TNCs. This is partially explained by the larger U.S. TNCs, which experience higher rates of return and prefer non-market methods, while the smaller Canadian TNCs, with lower rates of return, prefer market methods. However, 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 U.S. TNCs using transfer prices to favorably 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? The differences found in this study in financial measures, coupled with the audit history of U.S. TNCs, provide some evidence of income shifting based on effective tax rates. Determining the true extent of such shifting is an area for future research, and beyond the scope of this study.

Given the lack of significant organizational and environmental factors, transfer pricing methods may be chosen by Canadian TNCS to meet tax regulations while facilitating income shifting. Given their audit history, however, U.S. TNCs may be using transfer pricing as an income shifting mechanism. If further research supports this behavior, existing regulations should be updated to discourage such behavior, perhaps through more severe penalties and fewer, but equally acceptable, transfer pricing methods.