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THE INCIDENCE AND EFFECTS OF DEATH DUTIES ON WOOL-GROWING PROPERTIES IN SOUTH AUSTRALIA*

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Death duties are allegedly a tax designed to redistribute accumulations of wealth. Therefore, to the extent that they are successful, one might expect death duties to inhibit the trend for wool-growing properties to become more capital-intensive. This aspect of death duties appears to be in complete contrast to other rural policy objectives designed to encourage on-farm investment. However, while a survey of 58 death-duty-affected properties established that death duties *do* reduce the rate of capital accumulation, the impact appears to be less severe on the wealthy than the less-wealthy families.

The Australian farm sector is predominantly composed of the unincorporated firm type of ownership, the family members of which must face the prospect of a lump-sum tax in the form of death duties at irregular and uncertain intervals.¹ A sufficient provision of non-farm assets prior to death to meet the cost of death duties must reduce the rate at which farm capital can be accumulated. On the other hand, an inadequate provision will inhibit the rate at which the farm firm can accumulate farm capital after death.² As long as the productivity of farm labour is positively related to the capital employed on the farm, labour productivity will likewise be reduced.

The increasing impetus of the cost-price squeeze in the farm sector, particularly for wool growers, has aggravated the difficulties involved in meeting death duties. This is particularly so for those farmers who are now facing duties (or debts contracted in order to meet duties) based upon pre-1969 property valuations. The period covered by this survey (deaths between 1962-63 to 1968-69) witnessed a steep rise in the assessed value of rural land.³ This meant that any death duty provision (such as life assurance) made out of income and based upon historic values proved to be grossly inadequate.

The purpose of this paper is to indicate the incidence and effects of

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¹ See for example, Wells, J. M. and Bates, W. R. 'Changes in Farm Business Organization in Australia', *Quarterly Review of Agricultural Economics*, Vol. XXII No. 2, April 1969. The term 'farm' or 'farmer' is used in this article to include graziers and grazing property.

² This does not necessarily imply a sale. An increase in indebtedness obviously inhibits the capacity of the farm operator to accumulate capital.

³ The Commonwealth Deputy Commissioner of Taxation, Adelaide, in a personal communication to the author, indicated an overall increase in assessed values per acre of rural lands in S.A. between 1960 to 1969 of over 70 per cent.

death duties on 58 South Australian wool-growing properties and to question the efficacy of this tax both as a means of redistributing wealth and in relation to rural policy objectives.

Death Duties

In South Australia, as elsewhere in the Commonwealth, death duties are imposed by both the State and Federal governments. Succession duties are levied by the State and assessed first; the Commonwealth making their assessment of estate duty on the estate net of succession duty. Such duties are applied to the value of assets owned by the deceased at death and to gifts he may have made within a prescribed period prior to the date of death.⁴ Some governments have attempted to give the farmer special relief from death duties.⁵ The most common forms of concession leave the dutiable estate (and rate of duty) unchanged but provide for a rebate of the duty assessed.⁶

Figure 1, which shows the rate of total death duty (State plus Federal) by State and by value of assets deemed to be subject to assessment for death duties, assumes that two thirds of the estate qualifies for (any of) the 'special' rebates available to farmers.⁷ Because the rates of duty vary according to the relationship of the beneficiaries to the deceased, the diagram also assumes a widow and son inheritance.

As death duties can only be applied to the value of assets *owned* at death and to recent gifts by the deceased, families are able to avoid much of the duty.⁸ For example, by gifting or otherwise transferring half of a \$120,000 farm to a descendant *before* death, a farm family in S.A. can save up to 70 per cent in duty.⁹

The methods employed to avoid death duties are many and usually complex. They may entail a straightforward pre-death transfer of assets, or a more subtly executed flow of income or investment into the assets (or share in assets) held by the remainder of the family. But whatever the method, the essential point is that a stream of transfers at known and convenient intervals is both easier and cheaper to achieve than a lump-sum payment at an uncertain date. For example, even a crude trans-

⁴ The prescribed period varies by states from 12 months (as in S.A.) to 3 years (as for Commonwealth estate duty).

⁵ There is the inherent danger that partial concessions on some assets will so distort investors' decisions as to stimulate significant upward pressures on the price of these assets. This upward pressure might offset any intended relief since 'market price' is the basis of valuation for assessing the rate and amount of death duty to be paid.

⁶ S.A. and Victoria allow a rebate of duty in respect to land used for primary production; Queensland provides for a rebate on the estates of residents from isolated areas; while the new (1970) amendments to the Federal Estate Duty Assessment Act provide for a rebate on *any* farm asset (or shares in farm assets).

⁷ The effects of the 1970 amendments to the Estate Duty Assessment Act (which apply outside the period covered by this survey) are shown in Figure 1 for S.A. and N.S.W./Tas.—the two extreme rates of death duty. By definition, the 'dutiable estate' would include such things as gifts made within a short period of death.

⁸ Death duty 'avoidance' is not to be confused with tax or duty 'evasion'. The former is allowable within the law and generally involves shedding ownership (though not necessarily control) before death.

⁹ The death duty on \$60,000 (at 13 per cent) is about \$7,000; while on \$120,000 (at 23 per cent) it is approximately \$27,000.

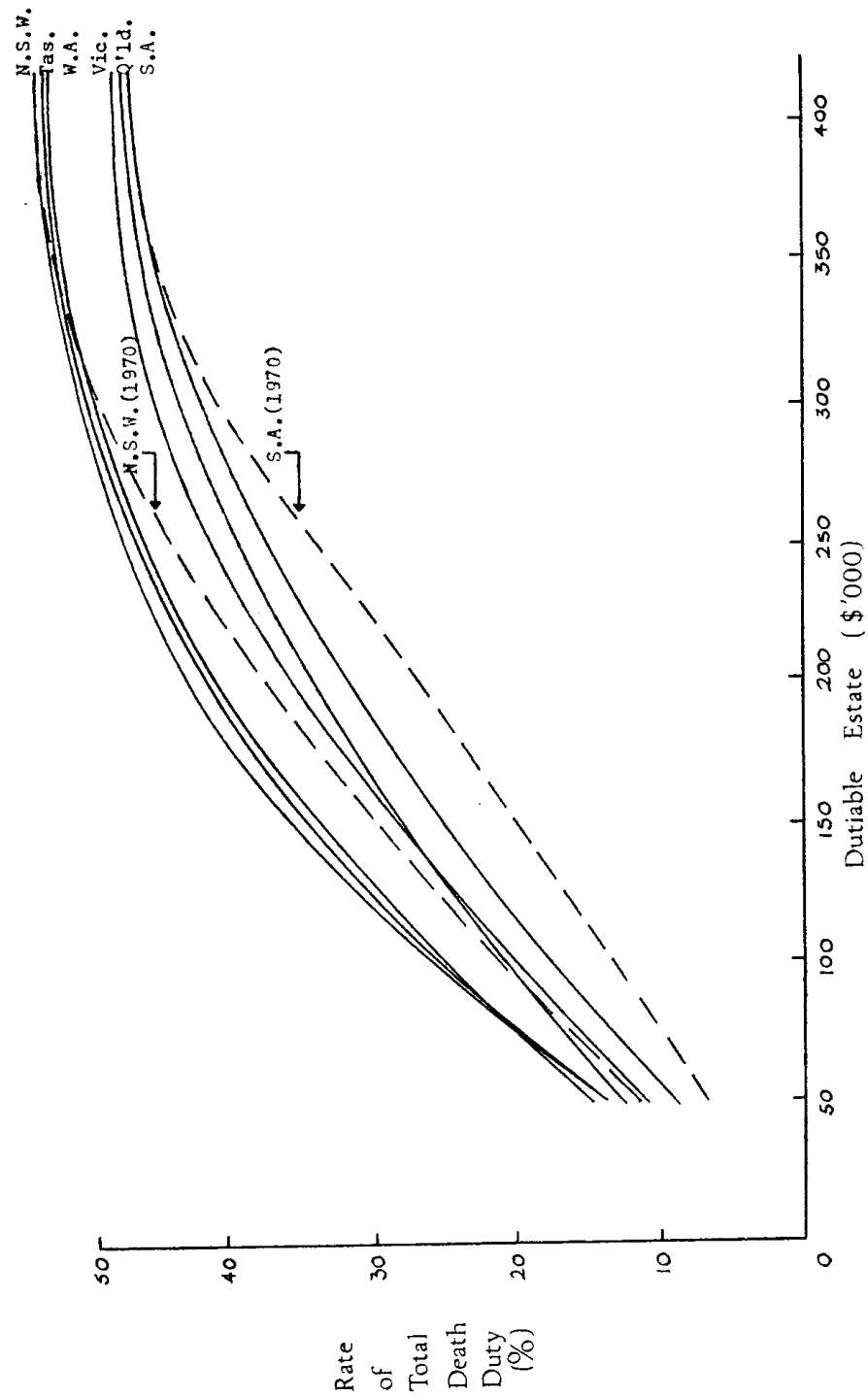


FIG. 1—Rates of total death duty by states as at 30th June, 1969.

fer of six lots of \$20,000 at eighteen monthly intervals, involving a total State and Federal gift duty of 7.5 per cent is a significantly lower tax on capital than one transfer at death of \$120,000 involving duty at 23 per cent.¹⁰

The Survey

The very confidential nature of death duty administration prevented access to the population of deceased (farm) estates and therefore precluded the use of random sampling in selecting the family farms used in this survey. The most practical alternative selected was to call for volunteers via radio and the country press. The initial 42 respondents came from widely dispersed areas of the State: Eyre Peninsula, the Upper and Mid-North, the Murray Mallee and the South East regions.

It was anticipated that the volunteers would come from farming families who had found death duties a particular burden. Either they would be ill-prepared because of an inadequate provision of non-farm assets to meet the duty, or the deceased had failed to divest himself of a major part of farm ownership before his death. That is, one would expect that the degree of avoidance evident in this survey would understate the degree of avoidance of death duties achieved by the population of family farms in the areas from which the respondents were drawn.

There is, of course, no reason to believe that even a random sample of wool-growing properties drawn from any district, can claim to be representative of the situation in either the wool industry or the farm sector as a whole. But as a check against bias in the incidence of death duties amongst the 42 'volunteers' drawn initially for the purpose of this survey, 16 deceased estates, which were the nearest 'deceased-estate' neighbour to a volunteer indicated that the incidence of death duties on the volunteers was not atypical of farms of similar size in the districts from which the volunteers were drawn.¹¹ The two groups, volunteers and their nearest neighbouring deceased estates, are compared in Appendix I which suggests no evidence of overall bias in the case of the volunteers.

The survey also included a further 36 families not involved in the inheritance of farm property at any time during the preceding 15 years. Questionnaires were sent to farmers in the same districts as those subject to death duty and only 36 responded out of the 52 contacted. The answers received from these farms were used in an attempt to isolate the effects of death duties from the effects of market and seasonal conditions that were common to *all* farms.

The Observed Incidence of Death Duties

Figure 2 shows the relationship of the net dutiable estate (assets subject to duty less outstanding debts) to:

- (a) the rate of duty actually paid, and
- (b) the rate of duty which would have applied had *all* family farms received the rebate on land used for primary production.

¹⁰ Such a strategy offers similar benefits in other states, even though the actual rates vary from State to State.

¹¹ The distribution of the 58 surveyed estates between the sheep industry zones was as follows (introduced neighbours are shown in brackets): Pastoral zone 4(1). Wheat-sheep zone 35(11). High rainfall zone 19(4).

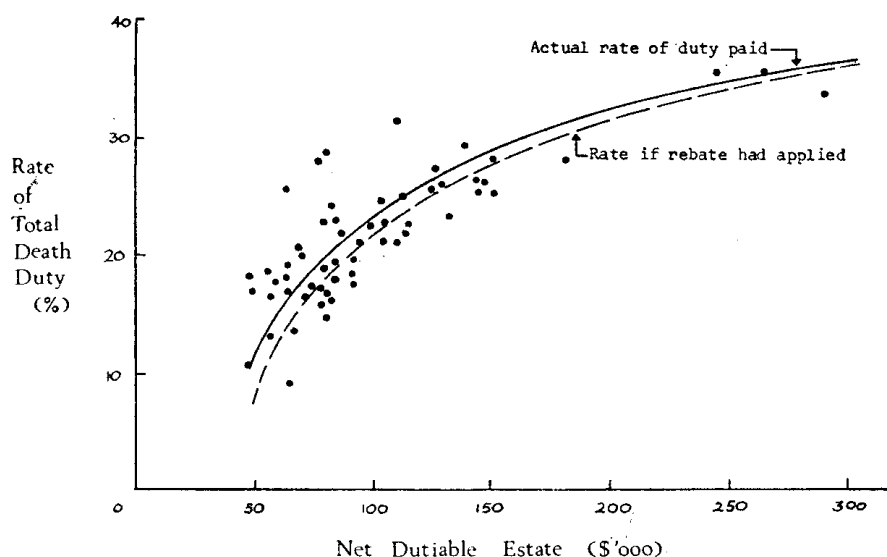


FIG. 2—Rate of total death duty by net dutiable estate.

The difference between these two lines illustrates the savings in duty foregone on these estates by the two in five farming families who failed to qualify for the rebate; usually because the Commissioner of Stamps and Succession Duties determined that the land in the estate was owned and used jointly either by a partnership or a family company.¹²

As one would expect, the rate of duty rises with increases in the value of the dutiable estate. However, death duties are allegedly designed to prevent the accumulation of wealth in the hands of relatively few families. A diagram such as Figure 2 gives little indication of how successful death duties have been in this regard. The net dutiable estate represents only that portion of the family property in the operator's name at death. It is only by relating the duty actually paid to the net (farm) family wealth that we can gauge the effective incidence of death duties.¹³ For, in the final analysis, the generation to generation capacity of a farming family to pay death duties is dependent upon the amount of income-generating capital they hold relative to the amount of duty payable. The incidence is lessened if the deceased divests himself of ownership during his lifetime. Further, by relating the duty paid to the total net wealth of the farming family we overcome the necessity to rely on the memories of beneficiaries to recall all lifetime gifts and diversions of income from the deceased to other family members. The rate obtained is defined as the effective rate of death duty and is shown in Figure 3.¹⁴

¹² Section 55C of the S.A. Succession Duties Act 1929-67 specifically excludes land which has been worked under a partnership or company arrangement from qualifying for the rebate on land used for primary production. This restriction can be avoided only by a careful wording of the partnership agreement and the Will. However, the Commissioner still reserves the right to judge each case separately.

¹³ The net (farm) family wealth is defined as the total value of farm and non-farm asset holdings (net of debts) of the family members actually living on the farm at the date of death.

¹⁴ The estates in Figure 3, as with Figure 2, include all 58 duty-paying farms i.e. the 42 'volunteer' and 16 'introduced' farmers.

The difference between the effective rate of duty and the rate that would have applied if all the (farm) family property had been subject to this redistributing tax (the 'intended' rate of duty shown in Figure 3), indicates the degree to which the various families have legitimately avoided the payment of *death duties*.¹⁵ On this basis it is evident, from Figure 3, that the more wealthy families are availing themselves of the various techniques of death duty avoidance to a greater extent than the less wealthy families. Thus the actual incidence of death duties is seen to be regressive, rather than progressive.

Some reasons for this overall pattern of incidence which emerged during the course of the survey were:

1. Early deaths were generally associated with families who had accumulated less wealth (net of debt) than older people.¹⁶ In addition, they had not begun to divest themselves of ownership to the next generation to any great extent.¹⁷
2. The more established and valuable were the farm properties the more willing and able were the families to implement the legal and accounting measures involved in avoiding the payment of death duties. Table 1 shows the distribution by value of farm and number and

TABLE 1
Estate Planning Advice Received and Used by Value of Farm

Net Farm Value \$	No. in Class	No. Received Advice	Percentage Received Advice
0 to less than 60,000	8	0	0
60,000 to less than 120,000	14	6	43
120,000 to less than 180,000	11	8	73
180,000 and over	14	11	78

percentage of deceased persons over the age of 55 who engaged legal and accounting estate planning advisors.¹⁸ The result of this advice is apparent in the extent of death duty avoidance revealed in Figure 3.

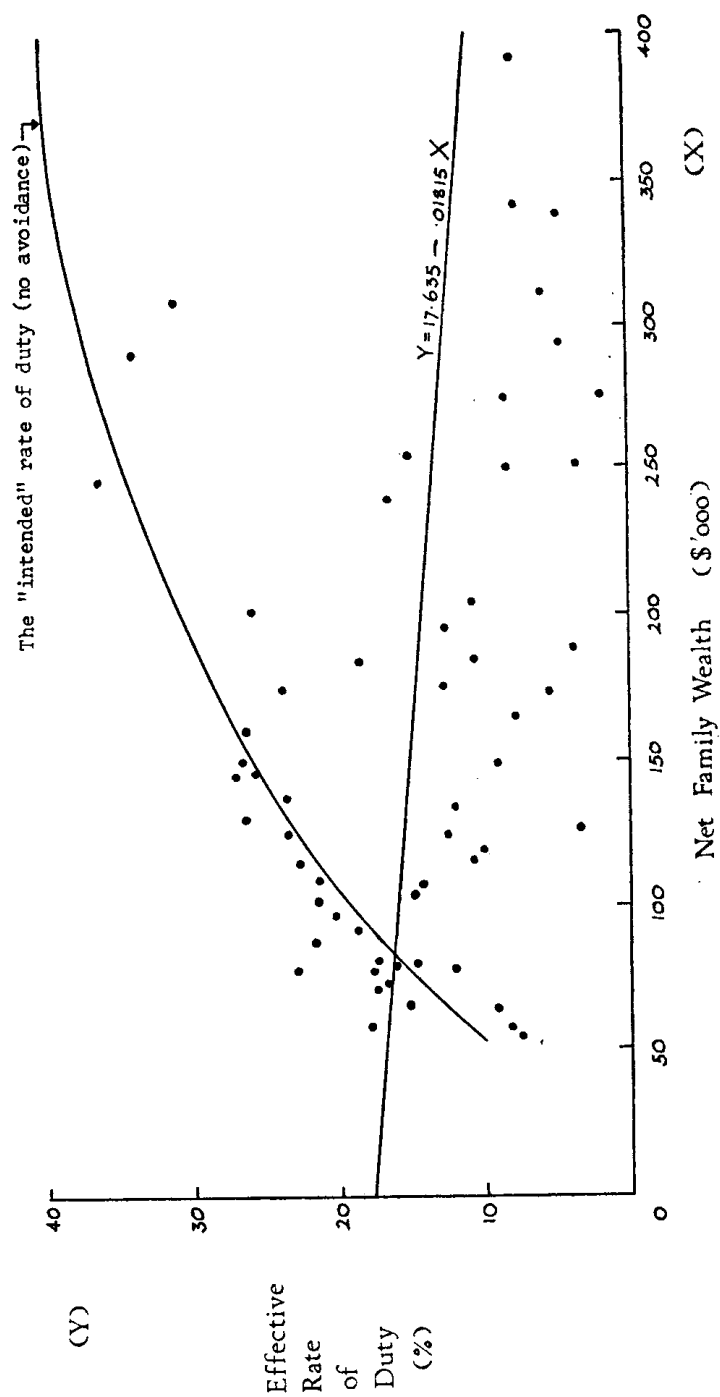
3. Associated with the need for professional estate planning advice, the great bulk of farmers interviewed revealed an appalling lack of

¹⁵ It must be emphasized that this article can only claim to measure the impact of *death duties*. That is, the full cost of transferring a family farm from one generation to the next may also involve gift duty and stamp duty and these amounts would have to be compounded to the year of death to make inter-family comparison of the full incidence of inter-generation transfer taxes. However, few families could recall with accuracy the amounts of gift duty paid (if any) and in any case there was *no* State gift duty prior to September, 1968.

¹⁶ An 'early death' would be any in which the deceased left dependent children (i.e. dependent for income). *e.g.* a deceased under 45 years of age.

¹⁷ The regression of the proportion of ownership held by the deceased at death on his age produced a linear regression equation of $Y = 1.1 - .068X$ and was significant at the 10 per cent level.

¹⁸ A deceased who died over the age of 55 had usually sufficient time to make at least some of his estate planning effective (*e.g.* through a stream of gifts at 18 monthly intervals). Further, experience indicates that most farmers tend to wait until their heirs are sufficiently mature and wedded to the family farm before executing a pre-death transfer of ownership.



Note: This regression is significant at the 10 per cent level.

FIG. 3—Rate of total duty relative to net family wealth.

knowledge of the implications of the death duty legislation. For example, most were ignorant of the fact that by trading jointly as a partnership or company (for income tax purposes) they could preclude their beneficiaries from the State rebate of duty on land used for primary production.

The survey revealed that farming families generally hold a low proportion of their assets in a non-farm form.¹⁹ Table 2 classifies the 58 deceased estates according to their capacity to meet the costs of the death from non-farm assets. Of the 19 beneficiaries who were able to meet the costs of the death from non-farm assets, 13 were able to do so mainly because more than half the family farm had escaped probate, as the family structure of asset holdings was much the same as for the great bulk of families who were unable to meet the costs of the death from their available non-farm assets holdings.²⁰

TABLE 2

The Composition of Family Assets at Death by the Sufficiency of Non-Farm Assets to Meet the Costs Associated with the Death

Sufficiency Group	No. in Group	Family Holdings of	
		Farm Assets (%)	Non-Farm Assets (%)
1. <i>Sufficient</i> non-farm assets			
(a) Deceased owned a <i>half or more</i> of the farm assets at death	6	77	23
(b) Deceased owned <i>less than a half</i> of the farm assets at death	13	84.5	15.5
2. <i>Insufficient</i> non-farm assets			
(a) Deceased owned a <i>half or more</i>	36	85.8	14.2
(b) Deceased owned <i>less than a half</i>	3	90.3	9.7

There are, of course, other costs associated with a death apart from death duties. In addition to the legal, court, transfer, valuation and burial fees, over 60 per cent of the estates examined here were administered through a trustee company. A trustee's company's fees are assessed on the *gross* value of the estate and can therefore be quite substantial.²¹ For example, the total cost of the trustee company fee and other charges on a \$120,000 estate administered through a trustee company is approximately \$5,000, while the cost for a similar property handled through a solicitor alone appears to be between \$1,000 and \$1,500.

The total cost of the death to the beneficiaries can therefore be

¹⁹ Farm assets are land (and improvements to the land), stock and plant. Non-farm assets include cash-at-bank, shares in non-farm companies, life assurance policies, urban (or holiday) property, etc.

²⁰ The relationship between the sufficiency or shortfall in non-farm assets and the proportion of the property owned by the deceased is illustrated in Appendix II.

²¹ The standard fee charged by a trustee company is 4 per cent for the first \$50,000 of gross value of estate, 3 per cent from \$50,000 to \$100,000, 2 per cent from \$100,000 to \$200,000 and 1 per cent on the excess. This fee does not cover the Court, valuation and other fees incurred in the process of administration, nor does it take account of a fee at 5 per cent of net income charged where a 'life interest' is involved.

considerable.²² Unless the farm operator diverts sufficient income into non-farm assets to meet the costs of the death, a post-death charge against the farm assets is inevitable. On the other hand, any pre-death provision of non-farm assets must be made partly at the expense of on-farm investment.

The Effects of Death Duties

The State death duties levied on the estates examined in this survey were payable within six months of assessment while all Federal duty had to be paid within two years. Except in very exceptional circumstances they could not be paid from the income earned during that period.²³ For example, the average S.A. wheat-sheep farm with a capital value of \$117,000 would, without avoidance and without the addition of any non-farm assets, face total costs at death of approximately \$31,000. This would be made up of over \$13,000 succession duty, \$13,000 estate duty and \$5,000 administrative costs.²⁴

If the costs of the death cannot be met out of current income or out of a provision made from the pre-death income, the beneficiaries must borrow funds or sell farm assets to meet such expenses. Each necessarily reduces the rate of accumulation of farm capital. Figure 4 attempts to show the effects of death duties on the level of annual on-farm investment before and after death by three of the criteria suggested in Table 2 above, viz:

1. adequate provision for duties where a half or more of the family farm was dutiable;
2. adequate provision mainly because the deceased divested himself of more than a half his ownership of the farm before death;
3. inadequate provision to meet the costs of death.

The very small sample of farms which had insufficient non-farm assets in spite of the fact that the deceased owned less than half the farm at death, experienced effects very similar to those of the other 36 properties in the 'insufficient' group. Therefore, for simplicity of exposition, they have been grouped here with this latter group of farms.

The level of investment (I) has been related to the farm value (V) to avoid differences in absolute magnitude between smaller and larger properties.²⁵ To eliminate the year to year variations in the level of on-farm investment due to such factors as seasonal conditions, farm product prices, the availability of credit, quotas, etc., account was taken of the year to year investment levels of the 36 farms free of death duties in the previous 15 years. The 'adjusted I/V' shown in Figure 4

²² For example, the total cost of death for an estate of \$120,000 (two thirds of which was land subject to rebate) was approximately \$32,000 (\$27,000 death duties and \$5,000 in other costs associated with the death).

²³ Subsequent to the 1970 amendments to the Estate Duty Assessment Act, the Commissioner of Taxation has more discretion in the time he can allow individual estates to meet estate duty.

²⁴ This example assumes a widow and son inheritance and that each succession receives the rebate of duty on land used for primary production on two thirds of the assets inherited.

²⁵ The level of on-farm investment was obtained from income tax returns and included plant, stock and land purchases net of any sales, scrub clearing and other development work claimed, but excluded any allowance for depreciation.

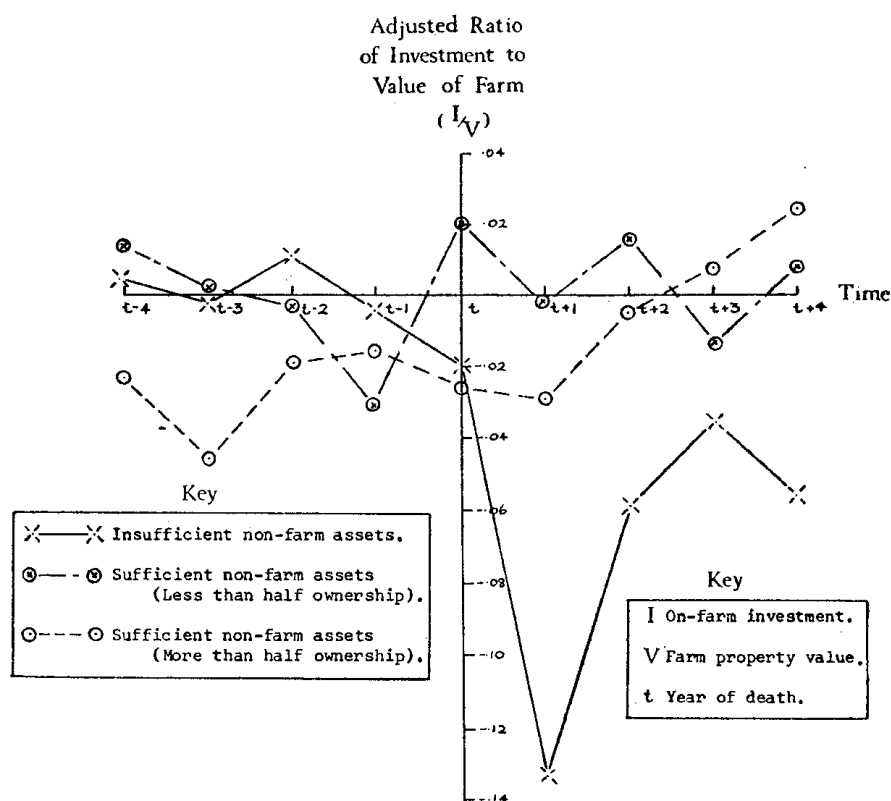


FIG. 4—The impact of death on farm investment levels relative to the year of death.

is the average level which remains in each 'sufficiency' category (relative to the year of death) when the annual average I/V of the duty-free farms in each industry zone is subtracted yearly from the 'unadjusted I/V ' of each duty-paying farm in the zone concerned. That is, any deviation of the adjusted I/V from zero is due to abnormal factors peculiar to the dutiable farms—presumably the death.

The average adjusted I/V of the 39 farms with insufficient non-farm assets shows a general reduction post- t , the year of death; the reduction being most marked in the year immediately following death.²⁶ There appears to be no significant change in the case of those farms where the deceased shed himself of more than half the farm's assets before death. However, in those cases where sufficient non-farm assets were provided to cover duty on a half or more of the family property,

²⁶ The plunge in the investment level in the year after death is mainly due to two factors:

- The assets of an estate are 'frozen' into the estate during the period of administration. They are not available for investment. 54 per cent of the 39 farms were at least 90 per cent owned by the deceased. Even a zero level of investment on these deceased estates would appear as a negative adjusted I/V on Figure 4 equivalent to the average duty-free I/V in year $t+1$.
- A decision to sell farm assets (negative I) was usually made during the period of administration to comply with the six months payment period.

the effect appears to be a rise in the general level of investment in the years after death. This rise was due to the pre-death constraint on on-farm investment caused by the conscious provision to meet death duties and the lifting of this constraint (at least temporarily) subsequent to death.

Although it would be desirable to measure the return foregone (if any) on income diverted into non-farm assets, or the return on investment foregone when borrowed funds are used to meet death duties, this is in practice impossible. Even attempts to measure changes in purely physical terms must identify which returns are due to which particular investment project. Again, it is difficult to define in practice when the pay-off from a particular investment project begins and ends. If it is assumed that the marginal return on capital is at least equal to the average return on existing capital, then the death duty induced reduction in on-farm investment evident on 45 of the 58 surveyed properties has a detrimental effect on their farm income.²⁷

Attempts to measure other effects in terms of the whole sample of 58 farms (or even by groups with sufficient or insufficient non-farm assets) proved very difficult. In each case the measures were attempted relative to the non-dutiable estates to avoid highlighting changes which were simply due to factors common to all farms and not simply unique to those properties subject to death duties. For example, in measuring attempts to economize on the amount of labour employed on the duty-paying farms after death, the results were confounded by the farms on which a widow had actually *hired* additional labour to replace the deceased operator. Again, some farms economized in repairs by doing the work on the farm, while others increased the repair bill through economizing on the purchase of new equipment, but were incapable of repairing the old equipment themselves. However, some of the more obvious effects were measured and these have been listed in Table 3.

Table 3 shows that where there were insufficient non-farm assets to meet the costs of the death, the rate of superphosphate application fell after death. This group also resorted to the sale of some farm assets and experienced a substantial increase in the level of indebtedness after death relative to the duty-free farms.²⁸ The small group which had made special provision to meet death duties showed little variation in the factors examined, except that there appears to be an eventual increase in the rate at which superphosphate was applied in the years after death. On those farms where death duties were largely avoided there again appears to be no basis to suggest that they behaved significantly differently to the group of farms free of death duties in the previous 15 years. The mere fact that there was a balance of a 'sale' of minus one (that is, a purchase) is hardly sufficient grounds upon which to conclude that this group is more inclined, or able, to expand the area of farm than is the case with the duty-free farms.

²⁷ It is further assumed that the long run average return must be positive.

²⁸ 'The Australian Farm Situation, 1969-70', *Quarterly Review of Agricultural Economics*, January, 1970, put the level of indebtedness relative to total capital on wool-growing farms in the mid 1960s at between 10 and 12 per cent. An increase in this figure of 6 per cent therefore represents a 50 to 60 per cent increase in indebtedness.

TABLE 3

Effects of Death Duties on Farm Asset Sales, Level of Debt and Superphosphate Rate by Sufficiency of Non-Farm Assets

Strategy ^(a)	Insufficient Non-farm Assets	Sufficient Non-farm Assets	
		Dec'd. owned $\frac{1}{2}$ or more of the farm	Dec'd. owned less than $\frac{1}{2}$ the farm
1. <i>Index of superphosphate rate</i> (Average $t - 3$ to $t = 100$)			
$t + 1$	97	91	98
$t + 2$	96	95	97
$t + 3$	93	107	101
2. <i>Net Sales of Farm Assets</i> <i>Post-t</i>			
No. (and % of group) who sold land	9 (23%)	0	—1 (8%)
Value of land sales V_s ^(b)	0.0463	0	—0.0072
No. (and % of group) who sold stock and plant	14 (36%)	0	3 (23%)
Value of stock and plant sales V_s	0.0239	0	0.0032
3. <i>Increase in Indebtedness</i> <i>Post-t Ratio</i>			
Total indebtedness change V_s	0.0612	0.0135	0.0165

Notes: (a) Adjusted for the yearly change as indicated by the 36 duty-free farms.

(b) V_s is the total net value of family farm property in each of the three 'sufficiency' groups.

Conclusion

The principal results to emerge from this survey were:

1. Though generally considered to be an equity tax designed to fall heaviest on those with the greatest wealth, death duties in fact proved to be regressive. In general, wealthy families were able to avoid the payment of death duties more effectively than the less wealthy.²⁹

This situation is clearly in conflict with the periodically-stated intention of governments to ensure the survival of 'the family farm'. In addition to the legislated progression in the rate of duty and the long-standing State government rebate on family inheritances of farming land, the Commonwealth government, as recently as 1970, singled out for special treatment, farm estates of less than \$140,000.³⁰ But, as was seen earlier, the scope for death duty avoidance means that such attempts to favour family farms of *any* value may be purely illusory, as estate value and farm value need not be synonymous.

2. Questions of death duty avoidance aside, operators may choose

²⁹ The effect of this conclusion is to invalidate claims that the farmers who most benefit from income tax concessions on farm investment are always 'caught' in the end.

³⁰ The amendments contained in the Estate Duty Assessment Act, 1970, specify that farm estates of up to \$140,000 are to receive a rebate of duty of 50 per cent on all farm assets and an increase in the statutory exemption from \$20,000 to \$24,000. Beyond \$140,000 the percentage rebate declines to zero for a \$250,000 farm estate.

to either ignore the inevitability of death duties, leaving it to their descendants to borrow or sell assets *after* their death or, alternatively, they may decide at some stage during their life to make an annual provision out of income. Both necessarily inhibit investment and are therefore in conflict with government measures aimed at encouraging both short-run and long-run investment to increase the capital stock per worker in agriculture and thereby raise the productivity of rural labour.³¹ For example, the government provides a bounty on superphosphate to encourage its use by farmers, yet one of the first short-run strategies to be adopted by death-duty-affected families was to economize on the rate of superphosphate application. Similarly, income tax concessions are provided to encourage long-term development such as clearing additional land and the harnessing of water resources: but the sudden imposition of a lump-sum tax in the form of death duties seriously disrupted such long-term investment on the majority of farms examined. As for restructuring or otherwise encouraging smaller farms to increase their capital stock to become more 'economic units', it is ironic that it is in the range of farm values below about \$140,000 that death duties appear to most inhibit the rate of accumulation.³²

Since death duties appear to be failing as a means of redistributing wealth and have adverse effects upon the rate of capital accumulation, should we advocate that this form of tax be abolished?³³ Though such a decision would perhaps benefit the farm sector more than any other, to satisfy the needs of equity, it would have to apply to *all* deceased estates, farm and non-farm.³⁴ While it is conceivable that the Commonwealth government could forego the revenue from estate duty, the States could only do so if the Commonwealth guaranteed to compensate them for the revenue foregone, or if they could raise the equivalent revenue from some other tax.³⁵

³¹ For example, in the Foreword to the Department of Primary Industry's *Income Tax for Primary Producers*, 1970, Mr Doug Anthony explains that: 'The purpose of these (income tax) concessions is not only to assist him (the farmer) to stabilize his income but also to enable him to bring his undertaking to a higher level of economic productivity, with consequent beneficial effects for the nation as a whole' (words in parenthesis are the the author's).

³² Quite apart from the overall regressive pattern of the incidence evident in Figure 3, a simple linear regression fitted to the effective rate of duty levied on estates up to about \$140,000 in value (the limit of the full Commonwealth rebate of 50 per cent), shows that the incidence is steeply *progressive* as the capital value of farms within this range increase.

³³ Any moves to abolish death duties should also be considered in conjunction with the abolition of gift duty. Otherwise the abolition of death duties alone would inhibit the pre-death transfer of ownership (and management) between generations of farmers. At present the problem is relatively small as gift duty revenue is only about 8 per cent of death duty revenue.

³⁴ Recent copies of the Report to Parliament of the Commissioner of Taxation show that the primary producing sector pays between 35-40 per cent of all estate duty collected.

³⁵ While the Commonwealth government obtained only 1.4 per cent of its 1968-69 tax revenue from estate duty, the States drew approximately 17 per cent of their revenue from this source. Further, certain features of the present Federal-State relations prevent the States from readily withdrawing from this field of taxation. For example, S.A.'s December, 1970, legislation to *increase* succession duty was introduced (in part) in order to satisfy the requirements of the Commonwealth Grants Commission.

In the event that the Commonwealth is not prepared to abolish estate duty and underwrite the States for death duty revenue foregone, is there an acceptable alternative means of raising the equivalent revenue from the same sector of the economy? We could, for example, attempt to close the loopholes in the death duty legislation. This would only be successful if we were prepared to aggregate all life-time gifts into the bequest made at death. Even if successful, the achievement of equity would largely be at the expense of efficiency; especially if we believe that farm holdings will have to become larger and more capital intensive with the passage of time.

Again, we could look for ways of taxing the owners of capital by some alternative means. Two such taxes are a capital gains tax and a periodic tax on the owners of society's resources. A capital gains tax, however, while possessing attributes that would help overcome the weaknesses inherent in an income tax system which favours speculation by high income earners, would be extremely difficult to administer and, in times of falling values, conceivably yield a return to the State considerably less than that of a death duty.

A form of wealth tax, on the other hand, is readily available on the major farm asset—land. Legislation (such as with land tax, or probate) already exists in the States which defines farming land and singles it out for 'special' treatment. The administrative machinery already exists for the collection of land tax and our legislators have already devised means to guard against non-farmers diverting wealth into farm property as a means of avoiding death duties.³⁶

An annual land tax, preferably based directly upon gross earning capacity, would remove the inequities caused by death duties based upon lagged valuations in times of rapidly changing land values. Further, and perhaps most importantly, the substitution of an annual tax would go far to eliminate yet another uncertainty faced by the farm sector.³⁷ At present it is impossible for the farm operator to approach death with all the knowledge imputed to the mythical 'economic man'. Not only is it impossible for him to predict his date of death, or future changes in legislation relating to aggregation of assets, rebates on farm assets, rate of duty according to the consanguinity provisions, etc., but he would also find it difficult to predict the value likely to be placed on his farm at the time of death.

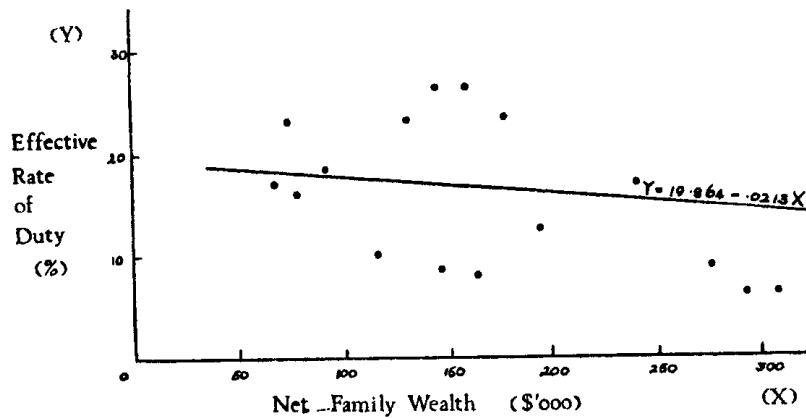
The substitution of a more substantial annual land tax for current death duties is more likely to induce farmers to value land in terms of its long-run net earning capacity than is the case with a tax which has to be met at an uncertain date and *after* the death of the purchaser. Further, to the extent that the lifetime consumption of those who make insufficient provision for death duties is higher than that which would exist were they faced with an unavoidable annual

³⁶ The Estate Duty Assessment Act 1970, Sections 9B and 9D provide that the rebate to farmers will only apply if more than a half the estate consists of farm assets and the deceased earned the major part of his income from farming during the five years prior to death.

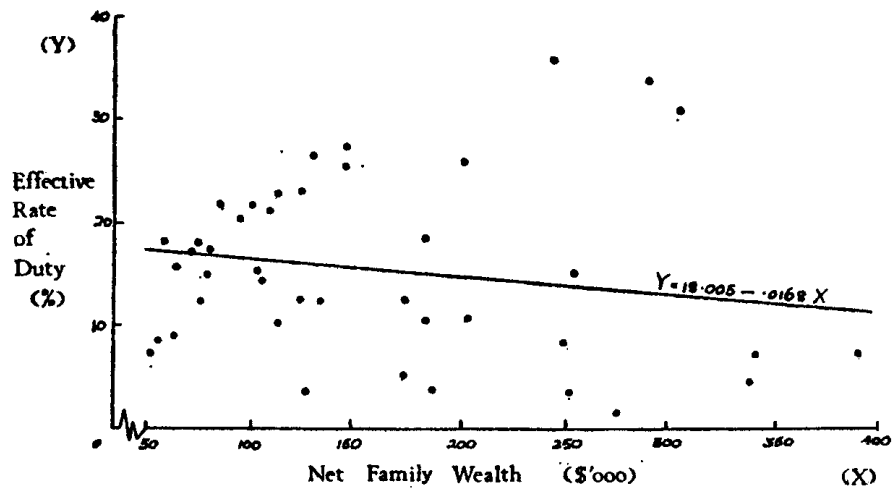
³⁷ The issue of Drought Bonds, the income-averaging procedure applied in the assessment of income tax and stabilization schemes all indicate recognition of other sources of risk and uncertainty in farming. So why not recognize the uncertainty associated with death duties?

tax, death duties reduce saving instead of consumption. To an economy bent upon growth with the minimum inflation, the alternative of an annual tax offers attractions which should not be ignored.

APPENDIX I



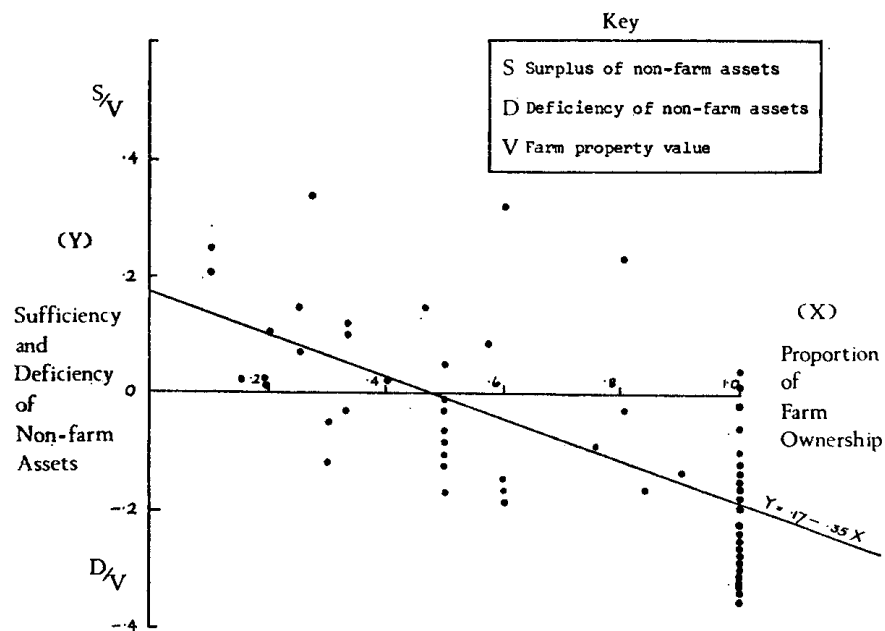
Incidence of death duties on the 16 'introduced' farmers.



Note: These regressions are significant at the 10 per cent level.

Incidence of death duties on the 42 'volunteer' farmers.

APPENDIX II



Note: 1. A ratio of ownership of 1.0 includes those properties on which the deceased shared stock and growing crops for income tax purposes.

2. This regression is significant at the 5 per cent level.

Surplus or deficiency of non-farm assets net of death expenses by proportion of farm ownership held by the deceased at date of death.