

adjustments. Canadian TNCs fared much better, with only one receiving adjustments from both the IRS and Revenue Canada, and another three experiencing a Revenue Canada modification, for a total of 14%. When compared by method in Panel B, the IRS adjusted 10 of 42 market TNCs (24%) and 22 of 48 non-market TNCs (46%). Revenue Canada revised 15 of 42 market TNCs (36%) and 13 of 48 non-market TNCs (27%). When compared by method by country, as shown in Panel C, U.S. TNCs were more likely to have unfavorable IRS Sec. 482 and/or Revenue Canada audits, regardless of transfer pricing method. It seems likely that U.S. TNCs are (or have been) more likely than Canadian TNCs to apply more liberal interpretations of transfer pricing regulations than intended by Revenue Canada and the U.S. IRS.

*** Insert Table 5 Here ***

An *a priori* assumption was that the tax and trade regulation criterion resulting from the factor analysis in Table 5 would be significant. When the data did not support this assumption, the items comprising this factor were analyzed individually for an explanation. When the criterion is broken down by item, the effects of U.S. Sec. 482 are significantly more important than Canadian Sec. 69 both across and within countries. This is not surprising: although Sec. 69 is similar in its recommendations to Sec. 482, it is more loosely interpreted by Revenue Canada and less subject to penalties. Given their audit status, however, it seems that Canadian TNCs are better or more conscientious at choosing a method in accordance with Sec. 482, and/or that U.S. TNCs choose methods