



# DARKNESS AT SUNRISE: UK CARE HOMES SHIFTING PROFITS OFFSHORE?

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# SUMMARY

COVID-19 deaths in UK care homes, estimated at over 30,000, have exposed underlying and systemic problems in the care sector. Placing the profit motive at the heart of the social care system in the UK has undoubtedly contributed to increased infection rates and raised the death toll. Under-staffing and low pay are one side of profit maximisation. The other side, largely unseen, is aggressive tax avoidance in a sector heavily reliant on a public funding. This report outlines how three UK care home operators, with more than 60 homes, collect hundreds of millions of pounds in resident fees, while shifting profits offshore through complex corporate structures and tax haven subsidiaries. These three operators reflect a broader pattern across the UK care sector now dominated by private equity investors seeking to extract and offshore profits.

The three UK care home companies – Sunrise, Gracewell and Signature Senior Living – are owned by Revera, the second largest care home operator in Canada. Revera, facing scrutiny for COVID-19 deaths, is 100% owned by the pension fund for Canadian federal government workers, a Canadian Crown corporation. Aggressive tax avoidance on UK care homes appears to violate the pension fund's own responsible investment principles. In the UK, and globally, there is an urgent need to end the use of tax havens and contrived corporate structures specifically designed to reduce or eliminate tax liabilities where profits are generated. Aggressive tax avoidance schemes should not be tolerated anywhere, but are particularly egregious in the UK's publicly supported but deeply troubled care sector.

## KEY POINTS:

- The three UK care home operating companies, despite charging residents more than £225 million in fees in 2019, report little or no profit in the UK and even claimed multiple tax credits.
- Tax haven subsidiaries – in Jersey, Guernsey and Luxembourg – own UK care homes as part of complex corporate structures apparently designed to extract and offshore profits.
- Reports to the shareholders of the joint venture partner in the three UK care home companies, a large US listed real estate company, indicate US\$84.8 million in net operating income from these care homes in 2019. In stark contrast, the three private UK care home companies reported combined losses of US\$12.6 million in the most recent year.
- The use of tax havens, complex related party transactions and other artificial arrangements, including Scottish Limited Partnerships, allow foreign investors to avoid UK income tax on profits extracted from UK care homes, which have been hard hit by COVID-19 and are heavily reliant on tax-payer funding.

Residents and family members, as well as predominately female care workers, suffer the direct consequences of profit extraction from the UK care sector. However, when global investors avoid tax by shifting profits offshore everyone in the UK suffers. While private payments by residents drive profits, they are underwritten by government spending on public health. Aggressive tax avoidance is unacceptable by any corporation, but particularly egregious in the care sector. This case study of tax avoidance by care homes – controlled by a public sector pension fund – is a clear demonstration that the UK care sector needs urgent reform to ensure high quality care and greater transparency and accountability on public spending.







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## CARE FOR PROFIT NOT PEOPLE

The UK's care sector is dominated by large private-equity owned for-profit operators. The pursuit of profit – through understaffing, inadequate training and equipment, low pay and precarious work – may have, in some cases, contributed to an increase in the COVID-19 death toll amongst an already vulnerable population. Between early March and mid-June 2020, an estimated 30,000 excess deaths in care homes in England and Wales have been attributed to COVID-19 and that number continues to grow.<sup>1</sup>

Many international studies, including in Canada, the US and Australia, have shown higher rates of COVID-19 deaths in for-profit care homes, which tend to have lower levels of staffing, than in non-profit and government run homes.<sup>2</sup> A detailed analysis in the UK has not been possible as the government regulator, the Care Quality Commission, did not disclose COVID-19 care home deaths in order “to protect commercial interests”.<sup>3</sup> However, it is clear that staffing levels are a factor and that large for-profit providers have been particularly hard hit.<sup>4</sup>

In Australia a recent detailed analysis by the Royal Commission into Aged Care found significant differences in all quality of care indicators, including staffing levels, between government and private for-profit care homes.<sup>5</sup> In the state of Victoria, government-run homes, with legislated minimum staffing ratios, had zero COVID-19 deaths and an infection rate of 0.1% compared to 655 deaths and an infection rate of more than 6% in private homes.<sup>6</sup> In the wake of COVID-19 deaths in privately-operated care homes around the world, there are growing calls, including with Revera in Canada, to take the profit motive out of the care sector and re-integrate elder care into broader public health systems.<sup>7</sup>

## UK CARE HOMES – CASE STUDY OF THREE OPERATORS

The UK's private equity owned care home operators have a track record of aggressive tax avoidance, using complex corporate structures to shift profits offshore through tax havens.<sup>8</sup> Although Revera is 100% owned by a public pension fund, it appears to be acting like a private equity owned care home operator. An examination of the Revera-controlled private companies and public reporting by Welltower, the UK joint venture partner and one of the largest publicly listed US Real Estate Investment Trusts (REITs), may reveal details of how this is done more widely across the UK care sector.

While Revera-controlled operating companies report losses or low profits in the UK, Welltower's public reporting indicates that significant profits are actually being made in the UK. However, those profits appear to be shifted offshore.

Revera's ownership of Sunrise Senior Living represents its largest exposure to the UK care home market. There are 25 UK Sunrise care homes and Sunrise operates 18 UK care homes under the Gracewell brand. Additionally, Revera owns the Signature Senior Lifestyle Group which operates 13 care homes and is expanding in the greater London area. All of Revera's UK investments are linked to Welltower. Welltower has ownership interests in UK care homes run by other operators, including 59 Avery care homes.



## COMPARATIVE REPORTING ON REVERA UK CARE HOMES<sup>10</sup>

US\$ millions	# Care Homes	Revenue	Profit/Loss
Welltower/Revera UK	56	\$333.68	\$84.80
Sunrise UK	25	\$9.77	-\$0.27
Gracewell	18	\$5.15	\$1.01
Signature	13	\$76.43	-\$13.33
Revera UK Subtotal	56	\$91.34	-\$12.60

Welltower – with 123 UK care homes valued at US\$2.9 billion – is one of the largest investors in UK care homes.<sup>9</sup>

The following table compares the profits reported by Welltower on its investments on UK care homes with Revera to the losses reported by the three Revera-controlled top-level UK operating companies. On the same 56 UK care homes, while Welltower reports net operating income of US\$84.8 million, the 3 operating companies report combined losses of US\$12.6 million. How does that work?

## REVERA'S WELLTOWER RELATIONSHIPS AND UK PROFITS

Welltower is the third largest real estate investment trust (REIT) in the US and the largest owner of senior housing. Its deep relationships with Revera, which controls Sunrise, Gracewell and Signature Senior Living, provide insights into the genuine profits of UK care homes that are not usually publicly available. Globally, more than one-fifth of Welltower's total operations – US\$436.6 million in annual net operating income – are connected to properties managed by Revera owned entities.

Revera has a 65% controlling interest in Sunrise Senior Living, one of the largest senior housing operators in the US, and Welltower holds a 34% minority interest. In 2019, Welltower generated US\$327.3 million, including US\$73.5 million from the UK, in Net Operating Income (NOI) from the Sunrise properties, including Gracewell-branded homes.<sup>11</sup> Although the Sunrise properties are owned by Welltower, Revera's 65% share of Sunrise should generate larger profits than from Welltower's minority interest in the operator. However, as discussed below, the top-level Sunrise company in the UK reported a loss in 2019.

Revera has operational interests and/or ownership interests in 63 of Welltower's 123 UK properties.<sup>12</sup> Sixty of those properties, operated by Revera-controlled Sunrise Senior Living and Signature Senior Living, generated an estimated annualised US\$84.8 million in NOI.<sup>13</sup> This was over half of Welltower's UK NOI.

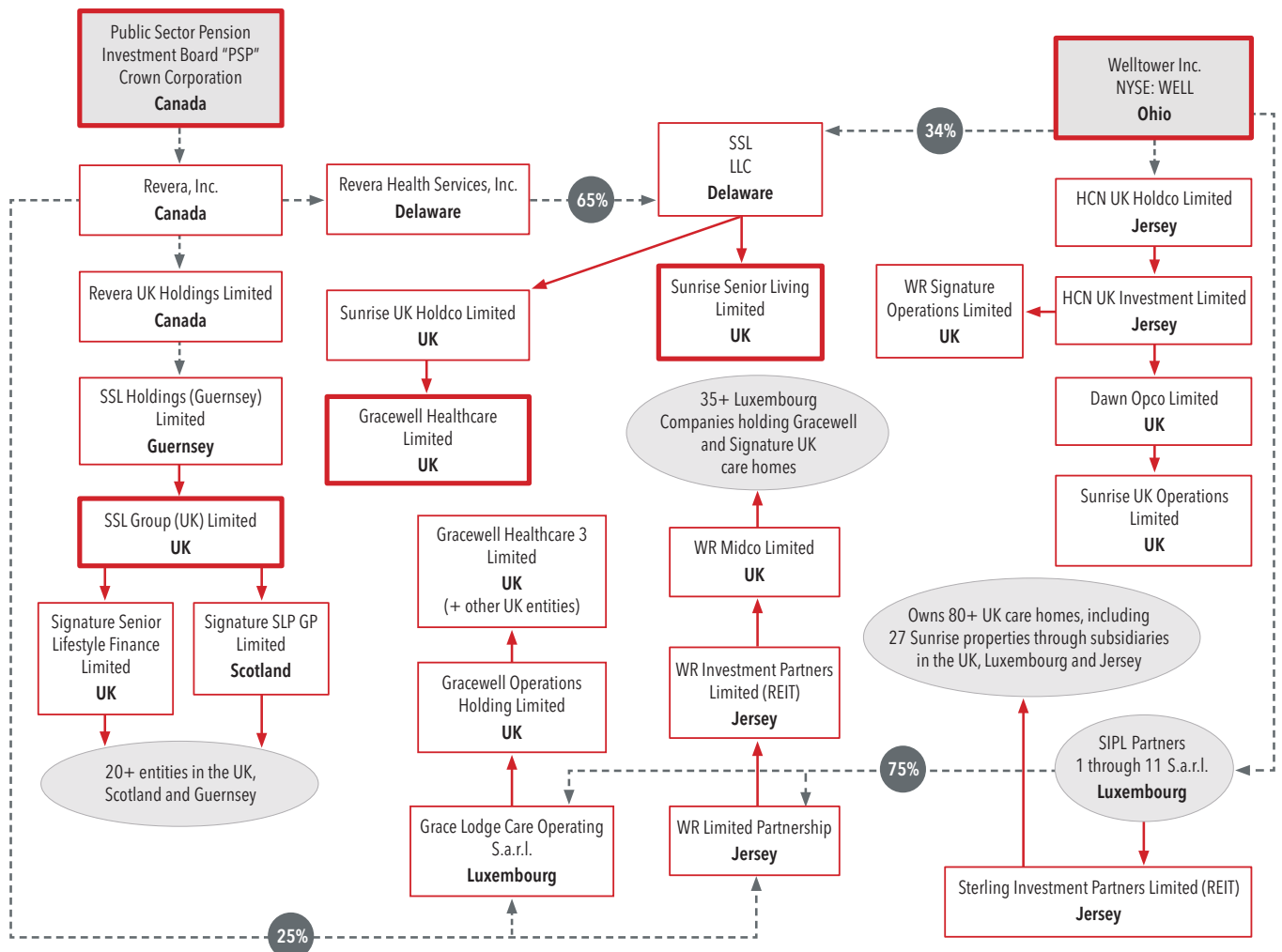
Welltower, as a REIT, is generally not subject to federal corporate income tax in the US. Revera's parent, as a public sector pension fund, is also not subject to corporate income tax in Canada. However, Revera as a private operating company is subject to income tax in Canada and profits from the operation of the Revera/Welltower UK care homes should be subject

to UK corporate income tax. Most of these UK care homes are managed by or through taxable REIT subsidiaries.<sup>14</sup> The effort to avoid taxation of significant UK care home profits appears to have inspired aggressive tax avoidance schemes to mimic corporate income tax exemptions in the US and Canada. Very little UK corporate income tax, if any, is paid on the significant profits generated from UK care home investments.

Various management fees, administrative fees, interest payments and other seemingly artificial transactions with related parties shift profits within the complex corporate structure and reduce or eliminate taxable income in the UK.



# REVERA AND WELLTOWER UNITED KINGDOM CARE HOMES SIMPLIFIED CORPORATE STRUCTURE



## THE MAIN GAME: SUNRISE SENIOR LIVING LIMITED

The top UK holding company for the management of Sunrise and Gracewell properties is Sunrise Senior Living Limited.<sup>15</sup> Sunrise Senior Living Limited's immediate parent undertaking is Sunrise Senior Living LLC (SSL LLC) in Delaware, which is one of the world's most utilised tax havens.<sup>16</sup> "Revera Health Services Inc. ("Revera") owns a 65.3% indirect interest in SSL LLC, Welltower Inc. owns a 34% indirect interest and a member of SSL LLC senior management owns the remaining 0.7% indirect interest. The directors consider Public Sector Pension Investment Board (the ultimate parent undertaking of Revera), a Canadian crown corporation, to be the ultimate parent and controlling party."<sup>17</sup>

Sunrise Senior Living Limited "generates revenues from the management of senior living communities."<sup>18</sup> While the average number of residents in 2018 (2,106) declined by the 3%, the company faced a 7% drop in revenue in 2018.<sup>19</sup> This was due in part "to the impact of communities no longer charging community fees and reducing the fees charged after death."<sup>20</sup> The UK government's Competition and Markets Authority (CMA) reached a settlement with Sunrise Senior Living Ltd, Revera, Welltower, and related corporate entities in May 2018, which "secured more than £2m [US\$2.64 million] in compensation for residents... as part of an investigation into compulsory 'upfront fees'.<sup>21</sup>

The CMA determined that community fees charged to residents "whilst in receipt of NHS [National Health Service] continuing healthcare" were "not compatible with NHS rules or consumer law" and secured an agreement from Sunrise that "such fees will not be charged at all to new residents."<sup>22</sup> The settlement reached with

the government to end excessive fee charges and fees charged after death appeared to result in a noticeable reduction in overall revenues.

Management fee revenue, paid by Welltower-controlled entities, was over £7 million in 2018, but profits were eliminated by administration expenses of nearly £7.2 million. The total declared profits after tax in 2018 were only £161,000.<sup>23</sup> Although the management fee revenue increased to £7.4 million in 2019, the company reported a loss of £205,000, driven by an increase in administrative expenses to over £9 million.<sup>24</sup> Undefined 'administrative expenses' – likely paid to other related parties – are frequently used in corporate structures to reduce taxable income.

While the average number of residents (2,020) fell by a further 4% in 2019, average daily fees paid by residents increased from £191 to £200 in all facilities.<sup>25</sup>

**In contrast to the management fees of £7.4 million paid by Welltower-controlled entities, total fees paid by residents at a daily rate of £200 would be £147.5 million. Where does this revenue from resident fees go?**

Sunrise Senior Living Limited reported that it generated tax credits of £2,822 and £2,243 in 2019 and 2018, respectively.<sup>26</sup> No corporate income tax was paid in 2019 and there was an income tax payment of £555,696 in 2018.<sup>27</sup> Despite reported management fee revenues of over £7 million and estimated resident fee revenue approaching £150 million in both years, minimal tax payments were made by Sunrise Senior Living Limited, the top-level UK company.



In 2018 and 2017, the company was owed £4.7 million and £9.4 million by related parties<sup>28</sup> and owed £1.8 million and £3.3 million to two of the same related parties. In 2019, the company was owed nearly £3.2 million by Gracewell Healthcare Limited and owed over £1 million to its parent company and to Sunrise UK Holdco Ltd.<sup>29</sup>

While there are legitimate uses of related party lending, large related party loans are a frequent hallmark of aggressive tax avoidance strategies. Related party interest payments can artificially reduce taxable income and shift profits into structures and places where they are not subject to little, if any, corporate income tax.

Management fees paid to Sunrise Senior Living Limited from 2017 - 2019 were paid by subsidiaries of HCN UK Investments Limited, a company incorporated in the tax haven of Jersey and ultimately owned by Welltower.<sup>30</sup> The names of all 26 of the HCN UK Investment Limited subsidiaries paying management fees to Sunrise Senior Living Limited in 2017, except Sunrise UK Operations Ltd begin with "Sunrise Operations...".<sup>31</sup> Sunrise UK Operations Ltd paid £5.6 million out of total payments of £7.0 million, up from £2.4 million out of £7.6 million in total payments in 2017.<sup>32</sup> Payment of management fees to Sunrise Senior Living Limited were further consolidated under Sunrise UK Operations Limited in 2019, with its payments increasing to nearly £6.4 million, and smaller payments from only 4 other Sunrise Operations entities.<sup>33</sup> While these management fee payments are flowing from Welltower controlled entities to Sunrise Senior Living, resident fee revenue approaching £150 million per year is flowing elsewhere.

In compliance with legal requirements, Sunrise publishes its "UK Tax Strategy" which states that the "group's tax strategy is to comply with the tax laws and regulations in the UK and all of the countries in which it operates, while considering any government sponsored tax reliefs and

incentives available to it. ...The group believes that it should pay the right amount of tax legally owed in the UK. ... while minimising the risk that anything it does could be considered tax avoidance and all decisions will be based on commercial rationale."<sup>34</sup>

**The notion that Sunrise's UK complex corporate structure is based on commercial rationale and not tax avoidance appears to be absurd.**

As is the case with most multinationals, and despite its 65% ownership by a Canadian Crown corporation, Sunrise is simply stating that it tries to not break tax laws but will take all available efforts to minimise payments. The notion that Sunrise's UK complex corporate structure is based on commercial rationale and not tax avoidance appears to be absurd. The language used by Welltower in its "Tax Policy" is very similar except that it adds "it should pay the right amount of tax legally owed in the UK, while avoiding double taxation where possible and maximizing shareholder returns."<sup>35</sup> Welltower will also consider "all tax reliefs and incentives available, while minimizing the risk that anything it does could be considered tax contrived or artificial avoidance."<sup>36</sup>

Welltower made an estimated US\$85 million in annual net operating income from its UK care home investments with Revera in 2019. How much did Revera profit from its 65% interest in Sunrise Senior Living? The profits, or lack thereof, reported by Revera in its UK controlled operating entities appear to be artificially low.

## JERSEY OWNERSHIP: DAWN BEFORE SUNRISE

Sunrise UK Operations Limited, directly owned by Dawn Opco Limited incorporated in the UK, reports that “day to day running of the Company’s operations is performed by Sunrise Senior Living Limited (SSL), the management company, and is supervised by Welltower.”<sup>37</sup> Dawn Opco Limited, which reported a loss of £58.8 million due to the reduced value declared for subsidiaries, had no employees and no business other than holding UK operating companies.<sup>38</sup> Dawn Opco Limited’s “immediate parent undertaking is HCN UK Investments Limited, a company registered and incorporated in Jersey.”<sup>39</sup> As mentioned above, HCN UK Investments Limited is ultimately owned by Welltower.<sup>40</sup>

The operating entities owned through Jersey but incorporated in the UK are taxable REIT subsidiaries. These Welltower-controlled UK entities pay management fees to the Sunrise Senior Living Limited. Is Welltower using Jersey subsidiaries and ownership structures to avoid income tax in the UK and/or in the US? Jersey’s corporate income tax rate is zero percent (0%).

In 2019, Sunrise UK Operations Ltd operated 23 facilities – with operations of two additional Sunrise facilities to be consolidated in 2021 – and reported revenue of £128.1 million.<sup>41</sup> Operating expenses of £135 million – including lease payments of nearly £41 million, other administration expenses of £19.8 million, and management fees of £7.7 million – resulted in an operating loss of £6.9 million.<sup>42</sup> Lease payments, administration expenses and management fees appear to be largely paid to related parties in the complex Welltower and Revera corporate structure. Not only were UK tax payments

entirely eliminated, but the company earned a tax credit. An £8.7 million UK tax credit resulted in profit after tax of £1.9 million.<sup>43</sup>

## THE SIDE SHOW: GRACEWELL HEALTHCARE LIMITED

Sunrise Senior Living Limited is the operator of 18 Gracewell branded UK care homes. The Gracewell properties are separately owned through Luxembourg subsidiaries of a Jersey registered and incorporated REIT jointly owned by Welltower and Revera (see below). This Jersey REIT also owns the majority of Signature Senior Living properties in the greater London area.

Sunrise UK Holdco Limited, whose only business is the investment in its subsidiary Gracewell Healthcare Limited, is directly owned by SSL LLC in Delaware.<sup>44</sup> As with Sunrise Senior Living Limited, the 65%/34% Revera/Welltower ownership is reported along with the statement that the “directors consider Public Sector Pension Investment Board (the ultimate parent undertaking of Revera), a Canadian crown corporation, to be the ultimate parent and controlling party”.<sup>45</sup> Sunrise UK Holdco Limited reported a 2019 profit of only £127,000 after a loss of £4.4 million in 2018.<sup>46</sup> No tax was paid in either year.<sup>47</sup>

According to the UK filings, Gracewell’s profits – as with Sunrise Senior Living Limited – appear to be limited. Gracewell’s “principal activity is the provision of management services in respect of residential and nursing care facilities in the UK” where it “managed 21 facilities”.<sup>48</sup> In 2019, revenue from management fees increased by 9% from the previous year, “due to an 8% increase in the average number of residents...and an



increase in the average daily rate".<sup>49</sup> With an average of 1,226 residents and average daily resident fees of £173.54, total revenue from resident fees would have been an estimated £77.7 million in 2019.<sup>50</sup>

Gracewell Healthcare Limited reported management fee revenue of £3.9 million with profits of only £762,000.<sup>51</sup> This was "income from related undertakings under management contracts for services rendered on an arm's length basis in respect of management and support of senior living communities in the UK owned by subsidiaries of HCN UK Investments Limited with the exception of Gracewell Operations (Ascot) Ltd, which is owned by Revera UK Holdings Limited", an Ontario, Canada incorporated company.<sup>52</sup> Even on the low levels of reported management fees, paid by related parties, administration expenses of nearly £3 million appear to have helped shift the remaining limited taxable profits out of the UK.<sup>53</sup> The company, with no employees, managed to generate a tax credit of £1,000.<sup>54</sup>

Management fees are paid to Gracewell Healthcare Limited by other UK entities, owned through another Luxembourg company...

Each UK property is owned by a separate subsidiary incorporated in Luxembourg...

The reported ownership and management fee payments through subsidiaries of HCN UK Investments Limited, as reported in the Gracewell Healthcare Limited filing, may be an error. The Gracewell UK care homes, as reported elsewhere, are not owned by subsidiaries of HCN

UK Investments Limited but by Luxembourg subsidiaries of another Jersey entity (see section below). Management fees are paid to Gracewell Healthcare Limited by other UK entities, owned through another Luxembourg company, and do not appear to be directly connected to HCN UK Investments Limited. HCN UK Investments Limited in Jersey, as described above, does own the UK Sunrise care homes.

Gracewell Healthcare 3 Limited, a subsidiary of Gracewell Operations Holdings Limited<sup>55</sup> and a UK entity is indirectly owned by Grace Lodge Care Operating S.a.r.l., incorporated in Luxembourg.<sup>56</sup> Although the direct ownership of the Luxembourg entity is not disclosed, it appears that Revera has a 25% ownership and that Welltower owns the remaining 75%. Gracewell Healthcare 3 Limited, whose "ultimate shareholders" are "Welltower Inc and Revera Inc", operated 17 facilities in 2019, with an average daily fee paid by residents of £174.<sup>57</sup> Although Gracewell Healthcare 3 Limited's 2019 revenue was £61.4 million, operating expenses of nearly £71 million resulted in an operating loss of £9.5 million.<sup>58</sup> A tax credit of £4.4 million reduced the loss after tax to only £5.1 million.<sup>59</sup> The same pattern of related party expenses shifting taxable profits appears to continue.

## BACK TO JERSEY: WR INVESTMENT PARTNERS LIMITED

Gracewell and Signature UK care homes are predominately owned by WR Investment Partners Limited, a REIT incorporated in Jersey.<sup>60</sup> "The Company is owned 100% by WR Limited Partnership, which is owned 75% by Welltower Inc. ... and 25% by Revera Inc."<sup>61</sup> WR Limited Partnership is incorporated at the same Jersey address.







The Jersey REIT owns 31 properties, 19 Gracewell branded properties leased to Sunrise Senior Living, 9 properties leased to Signature and 3 leased to Avery.<sup>62</sup> Each UK property is owned by a separate subsidiary incorporated in Luxembourg, except for one Luxembourg subsidiary, WR Signature DP 2 S.a.r.l., which owns three Signature UK properties.<sup>63</sup> There were six other Luxembourg incorporated subsidiaries not directly related to UK care home properties and one UK subsidiary, WR Midco Limited.<sup>64</sup>

WR Midco Limited was the direct owner of three Luxembourg holding companies and the indirect owner of the Luxembourg UK care home property companies that all shared the same Luxembourg address at 6 Rue Dicks.<sup>65</sup> This is the Luxembourg address of Trustmoore, “an investment trust company with offices in tax havens around the world”.<sup>66</sup> Other Luxembourg shell companies in the corporate structure share the same address. WR Midco Limited reported a loss of £2.5 million in 2018, compared to a profit of £16.2 million in 2017, and had net assets of £280 million.<sup>67</sup> The loss for the company, which had “no employees other than the directors”, was entirely due to administrative expenses.<sup>68</sup> The profit in 2017 derived from £16.2 million in dividends received from subsidiaries.<sup>69</sup> A small tax credit was generated in 2018 and no tax was paid in 2017 as dividend income from group companies is not subject to income tax in the UK.<sup>70</sup>

In 2019, WR Investment Partners Limited declared a distribution of £8.8 million to the Company’s immediate parents after reporting net income from cash flow from operations of £9.2 million.<sup>71</sup> Tax-free profits were extracted from the UK in other ways. Nearly £18 million in interest payments were made to affiliates in 2019.<sup>72</sup> The Group had loans worth £338.1 million from Welltower and Revera UK Holdings Ltd with a 75/25 split and interest rates ranging from 4.8-6%.<sup>73</sup> This offshore related party debt is over

half the £640.6 million book value of all physical assets (property, plant and equipment) after depreciation.<sup>74</sup>

Interest income paid to subsidiaries in Delaware, Luxembourg or other tax havens is generally not subject to income tax.

In 2019, rental income totalled £45.6 million, not including £9.9 million in straight line rent receivable from Signature.<sup>75</sup> Welltower owns a separate Jersey REIT called Sterling Investment Partners Limited, which at the end of 2017, owned 83 UK care home properties, including 27 operated by Sunrise Senior Living, which was considered an affiliate, and 4 Signature properties.<sup>76</sup>

## ON TO GUERNSEY & SCOTTISH LIMITED PARTNERSHIPS

Revera is the owner of the top-level management company for the Signature Senior Lifestyle care homes which are mostly owned through the Jersey REITs. The SSL Group (UK) Limited, whose direct ownership is not disclosed in the 2018 financial statements, is the “holding company of the Signature group of companies” whose principal activities include the “development and operation of senior living facilities”.<sup>77</sup> The company’s ultimate, but not immediate, parent is Revera, Inc. in Canada and “the directors consider the ultimate controlling party to be The Public Sector Pension Investment Board.”<sup>78</sup>

Signature has 13 homes in operation in the greater London area and 6 new homes under construction.<sup>79</sup> The company reported an after tax loss of £5.4 million in 2018, down from a loss



of £9.2 million in 2017.<sup>80</sup> In both years tax credits reduced the reported after tax loss.<sup>81</sup> In 2018, the company reported total turnover of £61.5 million, but the cost of sales of £39.8 million, reduced gross profit to £21.7 million and administrative expenses of £31.8 resulted in a group operating loss of £10.1 million.<sup>82</sup> The Signature group repeats the same pattern of losses in other Revera controlled UK care home companies.

In 2018, most of the turnover, £57.9 million, came from the operation of senior living communities.<sup>83</sup> Payment for operating leases, presumably to related parties but not disclosed, was £24.4 million in 2018.<sup>84</sup> In the same year, the company consolidated all of its debt “into one facility payable to Revera Holdings UK Ltd, who are also the parent of the Group”.<sup>85</sup> No such entity was identified. Presumably, this is meant to be Revera UK Holding Ltd, incorporated in Ontario, Canada. In 2018, SSL Group (UK) Limited reported a loan of £23.1 million “repayable in full on 30 June 2023 and bears interest at 10% per annum.”<sup>86</sup> The seemingly excessive 10% interest rate is another way to extract tax-free profits from the UK. In 2018, Signature paid £3.4 million in interest payments, equivalent to 63% of its reported after-tax loss.<sup>87</sup>

Signature Senior Lifestyle Holdings Limited, the intermediate holding company, has two direct subsidiaries, Signature Senior Lifestyle Finance Limited and Signature SLP GP Limited, which is a general partner, and registered in Scotland.<sup>88</sup> There is also “a directly held 1% share in each of SSL Investments (DP2) LP and SSL Investments (DP3) LP, both of which are Scottish limited partnerships and registered at the same address of the directly held general partner.”<sup>89</sup> While there is no suggestion or indication of illegal activity in this context, Scottish Limited Partnerships (SLPs) have limited reporting requirements and have been used for money laundering.<sup>90</sup> Income from SLPs is not taxed at the partnership level.<sup>91</sup> It is unclear why SLPs are used in the Signature Group, which has no other apparent ties to Scotland.

Revera still owns the Signature Group through these Guernsey entities...

Greater public accountability and transparency is an essential first step to rebuild public trust and support.

SSL Investments (DP2) LP was dissolved in July 2020, but SSL Investments (DP3) LP continues to be active and other entities with similar sequential names have been established.<sup>92</sup> Filings also indicate that in February 2015, SSL Group (Guernsey) Limited was admitted as a limited partner of this Scottish Limited Partnership.<sup>93</sup>

According to Companies House, until June 2019 SSL Holdings Guernsey Ltd, incorporated in Guernsey, was registered as the parent of the Signature Group of companies.<sup>94</sup> SSL Holdings (Guernsey) and SSL Group (Guernsey) continue to be active companies in Guernsey with the same four directors as the SSL Group (UK) Limited.<sup>95</sup> It appears that Revera still owns the Signature Group through these Guernsey entities, but the Guernsey ownership is no longer reported in the current UK filings.

The extensive use of corporate structures weaving through the tax havens of Guernsey, Jersey and Luxembourg and the contrast in UK profits reported by Welltower and the losses reported by Revera-controlled UK operating companies appear to be a clear indication of aggressive tax avoidance.

# CONCLUSION & RECOMMENDATIONS

The analysis in this report indicates that Revera's UK care home investments are profitable, but Revera and Welltower have structured UK investments through tax havens in what appears to be a scheme to avoid taxes on profits generated from UK operations. As the private for-profit care home market in the UK is dominated by private equity firms, these tax avoidance practices are not unique.

Aggressive tax avoidance, including what might be technically legal, is unethical and demonstrates that rules are frequently bent or ignored by corporate and wealthy interests. Such practices undermine public confidence in businesses, governments and democracy itself. Governments are deprived of the revenue needed to protect and enhance public health, education and social protection, forcing others – with less resources, power, and influence – to pay more, further increasing economic inequality and intersecting social barriers. Tax dodging predates the COVID-19 pandemic but will slow and weaken the recovery until it is effectively tackled.

Profit shifting indicates that investor-owned UK care companies have consciously chosen to extract profits rather than increase spending on higher staffing levels and better-quality care. The UK care sector is already under-resourced and given demographic trends will require higher levels of public funding to establish necessary capacity to effectively cope with current and future risks. Greater public accountability and transparency is an essential first step to rebuild public trust and support. To this end a formal, independent, investigation into the financial practices in the UK care sector is urgently required.

The investigation should examine the underlying

long-term structural conditions which led to this unnecessary tragedy, including but not limited to the:

- impact on public funding for health and care services due to profit shifting;
- purpose of complex corporate structures with tax haven subsidiaries within the sector;
- global track record/suitability of existing owners and operators;
- health and safety impacts on residents and workers; and
- Loopholes on skirting reporting beneficial ownership, including Scottish Limited Partnerships.

Elderly UK residents, who have contributed to the society throughout their lives, deserve a safe care home and to be treated with dignity and respect. This will only be possible with requirements for greater accountability and transparency across the UK care sector.

## ACKNOWLEDGEMENTS

PSI and CICTAR would like to acknowledge the valuable contributions made to this report by Canadians for Tax Fairness and by the Canadian Union of Public Employees (CUPE).

# ENDNOTES

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- <sup>9</sup> Welltower, May 2019, "Corporate Presentation: Driving the Future of Health Care Real Estate" [https://welltower.com/wp-content/uploads/2019/05/1Q19-Corporate-Deck\\_vFINAL-6MAY2019.pdf](https://welltower.com/wp-content/uploads/2019/05/1Q19-Corporate-Deck_vFINAL-6MAY2019.pdf) & 2Q20 Facility Address List.
- <sup>10</sup> Welltower's 2019 Annual Report, p.46, Item 2 reports annualised revenue for UK senior housing operating (SHO) and senior housing triple net (NNN), these revenue numbers were adjusted to reflect Revera's involvement in 91% of the UK SHO properties and 12% of the UK NNN properties, but do not include the 3 Avery properties partially owned by Revera. The Profit/Loss number represents net operating income as reported in Welltower's 4Q2019 Supplemental and adjusted in the same manner for both SHO and NNN. The other USD figures are converted from GBP using the rate 1 GBP = USD 1.32, current as of 17 Nov 2020. The Sunrise Senior Living Limited and Gracewell Healthcare Limited revenues are 2019 management fee revenues. The SSL Group (UK) Limited revenues are 2018 turnover from the operation of senior living communities, 2019 filings were not available at the time the analysis was conducted.
- <sup>11</sup> *Ibid.* Net Operating Income (NOI) is a key metric for Welltower. Welltower's 2019 Annual Report (p.118) states that the company defines "NOI as total revenues, including tenant reimbursements, less property operating expenses. We believe NOI provides investors relevant and useful information because it measures the operating performance of our properties at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties."
- <sup>12</sup> Welltower, 2Q20 Welltower Facility Address List. <https://welltower.com/wp-content/uploads/2020/10/3Q20-Welltower-Facility-Address-List.xlsx> (link to 3Q list) This includes 15 properties with Signature listed as the operator, 45 properties with Sunrise listed as the operator (including Gracewell properties) and 3 properties with Avery listed as the operator in which Revera has an ownership interest.
- <sup>13</sup> Calculations based on Welltower, 4Q19 Supplemental Information, p2. Welltower reports total NOI numbers for both UK Senior Housing Operating (SHO) and for triple net senior housing (NNN) in the UK. Revera operates 52 of 57 (91%) SHO properties and 8 of 66 (12%) NNN properties. The percentages were applied to the total NOI figures in each category. This does not include the 3 Avery properties in which Revera has an ownership interest.
- <sup>14</sup> RIDEA, an acronym for the REIT Investment Diversification and Empowerment Act enacted in the US in 2007, "allowed REITs to participate in the actual net operating income, as long as there was an involved third party manager. The legal structuring includes creating Taxable REIT Subsidiaries (TRS), with an in-place lease between the landlord and tenant entities (both owned by the REIT)." See more at Scott McCorvie 26 August 2014, Senior Living Investments, "What is the RIDEA structure?" <http://www.seniorlivinginvestments.com/home/whatistherideastructure>
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- <sup>16</sup> Leslie Wayne, 30 June 2012, *New York Times*, "How Delaware Thrives as a Corporate Tax Haven". <https://www.nytimes.com/2012/07/01/business/how-delaware-thrives-as-a-corporate-tax-haven.html#:~:text=%E2%80%9CDelaware%20serves%20as%20a%20domestic,avoidance%2C%E2%80%9D%20the%20report%20states.&text=But%20in%20Delaware%2C%20the%20state,the%20Delaware%20loophole%20are%20permanent>
- <sup>17</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2019 p.38, Note 23.
- <sup>18</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2018, p.3 Strategic Report.
- <sup>19</sup> *Ibid.*
- <sup>20</sup> *Ibid.*
- <sup>21</sup> Competition and Markets Authority, 9 May 2018, "Sunrise Senior Living Ltd settlement and associated undertakings". <https://www.gov.uk/cma-cases/care-homes-consumer-protection-case#sunrise-senior-living-ltd-settlement-and-associated-undertakings>
- <sup>22</sup> *Ibid.*
- <sup>23</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2018, p.3 Strategic Report.
- <sup>24</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2019, p.3, Strategic Report.
- <sup>25</sup> *Ibid.*
- <sup>26</sup> *Ibid.*, p.12, Income Statement.
- <sup>27</sup> *Ibid.*, p.15, Cash Flow Statement.
- <sup>28</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2018, p.30, Note 20.
- <sup>29</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2019, p.35, Note 20.
- Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2018, p.31, Note 21; Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2019, p.36, Note 21; C20 – Annual Returns for both HCN UK Investments Limited & HCN UK Holdco Limited, made up to 01 / January 20, were obtained from the Jersey Registry.
- <sup>31</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2018, p.31, Note 21.
- <sup>32</sup> *Ibid.*
- <sup>33</sup> Sunrise Senior Living Limited, Financial Statements for the Year Ended 31 December 2019, p.36, Note 21.



- <sup>34</sup> Sunrise Senior Living, "UK Tax Strategy: Financial Year Ending 31 December 2019". <https://www.sunrise-care.co.uk/about/uk-tax-information>
- <sup>35</sup> Welltower, "Tax Policy at 31 December 2019". <https://welltower.com/wp-content/uploads/2019/12/Tax-Policy-Statement-2019-final-approved-31-Oct-2019.pdf>
- <sup>36</sup> Ibid.
- <sup>37</sup> Sunrise UK Operations Limited, Report and Financial Statements for the Year Ended 31 December 2019, p.31, Note 20 and p.7, Directors' Report.
- <sup>38</sup> Dawn Opco Limited, Report and Financial Statements for the Year Ended 31 December 2019, p.1, Strategic Report and p.15, Note 4.
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- <sup>42</sup> Ibid, p.1, Strategic Report and p.23, Note 4.
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- <sup>45</sup> Ibid, p.22, Note 18.
- <sup>46</sup> Ibid, p.10, Income Statement.
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- <sup>50</sup> Ibid.
- <sup>51</sup> Ibid, total resident fee revenue estimated from disclosed numbers.
- <sup>52</sup> Ibid.
- <sup>53</sup> Ibid, p.31, Note 19(b).
- <sup>54</sup> Ibid.
- <sup>55</sup> Ibid, p.22, Note 7 and p.23, Note 9.  
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- <sup>67</sup> WR Midco Limited, Annual Report and Financial Statements for the Year Ended 31 December 2018, p.1, Strategic Report.
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- <sup>84</sup> Ibid, p.22, Note 4.
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- <sup>87</sup> Ibid, p.13, Cash Flow Statement.
- <sup>88</sup> Signature Senior Lifestyle Holdings Limited, Annual Report and Financial Statements Year Ended 31 December 2018, p.16, Note 11.
- <sup>89</sup> Signature Senior Lifestyle Holdings Limited, Annual Report and Financial Statements Year Ended 31 December 2018, p.16, Note 11.
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<sup>95</sup> SSL Group (Guernsey) Limited, Annual Validation – Company 2019, p.2 & SSL Holdings (Guernsey) Limited, Annual Validation – Company 2019, p.2. (as purchased from the Guernsey registry)

# ADDENDUM

In response to the longer and more detailed Canadian version of this report, the Public Sector Pension Investment Board (PSP), which owns 100% of Revera Living and holds the investments in the Sunrise, Gracewell and Signature care homes in the UK, provided the following statement. That statement was published here:

**<http://pensionpulse.blogspot.com/2021/01/pmps-revera-aggressively-dodging.html>**

and re-printed below in its entirety.

*As a wholly owned subsidiary of PSP Investments, a Crown corporation, **Revera is considered a crown immune corporation in the United Kingdom and therefore is typically not subject to income or capital gain tax in the UK.***

*You can learn more about PSP's tax strategy here:*

**[www.investpsp.com/en/tax-strategy](http://www.investpsp.com/en/tax-strategy)**

*Revera's legal structure regarding its UK care homes is consistent with PSP's responsible investing policy and was either inherited at acquisition or put in place for other corporate purposes.*

*Revera operates at arm's length from PSP Investments with an independent Board of Directors and management. Our confidence in Revera's dedicated management and staff is unwavering as they continue to comply with public health authorities' pandemic response guidelines. Revera is committed to working with all levels of the Canadian government to find the right solutions for the long-term care industry and discuss lessons learned from the ongoing pandemic. Health and safety has always been, and continues to be, a priority for PSP Investments and Revera.*

*In June 2020, Revera engaged a panel of independent experts from diverse fields in health care to explore what happened in homes during the first wave, and to inform our operations going forward. We invite you to learn more about Revera's Expert Advisory Report and their Pandemic Response Plan here:*

**[www.reveraliving.com/en/think-with-us/expert-advisory-report](http://www.reveraliving.com/en/think-with-us/expert-advisory-report)**

**[www.reveraliving.com/-/media/files/covid-19/july/pandemic-response--ceo-message](http://www.reveraliving.com/-/media/files/covid-19/july/pandemic-response--ceo-message)**

Tax experts in the UK have reviewed the claim of "crown immunity" for UK income tax and have concluded that there is no precedent for immunity from UK income tax for private companies owned by UK government bodies or crown corporations owned by other governments. Regardless of government ownership, private for-profit companies in the UK – such as Sunrise, Gracewell and Signature – are subject to UK income tax in the same manner as other private for-profit companies.

Additionally, in advance of the publication of this report, Sunrise Senior Living Limited in the UK has been provided with an opportunity to comment. Any statement provided will be available on the CICTAR website alongside electronic copies of the report.

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