Navigating Reputational Risk: **OECD's Base Erosion and Profit Shifting Project**

A Brunswick Guide to Understanding and Preparing for this Looming Tax Development

BRUNSWICK

May 2017

OECD's Base Erosion and Profit Shifting Project

Brunswick Group's Senior Counselors Neal Wolin and Tim Griffin explain the significance of the global tax project, why it poses reputational risk and how companies should prepare.

Overview

A significant global tax development is on the horizon for multinational corporations. It has the potential to create a litany of reputational, operational and political challenges. Companies will soon have to disclose, on a country-by-country basis, detailed tax and financial information, including revenue, profit, scale of operations and taxes paid – potentially exposing some to criticism that they are not paying enough.

Why This is Happening:

Governments want more transparency around corporate taxes. In part this is because many need revenue – especially those with aging populations and costly social-welfare entitlement programs. Hence the desire to shine a light on the amount of tax corporations pay and where they pay it. An effort led by industrialized nations to crack down on tax avoidance strategies that exploit gaps and mismatches in tax rules -- known as Base Erosion and Profit Shifting or BEPS – has been under way since 2013, under the auspices of the Organization for Economic Co-operation and Development (OECD). One of the recommendations stemming from the project is that corporations disclose financial and tax information for every country in which they operate and that participating governments share corporate tax data among themselves. Multinational companies will be required to submit tax reports in each of the countries in which they operate by the end of 2017, with countries exchanging data the following year. The first wave of these disclosures is set to occur later this year. Some countries, such as Canada, have required public disclosure requirements as early as this month. The European Union is also currently discussing a piece of legislation that would make this information available to the public.

What's at Stake:

The exchange of reports between tax administrations around the world and the potential for public disclosure puts companies at heightened risk of reputational damage and litigation. The information exchanged could raise questions in the recipient tax administration, prompt investigations or provide input to ongoing investigations. In addition, while this data is supposed to be kept confidential, it is largely up to each country to protect the information. The data could ultimately find its way into the public domain, including via cyberattacks, weak privacy safeguards or through other government litigation against companies. When the Panama Papers were released in 2016 revealing tax havens used by wealthy individuals and corporations, more than 1,000 publicly-listed firms around the world were named, resulting in a loss of approximately $230 billion in market capitalization for those companies.

The reputational risk associated with a leak of this size can be as damaging. Following the Luxembourg Leaks, which revealed corporate tax avoidance strategies, companies were continually associated with negative headlines around the world. The information gleaned from the files was used by NGO campaigners and trade unions to produce reports on the companies, highlighting their alleged misdeeds and calling on tax authorities to take legal action to recover funds. In Europe this led to the European Commission's high-profile actions against Apple, Amazon, McDonald's and Starbucks.

It is therefore clear that the large number of countries participating in the BEPS disclosures, along with the inherent complexity of tax structures for large corporations, enhances the likelihood of reputational risk as the information makes its way into the public domain.

The Upshot

Corporations whose tax payments are not seen as commensurate with their level of revenue, profits or operations in a given country, or whose organizational structure favors low-tax jurisdictions, are likely to face pressure from a multitude of stakeholders including media, government, investors, labor groups and NGOs.

Brunswick spoke with two of our government and tax experts about how companies should be thinking about and preparing for the OECD's BEPS package: Neal Wolin, former Deputy Treasury Secretary during the Obama administration and Tim Griffin, the Lieutenant Gov. of Arkansas who served in the U.S. Congress and sat on the House Ways and Means Committee. Both say companies should be taking steps now to anticipate, plan for and potentially mitigate fallout.

1. **Stakeholder Review:** Corporations need to engage in stakeholder mapping to ensure they know who will care about this issue, where those stakeholders will be coming from and what messaging will best resonate with those audiences.

2. **Risk Assessment:** Corporations should review their organizational structure and tax payments to identify which areas post the most vulnerabilities. They should conduct research into which key markets and countries pose the greatest level of risk.

3. **C-Suite Buy-In:** Top executives, including the CEO, need to be aware of and engaged on this issue in order to plan for fallout.

4. **Contribution Assessment:** Beyond tax payments, companies should identify and review how they contribute both economically and socially in the areas where they operate and consider boosting efforts to help mitigate reputational damage.

5. **Build a narrative:** Corporations need to be ready to explain their tax structure in a credible, persuasive and non-defensive way. They need to fully understand how to communicate with various stakeholders, including what messaging is most persuasive with various groups. This will ensure they are prepared well in advance and not caught flat-footed or surprised by what may appear in the media.

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The first thing you've got to do is identify who your audience is. Are you a consumer brand with a well-known public image or a lesser known brand? That will factor into who your audience is and how exposed you may be to reputational risk -*Tim Griffin*

Companies would do well to do a tax planning risk assessment where they look at how they organize themselves and where they're doing a significant amount of business or generating a lot of economic activity in the form of revenue or earnings but are paying little tax. These are places of vulnerability and government authorities will likely want to figure out how to generate additional tax revenues -*Neal Wolin*

It is not enough to delegate preparation to mid-level executives. You need to get C-suite buy-in and CEO engagement-*Tim Griffin*

It's a good thing for the long-term value of a company to be and to be seen as a responsible and involved partner in the communities in which they do business -Neal Wolin

Simply saying I obeyed the tax law in that jurisdiction is not going to be enough. It has to be part of the conversation but that's not the lead. The message needs to be tailored for the specific market where they are operating -Tim Griffin

How Brunswick can help

Effectively protecting your reputation and license to operate requires tools and strategies that are aimed at engaging your different stakeholders. This requires proactive and reactive response plans tailored to the different segments that are critical to your business.

Brunswick can use its global reach and expertise to provide strategic counsel and to develop tools to help you best prepare for public disclosure of potentially embarrassing or harmful information. This includes identifying areas of vulnerability and performing thorough research into key markets that may pose the most risk. Our experience in crisis preparation and management, stakeholder engagement and media will ensure that you have the best resources and experts available to protect your reputation.

Brunswick is already working with a number of clients related to BEPS and other tax issues and has global teams well-versed in the subject area.

Our tailored approach includes:

- Leak preparation
- Scenario preparation
- Litigation communication
- Country-specific research
- Research-tested messaging and other materials
- Crisis management
- Digital and social engagement
- Stakeholder mapping/engagement
- Strategic counsel for C-Suite executives, including CEO
- Business and Society programs
- Employee engagement

Questions?

For more information, please contact our Brunswick public affairs team members around the world:

Brunswick Group

Brunswick is an advisory firm specializing in business critical issues. We help companies build trusted relationships with all their stakeholders.

When clients turn to us, it's because they know that engaging effectively with everyone who has a stake in the company is about more than managing perceptions - it is essential to making business work.

Our background in financial communications means we understand how businesses operate and how they are wired. It also means integrity is deep in our nature: confidentiality, diligence, openness and accuracy.

Brunswick is one firm globally. Delivering anywhere, we have a reputation for high-caliber, highly experienced people who have diverse backgrounds and skills.

Whatever the task, no matter how complex or where it is taking place, we can assemble the right expertise across the firm.

Our purpose is to help the great value creating organizations of the world play a more successful role in society.

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