,722	0	-25.77%	0.00%	0.00%	-25.77%	0.00%	0.00%	0.00%	0.00%
Pretax net income	537,030	-13,551	-42,131	481,348	-55,683	17.91%	-0.45%	-1.40%	16.05%	-1.86%	-2.52%	-7.85%	-10.37%

nonciters. Citers introduce mean BTD of -$113 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column D, and on Form 1120, page 1, line 28) of $1,027 million compared to nonciters that introduce mean BTD of -$53 million to adjust pretax book to mean tax net income of $460 million.[57]

We scaled our initial aggregate dollar data by the adjusted-total-income measure we developed for our Mini M-3 analysis to make data for filers that cite or do not cite a specific IRC section more comparable. We used the adjusted-total-income book amount as a common-size scaling factor and compared percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific IRC section, total pretax income BTD is expressed as a percentage of total pretax book income (see Tables 7A and 7B).

Table 7B shows that Schedule UTP filers in 2012 having SEC 10K/Public financial statements and $100 million or more in assets, and citing IRC section 199 report:

- more worldwide income scaled as a percentage of adjusted total income than similar filers not citing IRC section 199 (27.80 percent compared to 15.24 percent);
- more scaled foreign nonincludible income (-23.75 percent versus -13.37 percent);
- *less* scaled book income (14.31 percent versus 15.19 percent);
- more scaled pretax book income (21.37 percent versus 17.91 percent);
- more scaled tax net income (19.25 percent versus 16.05 percent); and
- more negative scaled BTD (-2.12 percent versus -1.86 percent).

If the BTD is scaled by pretax book income, the filers citing IRC section 199 reduce pretax book income by -9.90 percent to determine tax net income compared to a reduction of -10.37 percent by nonciters (see Table 7A, last row, last column, in each panel).

Figure 7A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 199, for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of adjustments to eliminations for 2011 and 2012 and book income for 2012, for both years, filers citing IRC section 199 report larger scaled amounts for the seven items than nonciters.

Figure 7B uses pretax book income for scaling 2011 and 2012 BTD, temporary, permanent, and total, for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 199. In 2011, citers have less negative temporary BTD than nonciters, in 2012 citers have more negative temporary BTD than nonciters, and in both 2011 and 2012 citers have positive permanent BTD compared to negative permanent BTD for nonciters. In aggregate, citers of IRC section 199 have less negative total BTD than nonciters in both 2011 and 2012. Stated differently, the otherwise similar nonciters use negative total BTD to reduce tax net income more than the citers.

[57] Negative total BTD adjustments added to pretax book income result in tax net income that is lower than pretax book income.

TABLE 7B. 2012 U.S. Corporation 1120 Schedule M-3: M-3, Part I—IRC 199 Cited: SEC 10K/ Public: Assets $100 Million or More

	Mean Amount Reported ($ Million)		
	IRC 199 Cited	IRC 199 Not Cited	Difference
Worldwide financial net income	1,483	437	1,046
(Foreign nonincludible income)	-1,267	-383	-884
(U.S. nonincludible income)	-56	-29	-28
Other includible income	-3	1	-5
Adjustments to eliminations	336	289	47
Other adjustments	273	113	160
Book net income includible corp.	764	435	328
Pretax net income—book	1,140	513	627
Tax net income	1,027	460	567
Total BTD difference	-113	-53	-60
Total assets—Schedule L	17,347	21,679	-4,332
Assets—Financial statements	16,991	19,228	-2,237
Assets—Foreign nonincludible	8,147	7,500	648
Assets—U.S. nonincludible	727	643	83
Assets—Other includible	32	128	-97
	Percentage of Adjusted Total Income Book		
	IRC 199 Cited	**IRC 199 Not Cited**	**Difference**
Worldwide financial net income	27.80%	15.24%	12.55%
(Foreign nonincludible income)	-23.75%	-13.37%	-10.38%
(U.S. nonincludible income)	-1.05%	-1.00%	-0.06%
Other includible income	-0.06%	0.05%	-0.11%
Adjustments to eliminations	6.30%	10.09%	-3.79%
Other adjustments	5.12%	3.94%	1.19%
Book net income includible corp.	14.31%	15.19%	-0.87%
Pretax net income—book	21.37%	17.91%	3.46%
Tax net income	19.25%	16.05%	3.20%
Total BTD difference	-2.12%	-1.86%	-0.26%
	Distribution of Returns		
	IRC 199 Cited	**IRC 199 Not Cited**	**Total**
Number of returns	130	1,046	1,176
Share of returns	11.1%	88.9%	100.0%

In developing filters and quantitative models for return selection it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that, in fact, have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data items with extreme absolute differences. The models would generally operate at the microdata level and generally use both the sign and amount of the data items.

Figure 7C reports total BTD for six specific Schedule M-3 lines for Schedule UTP filers, with SEC 10K/ Public financial statements and $100 million or more in assets, citing or not citing IRC section 199.[58] The total BTD for each of the six lines are expressed as a percentage of adjusted total income and averaged for 2011 and

[58] The six lines are selected from and represent approximately 10 percent of the 68 specified and other-with-difference lines on Schedule M-3, Parts II and III. See the discussion and footnotes for Figure 3C.

FIGURE 7A. 2011–2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC/10K Public Financial Statements by IRC Section 199

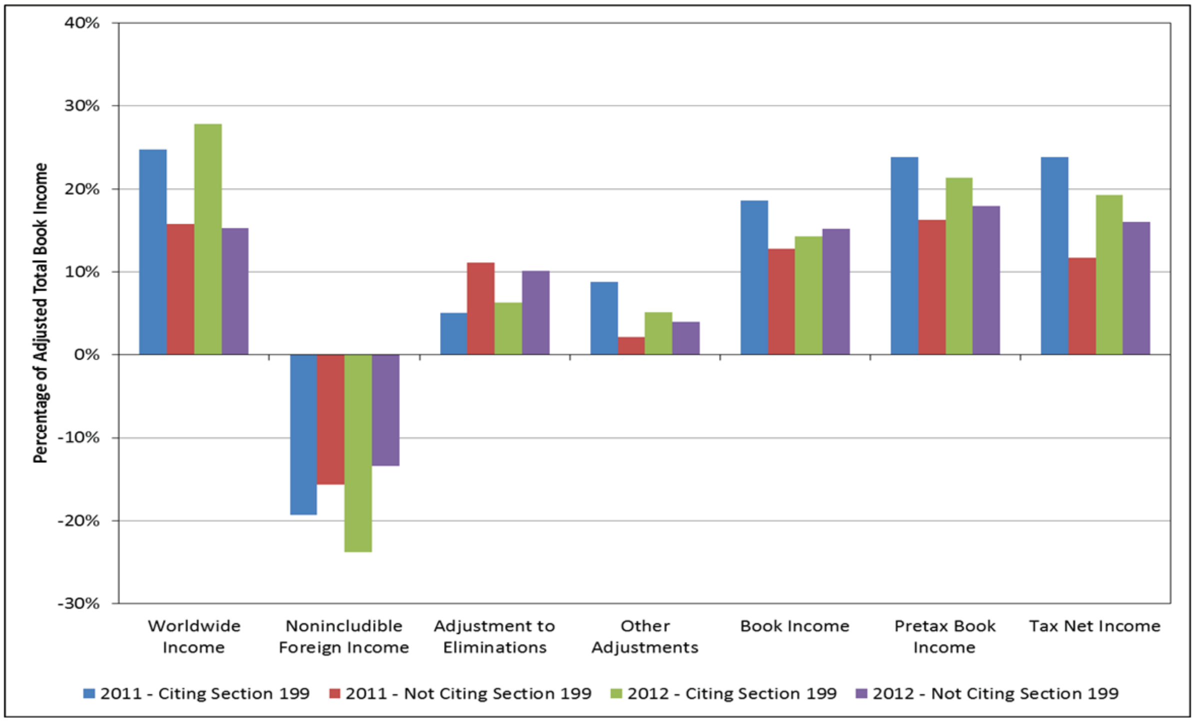


FIGURE 7B. 2011–2012 U.S. Corporation M-3: BTD as Percentage of Pretax Book Income for SEC/10K Public Financial Statements by IRC Section 199

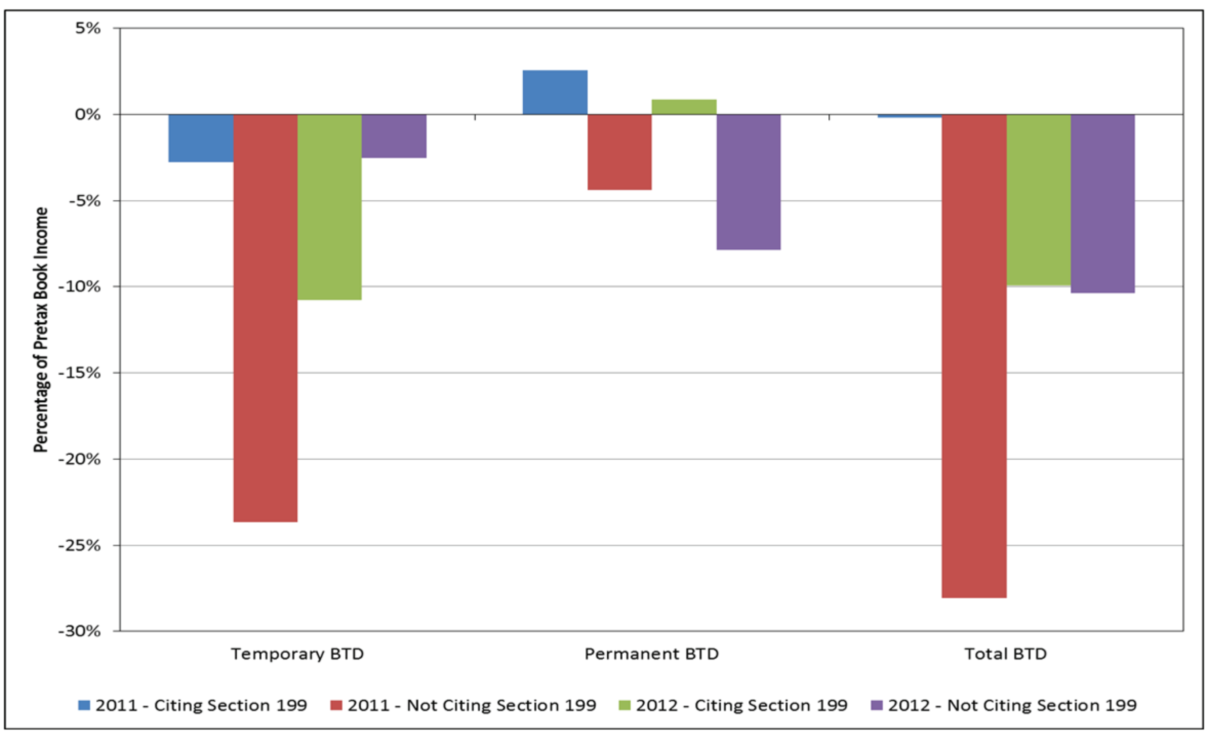
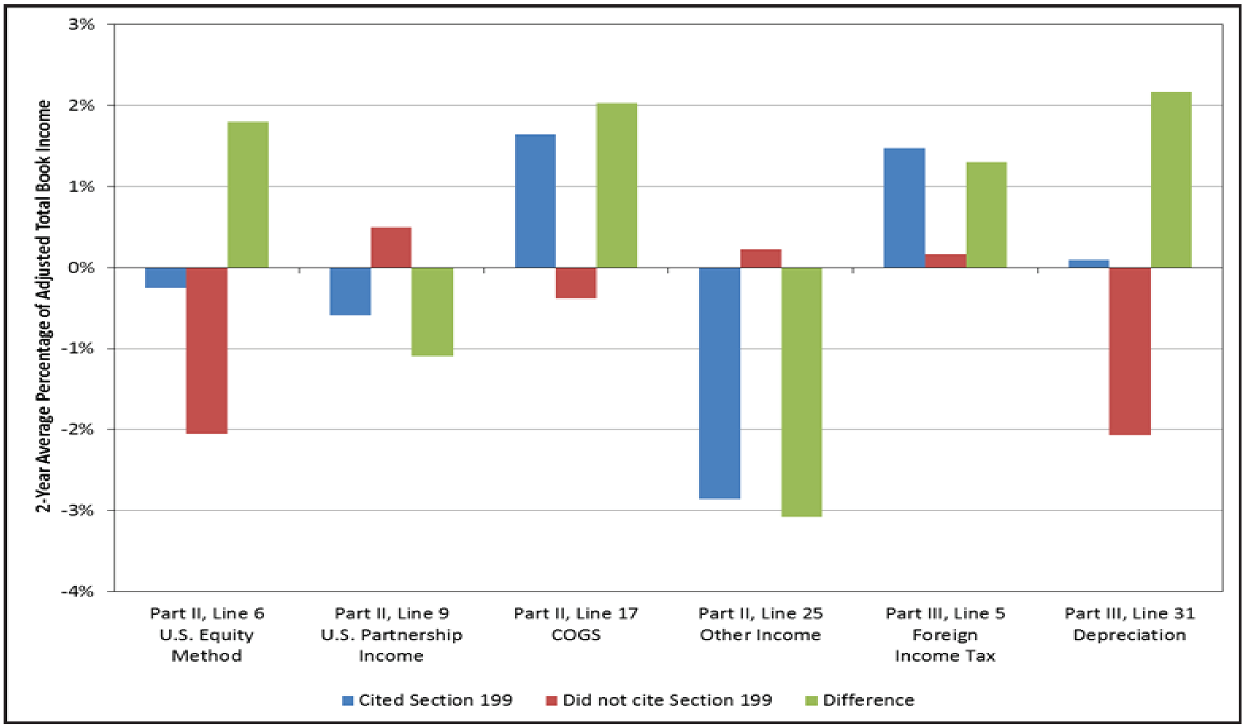


FIGURE 7C. 2011–2012 U.S. Corporation M-3: 2-Year Average Total BTD as Percentage of Adjusted Total Book Income for Top 6 Lines—UTP Filers Citing/Not Citing IRC Section 199 (SEC/10K Public Financial Statements)



2012. The lines are the top (that is, the most extreme) six lines on Schedule M-3, Parts II and III, in terms of the absolute value of the difference in 2-year-average scaled BTD between citers and nonciters.[59] The percentages for each of these lines are provided below.

Schedule M-3 Lines Featured in Figure 7C		Citers	Nonciters	Difference
Part II, line 6:	Exclusion from tax income of U.S. equity method income	-0.25%	-2.05%	1.80%
Part II, line 9:	Adjustments to U.S. partnership income to include all Schedule K-1 income in tax income	-0.59%	0.50%	-1.09%
Part II, line 17:	Adjustments to COGS in tax income	1.65%	-0.38%	2.03%
Part II, line 25:	Adjustment to other income with difference in tax income	-2.86%	0.22%	-3.08%
Part III, line 5:	Adjustment to foreign income tax expense/deduction in tax income	1.47%	0.17%	1.31%
Part III, line 31:	Adjustment to depreciation expense/deduction in tax income	0.09%	-2.07%	2.17%

6. *IRC Section 263 Citers*

Schedule UTP filers are required to list one to three applicable IRC sections for each listed UTP concise description. Schedule UTP, Part I, tabulates the IRC information for each current year UTP concise description listed in Schedule UTP, Part III. SOI tabulates the first 10 rows of data on Schedule UTP, Part I. The five IRC sections appearing most frequently in the SOI file for Tax Years 2011 and 2012 are: 482 (transfer pricing); 41 (research credit); 162 (trade or business expense); 199 (domestic production activities deduction); and 263 (capitalized costs). In 2012, seventy-two percent of such filers cited at least one of the five IRC sections. We categorize Schedule UTP filers as citing or not citing a specific IRC section. In this part of our study we focus

[59] For the current study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. See the discussion and footnotes for Figure 3C.

on data describing Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 263.[60]

Tables 8A and 8B and Figures 8A and 8B present 2012 data describing characteristics of Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 263. Figures 8A and 8B include 2011 data for comparison. Figure 8C presents 2011 and 2012 average data.

Schedule UTP filers citing IRC section 263 are generally larger than nonciters when study is restricted to the 1,176 Schedule UTP filers in 2012 with SEC 10K/Public financial statements and $100 million or more in assets. The mean asset size as reported on the Form 1120, Schedule L, by such Schedule UTP filers is $25,325 million for the 91 filers citing IRC section 263 and $20,854 million for the 1,085 filers not citing IRC section 263 (see Table 8B). The mean worldwide financial net income of the citers (reported on Schedule M-3, Part I, line 4) is $1,004 million compared to $515 million for the nonciters. The mean foreign nonincludible income of citers (reported on Schedule M-3, Part I, line 5) is -$703 million (shown as negative since the income is removed in calculating book income) compared to -$463 million for nonfilers. After the required Schedule M-3, Part I, adjustments, the mean book income for citers (reported on Schedule M-3, Part I, line 11) is $1,384 million compared to $395 million for the nonciters. Adding back U.S. Federal tax expense, mean pretax book income is $1,615 million for the citers compared to $496 million for the nonciters. Citers introduce mean BTD of -$258 million to adjust pretax book to mean tax net income (reported on Schedule M-3, Part II, line 30, column D, and on Form 1120, page 1, line 28) of $1,357 million compared to nonciters that introduce mean BTD of -$43 million to adjust pretax book to mean tax net income of $453 million.[61]

We scale our initial aggregate dollar data by the adjusted-total-income measure we develop for our Mini M-3 analysis to make data for filers that cite or do not cite a specific IRC section more comparable. We used the adjusted-total-income book amount as a common-size scaling factor and compare percentages of adjusted-total-income book to remove or minimize the impact of differences in the size of corporations from our analysis. In addition, for the purposes of comparing the Schedule M-3 characteristics of Schedule UTP filers that cite or do not cite a specific IRC section, total pretax income BTD is expressed as a percentage of total pretax book income (see Tables 8A and 8B).

Table 8B shows that Schedule UTP filers in 2012 having SEC 10K/Public financial statements and $100 million or more in assets, and citing IRC section 263 report:

- *less* worldwide income scaled as a percentage of adjusted total income than similar filers not citing IRC section 263 (15.44 percent compared to 18.01 percent);
- less scaled foreign nonincludible income (-10.80 percent versus -16.19 percent);
- *more* scaled book income (21.27 percent versus 13.83 percent);
- more scaled pretax book income (24.82 percent versus 17.36 percent);
- more scaled tax net income (20.85 percent versus 15.85 percent); and
- more negative scaled BTD (-3.97 percent versus -1.51 percent).

If the BTD is scaled by pretax book income, the filers citing IRC section 263 reduce pretax book income by -15.99 percent to determine tax net income compared to a reduction of -8.71 percent by nonciters (see Table 8A, last row, last column, in each panel).

[60] We focus on Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets because of the size and economic importance of such corporations and because of the comparatively low number of Schedule UTP filers with assets of less than $100 million or with assets of $100 million or more but with Audited (but not SEC 10K/Public) or Unaudited financial statements.

[61] Negative total BTD adjustments added to pretax book income result in tax net income that is lower than pretax book income.

TABLE 8A. 2012 U.S. Corporation 1120 Schedule M-3: Mini M-3—IRC 263 Cited: SEC 10K/Public: Assets $100 Million or More

	$ Million					Percentage of Adjusted Total Income					Percentage of Pretax Book		
	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column A Book	Column B Temporary	Column C Permanent	Column D Tax	Total Difference	Column B Temporary	Column C Permanent	Total Difference
UTP Filers Citing IRC 263													
Adj. Other income—no difference	1,249,202	0	0	1,249,202	0	210.97%	0.00%	0.00%	210.97%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-792,935	-3,996	-177	-797,108	-4,173	-133.91%	-0.67%	-0.03%	-134.62%	-0.70%	-2.72%	-0.12%	-2.84%
Adjusted gross profit	456,267	-3,996	-177	452,094	-4,173	77.05%	-0.67%	-0.03%	76.35%	-0.70%	-2.72%	-0.12%	-2.84%
Specified income	110,524	-13	-1,665	108,846	-1,678	18.67%	0.00%	-0.28%	18.38%	-0.28%	-0.01%	-1.13%	-1.14%
Adj. Other income—difference	25,346	4,309	-5,274	24,381	-965	4.28%	0.73%	-0.89%	4.12%	-0.16%	2.93%	-3.59%	-0.66%
Adjusted total income	592,137	300	-7,116	585,321	-6,816	100.00%	0.05%	-1.20%	98.85%	-1.15%	0.20%	-4.84%	-4.64%
Specified expense/deduction	-146,298	-5,693	3,977	-148,014	-1,716	-24.71%	-0.96%	0.67%	-25.00%	-0.29%	-3.87%	2.71%	-1.17%
Other exp./ded.—difference	-153,135	-17,098	2,130	-168,103	-14,968	-25.86%	-2.89%	0.36%	-28.39%	-2.53%	-11.63%	1.45%	-10.18%
Other exp./ded.—no difference	-145,715	0	0	-145,715	0	-24.61%	0.00%	0.00%	-24.61%	0.00%	0.00%	0.00%	0.00%
Pretax net income	146,989	-22,491	-1,009	123,489	-23,500	24.82%	-3.80%	-0.17%	20.85%	-3.97%	-15.30%	-0.69%	-15.99%
UTP Filers Not Citing IRC 263													
Adj. Other income—no difference	5,366,410	0	0	5,366,410	0	173.09%	0.00%	0.00%	173.09%	0.00%	0.00%	0.00%	0.00%
Adjusted COGS	-3,278,144	-3,010	-25	-3,281,178	-3,035	-105.74%	-0.10%	0.00%	-105.83%	-0.10%	-0.56%	0.00%	-0.56%
Adjusted gross profit	2,088,266	-3,010	-25	2,085,232	-3,035	67.36%	-0.10%	0.00%	67.26%	-0.10%	-0.56%	0.00%	-0.56%
Specified income	888,787	29,919	-30,597	887,979	-678	28.67%	0.97%	-0.99%	28.64%	-0.02%	5.56%	-5.68%	-0.13%
Adj. Other income—difference	123,270	19,801	-11,458	131,613	8,343	3.98%	0.64%	-0.37%	4.25%	0.27%	3.68%	-2.13%	1.55%
Adjusted total income	3,100,323	46,710	-42,080	3,104,824	4,630	100.00%	1.51%	-1.36%	100.15%	0.15%	8.68%	-7.82%	0.86%
Specified expense/deduction	-840,707	-30,067	4,268	-866,376	-25,799	-27.12%	-0.97%	0.14%	-27.94%	-0.83%	-5.59%	0.79%	-4.79%
Other exp./ded.—difference	-937,415	-23,678	-2,011	-963,104	-25,689	-30.24%	-0.76%	-0.06%	-31.06%	-0.83%	-4.40%	-0.37%	-4.77%
Other exp./ded.—no difference	-783,958	0	0	-783,958	0	-25.29%	0.00%	0.00%	-25.29%	0.00%	0.00%	0.00%	0.00%
Pretax net income	538,243	-7,035	-39,823	491,386	-46,858	17.36%	-0.23%	-1.28%	15.85%	-1.51%	-1.31%	-7.40%	-8.71%

TABLE 8B. 2012 U.S. Corporation 1120 Schedule M-3: M-3, Part I—IRC 263 Cited: SEC 10K/ Public: Assets $100 Million or More

	Mean Amount Reported ($ Million)		
	IRC 263 Cited	IRC 263 Not Cited	Difference
Worldwide financial net income	1,004	515	490
(Foreign nonincludible income)	-703	-463	-240
(U.S. nonincludible income)	-35	-31	-4
Other includible income	3	1	3
Adjustments to eliminations	-25	321	-346
Other adjustments	1,137	46	1,091
Book net income includible corp.	1,384	395	989
Pretax net income—book	1,615	496	1,119
Tax net income	1,357	453	904
Total BTD difference	-258	-43	-215
Total assets—Schedule L	25,325	20,854	4,471
Assets—Financial statements	25,864	18,403	7,461
Assets—Foreign nonincludible	3,816	7,886	-4,070
Assets—U.S. nonincludible	722	647	75
Assets—Other includible	345	98	247
	Percentage of Adjusted Total Income Book		
	IRC 263 Cited	**IRC 263 Not Cited**	**Difference**
Worldwide financial net income	15.44%	18.01%	-2.58%
(Foreign nonincludible income)	-10.80%	-16.19%	5.39%
(U.S. nonincludible income)	-0.54%	-1.10%	0.56%
Other includible income	0.05%	0.03%	0.03%
Adjustments to eliminations	-0.38%	11.24%	-11.62%
Other adjustments	17.47%	1.62%	15.86%
Book net income includible corp.	21.27%	13.83%	7.44%
Pretax net income—book	24.82%	17.36%	7.46%
Tax net income	20.85%	15.85%	5.01%
Total BTD difference	-3.97%	-1.51%	-2.46%
	Distribution of Returns		
	IRC 263 Cited	**IRC 263 Not Cited**	**Total**
Number of returns	91	1,085	1,176
Share of returns	7.7%	92.3%	100.0%

Figure 8A compares Schedule M-3 data as percentages of adjusted total income for 2011 and 2012 Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 263, for seven key items: worldwide financial income (Part I, line 4); foreign nonincludible income (Part I, line 5); adjustments to eliminations (Part I, line 8); other adjustments (Part I, line 10); book income (Part I, line 11); pretax book income; and tax net income. With the exception of worldwide income for 2012, foreign nonincludible income for 2011 and 2012, and adjustments to eliminations for 2011 and 2012, for both years, filers citing IRC section 263 report larger scaled amounts for the seven items than nonciters.

Figure 8B uses pretax book income for scaling 2011 and 2012 BTD, temporary, permanent, and total, for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 263. In 2011 and 2012, citers have more negative temporary BTD than nonciters. In 2011 citers have positive permanent BTD and in 2012 less negative permanent BTD compared to negative permanent BTD for nonciters in both years. In aggregate, citers of IRC section 263 have more negative total BTD than nonciters in both 2011 and 2012. Stated differently, the otherwise similar nonciters use negative total BTD to reduce tax net income less than the citers.

FIGURE 8A. 2011–2012 U.S. Corporation Key M-3 Data as Percentage of Adjusted Total Book Income for SEC/10K Public Financial Statements by IRC Section 263

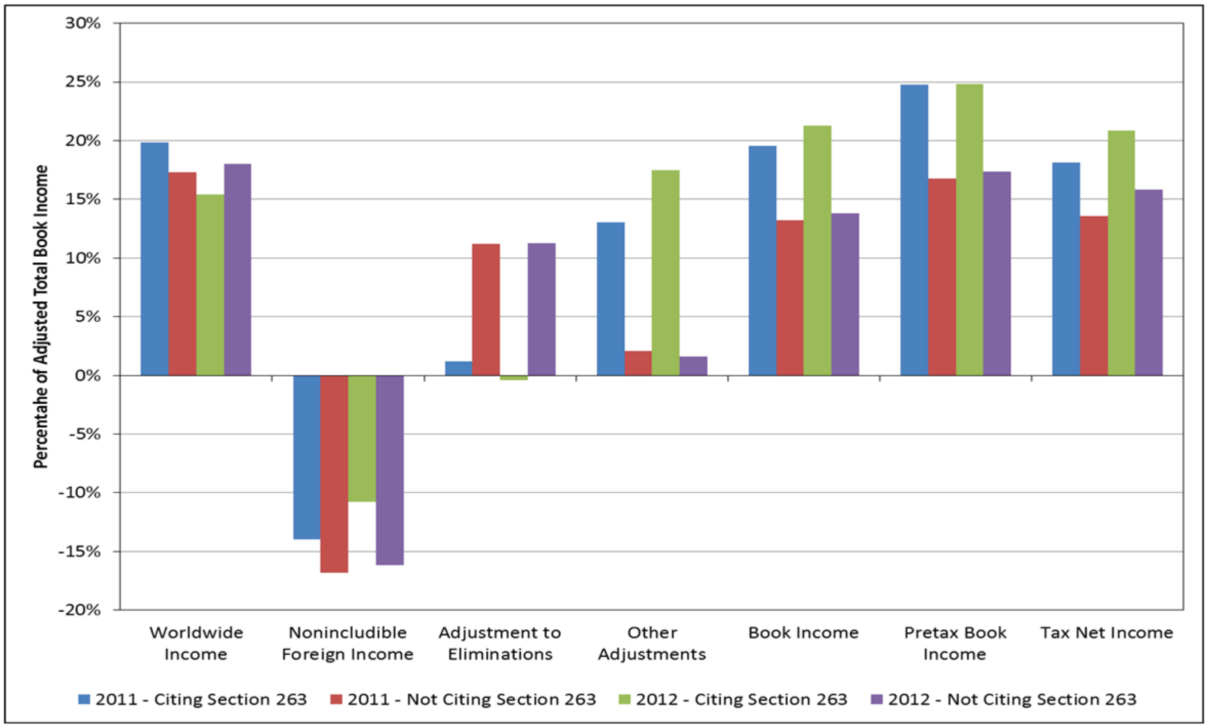


FIGURE 8B. 2011–2012 U.S. Corporation M-3: BTD as Percentage of Pretax Book Income for SEC/10K Public Financial Statements by IRC Section 263

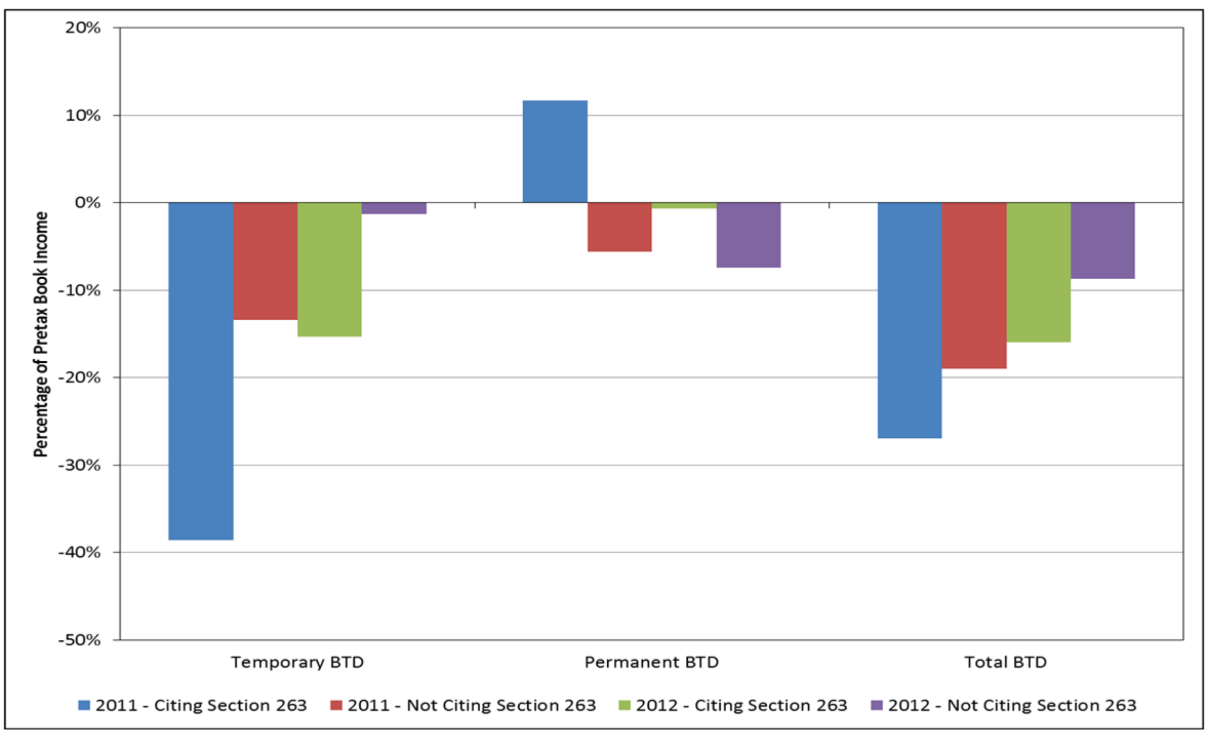
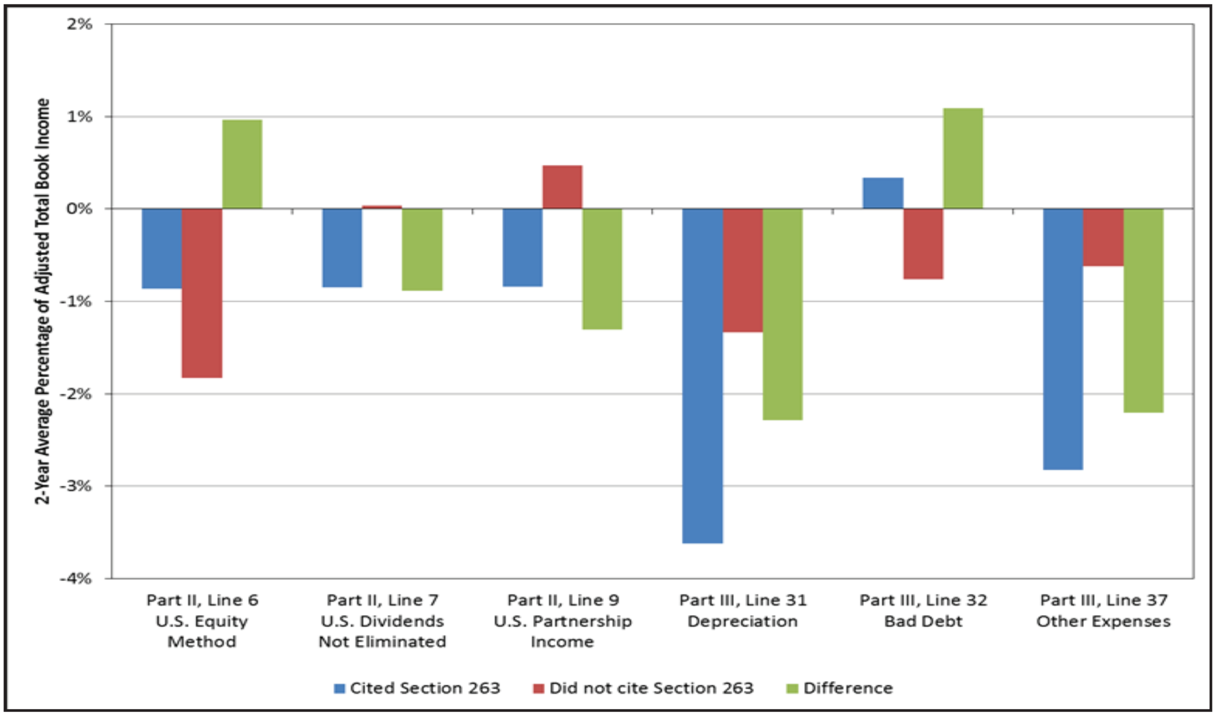


FIGURE 8C. 2011–2012 U.S. Corporation M-3: 2-Year Average Total BTD as Percentage of Adjusted Total Book Income for Top 6 Lines—UTP Filers Citing/Not Citing IRC Section 263 (SEC/10K Public Financial Statements)



In developing filters and quantitative models for return selection it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that, in fact, have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data items with extreme absolute differences. The models would generally operate at the microdata level and generally use both the sign and amount of the data items.

Figure 8C reports total BTD for six specific Schedule M-3 lines for Schedule UTP filers, with SEC 10K/Public financial statements and $100 million or more in assets, citing or not citing IRC section 263.[62] The total BTD for each of the six lines are expressed as a percentage of adjusted total income and averaged for 2011 and 2012. The lines are the top (that is, the most extreme) six lines on Schedule M-3, Parts II and III, in terms of the absolute value of the difference in 2-year-average scaled BTD between citers and nonciters.[63] The percentages for each of these lines are provided below.

Schedule M-3 Lines Featured in Figure 8C		Citers	Nonciters	Difference
Part II, line 6:	Exclusion from tax income of U.S. equity method income	-0.86%	-1.83%	0.97%
Part II, line 7:	Adjustments to U.S. dividends, not eliminated in consolidation, in tax income	-0.85%	0.04%	-0.89%
Part II, line 9:	Adjustments to U.S. partnership income to include all Schedule K-1 income in tax income	-0.84%	0.47%	-1.31%
Part III, line 31:	Adjustment to depreciation expense/deduction in tax income	-3.62%	-1.33%	-2.29%
Part III, line 32:	Adjustments to bad debt expense/deduction recognition in tax income	0.34%	-0.76%	1.09%
Part III, line 37:	Adjustment to other expense/deduction with difference in tax income	-2.82%	-0.62%	-2.21%

[62] The six lines are selected from and represent approximately 10 percent of the 68 specified and other-with-difference lines on Schedule M-3, Parts II and III. See the discussion and footnotes for Figure 3C.

[63] For the current study, we exclude interest income (Part II, line 13) and interest expense (Part III, line 8) as key lines because of a data anomaly in the 2011 and 2012 data. See the discussion and footnotes for Figure 3C.

Part IV. Summary and Conclusions

The study compares 2011–2012 Schedule M-3 and Form 1120 tax return data profiles for Schedule UTP filers and nonfilers. For Schedule UTP filers with SEC 10K/Public financial statements and $100 million or more in assets, the study further compares Schedule M-3 profiles of corporations that cite or do not cite on Schedule UTP any of the five most commonly cited IRC sections: 482 (transfer pricing); 41 (research credit); 162 (trade or business expense); 199 (domestic production activities deduction); and 263 (capitalized costs). In 2012, seventy-two percent of such filers cited at least one of the five IRC sections.

In developing filters and quantitative models for return selection it is useful to identify data items that are effective in separating or distinguishing between otherwise similar groups of returns that, in fact, have different underlying characteristics of interest. These separating or distinguishing data items may, for example, be data items with extreme absolute differences in the average values of the data items for the groups to be separated. The final quantitative models may take many different forms in using the identified data items with extreme absolute differences. The models would generally operate at the microdata level and generally use both the sign and amount of the data items.

The authors conclude that Schedule UTP filers and nonfilers and Schedule UTP filers that cite frequently cited IRC sections have Schedule M-3 data profiles that are sufficiently different that Schedule M-3 quantitative models could be developed to detect on Schedule UTP nonfiler returns the underlying issues related to the IRC sections cited by Schedule UTP filers. The authors believe such models may assist LB&I return selection.

References

Boynton, Charles, Portia DeFilippes, and Ellen Legel. "Prelude to Schedule M-3: Schedule M-1 Corporate Book-Tax Difference Data 1990-2003." *Tax Notes* 109, No. 12 (December 19, 2005): 1579–99.

Boynton, Charles, Portia DeFilippes, and Ellen Legel. "Distribution of Schedule M-1 Corporate Book-Tax Difference Data 1990-2003 for Three Large-Size and Three Industry Groups." *Tax Notes* 111, No. 2 (April 10, 2006a): 177–212.

Boynton, Charles, Portia DeFilippes, and Ellen Legel. "A First Look at 2004 Schedule M-3 Reporting by Large Corporations." *Tax Notes* 112, No. 11 (September 11, 2006b): 943–981. Available at http://www.irs.gov/Businesses/Corporations/Published-Articles-on-Schedule-M-3-by-IRS-Treasury-Authors.

Boynton, Charles, Portia DeFilippes, and Ellen Legel. "A First Look at 2005 Schedule M-3 Corporate Reporting." *Tax Notes*, 121, No.5 (November 3, 2008): p. 563. Available at http://www.irs.gov/Businesses/Corporations/Published-Articles-on-Schedule-M-3-by-IRS-Treasury-Authors.

Boynton, Charles, Portia DeFilippes, Ellen Legel, and Todd Reum. "A First Look at 2007 Schedule M-3 Reporting by Large Corporations." *Tax Notes* 132, No. 7 (August 15, 2011): p. 689. Available at http://www.irs.gov/Businesses/Corporations/Published-Articles-on-Schedule-M-3-by-IRS-Treasury-Authors.

Boynton, Charles, Portia DeFilippes, Ellen Legel, and Todd Reum. "A First Look at 2010 Schedule M-3 Reporting and Schedule UTP." *Tax Notes*, 144, No.3 (July 21, 2014): p. 253. Available at http://www.irs.gov/Businesses/Corporations/Published-Articles-on-Schedule-M-3-by-IRS-Treasury-Authors.

Boynton, Charles, Portia DeFilippes, Ellen Legel, and Lisa Rupert. "2010-2011 Schedule M-3 Profiles and Schedule UTP Filing Status." *Tax Notes*, 145, No.5 (November 3, 2014): p. 535. Available at http://www.irs.gov/Businesses/Corporations/Published-Articles-on-Schedule-M-3-by-IRS-Treasury-Authors.

Boynton, Charles, and Barbara Livingston. "Partnerships with Reportable Entity Partners." *Tax Notes* 128, No. 9 (August 30, 2010): 949–958. Available at http://www.irs.gov/Businesses/Corporations/Published-Articles-on-Schedule-M-3-by-IRS-Treasury-Authors.

Boynton, Charles, and Lillian Mills. "The Evolving Schedule M-3: A New Era of Corporate Show and Tell?" *National Tax Journal* 57 No. 3 (September 2004): 757–72.

Boynton, Charles, and William Wilson. "A Review of Schedule M-3, The Internal Revenue Service's New Book-Tax Reconciliation Tool." *Petroleum Accounting and Financial Management Journal* 25 No.1 (Spring

2006): 1–6. Available at http://www.irs.gov/Businesses/Corporations/Published-Articles-on-Schedule-M-3-by-IRS-Treasury-Authors.

Internal Revenue Service. "Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities." *Publication 1075* (Rev 2007).

Mills, Lillian. "Book-Tax Differences and Internal Revenue Service Adjustments." *Journal of Accounting Research* 36 No. 2 (Autumn 1998): 343–56.

Mills, Lillian, and George Plesko. "Bridging the Gap: A Proposal for More Informative Reconciling of Book and Tax Income." *National Tax Journal* 56 No. 4 (December 2003): 865–93.

Plesko, George A. "Reconciling Corporate Book and Tax Net Income, Tax Years 1996-1998." *Statistics of Income Bulletin* 21 No. 4 (Spring 2002): 1–16.

Plesko, George A., and Nina L. Shumofsky. "Reconciling Corporate Book and Tax Net Income, Tax Years 1995-2001." Data Release. *Statistics of Income Bulletin* 24 No. 4 (Spring 2005): 103–108.

Talisman, Jonathan. "Corporate Tax Shelters and the Corporate Tax Base," pages 4–6, in "Penalty and Interest Provisions, Corporate Tax Shelters." Testimony of Jonathan Talisman, Assistant Secretary (Tax Policy), U.S. Department of the Treasury, before the U.S. Senate, Committee on Finance, Washington, D.C., March 8, 2000.

Towery, Erin. "The Interplay Between Mandatory Disclosure Regulation and Voluntary Disclosure: Evidence from Schedule UTP." University of Georgia working paper, 2015.

U.S. Department of the Treasury. "Evidence of Growth in Corporate Tax Shelters." *The Problem of Corporate Tax Shelters: Discussion, Analysis, and Legislative Proposals.* Washington, D.C.: Government Printing Office, July 1999: 31–33.

U.S. Office of Management and Budget. *Report on Statistical Disclosure Limitation Mythology.* Working Paper 22, (Rev. 2005).