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How to pass on the cattle farm, not a family beef

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The farmers whose vast properties make up Queensland's $3 billion cattle industry are enjoying boom times, with beef prices at near-record highs.

But they've been looking enviously at some of the benefits handed out to the state's troubled sugar industry, with the measures in Canberra's $444 million rescue package for sugar including provisions to make it easier to pass on farms to younger generations.

Succession is a huge problem for cattle-farming families, with a changing industry creating pressure to expand farms, not split them, and a doubling of land prices in five years making the disparity between incomes and asset values ever more extreme.

The issue for older farmers is how to retire and hand the property intact to their children, without triggering capital gains tax.

"The personal issues can be even bigger than the tax and the legal and the accounting issues," said Matthew Burgess, a tax and estate planning partner at lawyers McCullough Robertson in Brisbane.

"It's only a generation ago that everything went to the eldest son and no one complained."

Now, if the issue isn't left to a will that may be challenged, it all comes down to difficult negotiations among the family members. "Quite often you're dealing with a lifetime worth of emotion," Mr Burgess said.

And it's important to remember the "children" involved are usually well past school age. Most are at least in their mid 30s, with many in their 60s, having lived and worked on the property all their lives.

And it is almost impossible for one child to buy out his or her siblings and use the income from the property to pay back the debt.

"The industry is asset-rich but cash-flow poor," said Grant Bloxham, managing director of Townsville-based advisory firm Bstar, which specialises in succession planning. "That's a challenge how do they get the money out but still leave the property to the sons and daughters."

The best solution, said grazier Peter Hughes, is for the parents to expand the business. "One generation can't afford to sit on their hands," said Hughes, who has spent $44 million this year buying Queensland pastoral properties.

They should use the income from the core holding to service the debt taken on to buy properties for the next generation, Hughes said. This way they avoid the issue of capital gains tax, and pay interest rather than tax on the income from the original property.

"That's the easiest way to give them ownership of something. It's really only using that asset to its fullest potential to do that."

Many of the children, and their parents, have never known anything other than life on a remote cattle station.

"For a lot of these families, anything up to 90 per cent of their wealth is tied up in the property," said McCullough's Mr Burgess. "It's all about economies of scale, so if you've got three children, you can't just divide it up between them."

And recent court cases have reminded potential heirs of cattle properties there is no guarantee the farm will pass to them.

"It's a pretty serious mid-life crisis if you spend 25 years working on the land and the property doesn't come to you," Mr Burgess said.

One possible solution is a family trust, but that limits flexibility in ways to pass the assets to third and fourth generations.

Rural Management Partners, 51 per cent owned by Australian Agricultural Co, which is now the country's biggest cattle company, offers another solution.

It will run a property for a farmer, or lease the land and stock it with cattle owned by investors in specialist funds it has set up.

"I get calls every couple of weeks from people offering to lease land to us," said RMP managing director Chris Evans.

This allows farmers to leave their properties, even if their children don't want to go into the business. In some cases, the plan is to pass the farm on to the grandchildren.

"They don't have to sell their property to retire," said Mr Evans. "Once you sell the farm, it's not always easy to go back and buy because land values are rising."

A version of the same strategy is being used within families to get around problems with capital gains tax, which does not apply when a property passes to the next generation in a will. This allows the parents to move to, say, a home on the coast, while keeping the cattle farm at a viable size.

"They might retain the land, the boys buy the cattle, and the parents receive an income stream in rent," Bstar's Mr Bloxham said.

He said it could be difficult for children to convince their parents to guarantee debts taken on to buy other properties. "The last thing [the owner of the original farm] wants to do is put the whole cattle station at risk," he said.

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