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

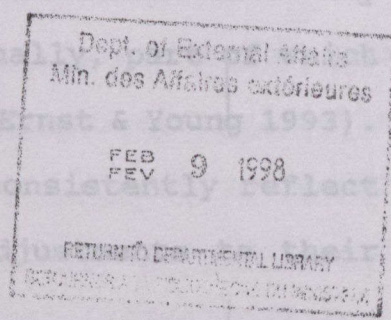
Abstract: An analysis of organizational and financial factors indicates that income shifting may occur among TNCs in the U.S. and Canada. Some differences in tax rates and experience are partially explained by the larger U.S. TNCs, which experience higher rates of return and greater non-market related activities. Canadian TNCs, with lower rates of return, prefer market methods. Do U.S. TNCs enjoy higher rates of return due to tax advantages? Shifting is explained by differences in effective tax rates between the U.S. and Canada. Are transfer prices used to manipulate income and minimize tax payments? The higher return on assets and income enjoyed by domestic subsidiaries of Canadian TNCs due to income shifting and the higher U.S. subsidiaries in this study, the differences in financial results compared with the audit history of U.S. TNCs, may provide some evidence of income shifting.

These transfer pricing methods used by TNCs to optimize their tax strategies. However, transfer pricing manipulations are constrained

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An underlying assumption of most tax authorities is that TNCs are able to shift income to and from subsidiaries to reduce and/or avoid host/home country income taxes. Non-U.S.-based TNCs may understate their U.S. taxes by \$11 billion annually (Ernst & Young 1993). TNCs in Japan, the United States and Canada consistently report the highest Internal Revenue Service (IRS) taxable income. At issue is why TNCs use particular transfer pricing methods. Do organizational and financial factors influence a TNC's choice, or are methods chosen primarily to facilitate income shifting?

Susan C. Borkowski
Associate Professor
Department of Accounting
La Salle University
Philadelphia, PA 19141
215-951-1491
FAX 215-951-1886
borkowsk@lasalle.edu



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income-shifting is exaggerated. However, if income shifting is the