

APPAREL AND ACCESSORIES

Will Kering rep suffer from Italian tax demands? Ask Prada, D&G, Armani, Bulgari

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Gucci parent company Kering is accused of tax evasion in Italy. Image credit: Gucci

By BRIELLE JAEKEL

French fashion conglomerate Kering has joined an exclusive club of luxury houses such as Prada, Dolce&Gabbana, Giorgio Armani and Bulgari, all shaken down by Italy for alleged tax evasion.

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The Italian Tax Authority has released an audit on the company in regards to 2017 tax payments in Milan related to Kering flagship brand Gucci. Even though Kering contests the results and may have to unleash damage-control measures, portfolio brands such as Balenciaga, Saint Laurent, Bottega Veneta, Alexander McQueen, Brioni, Pomellato, Ulysse Nardin and Boucheron are distinct enough in the public's eye that they will likely be shielded from the fallout.

"In light of the recent news, the reputation and enduring legacy of Kering has been a hot topic of conversation," said Taylor Rains, managing partner at [Flugel Consulting](#). "Owing to the nature of the business, though, the effects of such a major public black eye need to be looked at from two different vantage points.

"First, there's Kering the corporate entity," he said. "It is here that Kering is likely to suffer the biggest blow and needs to devote most of its reputation management efforts. Second, there's Kering as the parent company of some of the world's most reputable luxury brands.

"It's unlikely that these brands will suffer any significant repercussions, since they have such established identities independent of Kering."

Mr. Rains is not associated with Gucci or Kering, but agreed to comment as an industry expert. [Kering](#) was reached for comment.

Swiss role

The investigation surrounds Luxury Goods International, a Swiss subsidiary of Kering. The official audit results from the investigation state that Kering owes 1.4 billion euros, or \$1.6 billion, in taxes in Milan for the years 2011-17,

which it had not paid.

Kering maintains that this statement is false and is hoping further investigation will reveal its innocence. Italy's Revenue Agency will assess the report and give a final determination, which Kering states it is confident will reveal it is in the right.



Colorful reputation? Image credit: Gucci

The company plans to fully cooperate, and says it challenges the results on "both the grounds and the amount."

"At this stage of the proceedings, Kering does not have the necessary information to record a specific accounting provision based on a reliable estimate of the tax exposure," Kering said in a prepared statement late last week.

"The group confirms that it has implemented a strict monitoring of its tax risks and has adopted a prudent approach in the appreciation of its tax exposures, and notably those related to the transfer pricing policy applied by the group," it said.

Italy's tax department claims that Kering moved 20 of its employees to Switzerland to avoid tax payment, while some individuals continued to work in Italy.

If Kering is forced to pay out the \$1.6 billion sum, it could greatly impact its operating business and earnings potential.



Gucci campaign shot in Iceland. Image credit: Gucci

As for its public image, Gucci may likely see some blowback along with the Kering brand itself. But given the current news cycle, the stain might be fleeting.

Kering has done much in recent years to bolster its reputation as a responsible corporate citizen, even being ranked the second-most sustainable company across industries worldwide and No. 1 in fashion and luxury in Corporate Knights 2019 Global 100 index. The achievement was announced Jan. 22 at the prestigious World Economic Forum in Davos, Switzerland.

The conglomerate's best move now is to proceed with significant transparency, staying honest with consumers as the Italian tax case grinds its way through the system.

"Italy's taxing authority stated that Kering paid taxes in Switzerland rather than Italy, presumably because Italy has a

much higher tax rate," said Rania V. Sedhom, managing partner of [Sedhom Law Group](#), New York.

"Kering is in good company with other notable brand CEOs and presidents [from companies] such as Dolce&Gabbana, Giorgio Armani and Bulgari, who also came under the Italian tax authority's scrutiny for allegedly failing to pay taxes due," she said. "Unless proven Kering acted maliciously, there is only a small likelihood that its reputation will be damaged.

"Italy's tax laws are complicated and ever-changing and the taxing authority has the ability to change laws retroactively. The Italian taxing authority is formidable. [Current Gucci boss] Marco Bizzarri and the company's former CEO, Patrizio Di Marco, are the main focus of the Italian taxing authority's investigation.

"It may be beneficial for them to cooperate voluntarily like Miuccia Prada and pay an undisclosed amount to the taxing authority rather than engage in a 3-year-plus trial like [Messrs.] Dolce and Gabbana. Although Dolce and Gabbana were successful, their legal fees were likely hefty. This is about a cost-benefit analysis related both to time and resources."

Unhappy returns of the day

If history shows anything, Kering and its Gucci brand will likely deflect this setback as it is in the company of many other luxury brands and their founders.

Italian tax authorities have aggressively investigated past filings of Miuccia Prada and her husband, Patrizio Bertelli.

The pair agreed to pay around \$637 million to settle tax evasion allegations and had worked with authorities to complete repatriation of subsidiary companies. Although the investigation continues to follow Ms. Prada, it had little effect on her family's eponymous brand ([see story](#)).

Designers Domenico Dolce and Stefano Gabbana were also found guilty of tax evasion by an Italian appeals court and sentenced to 18 months in jail.

This court decision was the latest in a series of appeals on a case that began in 2008. Even with the ensuing legal battles, the brand maintained its business poise, and it continued to do so as throughout its subsequent appeal to a higher court ([see story](#)). In fact, recent missteps in China parodying Chinese eating habits have taken a bigger toll on the brand's reputation.

"Whenever faced with a crisis, it's important for a company to move forward honestly and with a high degree of transparency," Flugel Consulting's Mr. Rains said. "Reputation isn't written in stone. It moves and changes over time, based on circumstance.

"After correcting the mistake, Kering should make a concerted effort to improving its image in the realm of corporate responsibility in Italy and worldwide," he said.