

### Farm and Family Living Income and Expenditures

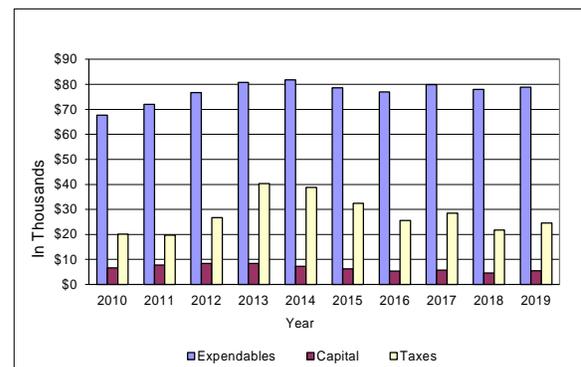
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In 2019, the total noncapital living expenses of 1,257 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$78,894--or about \$6,600 a month for each family (Table 1). This average was about 1.1 percent higher than in 2018. Another \$5,446 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 \$84,340 for 2019 compared with \$82,578 for 2018, or a \$1,762 increase per family. The average amount spent per family for capital items was \$867 more while noncapital expenses increased \$895 per family. The farms in this sample, 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 2010 through 2019.

Income and social security tax payments increased 13.1 percent in 2019 compared to the year before. The amount of income taxes paid in 2019 averaged \$24,525 compared to \$21,692 in 2018. Medical expenses were lower in 2019 compared to 2018. In 2019, medical expenses averaged \$10,866. 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, 2010 through 2019

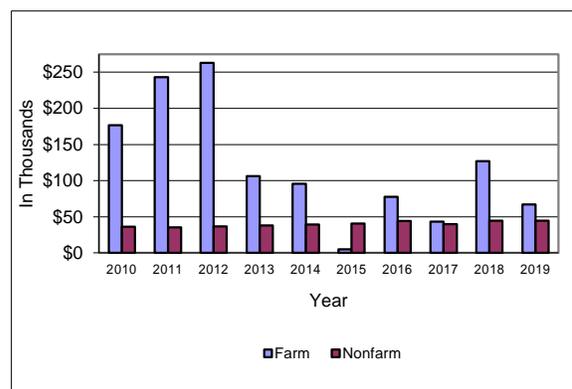
How these families use their funds depends somewhat on the levels of net income from farm and nonfarm sources and the priority of the expenditure. In this sample, the 2019 net farm income of \$66,995 decreased (\$59,628 per farm) compared to 2018. Lower crop returns were the main reason for the decrease in net farm incomes. Net nonfarm income increased, averaging \$44,871, \$144 higher than in 2018. 2019 was the highest nonfarm income has ever been. Net nonfarm income has increased \$8,895, or 24.7 percent in the last ten years. Net nonfarm income was 40 percent of total household income in 2019.

The amount of interest expense paid by each farm operator increased from \$28,399 in 2018 to \$32,152 in 2019. Interest paid as a percentage of farm receipts increased to 4.21 percent in 2019. The 2010 through 2019 ten-year average is 3.6 percent. The highest that this percentage has been during the last ten years was in 2017 when it was 4.3 percent. As a percentage of cash operating expenses, the interest paid increased to 5.8 percent in 2019. Machinery and building purchases increased from \$64,165 in 2017 to \$94,105 in 2018, then increased to \$116,918 in 2019.

In 2019, the operators of these 1,257 farms averaged 58 years of age. The family averaged 2.6 members, with the age of the oldest dependent child being 18 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 2016 through 2019. 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 \$44,871 in 2019, or 53 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.

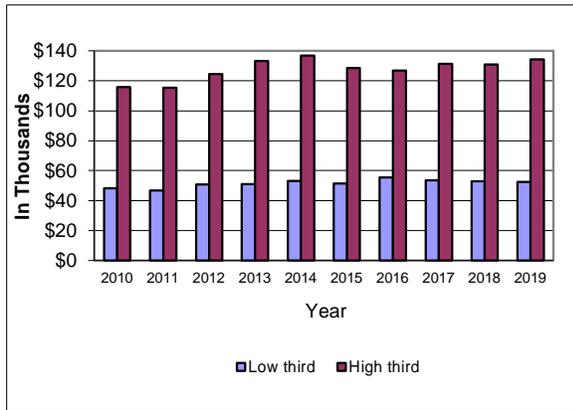


**Figure 2.** Net farm and nonfarm income, 2010 through 2019.

Figure 2 illustrates that net nonfarm income has been fairly constant over the past ten years. Since 2010, increases in net farm income has resulted in nonfarm income being less of the share of total income, except for 2015.

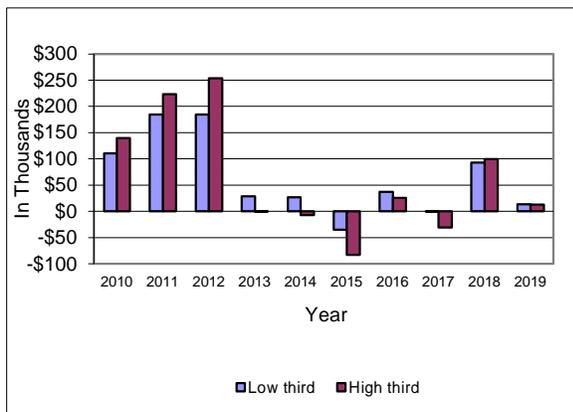
### High-Third Low-Third Comparison

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 \$143,785 compared with \$57,337 for the low-third group. Figure 3 illustrates total living expenses for these two groups for 2010 through 2019. The high-third group had \$444,073 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 \$188,854 for the high-third group compared with \$87,539 for the low-third group. The average age of operators in the high-third group was 49 and the number of family members was 4.0 compared with 48 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, 2010 through 2019.

Subtracting total living expenses and income and social security taxes paid from the total of net farm income and nonfarm income results in a \$12,855 for the high-third group and another \$13,589 for the low-third group for the year of 2019. Figure 4 illustrates this balance for these two groups for 2010 through 2019.



**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, 2010 through 2019.

It is interesting to note that for 2013 to 2017 as well as 2019 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 \$100 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 \$53 per tillable operator acre is used for living, \$47 per tillable operator acre would have to be generated from the farm business to meet family living requirements. In 2018, \$47 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 5,500 plus farmers and 65 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 Headquarters located at the

University of Illinois Department of Agricultural and Consumer Economics at 217-333-8346 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			
	2019	2018	2017	2016
Number of farms in sample.....	1257	1306	1219	1333
Age of Operator.....	58	58	57	57
Number in family.....	2.6	2.6	2.7	2.6
Net Farm Income.....	\$66,995	\$126,623	\$43,464	\$77,700
<b>Source of dollars</b>				
Net nonfarm income.....	\$44,871	\$44,727	\$40,032	\$44,503
Money borrowed.....	482,506	462,935	436,668	436,713
Farm receipts.....	763,395	696,024	629,765	641,771
<b>Uses of dollars</b>				
Interest paid.....	\$32,152	\$28,399	\$26,753	\$25,936
Cash operating expenses.....	521,044	482,504	465,386	468,061
Capital farm purchases.....	116,918	94,105	64,165	60,026
Payments on principal.....	472,485	456,975	409,807	438,474
Income and Social Security taxes.....	24,525	21,692	28,435	25,512
Net new savings and investment.....	\$39,308	\$37,433	\$26,377	\$22,718
<b>Living expenses</b>				
Contributions.....	\$3,085	\$3,081	\$3,575	\$3,471
Medical.....	10,866	11,647	12,007	11,115
Insurance, life and disability.....	5,174	4,876	4,945	4,946
Expendables.....	<u>59,769</u>	<u>58,395</u>	<u>59,271</u>	<u>57,385</u>
Total noncapital expense.....	\$78,894	\$77,999	\$79,798	\$76,916
Capital.....	<u>5,446</u>	<u>4,579</u>	<u>5,744</u>	<u>5,344</u>
Total, living expenses.....	\$84,340	\$82,578	\$85,542	\$82,260
Percentage change, total noncapital living expenses.....	1.1%	-2.3%	3.7%	-2.1%

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

	Family of 3 to 5, 2019 <sup>a</sup>	
	High-Third	Low-Third
Number of farms in sample.....	125	125
Age of Operator.....	49	48
Number in family.....	4.0	3.8
Net Farm Income.....	\$135,123	\$55,740
<b>Source of dollars</b>		
Net nonfarm income.....	\$53,731	\$31,799
Money borrowed.....	772,731	422,615
Farm receipts.....	1,129,398	685,325
<b>Uses of dollars</b>		
Interest paid.....	\$50,785	\$28,498
Cash operating expenses.....	753,233	489,646
Capital farm purchases.....	202,692	116,013
Payments on principal.....	723,879	389,847
Income and Social Security taxes.....	32,214	16,613
Net new savings and investment.....	\$49,272	\$41,785
<b>Living expenses</b>		
Contributions.....	\$5,013	\$1,598
Medical.....	16,727	6,612
Insurance, life and disability.....	6,855	3,203
Expendables.....	<u>105,691</u>	<u>40,971</u>
Total noncapital expense.....	\$134,286	\$52,384
Capital.....	<u>9,499</u>	<u>4,953</u>
Total, living expenses.....	\$143,785	\$57,337

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