



## ***Proxy Alert: Brookfield Corporation (TSX: BN) Shareholder Proposal May 2023***

The B.C. General Employees' Union (BCGEU) has submitted a shareholder proposal to be considered at Brookfield Corporation's 2023 annual general meeting of shareholders. The proposal requests that Brookfield release a tax transparency report prepared in consideration of the indicators and guidelines set forth in the Global Reporting Initiative's (GRI) Tax Standard. This proxy memo provides supplementary information relevant to your consideration of the proposal and addresses Brookfield's responses to the proposal.

### **Lack of Tax Transparency**

There has been increased government and community scrutiny on whether corporations are paying their "fair share" of tax and contributing to societies where profits are earned. The OECD estimates revenue losses from profit shifting by corporations of US\$100 – 240 billion annually.<sup>1</sup> The PRI, representing investors with \$89 trillion AUM, argues that tax avoidance is a key driver of global inequality.<sup>2</sup>

A 2017 *Toronto Star* investigation found that Brookfield was among the worst tax offenders of all Canadian corporations. It had the lowest effective tax rate at 6.7%. Brookfield's effective tax rate was lower than Canada's five big banks whose tax rates were all between 13.4% and 17.8%.<sup>3</sup>

A 2022 report from Canadians for Tax Fairness examined the tax gap of 123 of Canada's largest corporations, the difference between taxes paid and what would have been paid if the statutory tax rate were applied to profits. The report found that Brookfield had the largest tax gap between 2017 and 2021, avoiding \$3.5 billion in tax in 2021.<sup>4</sup> While there are legitimate reasons why the rate of tax payments would be lower than the official tax rate, Brookfield's exceptional and consistently low rates of tax are worthy of greater scrutiny.

Canadians For Tax Fairness's 2023 report, "Public Funds for Private Gains" identified 40 Brookfield subsidiaries in tax havens: 19 in Bermuda, 11 in Delaware, and the remainder in Luxembourg, Cayman Islands, and Barbados. The report noted that many of the tax haven-

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<sup>1</sup> <https://www.globalreporting.org/news/news-center/backing-for-gri-s-tax-standard/>

<sup>2</sup> <https://www.globalreporting.org/news/news-center/2019-12-05-first-global-standard-for-tax-transparency/>

<sup>3</sup> <https://projects.thestar.com/canadas-corporations-pay-less-tax-than-you-think/>

<sup>4</sup> <https://www.taxfairness.ca/en/resources/reports/unaccountable-how-did-canada-lose-30-billion-corporations>

domiciled companies have Canadian subsidiaries. For example, Brookfield Renewable Energy Group Inc. and Brookfield Renewable Power Inc. are Canadian companies wholly owned by BRP Bermuda Limited. The Bermuda subsidiary consists of 149 wholly or majority owned subsidiaries, 141 of which are Canadian. BRP Bermuda is, in turn, held by a Canadian numbered company, which is further owned by three wholly-owned Delaware subsidiaries, including the confusingly named Brookfield Power Brazil US LLC.<sup>5</sup>

The report also found that Brookfield had at least six wholly-owned subsidiaries that collected Canadian government pandemic subsidies (the Canada Emergency Wage Subsidy, or CEWS). Further, ownership of some of the CEWS recipients passed through tax-exempt countries, including Bermuda and the Cayman Islands.<sup>6</sup>

## **A “Cascading Ownership Pyramid”**

Brookfield’s corporate structure has thus been described as a “cascading ownership pyramid,” with local subsidiaries controlled by complex chains of foreign entities.<sup>7</sup> Brookfield’s operating business are carried out through “perpetual affiliates”, each of which are limited partnerships (LPs) formed under the laws of Bermuda. Bermuda imposes no corporate income, capital gains or withholding taxes.<sup>8, 9, 10</sup> The Bermuda Government recently legislated to extend the tax exemption on income and capital gains for its registered companies until 31 March 2035.<sup>11</sup>

In addition to its key subsidiaries in Bermuda, Brookfield has dozens of subsidiaries registered in tax havens including the British Virgin Islands, Cayman Islands, Gibraltar, Hong Kong, the Isle of Man, Jersey, Luxembourg, Malta, Singapore, and others.<sup>12</sup>

Brookfield’s limited tax disclosure challenges investors’ ability to evaluate the risks to the company, or to understand whether Brookfield is engaged in responsible tax practices that ensure long term value creation for the company and the communities in which it operates. Shareholders believe that enhanced information in this regard would ensure risks are being adequately managed.

This proposal would bring Brookfield’s disclosures in line with leading companies who already report using the GRI Tax Standard.<sup>13</sup> The GRI Standards are the world’s most utilized reporting

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<sup>5</sup> <https://www.taxfairness.ca/sites/default/files/2023-02/cews-final-2023-02-09.pdf>

<sup>6</sup> <https://www.taxfairness.ca/en/resources/reports/public-funds-private-gains>

<sup>7</sup> <https://www.ft.com/content/595a77d0-3867-11ea-a6d3-9a26f8c3cba4>

<sup>8</sup> <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-bermudahighlights-2022.pdf>

<sup>9</sup> <https://archive.canadianbusiness.com/companies-and-industries/brookfield-asset-management-taxes/>

<sup>10</sup> <https://taxsummaries.pwc.com/bermuda/corporate/taxes-on-corporate-income>

<sup>11</sup> <https://taxsummaries.pwc.com/bermuda/corporate/taxes-on-corporate-income>

<sup>12</sup> Annual Report and Financial Statements filed for Brookfield Global Subinvestments Limited and Brookfield Global Corporate Investments Limited, Bhal Global Corporate Limited, and other Brookfield controlled entities all available from UK Companies House

<sup>13</sup> <https://www.globalreporting.org/news/news-center/momentum-gathering-behind-public-country-by-country-tax-reporting/>

standard,<sup>14</sup> having been developed in response to investor concerns regarding the lack of corporate tax transparency and the impact of tax avoidance on governments' ability to fund services and support sustainable development.<sup>15, 16</sup> Brookfield already reports BEPS Action 13 CbC information with the Canada Revenue Agency privately (which is automatically shared with OECD jurisdictions in which Brookfield operates), so any increased reporting burden is negligible.

## **Brookfield Comparators and CbC Disclosure by Multinationals**

In its response to the proposal, Brookfield states that (i) it makes all legally mandated tax reporting, (ii) it has internal policies in place to manage its tax function, and (iii) it believes providing country-by-country (CbC) tax reporting would reveal sensitive information about its operations and put it at a competitive disadvantage.

Brookfield claims that none of its peers provide the disclosure called for by the proposal. Further, it argues that providing CbC tax reporting would reveal sensitive information about its operations and put it at a competitive disadvantage. On the first point, it is difficult to find companies that can compare to Brookfield's size, the operational and geographic diversity of its business, or its opaque corporate structure reliant upon numerous entities in low-tax jurisdictions such as Bermuda. We submit that Brookfield's opaque structure and heavy reliance on low-tax jurisdictions calls for heightened scrutiny of Brookfield's tax reporting.

Multinationals already reporting using the GRI Tax Standard 207-4 (CbC reporting) include the following:

- Rio Tinto
- Teck Resources
- Allianz
- Philips
- BP
- Swiss Re
- Zurich Insurance
- Anglo American plc
- Rabobank
- AXA

Furthermore, 36 multinational financial services firms, headquartered in 11 European countries and operating in 90 countries around the world have been required to make public CbC reporting since 2014.<sup>17</sup> There has been no evidence that this has caused any competitive disadvantage by revealing sensitive information.

## **Global Initiatives for Public CbC Tax Reporting**

As Brookfield references, the EU Public CbC Reporting Directive came into force on December 21, 2021. EU countries have until June 22, 2023 to enact legislation giving effect to the

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<sup>14</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf>

<sup>15</sup> <https://www.globalreporting.org/news/news-center/backing-for-gri-s-tax-standard/>

<sup>16</sup> <https://www.globalreporting.org/standards/media/2482/gri-207-tax-2019.pdf>

<sup>17</sup> <https://www.taxobservatory.eu/repository/banks-country-by-country-reporting/>

Directive. The public CbC disclosure rules will apply from the commencement date of the first financial year starting on or after June 22, 2024, or earlier if chosen by individual EU countries.<sup>18</sup>

Australia recently introduced legislation that would mandate the first unrestricted world-wide public CbC reporting, starting with the 2023-24 income year. The legislation is expected to pass Parliament in mid-June and will apply to Brookfield given its large investments in Australia, where its use of tax havens and low tax payments buy corporations, its controls have already been a topic of political concern.<sup>19</sup>

The CbC filing requirements in Australia, based on the GRI Tax Standard, are similar to OECD requirements but specifically designed for public use and have the backing and support of many of the largest global investment managers. Public CbC reporting is inevitable for large global corporations such as Brookfield. Brookfield has an opportunity to be a leader in providing greater transparency to shareholders or wait until requirements are legislated.

### **Brookfield's Misleading Statement on Tax Disclosure**

In Brookfield's response to the proposal, it also states the following:

We publish an annual sustainability report, which is available on our website at [www.brookfield.com](http://www.brookfield.com). Similar to prior reports, our 2022 Brookfield Corporation Sustainability Report will include tax disclosures that are reported in accordance with the GRI Standards, 207: Tax.

This statement is misleading. Brookfield's sustainability reports to date have not included tax disclosures in accordance with GRI Standards, 207: Tax. If Brookfield is to make such disclosures in its 2022 Sustainability Report, these disclosures will be the first of their kind by Brookfield.

Brookfield provides the most limited reporting on global tax payments that is required by the laws in the various jurisdictions in which it operates. There is no current ability to determine in which jurisdictions Brookfield does or does not pay income tax. Brookfield's extensive use of tax haven subsidiaries and its sustained low effective tax rate require further information.<sup>20</sup> The lack of transparency on tax payments while substantial changes are occurring in global and national tax systems presents unnecessary risks for shareholders that can be easily resolved.

A forthcoming report by the Centre for International Corporate Tax Accountability & Research ([CICTAR](#)) analyses case studies of Brookfield investments across various asset classes in four of Brookfield's top global markets – the UK, Australia, Brazil, and Colombia – and finds significant evidence of aggressive tax avoidance schemes. These case studies, largely based on financial

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<sup>18</sup> <https://kpmg.com/xx/en/home/services/tax/regional-tax-centers/eu-tax-centre/country-by-country-reporting.html>

<sup>19</sup> <https://www.smh.com.au/federal-election-2019/labor-backed-1-7b-hospital-deal-with-tax-haven-link-20190507-p51kwi.html>

<sup>20</sup> <https://projects.thestar.com/canadas-corporations-pay-less-tax-than-you-think/>  
<https://www.taxfairness.ca/en/resources/reports/public-funds-private-gains>

statements of Brookfield controlled entities, reveal significant potential risks for investors with no apparent disclosure in any of Brookfield's own reporting to shareholders.

### **Glass Lewis Recommends Investors Vote in Favour**

Glass Lewis has recommended investors vote in favour of this shareholder resolution, writing:

Although the Company has provided some level of disclosure on this matter, we believe that additional reporting in line with the GRI Tax Standard would provide shareholders with understandable information on which they are able to base assessments of the Company's tax-related risks. Moreover, given the Company will be required to disclose much, but not all, of this information according to recent EU regulations, we do not view the production of the requested disclosure as a significant burden to the Company. Moreover, because this proposal is precatory in nature, we do not believe that providing the requested disclosure risks the Company's disclosure of competitively sensitive information. Accordingly, we believe that support for this proposal is warranted at this time. We recommend that shareholders vote FOR this proposal.

**Brookfield Annual Meeting date: June 9, 2023**

Proxy cut-off date: June 7, 2023 at 5pm EST

Voting Information: <https://bn.brookfield.com/sites/brookfield-bn/files/BN-IR-Master/MIC/2023/BN%20Management%20Information%20Circular%20-%20May%209%202023.pdf>

NOTE: This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card; BCGEU is not able to vote your proxies, nor does this communication contemplate such an event. BCGEU urges shareholders to vote FOR its shareholder proposal at Brookfield following the instructions provided on management's proxy mailing.

Please contact BCGEU's Capital Stewardship Office at [investor@bcgeu.ca](mailto:investor@bcgeu.ca) with questions.

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