

higher debt costs, foreign direct investment in the U.S. via acquisitions of both profitable and unprofitable U.S. corporations, start-up costs, and exchange rate fluctuations. Half of the foreign-domestic differential "is definitely attributable to the special characteristics of foreign-controlled companies and not to transfer pricing," leaving them with "a significant difference that we are unable to explain by forces other than transfer pricing." (Grubert et al. 1993, 269-271)

When performances are compared for a ten-year period, Rugman and McIlveen (1986) found that Canadian TNCs "earned a lower return and at greater risk...than their American counterparts." (302) Explanatory factors include narrower Canadian versus more diversified U.S. markets, and thinner, smaller Canadian versus more capital-balanced, larger U.S. TNCs. In terms of tax advantages, "in many cases combined effective Canadian federal and provincial corporate tax rates are lower than the combined effective U.S. federal, state, and dividend withholding tax rates payable in respect to U.S. subsidiary profits." (Boidman 1993, 5)

Given the disparity in profits between U.S. and non-U.S. based TNCs, Grubert and Mutti (1991) looked at the factors influencing income shifting and rate of return differentials. The statutory tax rate "appear(ed to be) a better determinant of income shifting than effective tax rates," so if TNCs are "shift(ing) taxable income to low-tax locations, the reported after-tax profit rate in a country should be negatively correlated with its tax rate." (Grubert and Mutti, 1991, 286-293) This was demonstrated by comparing after-tax