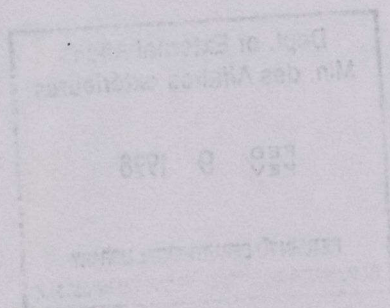


FACTORS AFFECTING TRANSFER PRICING AND INCOME SHIFTING(?) BETWEEN CANADIAN AND UNITED STATES TRANSNATIONAL CORPORATIONS

Abstract: An analysis of organizational, environmental and financial factors indicates that income shifting may occur among TNCs in the U.S. and Canada. Some differences in rates of return are partially explained by the larger U.S. TNCs, which experience higher rates of return and prefer non-market methods. Smaller Canadian TNCs, with lower rates of return, prefer market methods.

Do U.S. TNCs enjoy higher rates of return due to income shifting spurred by differentials in effective tax rates between the U.S. and Canada? Are transfer prices used to manipulate income and minimize tax payments? Are the higher return on sales and income enjoyed by domestic subsidiaries of Canadian TNCs due to income shifting from their U.S. subsidiaries? In this study, the differences in financial measures, coupled with the audit history of U.S. TNCs, may provide some evidence of income shifting.

Key words: Income shifting, transfer pricing.



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