INTERNATIONAL TRANSFER PRICING: A SURVEY OF PRACTICES, TAX-AUDIT, AND STRATEGIES FOR MANAGING TAX UNCERTAINTY BY FOREIGN OWNED SUBSIDIARIES IN NEW ZEALAND

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Abstract

International transfer pricing (ITP) tax guidelines and regulations have been recently introduced in New Zealand. These guidelines allow a number of transfer pricing methods. This paper examines international transfer pricing practices of New Zealand based multinational companies, the likelihood that these companies would experience a tax-audit by the taxation authority, and the mechanisms these companies use to minimize tax uncertainty. The key findings include that tangible goods is the most common intercompany transfers; cost plus method is the most common transfer pricing method; tax audits by Inland Revenue Department (IRD) are positively associated with company size; the greater the volume of its intercompany transfers, the more likely that a company would have an Advance Pricing Agreement (APA) with the IRD or would consider an APA in the future.

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1. Introduction

Multinational intercompany transfers represent a substantial portion of international trade (Tang, 1993; Sun, 1999; Rust and Graham, 2000). International transfer pricing (ITP), the pricing process of goods and services transferred between related companies located in different countries, is an important tax issue for multinational companies and it has long been a contentious issue between multinational companies and tax authorities in host countries (Rugman and Eden, 1985; Borkowski, 1997b).[1] Multinational companies and host governments hold diverse interests and philosophies regarding ITP. Typically, companies may regard their strategies for tax avoidance through transfer pricing as a conventionally acceptable position to adopt, whilst host countries may regard such action as culpable tax evasion (Rugman and Eden, 1985).

Transfer pricing regulations and guidelines in New Zealand are relatively recent. This paper reviews these regulations and guidelines and examines ITP practices of foreign owned subsidiaries in New Zealand. These practices include the nature of intercompany transfers, pricing methods, audits by Inland Revenue Department (IRD) and whether these audits are influenced by company characteristics, and the extent of use of Advance Pricing Agreements (APAs).

A questionnaire is administered to 300 foreign owned subsidiaries that operate in New Zealand. The key findings include that tangible goods is the most common intercompany transfers; cost plus method is the most common ITP method; tax audits by IRD are positively associated with company size; the greater the volume of its intercompany transfers, the more likely that a company would have an APA with the IRD or would consider an APA in the future.

The remainder of this paper is structured as follows. Section 2 reviews transfer pricing regulations and guidelines in New Zealand. Section 3 presents research questions of the study. Section 4 describes data collection and study sample. Section 5 provides the results of the survey. The final section provides a summary and conclusion.

2. Transfer Pricing Regulations and Guidelines

The development of transfer pricing regulations and guidelines in New Zealand is relatively recent compared with those of its major trading partners[2]. The current transfer pricing regime has been in operation since the beginning of the 1996/1997 tax year. It is contained, principally, within Sections GD 13, FB 2 and GC 1 of the *Income Tax Act* 1994. The regime is intended to prevent the depletion of New Zealand tax base as a result of transfer pricing abuses (Harrison, 1999).

In October 2000, the IRD issued transfer pricing guidelines for the application of the New Zealand transfer pricing rules. The guidelines follow the 1995 Organization for Economic Cooperation and Development (OECD) guidelines and apply only to Section 13 regarding cross-border associated transactions between separate entities which have the potential effect of depleting the New Zealand tax base (New Zealand Transfer Pricing Guidelines, 2000). Table 1 compares the main features of the New Zealand transfer pricing regulations and guidelines, the OECD guidelines of the key trading partners of New Zealand, United States and Australia. The table shows that the regulations and guidelines adopted in New Zealand are similar to the guidelines in the US and Australia, and OECD.

Table 1
The Key Features of the Transfer Pricing Regulations in New Zealand, the United States, Australia, and the OECD Guidelines

	New Zealand	USA	Australia	OECD
Tax law	Income Tax Act of 1994 Sections FB 2, GC 1, GD 13, and New Zealand's Double Tax Agreements	Internal Revenue Service. Internal Revenue Code § 482, §6038A, §6038C, §6662 (e)-(h)	Australian Taxation Office. Division 13 of Part III of Income Tax Assessment Act [effective 1982]. Relevant provisions of Double Tax Treaties and Taxation Rulings	Not applicable
Regulations and rules	Transfer pricing guidelines Final version issued in October 2000	Reg. § 1.482, § 1.6662; § 1.6038A, §1.6038C, Rev.Proc. 96-53; Rev. Proc. 99-32	TR 92/11, TR 94/14, TR 95/23, TR 97/20; TR 98/11, TR 98/16, TR 1999/1, TR 1999/8; TR 99/D16-95; TR 2000/16; TR 2000/D15; and TR 2001/D6	Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations
Priorities/pricing methods	Most reliable method. CUP, Resale price, Cost plus, Profit split, CPM	Best method. CUP, Resale price, Cost plus, CPM, Profit split or other unspecified method	Transaction-based preferred over profit-based. CUP, Resale price, Cost plus, Profit split, TNMM	Transaction-based preferred over profit-based. CUP, Resale price, Cost plus, Profit split, TNMM

Table 1 Continued

The Key Features of the Transfer Pricing Regulations in New Zealand, the United States, Australia the OECD Guidelines

	New Zealand	USA	Australia	OECD
Documentation requirements	No explicit statuary requirement to prepare and maintain transfer pricing documentation. However, Section GD 13 requires taxpayers to select and apply an appropriate transfer pricing method for tax return purposes	Contemporaneous documentation required	Document pricing decision in accordance with prudent business practices. Contemporaneous documentation required	Pricing decisions should be documented in accordance with prudent business practices. Reasonable for tax authorities to expect taxpayers to prepare and maintain such material. No contemporaneous obligation
Transfer pricing penalty	Ordinary penalties apply-20 to 40% standard penalty on tax adjustment	Transfer pricing penalty of 20 or 40% of additional tax for adjustments exceeding objective thresholds	Ordinary penalty of 10, 25 or 50% additional tax payable (dependent on whether dominant tax avoidance purpose or whether taxpayer establishes reasonably arguable position)	Civil monetary penalties are frequently calculated as a percentage of the tax understatement, with the percentage ranging from 10 to 200%
Advance pricing agreement	Unilateral and bilateral	Unilateral and bilateral	Unilateral and bilateral	Unilateral and bilateral

Source: Transfer pricing global reference guide by Ernst & Young (2003) and International transfer pricing: a practical guide for finance directors by Atkinson and Tyrrall (1999).

ITP Methods

The New Zealand transfer pricing legislation, Section GD 13(7) of the Income Tax Act 1994, requires taxpayers entering into cross border dealings with associated parties to use arm's length prices when measuring their taxable income. The IRD sets out five pricing methods that can be used for calculating an arm's length consideration for setting international transfer prices (Harrison, 1999). These five methods can be grouped under three approaches:

Market approach

- Comparable uncontrolled price method (CUP),

Transaction approach

- cost plus method
- resale price method are generally classified as transaction-based approach,

Profit approach

- comparable profit method (CPM)
- profit split method

CUP uses the market price for the transferred goods and services and is often thought of as the 'best pricing method'. In practice, however, it can be extremely difficult to account for all the material differences in terms that exist between intergroup and third party transactions (Radebaugh and Gray, 1997; Atkinson and Tyrrall, 1999).

Cost plus method involves the costs of manufacturing product plus a normal profit margin from the sales of similar products. Cost plus method is generally simpler to administer and understand and the data is more readily available. The disadvantages are that the system does not create incentives for manufacturing companies to reduce costs and that accordingly it often reduces the profit margin for the final selling firm (Arpan, 1972; Radebaugh and Gray, 1997).

The resale price method is used to determine the transfer price a controlled sales and marketing company (distributor) should pay for goods which it sells on to unrelated parties. The resale price method is more appropriate when the distributor does little to add value to the product other than normal sales, marketing and distributive activities. Hence, there is less concern with the comparability of products than in CUP. The resale price method is probably most useful where it is applied to marketing operations (OECD Guidelines, 1995; Atkinson and Tyrrall, 1999).

Clearly, the transaction-based methods - such as the cost plus method and the resale price method - are more closely related to an arm's length price. However, the applicability of the transaction-based methods depends on the availability of comparable data. In cases where there is simply insufficient data available to apply the transaction-based methods in a reliable way, profit-based methods such as CPM and profit split method may be alternatives (Borkowski, 2001). The profit split divides profits between associated companies according to the relative economic value of each firm's contribution to that transaction. CPM depends on profit comparisons rather than price or transaction comparisons and functional analysis. The OECD Guidelines prescribe that the profit-based methods be methods of a last resort. CPM is not acceptable under OECD Guidelines.

The New Zealand rules do not stipulate a hierarchy for transfer pricing methods. Rather, the IRD requires a taxpayer to select a specific method that provides the most reliable measure of an arm's length amount (New Zealand Transfer Pricing Guidelines, 2000). This provides multinational opportunities for selecting methods more appropriate for their circumstances.

Documentation and Penalties

Section GD 13 requires taxpayers to determine their transfer prices in accordance with the arm's length principle. In practice, this requires taxpayers to prepare and retain sufficient documentation to show:

- how their transfer prices have been determined; and
- why these prices are considered to be consistent with the arm's length principle.

The New Zealand transfer pricing regime does not have special penalty provisions. Rather, it is subject to the general penalty provisions applicable to income tax issues. The taxpayer is likely to be required to demonstrate that the most reliable method has been selected and applied in an appropriate manner.

A taxpayer that fails to document transfer pricing arrangements appropriately may incur a minimum penalty of 20% under Section 141C of the Tax Administration Act 1994 for not exercising "reasonable care".

In addition, depending on the size and sophistication of a taxpayer, the absence of documentation in the determination of an arm's length amount makes the taxpayer vulnerable to the 40% penalty under Section 141C, on the basis that the taxpayer has been "grossly careless". Since these penalties are non-deductible for income tax to the taxpayer, they represent a significant potential cost. To avoid such a penalty, the taxpayer must maintain a sufficient level of supporting documentation to meet the requirements of the transfer pricing regime (Coopers & Lybrand, 1997; Rich and Harrison, 1997).

Tax Audit of ITP

The IRD commenced its transfer pricing programme at the beginning of 2000. In determining whether or not to audit a taxpayer for transfer pricing compliance, the IRD considers the following factors as significant (New Zealand Transfer Pricing Guidelines, 2000):

- an APA exists;
- the taxpayer's involvement in negotiating transfer prices;
- the economic and commercial basis on which controlled transfer prices are calculated;
- the taxpayer's co-operation with the IRD;
- the existence of documentation;
- the taxpayer's tax compliance record.

Advance Pricing Agreement (APA)

An Advance Pricing Agreement (APA), under which taxpayers and the tax authority establish guidelines for setting transfer pricing for a number of years, is one avenue by which taxpayers may alleviate transfer pricing audit risks. The New Zealand transfer pricing regime has issued binding APAs dealing with the application of the arm's length standard to intercompany transfer prices. An APA is issued as either a private binding ruling by the Commissioner under Section 91E of the Tax Administration Act 1994, or under the Mutual Agreement article of the applicable double taxation agreement (Coopers & Lybrand, 1997; New Zealand Transfer Pricing Guidelines, 2000).

In 2001 the IRD and Australian Taxation Office (ATO) reached an APA for the purpose of eliminating taxpayers' risk of double taxation and provide tax certainty for international transactions between the New Zealand and Australia (Ferrers, 2001). In the same year, Australia's largest gaming and technology company - the Aristocrate International Pty Ltd -

signed the first bilateral APA simultaneously between New Zealand and Australia on the pricing of its dealings with its New Zealand subsidiary (i.e. Aristocrate Technologies NZ Ltd).

3. Research Questions

As a relatively small country, New Zealand's economy is heavily dependent on overseas trade. International trade includes a large portion of transfers between related business firms, giving rise to the phenomenon of international transfer pricing. The New Zealand transfer pricing guidelines requires New Zealand based multinational enterprises to use the arm's length standard for transfer pricing between related parties. It can be expected that the IRD's transfer pricing audit will be even stricter over time. Accordingly, it has significant tax planning implications to the multinationals involved. An aggressive tax audit could lead to pricing adjustments, the potential of double taxation and penalties. To avoid the risk of a tax audit, multinationals may adopt some innovative approaches such as the use of APAs to minimise controversy between multinational companies and the IRD. The specific research questions addressed by this study are:

- What are the nature and frequency of international transfers for foreign owned subsidiaries in New Zealand?
- What is the preferred transfer pricing method used by foreign owned subsidiaries in New Zealand?
- What is the extent of use of APAs by foreign owned subsidiaries in New Zealand? And
- What is the extent of tax audit risks in New Zealand?

4. Data Collection and Study Sample

A questionnaire was distributed to a random sample of financial controllers of 300 foreign owned subsidiaries that operate in New Zealand[3]. Seventy-seven completed questionnaires were returned, representing a usable response rate of 26 percent. A chi-square test of homogeneity comparing early and late responses indicates that there were no significant differences between the two groups which suggest that there is no significant non-response bias[4].

The following describes sections industry, size, and country of origin of the sample study.

Industrial Classification

Table 2 provides the industry classifications of the respondents. The wholesale trade & retail trade, manufacturing and services industries, are the largest industries. Together, they account for 86 percent of our sample. The finance and insurance industry represent nine percent of our sample, while the remaining four industries (mining, transport and storage, construction and agriculture) all have only one (1.3%) respondent company each in the sample.

Table 2
Industrial Classification of the Respondent Companies (n=77)

Industry	*Number of firms*	*Percentage*
Wholesale trade & retail trade	34	44.2
Manufacturing	20	26.0
Services	12	15.6
Finance and insurance	7	9.1
Mining	1	1.3
Transport and storage	1	1.3
Construction	1	1.3
Agriculture	1	1.3
Total	77	100.0*

*Percentage does not add up to totals because of rounding

Company Size

The company size of the respondents, based on total sales in 2002, is shown in Table 3. About 94 percent of the respondents companies had total revenue of $200 million or less. Majority of the companies (about 47%) reported total sales under $20 million in 2002.

Table 3
Total Sales of the Respondent Companies in 2002 (n=77)

Total sales (in New Zealand dollars)	*Number of firms*	*Percentage*
Less than $20 million	36	46.8
$20 million to $100 million	24	31.2
$101 million to $200 million	12	15.6
$201 million to $500 million	2	2.6
$501 million to $800 million	1	1.3
More than $800 million	2	2.6
Total	77	100*

*Percentage does not add up to totals because of rounding

Home Country of Parent Company

Table 4 shows the home country of the parent company. It covers a wide range of nationalities. The United States, Australian, Japanese and UK foreign subsidiaries make up the largest group (79%) in the sample. These countries are New Zealand's largest trading partners[5].

Table 4
The Domicile Country of the Companies (n=77)

Country	*Number of companies*	*Percentage*
United States	21	27.3
Australia	20	26.0
Japan	14	18.2
UK	6	7.8
Switzerland	4	5.2
Germany	3	3.9
Canada	2	2.6
Sweden	2	2.6
France	2	2.6
Finland	1	1.3
Denmark	1	1.3
Ireland	1	1.3
Total	77	100

5. Results

Volume, Nature and Frequency of Intercompany International Transfers

The levels of intercompany international transfers as a percentage of total company transfers[6] are shown in Table 5. 22 companies (30%) had intercompany international transfers of less than five percent of their total company transfers. In contrast, 26 respondents (35 percent) had a volume of intercompany international transfers, which amounted to more than 85 percent of their total company transfers.

Table 5
Intercompany International Transfers as Percentages of Total Company Transfers in 2002 (n=74)

% of international to total transfers	*Number of firms*	*Percentage*
Less than 5%	22	29.7
6% to 20%	7	9.5
21% to 50%	7	9.5
51% to 70%	5	6.8
71% to 85%	7	9.5
More than 85	26	35.1
Total	74*	100**

* Three missing cases; three companies failed to supply information on their intercompany international transfers.
**. Percentages do not add up to 100 due to rounding.

The nature and frequency of intercompany international transfers are shown in Table 6. It appears that the transfer of tangible goods and services is the most common activity.

Table 6
The Frequency of Intercompany International Transfers of Tangible Goods, Services, Financing[7] and Intangibles

International transfers	*Always*	*Often*	*Sometimes*	*Rarely*	*Never*	*Mean**	*Std Deviation*
Tangible goods	37	15	7	8	6	3.95	1.34
Services	17	14	20	9	13	3.18	1.39
Financing	5	7	17	18	21	2.37	1.23
Intangibles	3	6	10	15	32	1.98	1.19

* The mean for each variable was based on a scale from 1 = always to 5 never. For research convenience, we reversed the original Likert-like code to 1 (never), 2 (rarely), 3 (sometimes), 4 (often) and 5 (always). Thus, high means indicate greater frequency of intercompany transfers.

ITP Methods Used

The respondents were asked to state the method or methods used in calculating/adjusting the value of transactions with their related parties outside New Zealand. The responses are shown in Table 7. Twelve companies used more than one ITP method. The companies use a variety of pricing methods depending on the different types of international transfers. The two most frequently used ITP methods are cost plus method and CUP, which together accounted for 65 percent of the respondent companies. 10 companies used CPM. Profit split and resale price methods were each used by 9 firms. Two companies were using other methods - 'agreed price', and 'contract manufacturer approach'- which are not specified by the IRD.

Table 7 compares the results of this survey with Borkowski (1997a)'s study that examined US and Japanese firms. Altogether, 32.6 percent of the New Zealand firms used CPM, profit split and resale price but no US or Japanese firms used the three pricing methods. It appears that Japanese firms preferred to CUP, in contrast, New Zealand and US companies tended to use cost plus method. Japan owned subsidiaries are very frequently audited by host countries' tax authorities (Borkowski, 2001). Japanese companies may employ market prices to defend their pricing policies.

The OECD Guidelines prescribe that the profit-based methods should be used as a last resort and CPM is not acceptable. New Zealand, US or Japanese companies using CPM with associated firms located in non-CPM-accepting countries may induce income adjustments and potential double taxation. These may be the reasons why CPM, profit split and resale price were less commonly used in the three countries.

Table 7
ITP Methods Used by New Zealand, U.S. and Japanese Firms

Pricing Methods	Current study New Zealand Firms (n=73)*		Borkowski (1997a) U.S. Firms (n=28)		Borkowski (1997a) Japanese Firms (n=39)	
Cost plus method	42	48.8%	13	47%	7	18%
CUP/CUT**	14	16.3%	9	32%	16	41%
CPM	10	11.6%	0	0	0	0
Profit split	9	10.5%	0	0	0	0
Resale price	9	10.5%	0	0	0	0
Others	2	2.3%	6	21%	16	41%
Total[2]	86***	100%	28	100%	39	100%

* 4 missing cases; 73 valid cases.
** CUT = Comparable uncontrolled transaction.
*** 12 firms used more than one ITP method.

Table 8 classifies pricing methods used by industry. It can be observed that the cost plus method is the most predominantly used in all industries. Two manufacturing firms used other methods not specified by the IRD. Though resale price method is generally viewed as the most suitable ITP method used by distributors, only four in 42 companies (9.5%) in wholesale and retail trade industries were using that method.

Table 8
ITP Methods Practices by Industry

Industry	Cost plus		CUP		CPM		Profit split		Resale price		Others		Total	
	No	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Wholesale trade & retail trade	19	45.2	7	16.7	8	19.0	4	9.5	4	9.5	0	0	42	100
Manufacturing	10	47.6	2	9.5	1	4.8	4	19.0	2	9.5	2	9.5	21	100
Services	6	46.2	3	23.1	1	7.7	1	7.7	2	15.4	0	0	13	100
Finance and insurance	4	57.1	2	28.6	0	0	0	0	1	14.3	0	0	7	100
Mining	1	100	0	0	0	0	0	0	0	0	0	0	1	100
Construction	1	100	0	0	0	0	0	0	0	0	0	0	1	100
Agriculture	1	100	0	0	0	0	0	0	0	0	0	0	1	100
Total	42	48.8	14	16.2	10	11.6	9	10.4	9	10.4	2	2	86	100

ITP Tax Audit

The respondents were asked whether their companies were subject to an ITP tax audit. Their responses are shown in Table 9. Thirteen companies (18% of respondents to this question) had been subject to ITP tax audits. The table show that Japanese firms have experienced higher proportion (28.6%) of ITP audits than firms from other countries. This finding is consistent with Borkowski's (2001) finding that Japan-owned subsidiaries are often frequently audited by host countries' tax authorities in the world[8].

Table 9
ITP Tax Audit (n=71)

Response	Australia		USA		Japan		UK		Others		Total	
Audit	4	22.2%	2	10%	4	28.6%	0	0	3	23%	13	18.3%
No audit	14	77.8%	18	90%	10	71.4%	6	100%	10	76.9%	58	81.7%
Total	18	100%	20	100%	14	100%	6	100%	13	100%	71*	100%

* Six of respondents did not provide information on ITP audit.

Correlation analysis with a chi-square test is provided in Table 10a and Table 10b. It indicates that size of the company is correlated with tax audit, i.e., the larger the company the more likely it is that the firm will be subject to an ITP tax audit. ITP tax audit is not correlated with industry, country origin, the volume, nature and frequency of intercompany international transfers.

Table 10a
Correlation Analysis

		Size	Volume	Tangible	Intangibles	Financing	Services
Spearman's rho	Correlation Coefficient	.306*	.007	.167	-.056	.002	.096
	Sig. (1-tailed)	.005	.478	.088	.333	.493	.220
	N	71	69	67	62	63	67

* Correlation is significant at the .01 level (1-tailed).

Table 10b
A Chi-Square Test

	Industry	Country
Chi-Squared value	2.944	2.174
Degree of freedom	3	3
Significance. (2-tailed)	.400	.537
N	71	71

Advance Pricing Agreement (APA)

A survey by Borkowski (1996) found that, depending on the home country, the percentage of multinationals with no plans to pursue APAs with either their home or host country tax authorities ranged from 71 per cent to 96 percent. Borkowski's survey also revealed that while the United States tax authority has been a leading proponent of the APA programme, only 10 per cent of US firms have or plan to pursue an APA with their own US tax authority, while only four percent are considering APAs with host country tax authorities. The US firms cited cost and volume of information required as the chief drawbacks to APAs.

The results of this survey are consistent with Borkowski's findings that multinational firms typically appear uninterested in participating APA programmes. Two respondents (2.7%) indicated that they had concluded an APA with the IRD. Five respondents (6.7%) would consider an APA in the future. 31 (41.3%) respondents indicated that they have not considered the issue. The remaining 37 respondents (49.3%) had no plans to apply to the IRD for APAs. The results of the survey also shows that a company's status regarding an APA is moderately correlated with the volume of its intercompany transfers, that is, the larger the amount of its intercompany transfers, the more likely that the company has concluded an APA with the IRD or would consider an APA in the future.

6. Summary and Discussion

This survey examines ITP practices of 77 foreign owned New Zealand subsidiaries. The results of the survey reveal that the cost plus method is the most commonly used ITP method. The preference for this method may reflect the fact that many of the firms in the survey are from the manufacturing industry. It could also be because it is easy to measure.

Ten companies used CPM, nine companies used the profit split method, and nine companies used the resale price method. Resale price method is generally viewed as the most suitable ITP method used by sales and marketing companies (distributors) (Radebaugh and Gray, 1997). Most of the sample companies are in wholesale and retail trade industries, however, only four (9.5%) in 42 companies in wholesale and retail trade industries were using resale price method.

Two companies were using 'other' pricing methods such as 'agreed price', and 'contract manufacturer approach', which are not specifically defined by the IRD. The divergence of the methods used by these companies from the recommended methods could be as a result of the unique nature of their intercompany transactions (Borkowski, 2001).

The findings of this study have implications for managers of foreign owned companies in formulating their transfer pricing policies in New Zealand. The findings also provide a valuable reference for potential foreign investors or designers of transfer pricing systems in planning their investment and operations in New Zealand. The respondent companies to the survey covered a wide range of size, industries and business operations. With such a diverse set of companies, the findings from this survey should allow companies to benchmark their intercompany pricing practices against those of other firms of similar size and orientation and provides a useful insight into transfer pricing practices across New Zealand.

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Endnotes

[1] See the survey by Ernst & Young (2001) that reveal that 82 percent of New Zealand companies regard ITP as the most important international tax issue. Other international tax issues identified are double tax relief, foreign tax credits, value added taxes (VAT), controlled foreign corporation (CFC) rules, expansion of a tax treaty network, customs duties and taxation of expatriate employees (Ernst & Young, 2001).

[2] In 1915 and 1917, the first transfer pricing legislation was established in UK and US respectively. The Australian statutory rules on transfer pricing are contained within Division 13, Part III of the *Income Tax Assessment ACT* 1936 ('ITAA'), s. 136 of that ACT.

[3] The samples were drawn from 87 foreign subsidiaries listed on Dun & Bradstreet's Business Who's Who (2002) or 621 foreign subsidiaries listed on Dun & Bradstreet's Business Who's Who (2001), respectively. The combined samples of 708 firms make up the total population.

[4] Early respondents are those who responded to our first wave of questionnaire mail outs, while those who responded to the second wave of mailing are proxies for late respondents. For more on the use of this technique for identifying possible non-response bias, see Wallace and Mellor, 1988).

[5] See New Zealand Official Yearbook (2001).

[6] Total company transfers means a company's worldwide transactions with related or unrelated parties.

[7] The New Zealand intercompany international transfer of financing includes interest free loans, interest-bearing loans, intercompany trading accounts, loan guarantees and etc. Details see Harrison (1999, p. 12).

[8] Buckley and Hughes (2001) examined the prevalent allegations that Japanese multinationals operated transfer pricing policies to the deliberate disadvantages of host countries and therefore are frequently audited by the host countries' tax authorities. They concluded that obtaining a tax advantage is not the primary reason for Japanese transfer pricing practices. Rather, its unique management control system, corporate structures and business culture may be the reasons. Details see Buckley and Hughes (2001).