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$362.9m pre-tax profit, ze Ryman Healthcare annu

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Interview with Ryman Healthcare's CFO, Gordon MacLeod.

By: **Anne Gibson**
Property editor, NZ Herald
anne.gibson@nzherald.co.nz @anneherald

Ryman Healthcare this morning released its annual report to the NZX, showing it made $362.9 million annual pre-tax profit - but have not paid not a cent in tax.

Notes to the accounts showed New Zealand's largest listed retirement business, with a market capitalisation of $4.1b, incurred a tiny $6.2m income tax expense.

But even that was deferred, meaning it didn't need to be paid.

Under the item 'current tax expense', there appeared a bar, indicating no tax was paid for the March 31, 2017 year. The company's statement of cash flows also showed no tax payments.

Yet Ryman's applicable tax rate is the corporate 28 per cent, the accounts also showed. The accounts filed showed that if Ryman paid tax at the applicable 28 per cent, it would have incurred a $101,637,000 tax bill (last year $86,613,000).

But that was whittled down to zero.

Deborah Russell, Labour's candidate for New Lynn and a former Massey University senior lecturer in taxation at the accounting school, said Ryman had done nothing wrong because as the notes to the accounts showed, its non-taxable income principally arose from fair value movement in investment property.

"So that's capital gains. They're not [so much] in the business of providing retirement accommodation as much as in the business of earning capital gains. Those are not taxed. It's all perfectly legal and in fact, New Zealand tax law allows this at the moment. The issue is whether we should be taxing capital gains.

Wage earners might find Ryman's tax situation unpalatable, she indicated.

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"For wage and salary earners, all our income gets taxed but capital gains are earned over a time and they don't get taxed. It's all perfectly legal but what's legal is not necessarily fair," Russell said.

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Gordon MacLeod, Ryman chief executive, appeared in a Herald video at the latest results briefing, talking about the tax issue.

Asked why only an approximately $6m tax sum appeared in the accounts, MacLeod said: "It's really simple, because we actually invested in so much development, so we have a really strong development pipeline."

Jeremy Simpson, a senior equities analyst Forsyth Barr who specialises in property, said today the zero tax bill didn't surprise him, it was known when the annual result was announced a few weeks ago and he also emphasised nothing was wrong.

"Because they're such a big developer - one of the biggest in New Zealand - there's a deduction associated with the development. If the Government decided to tax capital gains... but there's no capital gains tax in New Zealand," Simpson said.

Ryman was no different to fellow listed retirement businesses Metlifecare or Summerset in deferring its tax, he said, adding that New Zealand would be much the poorer if such big businesses were not developing new aged-care facilities.

The state was certainly not keeping pace with providing facilities for the rapidly ageing population, he said.

Asked of his opinion about Ryman paying no tax, Simpson said: "I'm absolutely OK with the tax situation. They're been listed since 1999 and that's the way the model works.

"No one is building new aged care facilities in New Zealand except the retirement village operators and we're going to have a chronic shortage. If you start reducing the profitability...they're using the profits from the retirement villages to subsidise building the care. If we didn't have the retirement village operators building the care beds, we would be in a dire situation in New Zealand with regard to having enough care beds."

Simpson emphasised that Ryman shareholders were liable to pay tax on the dividends they received.

"We have a situation in New Zealand where you only pay tax once. While Ryman doesn't pay any tax, the shareholders do pay tax on the dividends so there's still a tax take. Ryman also pays tax a lot of GST on their development.

"So there's a bit more to it than the headline 'they pay no tax'," Simpson said.

A Ryman spokesman said: "Since listing, Ryman has paid 50 per cent of its underlying profit as dividends to shareholders, and those dividends are subject to resident withholding tax at 33 per cent with no imputation credits.

"In New Zealand, either the company pays tax or its shareholders do - but not at both levels.

"Ryman is currently not paying tax at a company level because of its very significant and growing investment in critical healthcare infrastructure for the elderly. In the last 10 years Ryman has built over 2000 care beds and 1000 assisted living units, providing great care options for thousands of New Zealanders," the Ryman spokesman said.

"Half of Ryman's build is centred around care provision and accordingly tax depreciation deductions are greater than what is allowed for accounting, because of the wear and tear in care centres that occurs each day. In addition, Ryman is able to deduct interest costs from bank debt in full - as can all other New Zealand companies. Ryman only incurs bank debt to fund development activities.

"Finally, a significant proportion of Ryman's reported profits occur from fair value investment property gains, which are not subject to tax. This is because the gain is either unrealised from a paper valuation movement only, or relates to cash flows from resident capital sums - which are not taxable because we have a repayment obligation when the resident vacates their unit.

"On a broader level, Ryman pays significant amounts of GST which cannot be claimed back on the cost of developing independent living units for residents, and also creates an increasing PAYE take by creating additional jobs at the new villages we build every year - in total tens of millions per annum," the Ryman spokesman said.