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Implications of Changes in Land Tenure and Death Duties on Pastoral Business
Structure in Far South West Queensland

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Abstract

The effect of certain land tenure requirements and the influence of death duties on pastoral business structures in far south west Queensland is outlined. Seventy-four percent of sheep enterprises were run as family partnerships. These partnerships are assumed to have involved land as well as stock and plant to comply with the former Land Act.

Family partnerships involving stock and plant only, reduce the cost of changes in partnership composition which are necessary to bring younger family members into the partnership and allow older members to retire. Changes in the Land Act and the relaxation of death duties have removed the necessity and much of the incentive for spreading the ownership of land amongst as many people as possible. These changes have facilitated the amalgamation of family holdings.

Large aggregations of holdings run by family partnerships are seen as a successful business structure in the rangelands of far south-west Queensland which should be encouraged by future land policy.

* * * *

Choice of business structure is influenced by a number of factors including personal preference, death duty, taxation considerations and land tenure restrictions.

The land tenure of the grazing lands of Far South West Queensland are chiefly Pastoral Holdings and Grazing Selections.

In the study area shown in the accompanying map, Figure 1, the distribution of the various types of land tenure is as outlined in Table 1.

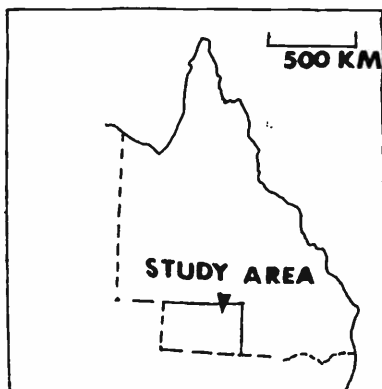


Figure 1. Location of Study Area.

Table 1
Types of Land Tenure
(Western Arid Region Land Use Study - Part 1 Area)

Tenure	No. of Holdings	Percentage of Area
Grazing Farm	97	5.8
Grazing Homestead	125	9.9
Grazing Homestead Freeholding Lease	31	1.5
Preferential Pastoral Holding	82	14.0
Pastoral Development Holding	12	9.9
Pastoral Holding	58	58.9
Total	<u>405</u>	<u>100.0</u>

Source: Western Arid Region Land Use Study - Part 1, Technical Bulletin No. 12, Division of Land Utilization, Q.D.P.I., 1974.

The various land tenures impose restrictions as to what types of business structures can be used to hold the holdings.

The comments in this paper will be confined to Grazing Selections* and Preferential Pastoral Holdings, which together make up 83 percent of the total number of holdings in the area.

The Land Act prohibits Grazing Selections and Preferential Pastoral Holdings being held by companies or corporations, or by a person acting as a trustee for another.

With regard to the use of partnerships, the Land Act requires each partner to have a registered interest in at least one of the holdings subject to the partnership agreement.

The effect of these restrictions is reflected in the fact that seventy four percent of graziers with sheep in pastoral Queensland operate within a partnership situation. Table 2 gives the usage of the various forms of business structure in pastoral areas of Queensland.

* Grazing Farm, Grazing Homestead and Grazing Homestead Freeholding Lease

Table 2
Forms of Business Structure Used on
Pastoral Sheep Enterprises - Queensland
1978-79

Business Structure	Percentage of Sheep Enterprises*-%
Sole Operator	20
Family Partnership	70
Other Partnership	4
Private Incorporated Coy	2
Public Incorporated Coy	-
Other - Trusts, Estates etc.	4

Source: A.B.S., Agricultural Sector Australia - Structure of Operating Units, 1978-79.

*Sheep enterprises include sheep and sheep-meat cattle enterprises but exclude sheep-cereal grains enterprises, in an attempt to approximate pastoral enterprises.

In the past ten years there have been changes in the Land Act which allow the use of family trusts on Grazing Selections and Preferential Pastoral Holdings. Family partnerships are also now allowed to run stock and plant partnerships without each family member having to have a registered interest in a holding.

The gradual removal of death duties between 1973 and 1979 has meant that there is no longer the same strong incentive for spreading the ownership of land among as many people as possible.

Taxation incentives still encourage the spread of income earning assets i.e. stock among a number of family members.

As a result of these changes, the land, stock and plant partnership, for a family situation, is less attractive than a stock and plant partnership operating on land held by one or more family members.

This is because of the extra costs involved in transferring land each time additional partners are bought into the partnership. Just the extra stamp duty on a holding valued at \$300 000 would amount to \$4 500 for each change in ownership. If there was a debt on the land that had to be transferred as well, then extra stamp duty has to be paid on this amount in addition. For example, a debt of \$50 000 would attract duty of \$625.

The role of partnerships as a means of operating a pastoral business and also as a vehicle for the intergenerational transfer of property assets was investigated in a study of thirteen properties in the Paroo Resource Region of Far South West Queensland (Mills, 1981a).

The properties studied were either Grazing Selections or Preferential Pastoral Holdings and were selected because there had been some intergenerational transfer of assets in the past ten years.

Eight of the properties operated as land, stock and plant partnerships with the remaining five operating as stock and plant partnerships.

The average length of family involvement with the properties was 36 years. During the period of family involvement with the property, there had been on average 3.92 changes in the ownership of the land with one of these changes being associated with the purchase of an additional block of land.

Changes in the partnership composition occurred on average every eight and a half years. The main reason for a change in the partnership composition was to bring in new partners and/or to let older partners retire. Only seven percent of the alterations in partnership composition have resulted from the buying out of non-working partners.

On these properties, partnerships were used by the majority (eight out of thirteen) as a means of bringing family members into the business; tax and death duty planning were the major reasons behind the formation of partnerships on three properties.

In the past, because of restrictions imposed by land tenure and the impact of death duties, partners had to have an interest in land as well as stock and plant. As a result, on seven of the properties surveyed, each change in partnership composition was also associated with a corresponding change in the ownership of the land.

Because of the final abolition of all death duties on assets passing to family members in 1977, the transfer of the interest in land with each change in partnership composition has become unnecessary. Some lending authorities however for reasons of security, make the transfer of land a condition of finance that is made available to fund the transfers of assets between family members.

As family sources provided the finance in two thirds of the cases, this is probably not a common restriction.

Since the changes to land tenure and death duties it is possible for graziers to consider changing the composition of their family business more frequently.

It is desirable that younger family members be given an interest in (and responsibility for) the property if they are to stay and work on the property for any considerable period of time.

Using stock and plant partnerships, younger family members can gain an interest in the property and start to build up equity in the income earning assets. The home block can remain in the parents name until their retirement, thus cutting down the number of costly land transfers necessary.

If additional blocks of land are purchased, consideration should be given to putting these in younger members' names. If the younger family member has built up his equity in the stock and plant, this can be used to help purchase such an additional area or alternatively to enable him to be in a better position to buy the home block on his parents retirement, if this was necessary to provide a retirement fund for the parents.

A survey of profitability in the Paroo Resource Region (Mills, 1981b) illustrated that over the period 1974-75 to 1978-79, the larger aggregates run by family partnerships were the most profitable. This factor gave the larger enterprises more flexibility in their management options.

Family partnerships with a number of members and large land aggregations have become a popular and apparently successful means of coping with problems of drought, market fluctuations and the cost price squeeze which affect the pastoral industries.

Recent changes in land tenure and the abolition of death duties have facilitated the use of family partnerships as a successful form of business organisation on pastoral holdings. Future policy should further encourage the use of family partnerships.

1. Mills, D.M.D. (1981a). Unpublished data of author.
2. Mills, D.M.D. (1981b). Paroo Resource Region. Survey of Profitability. Queensland Department of Primary Industries, Mimeograph.