THE POWER OF PERCEPTION: EMPLOYEES' VIEWS ON U.S. CORPORATE TAX & ACCOUNTING STRATEGIES

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INTRODUCTION

U.S. businesses are familiar with having the spotlight shine on their internal operations. From executive shake-ups to accounting fraud, what happens within a company is sometimes more interesting to the press and public than the product or service it sells.

Throughout 2014, an exceptional amount of attention has been devoted to U.S. corporations' plans to pursue various invasive tax strategies, in hopes of lowering their effective tax rate. The rise of one strategy in particular – inversions – has instigated much of this buzz.

During an inversion, an organization reincorporates in another country in order to reduce its tax burden. As of September, 2014 had seen 55% of all inversion deals, by dollar value, since 1996[1]. What's most notable about the recent uptick, is that American-based corporations are attempting to invert by way of international mergers or acquisitions.

In June, Minnesota-based medical technology firm, Medtronic, announced its plans to acquire Dublin-based medical device manufacturer, Covidien, for nearly $43 billion. The move could potentially help Medtronic avoid paying U.S. taxes on $14 billion in overseas cash[2]. In August, Burger King acquired Canadian chain, Tim Hortons, for over $11 billion – a deal that would move the new organization's headquarters to Ontario, where the corporate tax rate is notably lower than in the United States'[3,4]. Plenty of corporations have tried and failed to invert in 2014, including Pfizer and AbbVie.

The Federal government has since made efforts to curtail inversions and other corporate tax reduction strategies. In September 2014, the U.S. Treasury tightened tax rules to make inversions more difficult to execute, and prevent already inverted organizations from reaping certain tax benefits[5].

But despite the government's clear stance on these tactics, little has been said about what U.S. employees think, or how their perceptions influence employers' tax and accounting decisions. One recent study of Chartered Global Management Accountant designation holders found that 80% of these corporate stewards feel employers are heavily influenced by reputational views of their stakeholders (such as staff, customers, and investors[6].) Brand equity and employee retention are often afforded monetary value; so it's understandable why corporations should assess the loss to each when making financial decisions that affect these "soft" attributes.

The software products team of Bloomberg BNA wanted to learn how concerned U.S. employees are about their organizations' tax and accounting strategies, how these perceptions impact staff trust, and whether or not tax and accounting professionals take these views into consideration.

Methodology: In October 2014, Bloomberg BNA conducted an online survey of 1,000 full-time U.S. employees, asking about their views toward a number of corporate tax and accounting strategies. During that same time, Bloomberg BNA partnered with The Blackstone Group to survey 200 tax and accounting professionals from large U.S. organizations to gauge how public perception influences their decision-making process.

KEY FINDINGS:

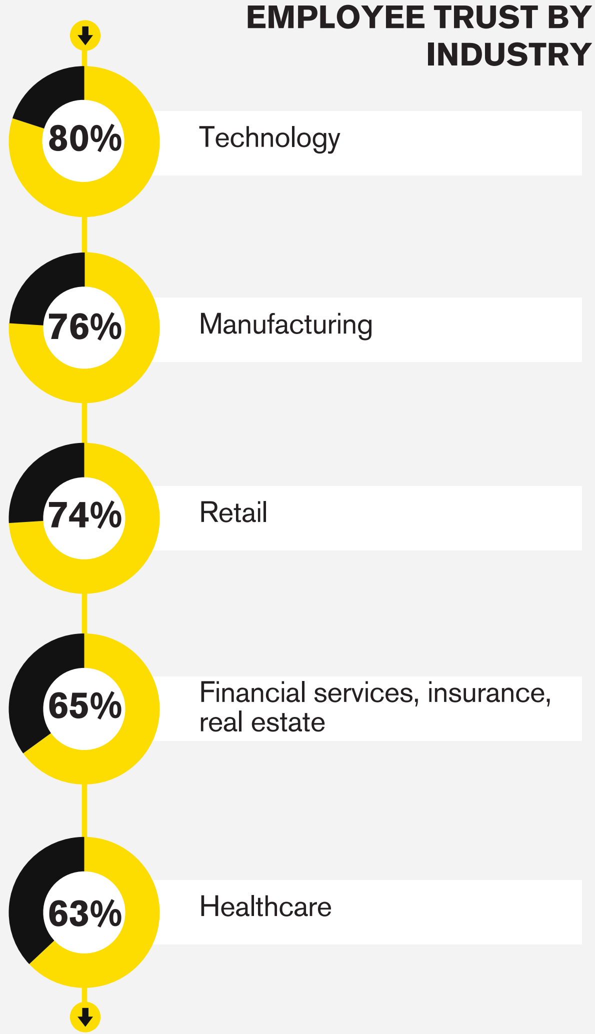
- Almost three-quarters of U.S. employees would view their employer negatively if it relocated its headquarters to another country to achieve a lower corporate tax rate.
- More than half of employees would trust their employers less for pursuing tax and accounting strategies they personally disagree with.
- 85% of tax and accounting professionals claim to care about employee perception.
- 71% of tax and accounting professionals believe that public perception significantly influences their organizations' financial decisions, suggesting that business leaders are sensitive to these issues and understand the quantifiable value of negative perception.

MEASURING EMPLOYEE TRUST & ATTENTION

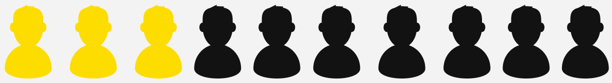
Overall, U.S. employees generally trust their employers. 69 percent of all respondents trust their organizations, although that number varies by company size and industry.

Just over half (55%) of employees at organizations with revenue under $500M trust their employers. For organizations with revenues over $500M, the percentage jumps to 67%.

Looking at specific industries, technology and manufacturing organizations enjoy notably higher volumes of employee trust than financial services or healthcare firms:



THE ADVANTAGE OF ATTENTIVE EMPLOYEES



31% OF EMPLOYEES

Less than one-third (31%) of full-time employees admit to paying attention to their organizations' tax and accounting strategies. Based on the findings, attention to strategies correlates negatively with revenue size. 47 percent of employees at organizations with revenue below $500M pay attention to these financial moves, compared to just 29% of employees at organizations with revenue over $500M.

Employees who keep tabs on their organizations' strategies are also more likely to trust their employers. 81 percent of employees who pay attention to their organizations' tax and accounting moves trust their employers, compared to 62% of employees that pay these strategies no mind.

This connection is isolated from whether or not employees necessarily agree with their organizations' tax strategies. Just knowing what the tax and accounting departments are up to can play an important role in staff trust. Aside from hoping that employees pay attention to financial strategies by their own volition, organizations may consider proactively communicating their tax and accounting activities (even broadly) to promote staff trust.

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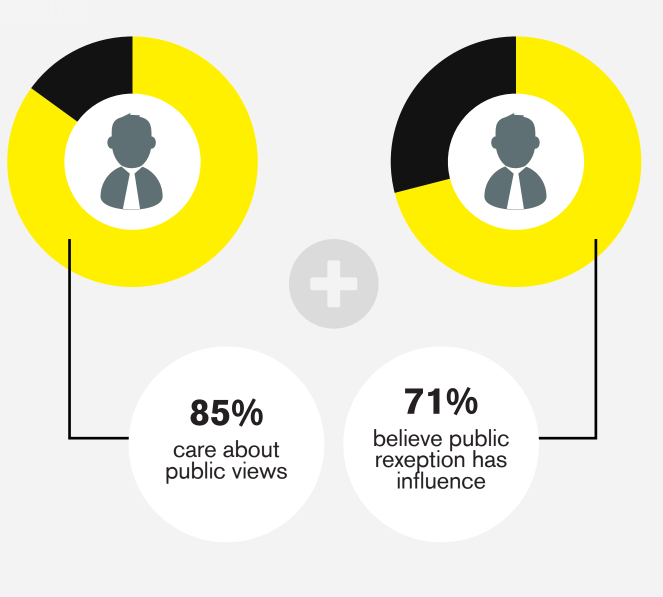
A LOOK AT STRATEGY-SPECIFIC PERCEPTIONS



73%

of employees would view their employer negatively if it relocated its headquarters to another country in order to achieve a lower corporate tax rate.

Confirming the CGMA research findings, 85% of in-house tax and accounting professionals surveyed by Bloomberg BNA care about how the public views their organizations' financial strategies. Further, public perception does impact the decisions tax and accounting departments make. 71 percent of tax and accounting professionals believe that public perception has a significant influence on their departments' decisions. An overwhelming 92% believe public perception has at least some influence on tax and accounting strategies.

In order for public sentiment to truly influence corporate action, tax and accounting departments need an accurate read on how employees feel. Based on employees' responses, different tax and accounting strategies elicit distinct opinions.

SOURED BY INVERSIONS

The majority (73%) of employees would view their employer negatively if it relocated its headquarters to another country in order to achieve a lower corporate tax rate. 68 percent of employees from firms with revenue over $500M – which are more likely candidates for inversions – would view their employer negatively.

Once again, employee attention to an organization's tax and accounting strategies has a hand in perception. 78 percent of employees who don't pay attention to these decisions would view their employer negatively for pursuing an inversion, compared to 68% of employees who do.

When analyzing employee perception across industries, the healthcare sector stands out. Healthcare employees are most likely to view their organizations negatively for pursuing controversial tax strategies, but also some of the least likely to pay attention to them. 80 percent of healthcare respondents would view their employer negatively for pursuing an inversion. Much of this hypothetical negativity could be driven by the media's recent, large focus on pharmaceutical inversions.

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THUMBS DOWN ON DOUBLE IRISH ARRANGEMENTS

Inversions aren't the only tactic employees frown upon. Respondents are equally opposed to "double Irish" tax provisions, a strategy favored by U.S.-based technology organizations (including Apple, Google, and Microsoft), in which profits are transferred through a foreign (often Irish) subsidiary in order to reduce the tax burden[7]. 73 percent of employees would view their employer negatively if it were to pursue such action.

This sentiment is slightly less strong at organizations with more than $500M in revenue, and amongst employees who pay attention to their employers' tax and accounting strategies (69% and 67% respectively view double Irish arrangements negatively).

In October 2014, Ireland's government took action to close certain loopholes that multinational corporations have historically taken advantage of, but whether or not this dissuades American organizations from reincorporating in the country remains to be seen[8].

46%

of employees are significantly less likely to view their employers negatively for pursuing domestic tax loopholes

DOMESTIC TAX STRATEGIES SEEM LESS TABOO

Compared to inversions and double Irish arrangements, employees are significantly less likely to view their employers negatively for pursuing domestic tax loopholes. Only 46% of employees would think less of their organizations for operating subsidiaries in states without corporate income or capital gains taxes (such as Nevada and Texas) in order to achieve a lower corporate tax rate.

Workers feel that changing states to alleviate a corporate tax burden is the lesser of two evils, compared to changing countries. Only 35% of employees at organizations with revenues over $500M report negative associations with domestic tax strategies.

Among technology industry employees, just 28% oppose these maneuvers. This is less surprising for a number of reasons. For example, Apple is just one technology giant that has historically taken advantage of low tax states[9]. At the same time, technology organizations are also typically clustered in certain areas of the country, and aren't tied to any natural resource or transportation network, providing them more flexibility in where profits flow through.

HOW TAX STRATEGY SWAYS EMPLOYEE TRUST AND LOYALTY

When asked if corporate tax and accounting strategies would change employees' trust in their employers, respondents were decidedly split. Slightly more than half (53%) of employees would trust their organizations less if they pursued tax and accounting strategies that they personally disagreed with.

THE COST OF DIVERGENT OPINIONS

As the tax and accounting professionals pointed out, public perception does influence their strategies. But in the event that employees don't see eye to eye with their employers, what are the ramifications?

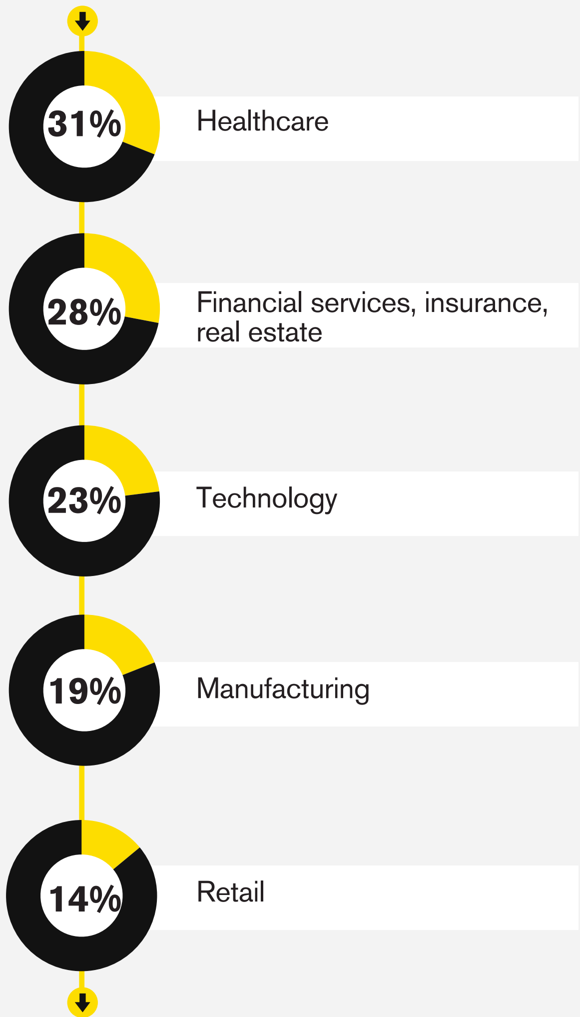
30% OF EMPLOYEES

Only a 30% of employees say they would go so far as leaving their current employer if offered a similar position at an organization that didn't pursue tax and accounting strategies they disagreed with. At companies with over $500M in revenue, 24% of employees claim they would jump ship.

Although less than one-third of employees would quit their current organizations over an inversion or double Irish loophole, business leaders should still evaluate if their invasive tax strategies are worth the cost of employee turnover. The average cost of replacing an employee (for jobs earning less than $50,000 per year) amounts to 20% of the person's annual salary[10].

Rather than walk away, a large number of employees would expect incentives from their organizations based on their tax and accounting strategies. 62 percent of respondents would expect better compensation if they knew that their employers were saving money by lowering their corporate tax rate.

PERCENTAGE OF EMPLOYEES WHO CLAIM THEY WOULD LEAVE THEIR EMPLOYERS FOR FIRMS THAT DON'T PURSUE STRATEGIES THEY DISAGREE WITH, BY INDUSTRY



CONCLUSION

Through surveys of 1,000 full-time U.S. employees and 200 in-house tax and accounting professionals, Bloomberg BNA confirmed that corporate tax and accounting strategies are critical in shaping how staff view their employers. And despite the media's attempts to paint inversion-hopeful corporations as faceless traitors, tax and accounting professionals are very much concerned with how their actions are perceived.

From these findings, it appears that the more attention employees pay to their organizations' tax and accounting strategies, the less likely they are to negatively perceive specific choices. As organizations strive to sustain staff loyalty and preserve reputations among various stakeholders, they may contemplate ways to more openly convey their general tax and accounting mission.

In regards to specific tax strategies, the majority of employees frown upon corporate exploitation of tax loopholes abroad, whereas domestic maneuvers are less polarizing. As the U.S. and international governments continue their crusade to prevent inversions and double Irish arrangements, it will be interesting to see if corporations respond with an increase in domestic tactics.

A key takeaway, however, is that tax and accounting departments' actions are influenced by employee perception. This demonstrates a clear corporate understanding of the monetary value of negative public sentiment. Adverse opinions toward a corporation's tax and accounting strategies can manifest itself in a number of damaging ways, from lost brand equity and deflated goodwill to strained customer relationships.

2014 has been a rollercoaster year for corporate tax and accounting functions, and the ride is far from over. Stricter inversion regulations and a now Republican-controlled Congress – which may push to lower the corporate tax rate – raise questions about whether organizations will be less likely to pursue invasive strategies in the future[11].

For now, business leaders would be wise to continue measuring public perception, and consistently weighing the benefits of an overseas tax haven with the risk of lost talent and a tarnished image.

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