

prime motivator, transfer pricing regulations must be rewritten to preclude such behavior and insure fair and equitable distribution of tax revenues to both host and home countries.

This study extends previous research on transfer pricing choice in two ways: first, individual cross-border effects are isolated and analyzed, i.e. practices of Canadian TNCs with U.S. subsidiaries are compared with U.S. TNCs with Canadian subsidiaries; and second, financial measures, usually absent from transfer pricing research, as well as environmental and organizational influences, are analyzed with reference to transfer pricing method choice and for possible evidence of income shifting. Canadian-U.S. practices are analyzed because Canada is among the largest U.S. trading partners, is geographically proximate, economically similar to the U.S., and affected by NAFTA tax and tariff stipulations, and its TNCs have had large IRS adjustments due to understatement of income. The regulations and factors affecting the transfer pricing of intangible property differ from those for tangible goods; therefore, this study is limited to the transfer of tangible goods.

Substantial income adjustments and tax penalties assessed by U.S. and Canadian tax authorities on TNCs result from transfer pricing policy disagreements. Transfer pricing affects decision-making both internally (providing data to motivate subsidiary managers and evaluate both manager and subsidiary performance), and externally (affecting the rate of capital repatriation, the overall tax burden, and the shift of profits to minimize tariffs, duties