TRANSPARENCY AND CORPORATE TAX REFORMS TO IMPROVE THE EFFICIENCY OF AGED RESIDENTIAL CARE FUNDING

Centre for
International
Corporate Tax
Accountability
and Research

Transparency and corporate tax reforms to improve the efficiency of aged residential care funding

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This report has been prepared by Edward Miller from the Centre for International Corporate Tax Accountability and Research (CICTAR), and E tū, Aotearoa New Zealand's largest private sector union which covers workers in the care and support industries.

No allegation of illegality or illegal behaviour is intended by any of the individuals or entities mentioned in this report, and any suggestion to the contrary is strongly refuted by the authors. Care has been taken to ensure all facts presented are accurate, and references have been provided wherever possible.

A number of key questions and allegations were put to the company for comment. In a written response received on 25 April, Bupa CEO Pedro Sanchez stated that they:

> *"…follow all laws and agreements that apply to government funding" and that funding "is used responsibly to support the delivery of safe, high-quality care for our residents."*

They noted that they:

> *"…pay the right amount of tax as required by New Zealand tax law" and "are committed to complying with tax laws responsibly and engage transparently and collaboratively with tax authorities."*

And added that:

> *"The related party transaction mentioned in your letter forms part of our funding and capital structure to support Bupa's operations. It is priced on an arm's length basis in accordance with New Zealand tax law."*

The company's full response is attached to the end of this report.

✖ Introduction

The growth of NZ's aging population means rising per capita national health expenditure. In the 1960s, for every over-65 there were seven people aged 15 to 64. Today that number has fallen to four, and in another 50 years it will be two.[1] Kiwis are working (and paying income taxes) for longer, with labour participation for over-65s increasing fourfold in the last thirty years to 49 percent.[2] But living longer also means funding higher needs individuals for longer, raising questions about the fiscal sustainability of healthcare and superannuation. There is widespread agreement that these sectors need more funding, but identifying efficiencies in service delivery remains worthwhile. As Treasury Chief Economic Advisor Dominick Stephens noted in September 2024, "If the public sector can find ways to deliver outcomes, such as a certain level of healthcare or education, at lower cost, then fiscal sustainability will be enhanced."[3]

Aged residential care is a key component of this equation. Around a quarter of people in Aotearoa over the age of 85 will require aged residential care at some point in their life. While the growth of the home care sector is prolonging independence for many, numbers in aged residential care are growing as we live longer lives. Aged residential care is almost entirely delivered by the private sector, and the dividing lines between the for-profit and not-for-profit parts of the sector are increasingly being blurred. Large providers in the industry often sit across both the care sector – which receives significant state funding – and the real estate sector – enjoying preferential tax treatment on capital gains.

This briefing highlights the need for transparency reforms to better monitor the performance of the state's substantial expenditure in the aged residential care sector. It reviews available data on the level of expenditure – both state funding and resident fees – in the sector, as well as projected future demand. Company data on the level of state funding for listed aged care providers enriches this material. This transparency is contrasted with the emerging group of privately-held aged care providers, who generally file financial statements but are not required to report the level of public funding they receive from government.

Funding transparency is highlighted by a case study on the second-largest aged care provider in New Zealand, which has recently confirmed that it will go ahead with proposed cuts to workers' hours. Bupa Care Services New Zealand Limited (hereinafter "BCSNZL") is part of a large multinational British insurance and healthcare group, BUPA. BCSNZL does not publicly report the public funding it receives.

Financial statements suggest that in the past decade the company has earned $3.3 billion in revenue and $293 million in pre-tax profit, while incurring a cumulative net tax expense of just $12 million over this period, an average effective tax rate of just four percent. Interest payments related to a substantial intercompany loan to an Australian-based BUPA entity may have also reduced taxable earnings by an estimated $151 million over the decade. This may have reduced national tax revenue by $27.1 million, as well as potentially reducing available funding to deliver aged residential care services.

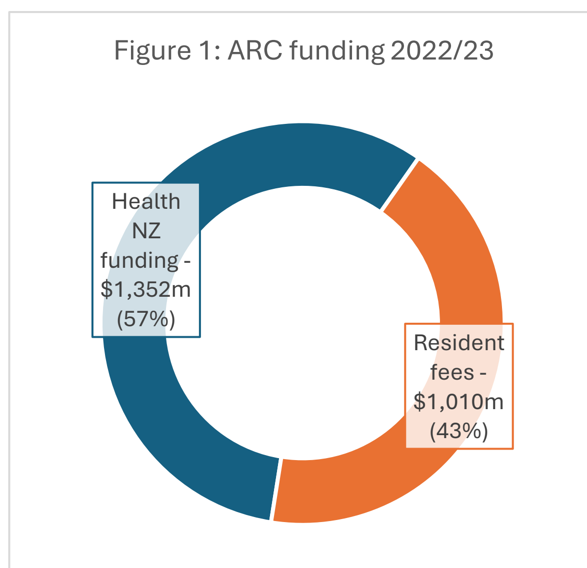
This behaviour is not illegal, but it is up to taxpayers to decide whether it is appropriate for a company that likely receives tens if not hundreds of millions of dollars a year from state budgets to engage in tax planning of this nature. Crucial to that debate, however, is the need for adequate information to support informed discussion and decision-making. The paper concludes with a few short recommendations to promote transparency and accountability in the sector.

✖ Aged residential care funding

The aged residential care sector enjoys substantial state funding, both directly from Health NZ, and indirectly through government-funded superannuation deductions.

Aged residential care (ARC) in New Zealand is almost entirely provided for in the private sector, and survey data compiled by Health NZ tracks the number of beds nationwide. The latest (September 2024) Te Whatu Ora quarterly aged residential care bed survey suggested the sector had total national capacity of 41,984 beds across 688 distinct facilities, with 36,706 current residents nationwide, an 87 percent current occupancy rate.[4] Survey data also suggests that ARC providers receive some level of Health NZ funding for 63 percent of residents.[5]

A recent video shared by Aged Care Association Chief Executive Hon Tracey Martin cited more recent statistics from Health Minister Simeon Brown, that there were currently 2,751 available aged residential care beds around the country.[6] This difference could be due to a difference in the type of bed under consideration. There are four main types of aged residential care beds: rest home care, hospital-level, dementia care or psychogeriatric care, which each attract differing levels of funding. It could also indicate a reduction in availability. If capacity has remained unchanged in the last six months, occupancy rates could have risen to around 93 percent in less than six months. It's concerning that we have insufficient clarity around this picture.



2024 Sapere report, see Note 7.

Similarly, identifying the total cost of aged residential care to New Zealand is not straightforward. It is not mentioned, for example, in the Budget 2024 documents, or Health NZ's annual reports. A January 2024 Sapere review of aged care funding and service models, when national occupancy totaled 32,000, notes that:

> Te Whatu Ora funded approximately $1,352 million of ARC in 2022/23, with residents paying $1,010 million because of means testing (including superannuation deductions).[7]

That report was the first phase of a review into the sector which, alongside suggesting the sector was underfunded, noted that funding models were no longer fit for purpose, ethnic and regional inequities in accessing care, alongside significant workforce pressures.[8] A second phase review is underway, but findings are yet to be published. In December 2024 the Associated Minister of Health was asked in a written question about steps that had been taken to ensure sector funding models were fit for purpose in light of the January 2024 report. Her response noted that the purpose of the review had been "to improve the sustainability, accessibility and quality of Aged Residential Care services" and noted that "potential financial model adjustments that will improve services are being considered, with input from expert advisory groups".[9]

Based on the 2022/23 totals of $2,362 million in total funding for 32,000 residents, we can estimate an average cost for a bed that year of $73,812.50 per year or $1,419.47 per week. These are average figures, and some bed categories – particularly the dementia and psychogeriatric beds, cost more to staff and resource (these bed types make up just 12 and 2 percent of national capacity respectively).

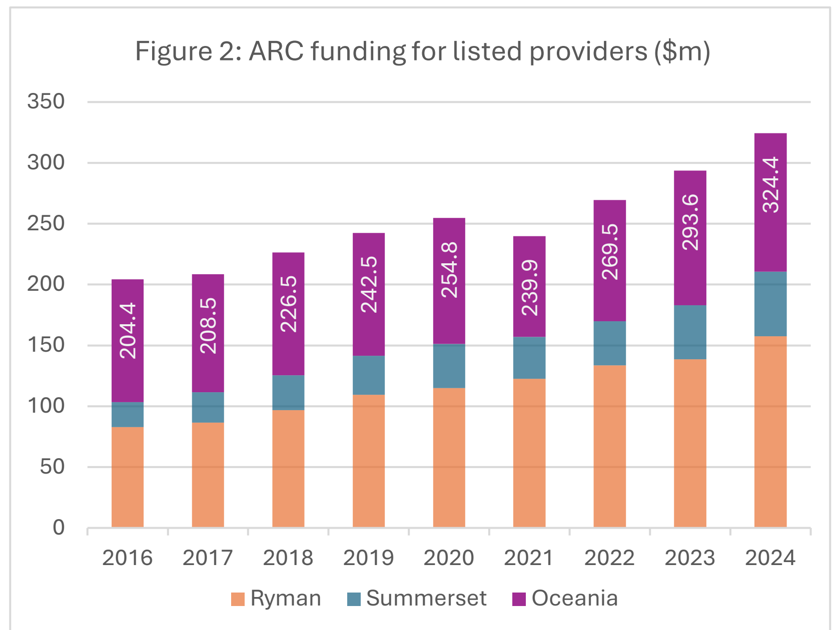
The proportions from the Sapere report – 57 percent from Health NZ and 43 percent in resident fees – appear roughly consistent with the findings of the previous Ernst & Young review that used data from the 2017/18 financial year, in which $1.1 billion (58 percent) was covered by District Health Boards (now Health NZ) and the remaining $0.8 billion (42 percent) by resident fees.[10] It is possible that the proportion of resident fees has increased due to 2018 law changes enabling Work and Income New Zealand to include assets held in trust when considering whether an applicant is eligible under its current asset threshold.[11]

More recent data does not appear to have been published.[12] The Minister's recent indication that there are only 2,571 beds available could suggest resident growth of 22.6 percent since the 2022/23 review. If funding has kept pace with the general level of inflation (and it may not have), then the combined total cost of Health NZ funding and resident fees could now be above $3 billion per year. There also seems to be no public information on the extent to which superannuation deductions cover resident fees. Superannuation in New Zealand is a universal entitlement, meaning these proportions could be quite significant.

This expenditure is likely to grow as we live longer, and those in residential care require higher levels of service. The Sapere review, for example, notes that "[i]f historic build rates continue, there could be a shortage of almost 12,000 ARC beds by 2032."[13] ARC providers claim that returns were damaged during the pandemic, and there's now a widespread consensus developing that demand is outstripping supply, and that current funding is inadequate to grow bed numbers. A June 2024 Forsyth Barr report notes, for example, that "[p]rofits amongst the listed companies have all but evaporated and over 1,000 beds have closed down."[14] Listed provider Summerset, for example, who recently indicated that if current trends continue their aged care facilities may only be open to village residents, told The Post that "the number of beds needed will be double the [current] 41,000 level in about 15 years".[15] Some of this may be alleviated through greater availability of home care services, however this alone will not fix the funding problem.

✖ Who reports their funding?

Listed aged care providers Ryman Healthcare, Oceania Healthcare and Summerset do quantify their Health NZ aged residential care funding in notes to their financial statements. These data have been compiled in Figure 2. The numbers at the top of the stacked bars represent the cumulative totals of the three providers. In the latest (2024) financial year these three providers together received $324.4 million in Health NZ aged residential care funding,[16] a 35 percent increase over the last four years alone. These three providers together list 8105 care beds in 2024,[17] indicating an average annual subsidy of around $40,000 per care bed, per year.



Ryman, Oceania and Summerset annual reports.

Listed companies report this information as a matter of course to advise shareholders, both current and future, about the sustainability of revenue. The level of public funding similarly helps to provide some security to ensure steady returns, making it more attractive to investors. Some aged care providers, for example, are almost exclusively funded by Health NZ funding.

The availability of state funding, as well as the promise of other returns, appear to have helped attract a growing number of private equity investors into the market. In October 2020, for example, the High Court greenlit the takeover of Metlifecare by Asia Pacific Village Group, backed by Swedish private equity firm EQT.[18] Metlifecare still publicly reports financial results – including Ministry of Health aged residential care subsidies, presumably due to a 2019 corporate bond issue that will mature in 2026 (there has been speculation that it may return to the public market soon[19]). In the latest year, Metlifecare reported Health NZ subsidies of $38.6 million.[20]

In the 2024 financial year, therefore, the combined figure for Health NZ funding received by these four companies is $363.3 million. Given we don't have accurate figures for the total aged care subsidy for this year, it may be more appropriate to use the previous year's total for these companies – $322.8 million – which comes to 24 percent of the total Health NZ aged residential care funding for the year.

✖ Who doesn't report funding?

Unlike ARC providers with shares or bonds listed on public markets, privately-held operators do not regularly report the level of Health NZ subsidies they receive. This may be appropriate for small operators who are unlikely to ever generate taxable earnings of any magnitude. However the increasing penetration of the sector by large private equity funds who may be disproportionately motivated by short-term returns, likely also means lower transparency around subsidies.

In 2017, Australian private equity firm Adamantem Capital purchased a 79% shareholding Heritage Lifecare,[21] lifting its ownership stake to 100% a year later. In the latest financial year its reporting

entity, HLL Holdco, stated that it had a “Large receivable relate[d] to the residential care subsidies, which are received in aggregate via Health New Zealand and Work and Income New Zealand” however there are no figures provided.[22]

Tracking this company's funding is likely further complicated by a $291 million sale-and-leaseback deal with Australian property investment and fund manager Centuria Capital in 2021. In this transaction, ownership of this real estate is transferred for a period of 30 years to Centuria, and at the same time is leased back to the operator, Heritage Lifecare.[23] Law firm Simpson Grierson, which acted for Adamantem noted this was “understood to be the first sale and leaseback of a New Zealand retirement village portfolio.”[24] These deals are usually “triple-net”, meaning that (more inflation-sensitive costs) like property taxes, insurance and maintenance are carried by the lessor (i.e. the aged residential care provider itself). The stability of aged residential care funding would no doubt be a drawcard for any such commercial landlord in these circumstances.

In November 2024 US private equity firm Stonepeak announced it had completed the acquisition of Arvida Group, which had recently delisted from the NZX.[25] Stonepeak currently has some US$72 billion in assets under management across 61 countries,[26] and the Arvida acquisition was through an Asia Infrastructure Investment Fund. In its 2024 annual report Arvida noted that it had received “care fees and village services amounted to $85.2 million (2023: $78.6 million)”,[27] however it is no longer expected to report these data publicly under its new private equity ownership. Adding in the 2023 figure brings the above running total to $401.4 million.

✖ Transparency in Australia

Australia is a similar aged care market to New Zealand in a number of ways, including the heavy reliance on taxpayer-funding (via means-tested Commonwealth subsidies) and the presence of large for-profit operators, many of which straddle the aged residential care and real estate sectors. Many of our large providers have previously been under Australia ownership, including Oceania, Summerset, Metlifecare, and a number of large NZ providers have operations in Australia, including Ryman and Summerset.

Australia's aged residential care sector differs from the NZ sector in that it is substantially more transparent in how aged care funding is distributed. The Aged Care Act 1997 mandates public reporting of subsidies, as well as details on provider performance and financial accountability. In the wake of the 2021 Aged Care Royal Commission, Australia has established real-time funding dashboards and now requires quarterly provider-level financial reporting to the regulator. In 2022 a star rating system was implemented which required providers to disclose important details about care quality and staffing, ensuring appropriate use of subsidies.

The differences between transparency and reporting in these two markets are stark, and it appears that NZ can learn a lot from the Australian experience and reforms. In the following case study we will look at an aged residential care provider that operates in both markets.

✖ Bupa case study

Bupa is the second-largest aged residential care provider in the country and is currently implementing new roster changes that unions say would cut workers' hours and impact the quality of care provided. ***Bupa does not report the level of aged residential care funding it receives from Health NZ (or superannuation deductions).***

An analysis of the company's financial statements suggest it has made earned profits of $293 million in the past decade, however it appears to have incurred a net income tax expense of just $12 million over this period, an average effective tax rate of just 4 percent. In addition, a substantial related party loan appears to have the effect of reducing taxable income by $151 million over the decade, which we estimate could have reduced tax revenue by $27 million over that period.

UK insurance and healthcare giant Bupa has operated in the New Zealand aged residential care sector for nearly two decades. Starting in 2024, Bupa began rolling out proposed roster changes, region by region, and has now proposed these new mandatory undesirable patterns at 17 out of its 40 aged residential care facilities across New Zealand. On 1 April 2025 workers rallied outside Bupa's headquarters in Auckland prior to the confirmation of the change proposal, calling for safe staffing levels and highlighting burnout amongst the workforce.[28]

Bupa is the largest privately-held aged care provider in the country, and is 100 percent foreign-owned (ultimately in the United Kingdom, via Australia). It is neither listed on the share market, nor owned by a private equity fund. It is incorporated as a for profit company, but claims to reinvest "profits into providing more and better healthcare for the benefit of current and future customers".[29] Its aged care operations span both the New Zealand and Australian markets, and it is subject to different standards of transparency in the two countries.

Bupa's tax affairs have been the subject of considerable discussion in Australia. A 2018 report by the Centre for International Corporate Tax Accountability & Research (CICTAR), for example, included a case study on BUPA which noted that government subsidies accounted for some 71 percent of its 2015/16 aged care revenue, $663 million.[30] The report describes how key subsidiary "Bupa ANZ Group Pty Limited (BAGPL)" had reported pre-tax profits of $107 million while claiming an income tax benefit of $36 million. In addition, it notes that:

> Bupa's taxable profits in Australia were significantly reduced by transfers to BAGPL's direct parent company in the UK, Bupa Investments Overseas Limited. BAGPL has a $3.4 billion loan facility with BIOL of which nearly $3.1 billion is outstanding… This loan, and potentially other related party loans, resulted in interest payments to BIOL, and possibly other parties, of nearly $139 million in 2017.[31]

Following the release of that report in March 2019, Bupa reached a A$157 million settlement with the Australian Taxation Office over a number of different matters including transfer pricing issues with acquisitions in Australia in 2007 and 2008.[32] It is unclear whether the matters are directly related or not.

BUPA's NZ operations

The **B**ritish **U**nited **P**rovident **A**ssociation was founded in 1947 in the United Kingdom as a health insurance provider, and entered the Australian insurance market in 2002 through the acquisition of HBA (the Health Benefits Association). In 2024 BUPA earned total global revenue of £16.9 billion (NZ$38.13 billion), with 73 percent from health insurance, 20 percent from healthcare provision and only 7 percent from its aged care operations in the UK, Spain, Australia and New Zealand.[33]

BUPA entered the Australian and New Zealand aged care markets in 2007 through the acquisition of Australian provider Amity from US private equity group CVC Asia Pacific for A$1.2 billion (NZ$1.5 billion), which also had a New Zealand business named Guardian Health Care.[34] In 2009 Guardian Health Care, which then boasted 46 rest homes and hospitals and 16 retirement villages, changed its name to Bupa Care Services NZ.[35] As a privately-owned company, Bupa is not required to disclose the level of state funding it receives, either from Health NZ aged residential care funding or superannuation deductions.

Today Bupa operates 35 retirement villages and 40 care homes, accommodating more than 5,000 residents across the country.[36] BUPA's 2024 annual report suggests its aged residential care business has only 3,000 customers,[37] which implies its villages have a resident population of around 2,000. Its NZ aged care operation makes up 3 percent of its 2024 Asia-Pacific revenue of £6,227 million (NZ$14,163 million).[38] The 2024 annual report notes:

> In New Zealand Villages and Aged Care, revenue decreased as a result of five site divestments, while underlying profit increased. In Care Homes, occupancy closed at 94% (2023: 91%), in part offsetting the impact of strategic care home divestments on revenue. Despite a subdued New Zealand property market, Village revenue grew, remaining strong from higher unit pricing on sales.[39]

Occupancy reporting only appears to go back to 2019, but the 94 percent occupancy achieved in 2024 seems to be a high watermark.[40]

✖ Bupa's NZ financial reporting

"Bupa Care Services NZ Limited" (BCSNZL) is the reporting entity for Bupa's NZ operations, which today states it has only one subsidiary, "Bupa Retirement Villages Limited".[41] Reporting is therefore consolidated, showing the combined results from the aged care and real estate sides of the business.

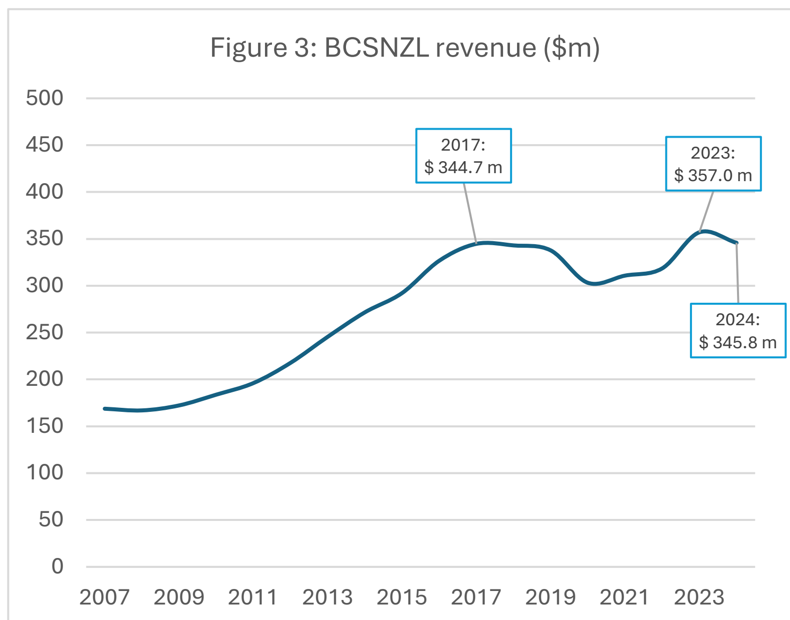
BCSNZL is a wholly-owned subsidiary of the Australian company "Bupa Aged Care Holdings Pty Ltd" (held in three separate allocations).[42] BCSNZL's ultimate parent company is "The British United Provident Association Limited", incorporated in the United Kingdom.[43] Under New Zealand law, 'large' overseas companies – whose annual revenue is over $11 million in each of the two preceding years, or whose total assets are over $22 million – are require to file public financial statements.[44] BCSNZL reaches both thresholds, and reports financial statements for the year to 31 December, with its latest financial statements - for the year to 31 December 2024 – just published to the Companies Office on 25 March 2025.[45]

Revenue

2024 revenue shows a slight decline on the previous year after selling a number of facilities in over the last two years.

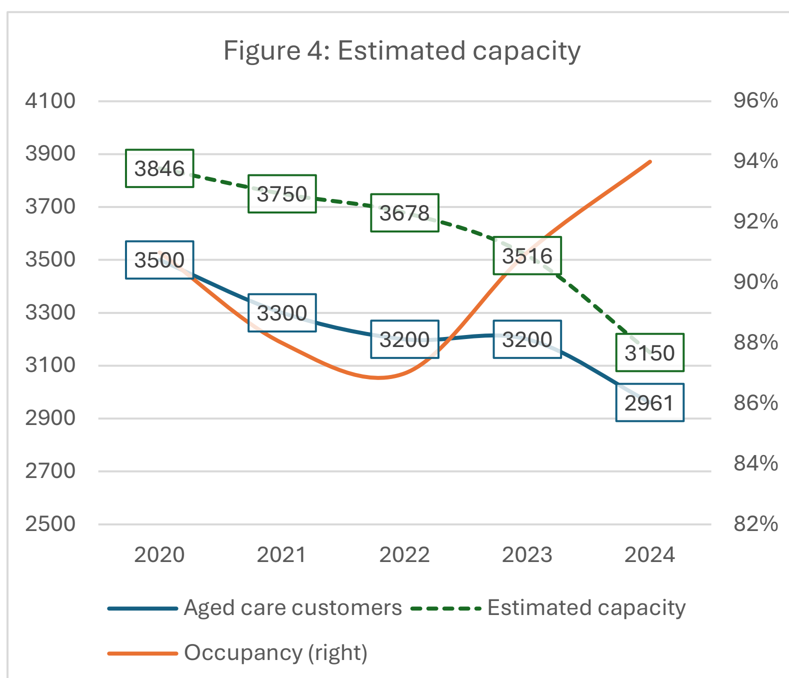
In the decade since its acquisition, BCSNZL experienced consistent growth in revenue. From 2007 to 2017, revenue more than doubled, from $168.8 million to $344.7 million.[46] This was a compound annual growth rate of 7.4 percent per year.[47] Moderate declines over the next two years were followed by a larger 10 percent ($34.6 million) decline in 2020.

Revenue surpassed 2017 levels for the first time in 2023 at $357.2 million,[48] a result which ranked the company #134 on the Deloitte Top 200, the second-highest ranked aged care provider on the list (behind Ryman Healthcare).[49] Recently-published results for the year to 31 December 2024 show a 3 percent decline in revenue ($11.2 million) to $345.8 million,[50] however a decline in operating expenses has resulted in improved profitability. In the decade to 31 December 2024 BCSNZL earned cumulative total revenue of $3,279 million.[51]



BCSNZL financial statements, S&P Capital IQ database.

In 2024, 83 percent of revenue ($286.9m) derived from aged care resident fees, which statements note "may be funded through government subsidies for care and accommodation",[52] although no further detail is provided. A further 11.4 percent ($39.3m) is from village and care suite amenities fees, 4.7 percent ($16.4 million) from village service fees and 0.9 percent ($3.5 million) from "other operating revenue".[53]

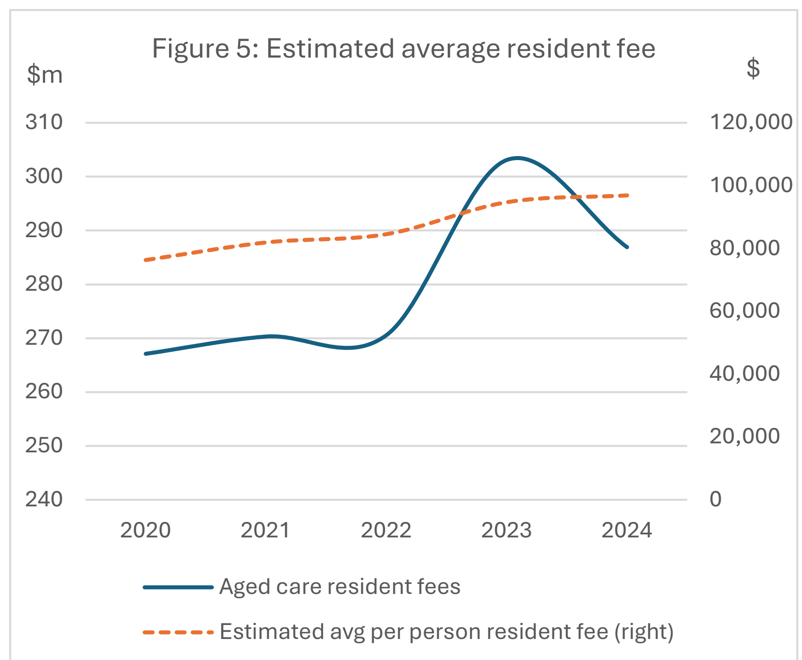


BUPA annual reports, results presentations.

For the last five years, the annual reports of BUPA (the ultimate parent) have included aged residential care numbers and occupancy data that aren't listed in the NZ financial statements. From 2020 to 2024 the number of aged care residents listed in those reports has declined from 3500[54] to 2961,[55] a 15 percent decline. Using the accompanying occupancy we can estimate the total capacity of BCSNZL's portfolio, which appears to have declined from an estimated 3,846 to an estimated 3,150 over the same five-year period, an 18 percent drop.

These estimates appear consistent with documented sales of BCSNZL facilities in recent years. In 2021 they sold six aged care facilities to Arvida Group, citing a strategic shift to focus on larger-scale facilities and higher care needs. In March 2023 BCSNZL sold off its 80-bed dementia care unit in Parklands (Christchurch) to Heritage Lifecare. 2024 financial reports note that the Beachhaven, David Lange, Hayman, Hillsborough and Parkhaven facilities were sold on 31 January, Gladys Mary was sold on 1 March and Harbourview sold on 2 July.[56] Total proceeds from these sales came to $41.4 million, which the company used to repay $25 million in related party debt.[57]

Using this data, and the "aged care resident fees" figures in the NZ financial statements allows us to estimate an average per person resident fee. That figure has increased over the last five years from $76,316 in 2020 to $96,894 in 2024, a 27 percent increase ($20,578 in additional expense per resident). The most significant increase took place in the year from 2022 and 2023, when the estimated cost increased by $10,166 per person. This is 12 percent increase, greater than the rate of inflation that year (4.7 percent).[58]

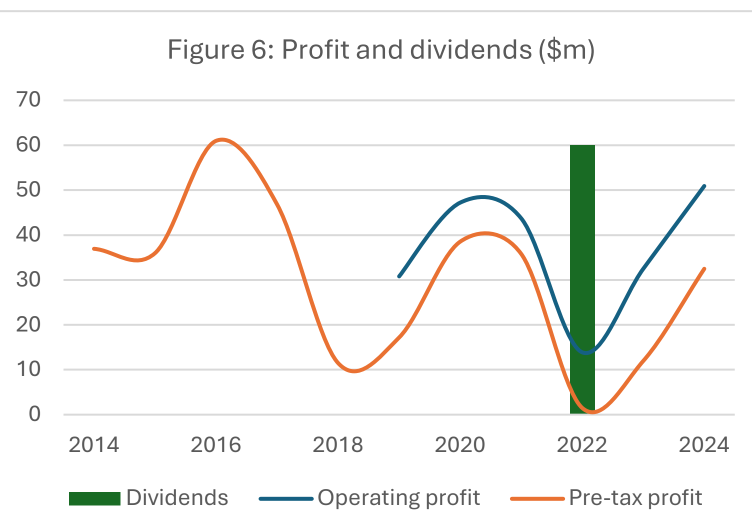


BCSNZL financial statements.

Profit and dividends

Despite lower revenue, BCSNZL enjoyed rising profits in 2024, in line with the decade-long average.

Recent asset sales reduced BCSNZL's operating expenses by almost $26 million in 2024 ($24 million of this relates to "personnel expenses", or labour costs), supporting higher profits despite lower revenue.[59] In 2024 operating profits reached $51 million, the highest level since this measure has been reported (only for the last six years).[60]



BCSNZL financial statements

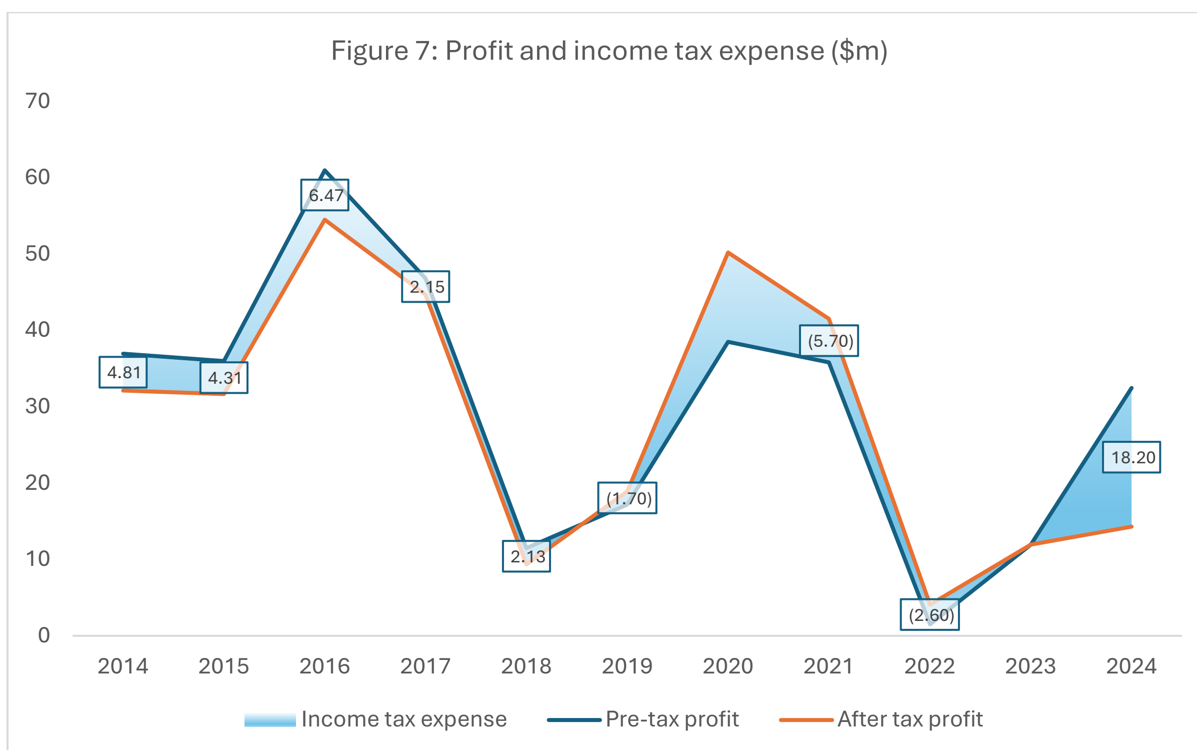
Pre-tax profit has fluctuated up and down over the last decade, but appears to be rising again after the pandemic lull and asset sales. Pre-tax profit peaked at $61 million in 2016, wiggling downward during the pandemic years before bottoming out at $1.5 million in 2022. Pre-tax profit has been bouncing back over the past two years, reaching $12 million in 2023 and now $32.5 million in the 2024 statements. Cumulative pre-tax-profit in the decade to 31 December 2024 totals $292.7 million.

BCSNZL has not historically paid dividends, presumably in line with its approach to reinvesting profits. In 2022, however, when profits had hit the bottom of the cycle, BCSNZL paid its only dividend since its acquisition, a $60 million dividend to its Australian parent company, Bupa Aged Care Holdings Pty Ltd, reducing the company's cash balance substantially.[61]

Tax expense and payments

BCSNZL incurs very little in corporate income tax expense despite consistently generating pre-tax profits, with an average effective tax rate of 4 percent. 2024 is the exception, based on a recent tax law change.

In 2023 Bupa Care Services New Zealand Limited earned pre-tax profit of $12 million but incurred a corporate tax expense of only $11,000, an effective tax rate for that year of 0.1 percent.[62] This amount of $11,000 is roughly similar to the annual income tax expense incurred by a single Bupa care worker.[63] In 2022 BCSNZL earned a $1.5 million pre-tax profit but enjoyed a $2.6 million income tax benefit, pushing after-tax profit to $4 million.[64] BCSNZL enjoyed corporate tax benefits in 2021, 2020 and 2019, and incurred corporate tax expenses below the statutory rate in the each of the five preceding years.[65] Annual tax expenses are shown in the boxes in Figure 7, where bracketed numbers are tax benefits. BCSNZL earned cumulative pre-tax profits of $292.7 million over the decade to 31 December 2024, but incurred cumulative tax expenses of just $11.6 million over that period. This is an average effective tax rate of 4 percent, well below the statutory rate of 28 percent.[66]



BCSNZL financial statements

2024 is an exception to the trend, with BCSNZL incurring a substantial income tax expense $18.2 million income tax expense – some 56 percent of pre-tax profit – that year.[67] The tax reconciliation note for that year registers a $46.5 million increase in BCSNZL's deferred tax liability, related to the removal of tax depreciation deductions for non-residential buildings. This is "partly offset by the recognition of $23.5m of deferred tax assets for prior year tax losses previously not recognised".[68]

BCSNZL's cash flows statements show the company has in fact made cash tax payments of $24.9 million over the decade (an average effective tax payment rate of 8 percent) over that period. This difference is likely explained by a deferred tax liability on BCSNZL's balance sheet that it had been progressively paying down; it reached zero in 2023 before rebounding to $18.2 million in 2024 due to the tax expense imposed due to the removal of depreciation deductions on non-residential buildings.[69]

Untaxed revaluations driving tax-free profits?

In 2024 the value of BCSNZL's investment properties – "retirement villages (both operating and under development) that are held for long term income yields"[70] – reached $1,537 million, roughly three quarters of the company's total assets.[71] This increased by $119 million (8.4 percent) in 2024, roughly half of which – $57.2 million – was driven by the revaluation of existing properties.[72] NZ's preferential treatment of capital gains means that these revaluations contribute to accounting profits but are not taxed, even at the point of realisation.

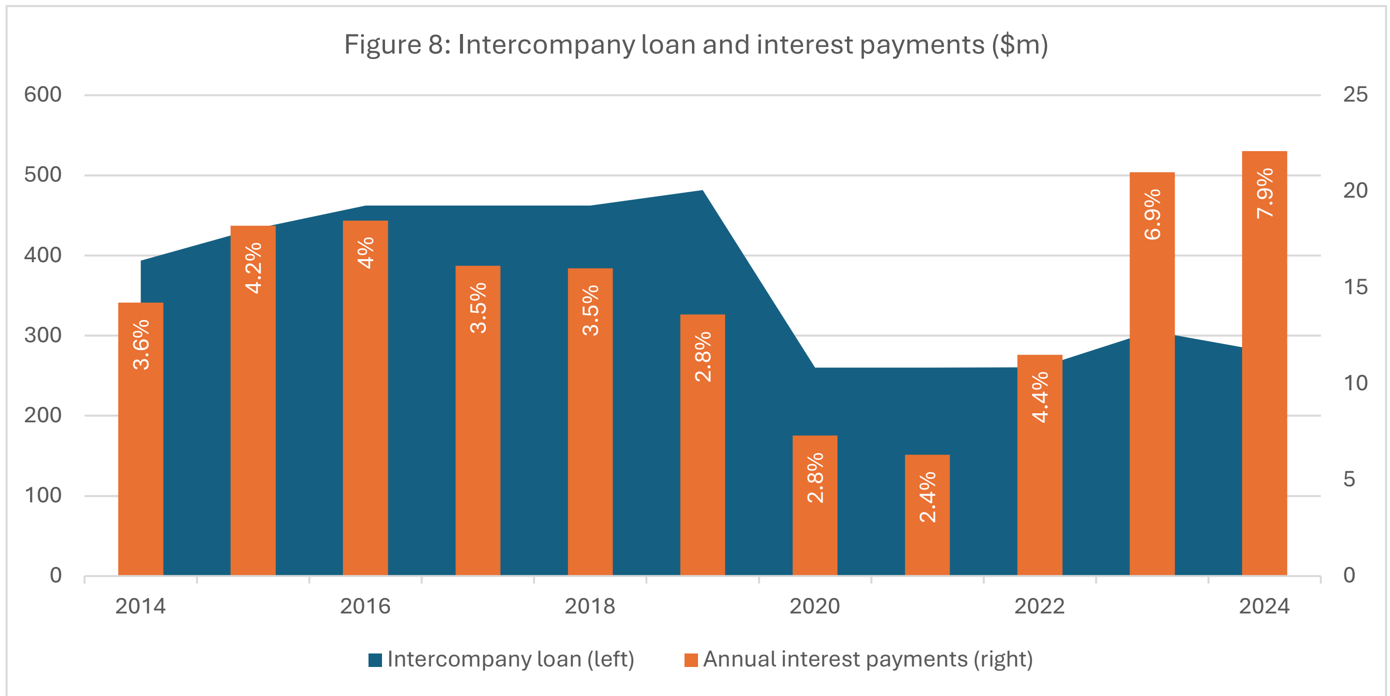
In the decade to 31 December 2024 BCSNZL's investment properties have increased in value by $974 million (173 percent). 42 percent of this increase – some $406 million – is attributable to the net gains of property revaluations. The tax treatment of these revaluations appears to be the most significant factor reducing BCSNZL's tax expenses from the NZ corporate tax rate of 28 percent – which prima face would have brought in some $82 million over the past decade – to the $12 million income tax incurred over the period.

In other words, these valuations contribute to accounting profits (which could potentially impact share prices) but because of NZ's preferential tax treatment of capital gains, are exempt from taxation (which may help sustaining cash flow). Taxation is also not levied at the point at which the capital gains are realised. Therefore any capital gain generated from the abovementioned sale of the Beachhaven, David Lange, Hayman, Hillsborough and Parkhaven facilities, which netted $41.4 million in cash flow, would not have been subject further to taxation. As well as paying down $25 million in intercompany debt, "[r]evaluation reserves of $16.7 million have been transferred to retained earnings upon completion of the sale of the properties during the financial year."[73]

Intercompany loan

Interest payments on a $350 million intercompany loan facility to an Australia BUPA entity appear to substantially reduce taxable earnings, reaching $22.1 million in 2024. This may have reduced tax payments by up to $27.1 million over the past decade.

Since its 2007 acquisition, BCSNZL's balance sheet has consistently shown a large intercompany loan – in 2024 this loan totaled $280.4 million – to Australian-incorporated Bupa ANZ Healthcare Holdings Pty Ltd.[74] That amount is equal to 81 percent of total revenue for that year, or 98 percent of 2024 aged care resident fees. This is a "$350m facility held with Bupa ANZ Healthcare Holdings Pty Ltd", with drawdowns of $259.7m in 2020 and $45m in 2023, followed by a $25 million repayment in 2024.[75] This specific facility expires on 30 November 2025, but similar previous loan facilities have been refinanced.

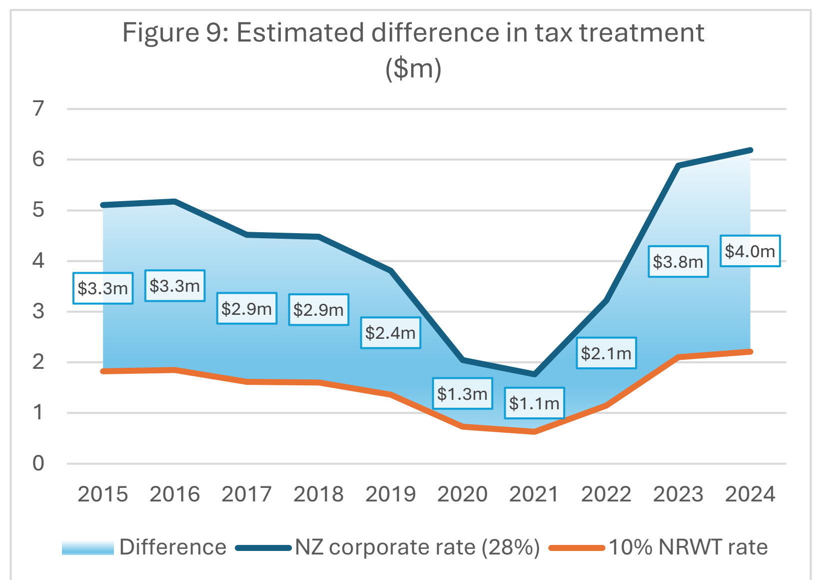


BCSNZL financial statements.

Interest payments related to the loan cost the company $22.1 million in 2024, which has the effect of reducing taxable income by that same amount.[76] There appears to be no other lending (e.g. bank loans or other private finance) to the company over this period. The blue stacked area in Figure 8 shows the scale of this intercompany loan over the last decade, measured on the left-hand side scale. The orange bars show the annual interest payments, measured on the right-hand side. "Interest is payable quarterly at a floating interest rate", note the 2024 statements.[77] The white numbers in the orange bars in Figure 8 are estimated interest rates in the respective years, based on the above figures. Commentary from the Inland Revenue Department in 2019 notes:

> a related-party interest payment, such as from the New Zealand subsidiary of a multinational to its foreign parent, is not a true expense from the perspective of the company's shareholders. Rather, it is a transfer from one group member to another.[78]

In the decade to 31 December 2024, interest payments appear to have had the effect of reducing BCSNZL's taxable income by $150.6 million, an amount equal to 52 percent of pre-tax profit earned over that same period. This may also have the effect of reducing corporate income tax revenue in New Zealand. Corporate profits are taxed at 28 percent in New Zealand, however under the NZ-UK Double Taxation Agreement interest payments to Australian are subject to a non-resident withholding tax rate of only 10 percent. This withholding tax is deducted at the source (when interest is paid), resulting in the issue of foreign tax credits. We estimate the impact of this differential tax treatment in Figure 9, which could have reduced national tax revenue by an estimated $27.1 million over the last decade.



BCSNZL financial statements.

In addition to reducing national tax revenue, interest payments on intercompany loans also reduce funding available to improve or expand the delivery of care. In 2024, for example, when interest payments on the loan totaled $22.1 million and worker remuneration (excluding key management personnel) totaled $224.7 million,[79] interest payments could have resulted in almost 10 percent pay increase across-the-board. Targeting the increase towards lower-waged workers employed by Bupa could result in substantial increases in workers' living standards and the quality of care delivered, as well as their income tax contributions. Bupa Care Services New Zealand Limited has not publicly disclosed how proposed roster changes will impact their financial performance.

It is worth noting that domestic aged residential care operators are unlikely to be able to use similar transactions to reduce taxable income in this way. Multinationals therefore likely enjoy a competitive advantage. Bupa's intercompany loan is owed to an Australian subsidiary, Bupa ANZ Healthcare Holdings Pty Ltd, and interest payments made to that company would be accompanied by foreign tax credits. Bupa ANZ Healthcare Holdings Pty Ltd is majority (68.13 percent) owned by UK-incorporated BUPA Investments Overseas Limited, itself owned by the parent company via BUPA Finance UK Ltd. While the Australian entity is different to the one mentioned in the previous CICTAR report (Bupa ANZ Group Pty Ltd), both are owned by the same British company. If intercompany loans exist between Bupa ANZ Healthcare Holdings Pty Ltd and BUPA Investments Overseas Limited, then the foreign tax credits issued in New Zealand may shield the company from further taxation in Australia altogether.[80]

In 2023 Bupa Australia and New Zealand published a Tax Transparency Report (no 2024 report has so far been published). It appears to be targeted to an Australian audience, where the company lists relatively large income tax expenses of $29 million 2023 (an effective tax rate of 40 percent) and $197 million in 2022 (an ETR of 39 percent).[81] This contrasts sharply with "income taxes paid to New Zealand Inland Revenue" of just $1.9 million in 2023 and $1 million in 2022. A footnote confirms that these figure relate "to New Zealand interest withholding tax paid which is claimable as foreign income tax offsets for Australian tax purposes."[82]

Intercompany loans are regulated by NZ's thin capitalisation rules, which limits interest deductions on related party debt above 60 percent of assets. It is likely that these rules will have limited impact in the aged residential care sector where companies tend to have large asset bases. BCSNZL has more than $2 billion in assets (the test relates to assets rather than equity), suggesting they could increase their related party debt by almost a billion dollars before they would no longer be able to deduct interest.

More recently, jurisdictions like Australia and the United Kingdom have adopted a "fixed ratio test" for interest payments on related party debt, which limits allowable interest deductions in any year to 30 percent of EBITDA.[83] Applying this test to BCSNZL over the last decade would have reduced their capacity to deduct interest from taxable income by $38.1 million (out of $150.6 million). While not insignificant, it should be noted that declining (and even negative) EBITDA in recent years would have meant that the BCSNZL would have still been able to completely deduct interest from taxable income over the years 2020 to 2024.

✖ Conclusion

The aged residential care sector receives substantial government funding, both directly through Health NZ funding and indirectly through superannuation deductions. Providers in the sector have claimed funding is insufficient to meet current and future demands, and some are threatening to reduce the number of beds available. We support the need for increased funding, however any future funding of the sector must be subject to much greater transparency requirements than currently.

Our review of the financial statements of Bupa's NZ operations indicates that the company is able to generate substantial profits while incurring very little in income tax expense. In addition, it appears that our current thin capitalisation rules are insufficient to prevent aged residential care operators from legally shifting profits to other jurisdictions or countries. This provides significant advantage to offshore-owned providers relative to local operators, undermining competition in the market. It is up to taxpayers to consider whether they think it is appropriate for a company that receives substantial government funding to engage in this kind of tax planning. The importance of this question is increasingly underscored by the growing presence of offshore-owned private equity funds in the sector, for whom advanced tax planning will likely be a key focus

Addressing future demand for aged residential care will require significant increases to funding, but a substantial increase in transparency is required to ensure that the government can achieve value for money. While discussions around the taxation of capital gains, for example on the family home, continue to dominate the political sphere, deriving substantial tax-free profits from the revaluation (and ultimate sale) of aged care facilities should be a subject of separate and unique consideration. If the application of a capital gains tax on these operators raise concerns about their ability to deliver future aged residential care capacity, then the long-term viability of the private sector delivery model should be reconsidered.

✖ Recommendations

Given the above findings, the government should:

1) Establish and maintain a public database that contains accurate records of Health NZ aged residential care funding and work and income payments paid to aged care operators.
2) Consider whether aged care operators that have substantial real estate holdings should continue to enjoy the benefits of the general exemption on the taxation of capital gains.
3) Consider whether the "fixed asset test" at 30 percent of EBITDA is an appropriate complementary mechanism to our existing thin capitalisation regime.
4) Explore whether long-term demand for aged residential care is better delivered through both the public and private sector, rather than relying solely on private sector delivery.

✖ Bupa's response to questions

We put this report's key allegations to Bupa, who provided the following response on 25 April.

Thank you for your letter, dated 15 April, regarding your forthcoming report into the aged residential care sector in Aotearoa New Zealand.

As a long-standing provider of care services, Bupa is committed to transparency, accountability, and the delivery of high-quality care for older New Zealanders. Without seeing the report, it is difficult to provide a complete and full response, however, we have done our best to address the points you have raised:

A. **Government Funding**
We follow all laws and agreements that apply to government funding. Any funding we receive from Health New Zealand or other agencies is used responsibly to support the delivery of safe, high-quality care for our residents.

B. **Taxation**
We pay the right amount of tax as required by New Zealand tax law. We are committed to complying with tax laws responsibly and engage transparently and collaboratively with tax authorities.

C. **Related Party Transactions**
The related party transaction mentioned in your letter forms part of our funding and capital structure to support Bupa's operations. It is priced on an arm's length basis in accordance with New Zealand tax law.

D. **Investing in New Zealand**
Focussing on financial and tax aspects of Bupa's operations overlooks our extensive investment in New Zealand. Over the past decade, Bupa has invested more than $964 million into new care homes, village developments and facility upgrades across the country - creating thousands of jobs and providing homes for thousands of residents.

Bupa values its role in New Zealand, providing welcoming communities and care for older people. Our sustained investment in the business is evidence of our long-term commitment to serving Aotearoa and its communities.

We are committed to constructive engagement with all stakeholders and support robust, informed dialogue about caring for older New Zealanders and the sustainability of the aged care sector. We are happy to provide further clarification where required.

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