would be earned by the TNC if transactions between the parent and its subsidiary(ies) were based on the arm's-length standard. Allowable methods for tangible goods include CUP, resale price, cost plus, CPM, and profit split methods. The use of CPM concerns the global community because CPM may violate the internationally accepted arm's length standard.[3]

Empirical Studies on Canadian and U.S. Transfer Pricing

An overview of selected empirical studies on Canadian and U.S. transfer pricing practices show a relative lack of consistency in findings across environmental and organizational factors. The inconsistencies may be attributed to differences in how factors are defined; who completed the survey, e.g. tax managers, international vice presidents; the lack of Canadian studies in both frequency and recency; and, the definition of the sample population. Existing studies also neglect possible financial influences, such as rates of return and statutory versus effective tax rates, on transfer pricing choices.[4] Given that the transfer pricing method directly affects reported subsidiary income, it is possible that the effect of transfer pricing methods on financial measures may override organizational and environmental influences.

<u>Canadian TNC Studies</u>

Arpan (1971) surveyed 27 Canadian TNCs as part of a multi-country study. Of the eight TNCs identifying transfer pricing methods, seven used market-based transfer prices. Income tax considerations were paramount in determining the transfer price.