profit as a percentage of net sales and the after-tax rate of return on equity.

Differences in Canadian and U.S. TNC profit performance are measured in this study by the rate of return on assets (ROA), rate of return on equity (ROE), net income as a percentage of receipts (ROS), and both statutory and effective tax rates. These measures are either obtained from Disclosure archival files or calculated using data from corporate annual financial reports. Sales, assets, and income data are taken from corporate annual reports and/or Disclosure files. Analyses are performed at both TNC and subsidiary levels, and correlations between the financial variables and tax rates are analyzed for evidence of possible income shifting.

The effects of these financial factors are tested in the following hypotheses:

H_{4a}: There are no differences in financial variables between Canadian and U.S. TNCs.

H_{4b}: Financial variables and transfer pricing choice are not related.

Methodology, Analysis and Interpretation

Canadian TNCs are drawn from the population of Canadian-based corporations, and are included in the sample if they are listed on either the <u>Canadian Business Corporate 500</u> or the <u>Directory of Corporate Affiliates</u>, have at least one subsidiary in the U.S., and are in an industry identified in prior studies as likely to use transfer pricing. Similarly, U.S. TNCs are drawn from the population of U.S.-based corporations, and are listed on the