Endnotes

1. A transaction "meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in the same transaction under the same circumstances". [IRS 1.482-3(b)] .

2. These methods assume the arm's length standard, so that the final transfer price between related (controlled) subsidiaries would have been the same if the transfers had been between unrelated (uncontrolled) entities. Generally, comparable uncontrolled price (CUP) is the market price for the transferred good. Cost-plus assumes the gross profit mark-up which would have been added to the production cost if the subsidiaries were unrelated. Resale price is the price at which the transferred good would have been resold to an unrelated entity, less some gross profit percentage. The profit split divides profits between subsidiaries using some economically valid basis that approximates the division of profits that would have occurred had the subsidiaries been unrelated. The comparable profits method (CPM) uses profit measures (such as the return on assets or operating income to sales) to determine a return that would equal that realized by a comparable independent enterprise. There is some debate over the arm's length nature of CPM, in that it depends on profit comparisons rather than price and/or transaction comparisons and functional analysis. For a detailed review of transfer pricing methods and definitions, see Coopers and Lybrand (1993), US Sec. 482 (1994) and OECD guidelines (1995).

3. This standard "has been adopted by nearly every country as the guiding principle for determining transfer prices between members of a group" [UN Secretariat 1995, p. 3], as well as by the United Nations, the OECD and the International Chamber of Commerce [ICC 1994].

4. A detailed review of empirical, theoretical and model building research is provided by Grabski [1985], Leitch and Barrett [1992], and Tang [1993].

5. This may not be the case in the future because Revenue Canada is currently updating its transfer pricing regulations. Changes will require additional documentation requirements and impose significant penalties for non-compliance with transfer pricing regulations effective with the 1997 tax year.