Corporate tax dodge costs U.S. $45B
Canadian companies top list of offenders in transfer pricing

By Curt Anderson

WASHINGTON; Multinational corporations avoided $45 billion in U.S. taxes last year by artificially fixing prices for transactions with foreign affiliates, according to a study released yesterday by Senator Byron Dorgan. Canada tops the list of countries to which income from the United States is shifted at $15.8 billion, followed by Japan, $14 billion; Mexico, $9.9 billion; the United Kingdom, $8.8 billion; and Germany, $8.3 billion. The companies moved profits out of the U.S. in two ways: by overpricing goods sold to U.S. operations by foreign affiliates and by underpricing goods purchased by those foreign affiliates, the study found. This practice, known as transfer pricing, moves income out of the U.S. and effectively puts company profits out of reach of tax collectors. Artificially high prices documented by the study include $5,655 for a toothbrush, $5,000 for a flashlight and $2,306 for a hypodermic syringe. Examples of underpriced goods were $1.58 for a half-ton of soybeans, $528 for a bulldozer and 82 cents for a prefabricated metal building. The study by Simon Pak and John Zdanowicz, finance professors at Florida International University, estimated the 2000 tax loss at nearly $45 billion. Earlier studies by the pair uncovered tax losses of $42.7 billion in 1999 and $35.7 billion in 1998.

Mr. Dorgan, a North Dakota Democrat, included $2 million in the annual treasury department spending bill to allow the professors to expand their studies to recommend ways to begin collecting these taxes. The companies involved were not identified in the study, which is based on commerce department trade data focused on international pricing of goods.