Development guidelines (OECD 1995).

Canada differs from the U.S. in that Revenue Canada does not provide detailed transfer pricing guidance or regulations for TNCs other than the six-page Information Circular 87-2. When Canadian TNCs deal with non-Canadian subsidiaries on other than an arm's-length basis, Circular 87-2 specifies the allowable transfer pricing methods. The allowable transfer pricing methods in preferred order are comparable uncontrolled price (CUP), cost-plus, resale, and other methods, including profit split, but excluding the comparable profits method (CPM).[2] If a CUP is not available, a functional analysis should be undertaken to identify the appropriate pricing mechanism. "Cost" must meet the Canadian definition, not that of the country in which the subsidiary is located (Revenue Canada, 1987).

When compared with other industrialized countries, the U.S. "subjects the foreign operations of its transnationals to the severest tax constraints and the heaviest tax burden," as well as with formidable administrative complexities (Haas 1991, 3-6). Sec. 482 of the Internal Revenue Code is a major component of this overall tax policy. While one paragraph in length, it requires almost two hundred pages of interpretation.

Sec. 482 regulates the use of transfer pricing methods to prevent income shifting and to guarantee payment of U.S. income taxes. It authorizes the IRS to reallocate improperly shifted income so that the true income taxable by the U.S. is properly reflected in the TNC's records. This income should be that which