

### Farm and Family Living Income and Expenditures

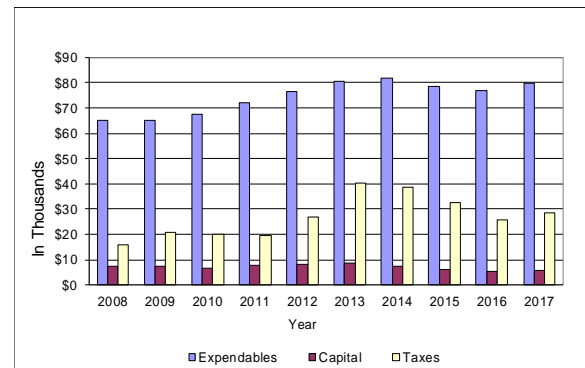
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October 2018

In 2017, the total noncapital living expenses of 1,219 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$79,798--or \$6,650 a month for each family (Table 1). This average was about 3.7 percent higher than in 2016. Another \$5,744 was used to buy capital items such as the personal share of the family automobile, furniture, and household equipment. Thus, the grand total for living expenses averaged \$85,542 for 2017 compared with \$82,260 for 2016, or a \$3,282 increase per family. The average amount spent per family for capital items was \$400 more while noncapital expenses increase \$2,882 per family. The sample farms, which were mainly grain farms, were located primarily in central and northern Illinois.

Figure 1 illustrates the annual capital and noncapital family living expenditures and income and social security tax payments for 2008 through 2017.

Income and social security tax payments increased about 11.5 percent in 2017 compared to the year before. The amount of income taxes paid in 2017 averaged \$28,435 compared to \$25,512 in 2016. Medical expenses were higher in 2017 compared to 2016. In 2017, medical expenses averaged \$12,007. Medical expenses include out-of-

pocket costs for health insurance along with doctor and hospital expenses.



**Figure 1.** Noncapital and capital family living expenditures and income tax and social security payments, 2008 through 2017

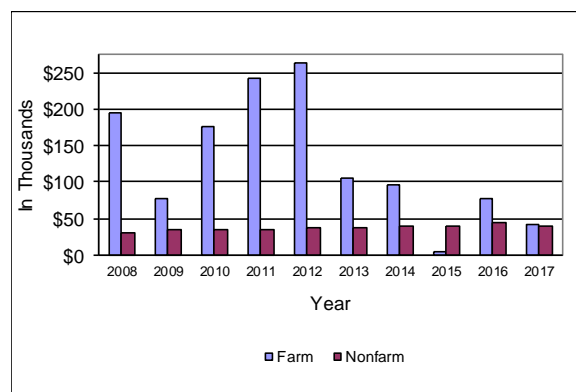
How these families use their funds depends somewhat on the levels of net income from farm and nonfarm sources and the priority of the expenditure. In this sample, the 2017 net farm income of \$43,464 decreased (\$34,236 per farm) compared to 2016. Lower crop returns were the main reason for the decrease in net farm incomes. Net nonfarm income decreases, averaging \$40,032, \$4,471 lower than in 2016, which was the highest it has ever been. Net nonfarm income has increased \$9,119, or 29.5 percent in the last ten years. Net nonfarm income was 48 percent of total household income.

The amount of interest expense paid by each farm operator increased from \$25,936 in 2016 to \$26,753 in 2017. Interest paid as a percentage of farm receipts remained steady at an average rate of 4 percent between 2016 and 2017. The 2008 through 2017 ten-year average is 3.6 percent. The highest that this percentage has been during the last ten years was in 2008 when it was 4.4 percent. As a percentage of cash operating expenses, the interest paid increased to 5.4 percent in 2017. Machinery and building purchases decreased from \$63,852 in 2015 to \$60,026 in 2016, then increased to \$64,165 in 2017.

In 2017, the operators of these 1,219 farms averaged 57 years of age. The family averaged 2.7 members, with the age of the oldest dependent child being 17 years. The operators kept records so that all sources of funds, both farm and non-farm, balanced with all uses of funds in a complete monthly cash-flow accounting system.

In Table 1, the averages per farm for total family living expenses are divided into five categories for 2014 through 2017. The "expendables" category includes cash spent or food, operating expenses, clothing, personal items, recreation, entertainment, education, and transportation. This category also includes selected itemized deductions such as the personal share of real estate taxes. Cash spent for capital improvements exceeding \$250 is not included.

The excess on nonfarm taxable income over nonfarm business expense was \$40,032 in 2017, or 47 percent of the total living expense. It includes dividends on stocks, interest on savings and money-market funds, income from other nonfarm investments, and income from off-farm employment performed by family members. Interest earned and left in savings accounts not included in the cash flow is not reflected in the nonfarm income.

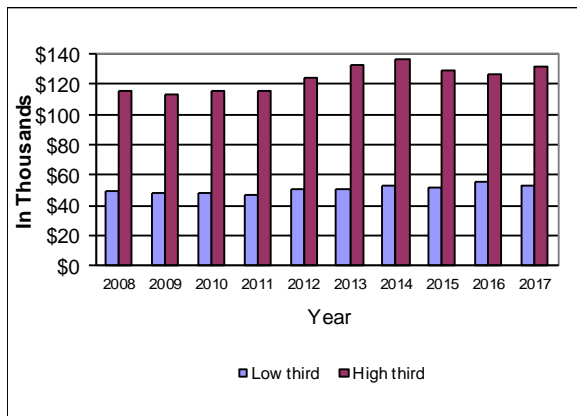


**Figure 2.** Net farm and nonfarm income, 2008 through 2017.

Figure 2 illustrates that net nonfarm income has been fairly constant over the past ten years. Since 2008, increases in net farm income has resulted in nonfarm income being less of the share of total income, except for 2015.

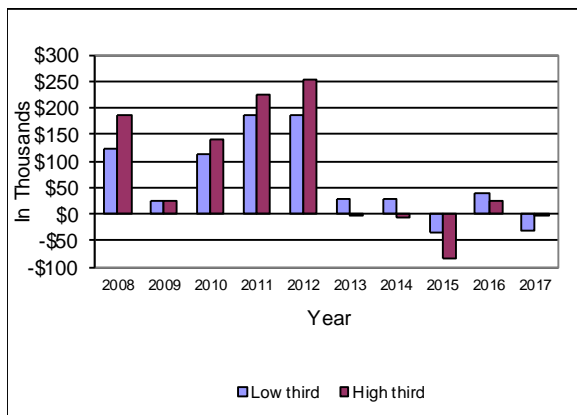
### High-Third Low-Third Comparison

The records from farm families with three to five persons were sorted into two categories, the high-third and the low-third, according to their noncapital living expenses. The total living expenses for the high-third group averaged \$137,195 compared with \$59,450 for the low-third group. Figure 3 illustrates total living expenses for these two groups for 2008 through 2017. The high-third group had \$387,175 more gross farm sales than the other group. The larger farms in the first group had more income for living expenses and to pay income tax. Net farm income plus nonfarm income was \$141,740 for the high-third group compared with \$74,985 for the low-third group. The average age of operators in the high-third group was 50 and the number of family members was 4.1 compared with 46 years of age and 3.8 family members for the other group.



**Figure 3.** Total family living expenditures for families with three to five people, sorted into high and low thirds according to noncapital living expenses, 2008 through 2017.

Subtracting total living expenses and income and social security taxes paid from the total of net farm income and nonfarm income results in a substantially negative balance of \$30,727 for the high-third group and another negative balance of \$519 for the low-third group for the year of 2017. Figure 4 illustrates this balance for these two groups for 2008 through 2017.



**Figure 4.** Average of net farm plus nonfarm income minus total family living expenses and income and Social Security taxes paid, sorted into high and low thirds according to noncapital living expenses, 2008 through 2017.

It is interesting to note that for 2013 to 2017 the low-third group had less income than the high-third group, but had more funds remaining after what was spent for family living and taxes. 2013 was the first time this

has been negative for either group in the last ten years.

Farm operations continue to grow in size. As these operations expand, more funds are flowing in and out of the business. More lenders are requiring cash flow projections and continual monitoring of these projections. It is, therefore, important that more farmers learn how to balance and monitor their cash flow each month. FBFM offers these services to help farmers project monthly cash flow so that they can compare projections with their actual results.

For the farm operators with low equity or very high debt-to-asset ratios, this type of accounting is essential. These operators need to account for all of their sources and uses of funds to assist them in making sound financial management decisions. The data summarized in this process may also serve as a guide in budgeting allowances for family living expenses. For families in this sample, the family living expenses averaged \$109 for each tillable operator acre farmed. Operator acres are the number of acres the operator receives 100% revenue from. If the net nonfarm income of \$51 per tillable operator acre is used for living, \$58 per tillable operator acre would have to be generated from the farm business to meet family living requirements. In 2016, \$48 per tillable operator acre was needed from the farm business to meet family living requirements. Each family must determine how much each acre of crop should contribute to their family living. This amount, when added to production costs and other obligations, can help to determine break-even prices needed for products sold.

The author would like to acknowledge that data used in this study comes from farms across the State of Illinois enrolled in Illinois Farm Business Farm Management (FBFM) Association. Without their

cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,600 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the

University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at [www.fbfm.org](http://www.fbfm.org).

Table 1. *Average Sources and Uses of Funds over a Four-Year Period*

	All records, average per farm			
	2017	2016	2015	2014
Number of farms in sample.....	1219	1333	1377	1350
Age of Operator.....	57	57	57	56
Number in family.....	2.7	2.6	2.7	2.7
Net Farm Income.....	\$43,464	\$77,700	\$5,188	\$95,885
<b>Source of dollars</b>				
Net nonfarm income.....	\$40,032	\$44,503	\$40,662	\$39,676
Money borrowed.....	436,668	436,713	449,744	439,315
Farm receipts.....	629,765	641,771	665,466	715,621
<b>Uses of dollars</b>				
Interest paid.....	\$26,753	\$25,936	\$23,961	\$21,266
Cash operating expenses.....	465,386	468,061	494,496	519,618
Capital farm purchases.....	64,165	60,026	63,852	89,020
Payments on principal.....	409,807	438,474	423,513	390,179
Income and Social Security taxes.....	28,435	25,512	32,438	38,801
Net new savings and investment.....	\$26,377	\$22,718	\$32,833	\$46,792
<b>Living expenses</b>				
Contributions.....	\$3,575	\$3,471	\$3,537	\$3,698
Medical.....	12,007	11,115	11,102	11,213
Insurance, life and disability.....	4,945	4,946	4,627	4,626
Expendables.....	<u>59,271</u>	<u>57,385</u>	<u>59,272</u>	<u>62,174</u>
Total noncapital expense.....	\$79,798	\$76,916	\$78,538	\$81,711
Capital.....	<u>5,744</u>	<u>5,344</u>	<u>6,241</u>	<u>7,225</u>
Total, living expenses.....	\$85,542	\$82,260	\$84,779	\$88,936
Percentage change, total noncapital living expenses.....	3.7%	-2.1%	-3.9%	1.2%

Table 1.cont. Sources and Uses of Funds Sorted by Noncapital Living Expenses for Selected Illinois Farms

	Family of 3 to 5, 2017 <sup>a</sup>	
	High-Third	Low-Third
Number of farms in sample.....	119	119
Age of Operator.....	50	46
Number in family.....	4.1	3.8
Net Farm Income.....	\$97,072	\$45,471
<b>Source of dollars</b>		
Net nonfarm income.....	\$44,668	\$29,514
Money borrowed.....	722,024	364,822
Farm receipts.....	928,547	541,372
<b>Uses of dollars</b>		
Interest paid.....	\$39,397	\$24,265
Cash operating expenses.....	691,460	403,444
Capital farm purchases.....	102,734	66,606
Payments on principal.....	658,093	329,909
Income and Social Security taxes.....	35,272	16,054
Net new savings and investment.....	\$31,088	\$35,980
<b>Living expenses</b>		
Contributions.....	\$4,303	\$1,624
Medical.....	17,964	6,466
Insurance, life and disability.....	6,772	2,515
Expendables.....	<u>102,372</u>	<u>42,955</u>
Total noncapital expense.....	\$131,411	\$53,560
Capital.....	<u>5,784</u>	<u>5,890</u>
Total, living expenses.....	\$137,195	\$59,450

<sup>a</sup> Records were sorted into high-third and low-third categories according to noncapital living expenses.