



Intellectual Output 4

CSR and TAX AVOIDANCE

Dolce & Gabbana: a brief presentation
Guilty or Innocent?



D&G Group profile

Established in 1985, Dolce&Gabbana is one of the leading international groups in the fashion and luxury goods sector.





Dolce & Gabbana Collections

The Group creates, produces and distributes high-end clothing, leather goods, footwear, accessories, jewellery and watches.



Erasmus+



Brands

D&G
DOLCE & GABBANA

The **brands** are the **key asset** of D&G Group.

After 2012 the two main brands were merged in the main brand Dolce&Gabbana



Dolce & Gabbana Corporate

The Group is headquartered in Milan (Italy) but has a widespread presence across the world, with branches in the main cities: New York, Tokyo, Hong Kong, and Sao Paulo.

Some figures about the Group

Overall staff numbers: 4,547 members

Distribution network: 323 mono-brand stores

Consolidated revenues of the Group (fiscal year 2017): 1,3b

Net income: 80m



Dolce & Gabbana Code of Ethics

- Dolce & Gabbana Group has adopted a Code of Ethics, published on its website

<http://www.dolcegabbana.com/corporate/>

- The fundamental values and rules of conduct, set out in the Code, guide the action of the Group in relation to its stakeholders, in the pursuit of its corporate and social mission.



The pillars of Dolce & Gabbana code of ethics

The pillars of Dolce & Gabbana code of ethics

1. Contrast and harmony
2. Respect for people
3. Creativity and Entrepreneurship
4. Integrity and business ethics
5. Responsibility and honesty
6. Respect for the environment

- The Group claims to operate in an ethical and compliant manner and in accordance with national and international laws, regulations and decisions.
- The Code of Ethics was approved by the Board of Directors of Dolce & Gabbana Srl and implemented by all companies of the Group.



The tax dispute

In March 2004 D&G was involved in a **tax dispute**.

It arises after a corporate restructuring, when the Italian Tax Police carried out a corporate audit at Dolce & Gabbana Group and accused the company of aggravated fraud against the Italian State and unfaithful tax return.

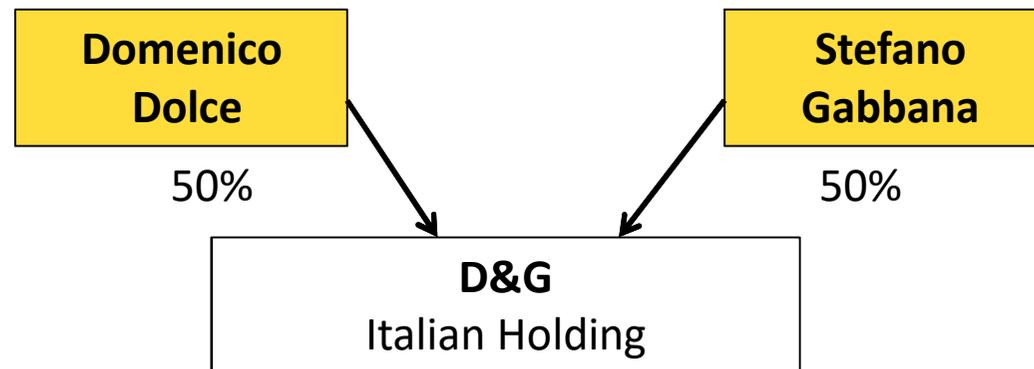
- ❖ **What had happened?**
- ❖ **Why was the corporate restructuring operation challenged by the Italian tax police?**
- ❖ **Why was the Group accused of tax fraud?**

To answer these questions we have to consider the Group's structure before the restructuring operation and how it was modified.



Before the corporate restructuring

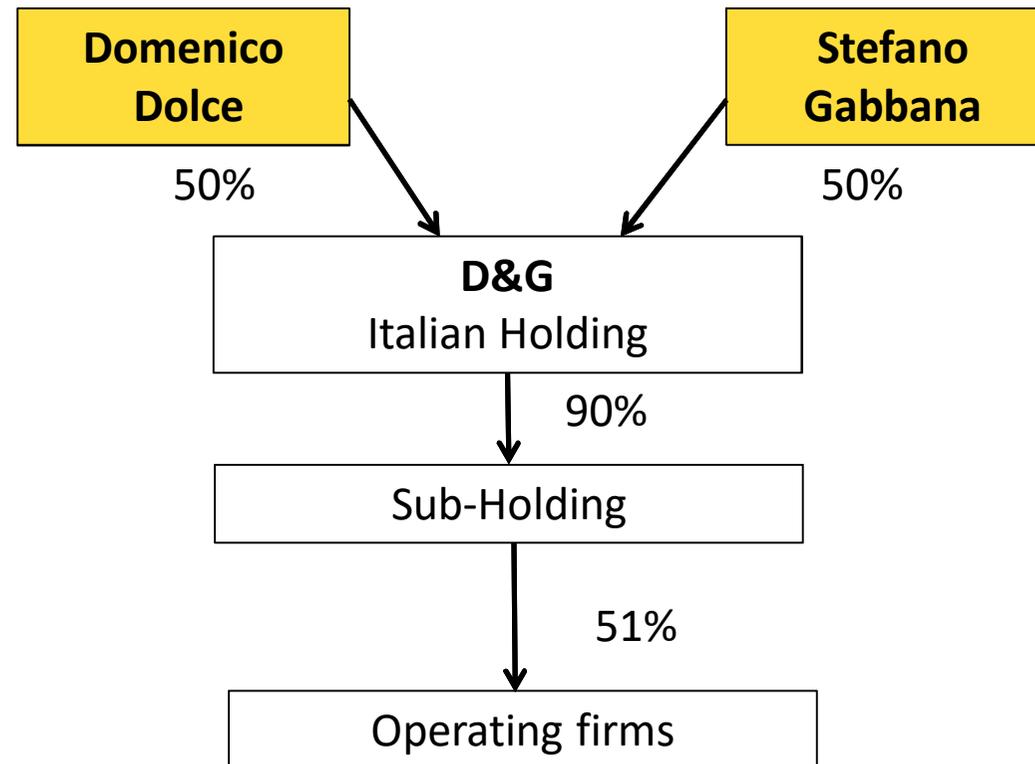
Before the corporate restructuring, the Group was controlled by **D&G**, a **holding company**, wholly owned by the two fashion designers – Domenico Dolce and Stefano Gabbana – each with a **50% share**.





The Group corporate structure

The holding company D&G held 90% of the **Sub-holding company**, which in turn owned 51% of some **operating firms**.



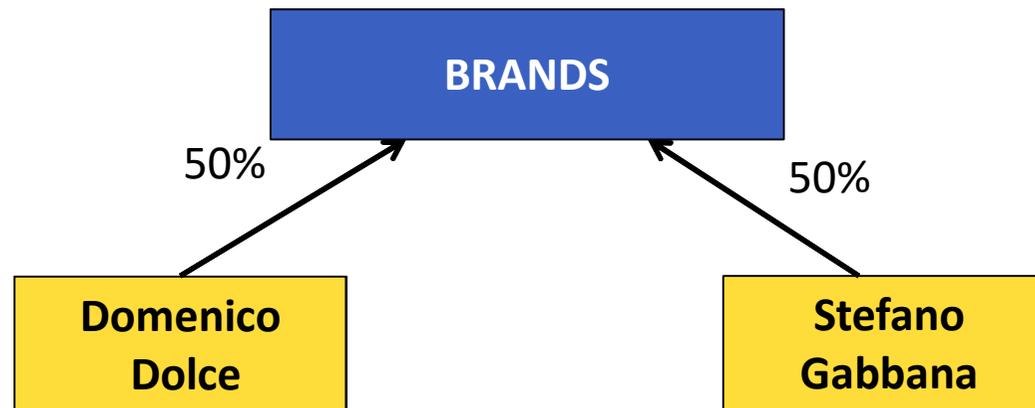


The brands' ownership

The two fashion designers were the owners of the brands.

The Sub-holding and the operating firms were the **licensee of the brands** and **paid royalties to Domenico Dolce and Stefano Gabbana**.

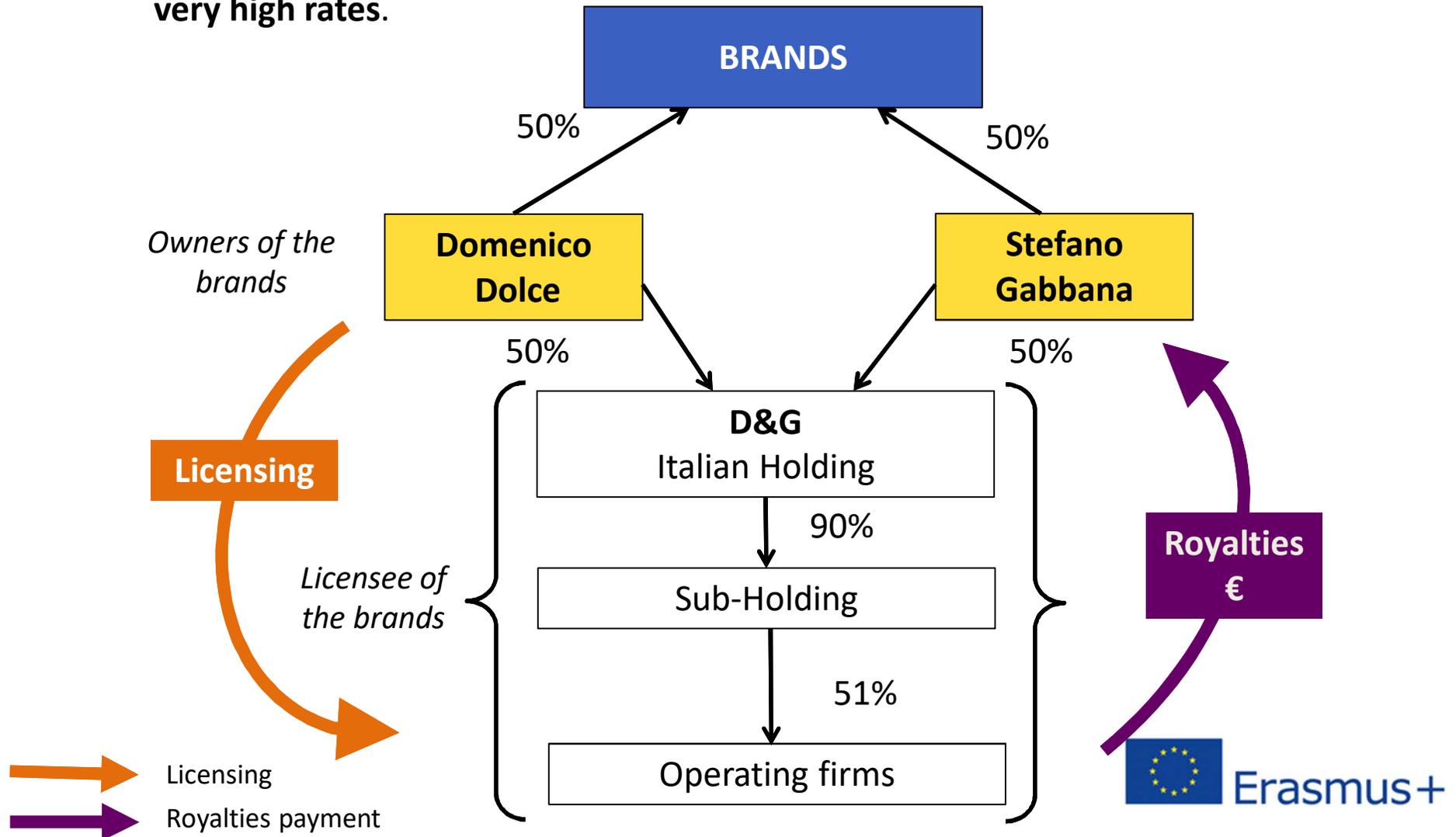
The two fashion designers **paid taxes in Italy, at a very high rates**.





Licenses and royalties

The Sub-holding and the operating firms were the **licensee of the brands** and **paid royalties to Dolce and Gabbana**. The two fashion designers **paid taxes in Italy, at a very high rates**.





The main weaknesses of the corporate structure

This corporate structure had some main weaknesses:

- ❖ the brands, the main asset of the whole group, were personally owned by the two fashion designers. This worried the banks, which feared the consequences of possible conflicts between Dolce and Gabbana;
- ❖ Dolce and Gabbana were planning to list the company and were looking for more attractive markets for their products and brands;
- ❖ The taxation rate for the royalties was too high.



The decision to restructure the Group

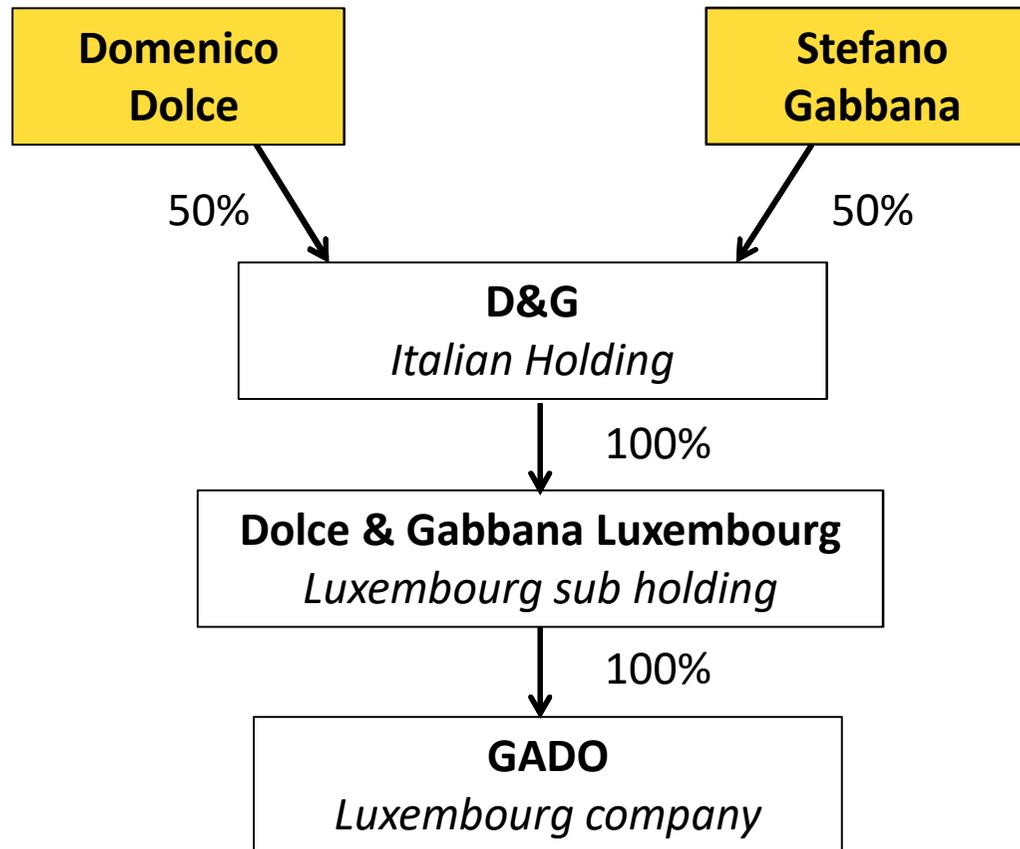
The two owners decided to move the headquarters of the Group in another EU country and the choice fell on **Luxembourg**, which also presented a **more favorable corporate tax regime**.

A new company – GADO – was set up in Luxembourg. It also asked the Luxembourg tax authority to verify compliance with the parameters necessary to have a favorable tax treatment. The answer was positive and the new company GADO got the approval.

GADO was wholly owned by another new Luxembourg company (Dolce & Gabbana Luxembourg), which in turn was controlled by the Italian holding D&G.



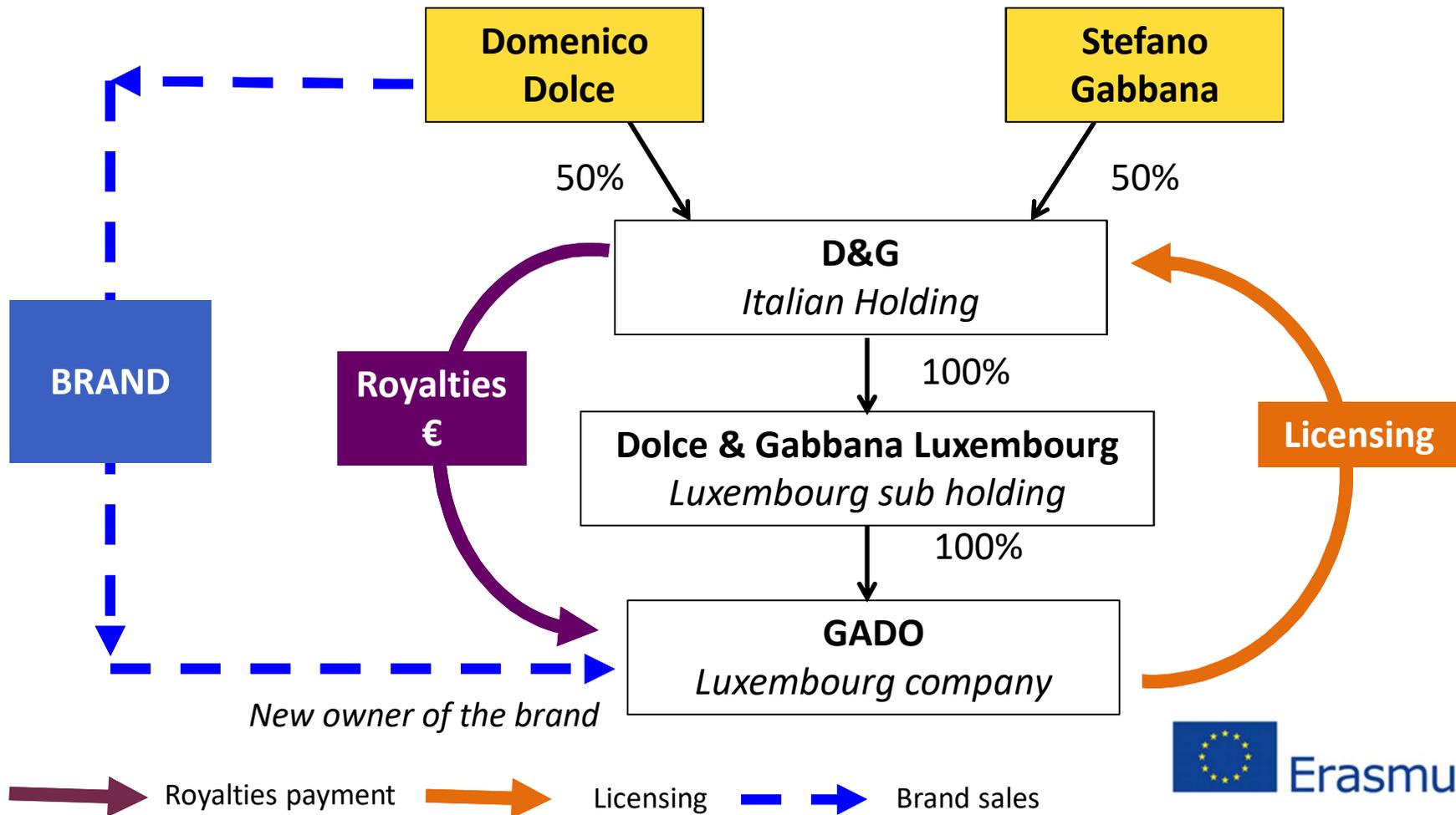
After the corporate restructuring





Brand sales

Dolce and Gabbana, former owners of the brands, sold them to GADO, at a price of 360 million euros. Then GADO granted the Italian holding D&G a 12 years exclusive license for the use of the brands, receiving royalties in return .





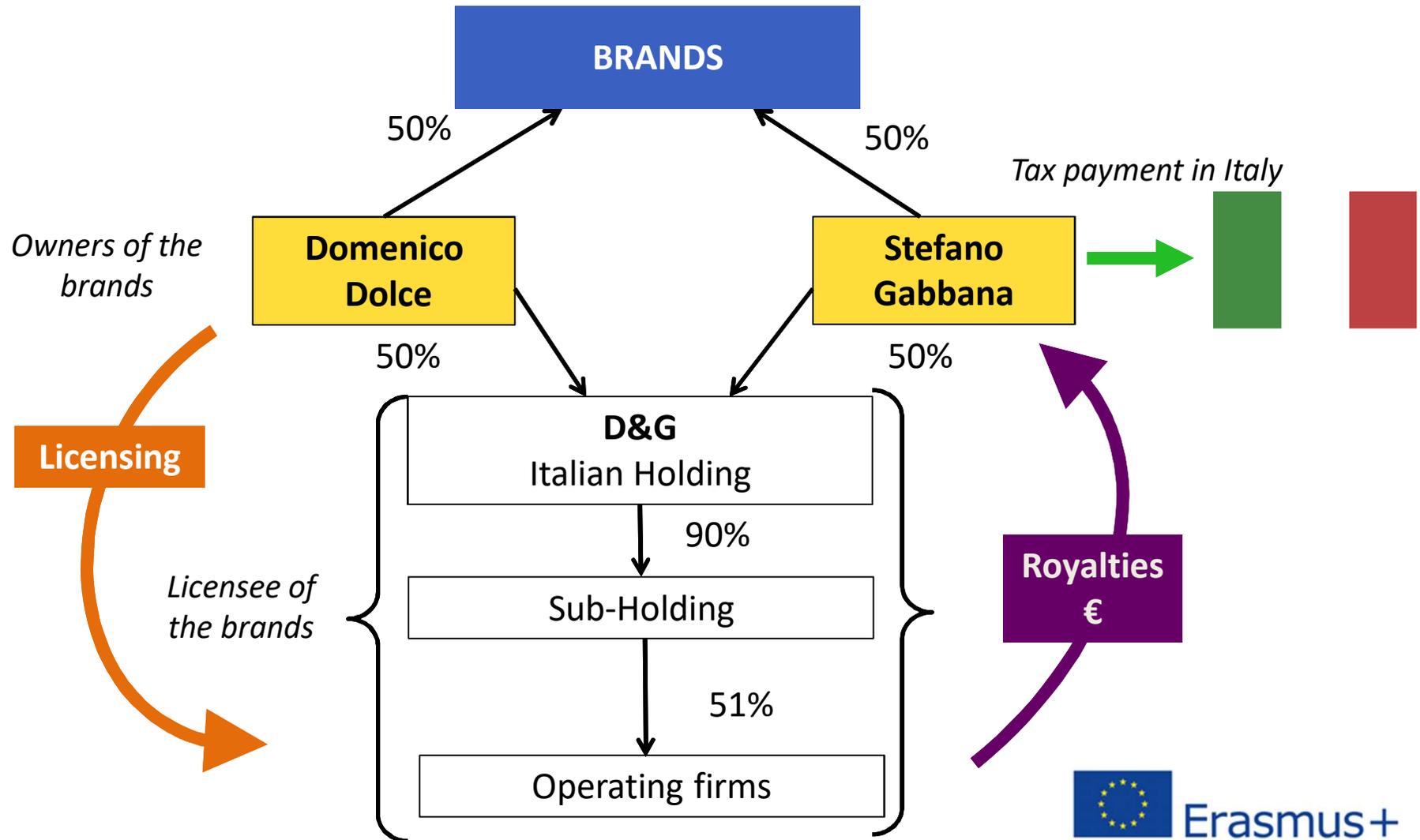
Tax consequences of the corporate restructuring

In this way the Group obtained a considerable tax advantage.

In fact, before the operation the royalties for the use of the brands were directly perceived by the two fashion designers, who **paid personal income tax in Italy at a very high tax rate (45%)**.



Tax payment before the corporate restructuring



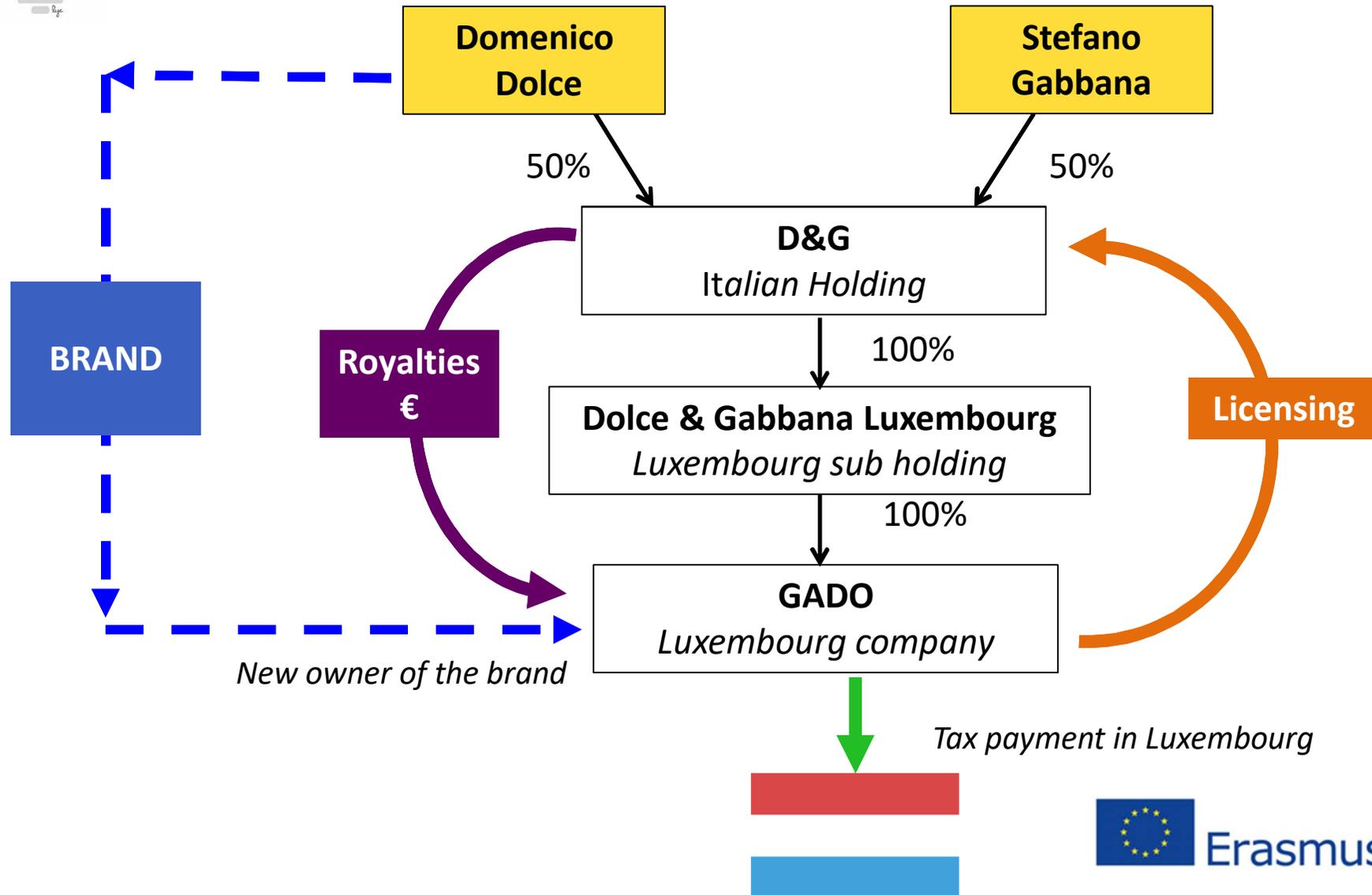


Tax moving from Italy to Luxembourg

After the operation the same royalties were received by the Luxembourg company GADO, that was subject to a much more favourable tax treatment (only 4%, as agreed with the Luxembourg tax authorities).



Tax payment after the corporate restructuring





The position of the Italian Tax Police

This operation was contested by the Italian tax police, according to which the entire operation was exclusively aimed at obtaining a huge tax saving, especially for the two fashion designers.

In particular, the Italian tax police contested the operation for the following reasons:

- ◆ the transfer to Luxembourg was not motivated by any real economic reason;
- ◆ the Luxembourg companies had not hired any employees;
- ◆ the strategic direction of the Group had always remained in Italy;
- ◆ Domenico Dolce and Stefano Gabbana sold the brands to GADO at a “disproportionately low” price.



The court's decision

On the basis of such motivations, the courts of the first and second degree accused the Group of **tax inversion** and Domenico Dolce and Stefano Gabbana were asked to **pay a fine of 800 million euros**.

However the **Court of Cassation reversed the sentence and considered the operation legitimate**.

According to the Court of Cassation, even if the operation generated substantial tax advantages for Dolce and Gabbana, it had been accomplished with other purposes.



Not only tax advantages

According to the Italian court the main objective of the operation was in fact to **create a corporate structure more consistent with the Group's growth ambitions** and with its **desire to become a leader in the international competitive context.**

The Italian court also argued that:

- ◆ the choice to locate a company abroad is in line with the **EU principle of freedom of establishment;**
- ◆ this choice can result in lower taxation, but **this does not necessarily mean tax avoidance;**
- ◆ tax advantages are not undue only because a company benefits from opportunities permitted by law, **but only if it gets such benefits through a pure artifice.**



If you were the judge...

- ❖ **What do you think about this company?**
- ❖ **The two fashion designers were considered innocent from a legal point of view.
But what about an ethical point of view?**