

**Farm and Family Living Income and Expenditures, 2004 through 2007**

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May 2008

In 2007 the total, noncapital, living expenses of 1,232 farm families enrolled in the Illinois Farm Business Farm Management Association (FBFM) averaged \$60,294--or \$5,025 a month for each family (Table 1). This average was 9.6 percent higher than in 2006 and 14.3 percent higher than in 2005. Another \$6,118 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 \$66,412 for 2007 compared with \$59,686 for 2006, or a \$6,726 increase per family. The average amount spent per family for capital items was \$1,426 more while noncapital expenses increased \$5,300 per family. The sample farms, which were mainly grain farms, were located primarily in central and northern Illinois.

expenses were higher in 2007 compared to 2006. In 2007, medical expenses averaged \$8,071. Medical expenses include out-of-pocket costs for health insurance along with doctor and hospital expenses. Net nonfarm income continues to increase, averaging \$31,668 in 2007. Net nonfarm income has increased \$13,676, or 76 percent in the last ten years.

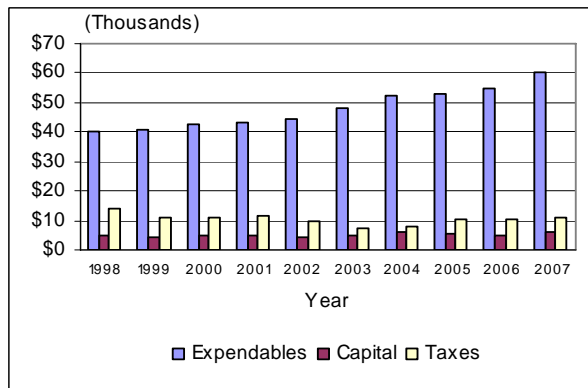


Figure 1. Noncapital and capital family living expenditures and income tax and social security tax payments, 1998 through 2007

Figure 1 illustrates the annual capital and noncapital family living expenditures and income and social security tax payments for 1998 through 2007.

Income and social security tax payments increased about 7 percent in 2007 compared to the year before. The amount of income taxes paid in 2007 averaged \$10,964 compared to \$10,251 in 2006. Medical

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 2007 net farm income of \$193,675 increased substantially (\$98,919 per farm) compared

to 2006. Excellent corn yields, good soybean yields and higher grain prices were the main reasons for the increase in net farm incomes. Net nonfarm income averaged \$31,668, \$2,054 higher than in 2006 and the highest amount this figure has ever averaged. Net nonfarm income was 14 percent of total household income.

The amount of interest expense paid by each farm operator increased from \$21,386 in 2006 to \$25,681 in 2007. Interest paid as a percentage of farm receipts decreased from 5.9 percent in 2006 to 5.7 percent in 2007. The 1998 through 2007 ten-year average is 6.4 percent. The highest that this percentage has been during the last ten years was in 1999 when it was 7.8 percent. As a percentage of cash operating expenses, the interest paid stayed the same at 7.4 percent in 2007. Machinery and building purchases increased from \$40,029 in 2006 to \$59,969 in 2007. The 2007 machinery and building purchases were at their highest level ever.

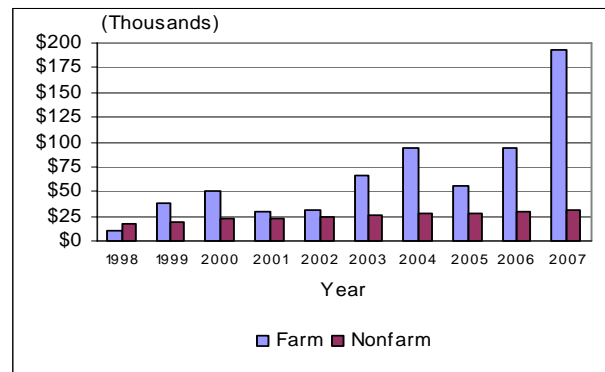
Operator's farm income from this sample of farms was lower than the average of all Illinois record-keeping farms. The average operator's net farm income of all Illinois record-keeping farms was \$209,012 or \$15,337 more than the average net farm income for this sample. The average living expenditures for farms in this sample are estimated to be 15 to 20 percent above the average of all Illinois farm operators having more than \$40,000 gross sales per farm, due to the fact the average net farm income for this sample is usually higher than the average for all farms.

In 2007 the operators of these 1,232 farms averaged 53 years of age. The family averaged 3.0 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 the table, the averages per farm for total family living expenses are divided into five categories for 2004 through 2007. 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 use of a rented house on an estimated 30 to 40 percent of the farms in this sample is not included, since these data cover only cash outlays.

The excess on nonfarm taxable income over nonfarm business expense was \$31,668 in 2007, or 48 percent of the total living expense; in 2006 the excess was 50 percent. 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 illustrates that net nonfarm income

Figure 2. Net farm and nonfarm income, 1998 through 2007.

has risen steadily over the past ten years and until 2003 had become a larger share of total income. Since 2003, increases in net farm income has resulted in nonfarm income being less of the share of total income. In only one year (1998) during the last ten years has net nonfarm income exceeded net farm income.

### 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 \$103,668, compared with \$45,517 for the low-third group. Figure 3 illustrates total living expenses for these two groups for 1998 through 2007. The high-third group had almost \$200,000 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 plus nonfarm income was \$315,164 for the high-third group compared with \$188,407 for the low-third group. The average age of operators in the high-third group was 48 and the number of family members was 4.0 compared with 48 years of age and 3.8 family members for the other group.

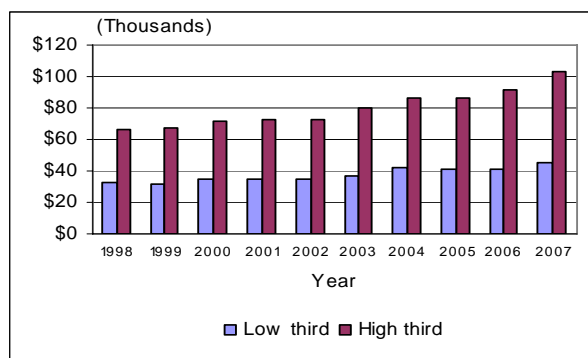


Figure 3. Total family living expenditures for families with three to five people, sorted into high and low thirds according to noncapital living expenses, 1998 through 2007.

Subtracting total living expenses and income and social security taxes paid from the total of net farm and nonfarm income results in a positive balance of \$198,715 for the high-third group and \$136,072 for the low-third group. Figure 4 illustrates this balance for these two groups for 1998 through 2007.

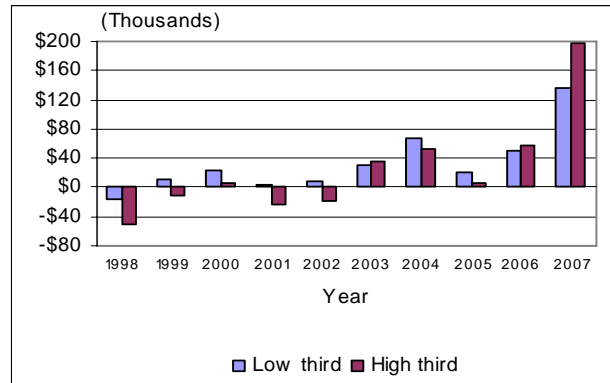


Figure 4. Average of net farm plus nonfarm income minus total family living expenses and income and Social Security taxes paid, sorted into high and low thirds according to noncapital living expenses, 1998 through 2007.

It is interesting to note that except for 2003, 2006 and 2007, from 1998 through 2007, 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.

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. Computer program assistance is available in more service centers such as most FBFM Association district offices. These centers are prepared to offer services to help farmers project monthly cash flow on computer printouts so that they can compare projections with their actual results.

Increased use of microcomputers for farm accounting purposes should also assist more farm operators to account for all funds. 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 \$91 for each tillable operator acre farmed. Operator acres are the number of acres the operator receives revenue from. If the net nonfarm income of \$43 per tillable operator acre is used for living, \$48 per tillable operator acre would have to be generated from the farm business to meet family living requirements. In 2006, \$41 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 or each litter of hogs 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 the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. 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 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			
	2007	2006	2005	2004
Number of farms in sample.....	1,232	1,196	1,209	1,225
Age of Operator .....	53	53	52	51
Number in family .....	3.0	3.1	3.1	3.2
Net Farm Income .....	\$ 193,675	\$ 94,756	\$ 55,030	\$ 93,704
<b>Source of dollars</b>				
Net nonfarm income.....	\$ 31,668	\$ 29,614	\$ 27,810	\$ 27,280
Money borrowed .....	306,747	262,230	252,685	246,566
Farm receipts .....	446,952	364,712	351,457	351,327
<b>Uses of dollars</b>				
Interest paid .....	\$ 25,681	\$ 21,386	\$ 18,303	\$ 17,491
Cash operating expenses .....	319,035	265,931	260,479	252,258
Capital farm purchases .....	59,969	40,029	42,495	46,156
Payments on principal.....	274,809	245,450	230,072	229,008
Income and Social Security taxes.....	10,964	10,251	10,351	8,208
Net new savings and investment .....	28,497	13,823	11,967	13,503
<b>Living expenses</b>				
Contributions .....	\$ 2,303	\$ 1,888	\$ 2,058	\$ 1,816
Medical.....	8,071	7,665	7,433	7,320
Insurance, life and disability .....	3,039	2,978	2,900	2,753
Expendables .....	46,881	42,463	40,352	40,700
Total noncapital expense.....	(60,294)	(54,994)	(52,743)	(52,589)
Capital .....	<u>6,118</u>	<u>4,692</u>	<u>5,542</u>	<u>5,960</u>
Total, living expenses .....	\$ 66,412	\$ 59,686	\$ 58,285	\$ 58,549
Percentage change, total noncapital living expenses .....	9.6	4.3	0.0	9.2

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

	Family of 3 to 5, 2007 <sup>a</sup>	
	High-Third	Low-Third
Number of farms in sample.....	192	192
Age of Operator .....	48	48
Number in family .....	4.0	3.8
Net Farm Income .....	\$272,404	\$ 159,678
<b>Source of dollars</b>		
Net nonfarm income.....	\$ 42,760	\$ 28,729
Money borrowed .....	469,591	238,713
Farm receipts .....	585,179	386,324
<b>Uses of dollars</b>		
Interest paid .....	\$ 34,127	\$ 21,255
Cash operating expenses .....	414,508	279,279
Capital farm purchases .....	84,225	47,474
Payments on principal.....	393,948	221,092
Income and Social Security taxes.....	12,781	6,818
Net new savings and investment .....	54,273	32,330
<b>Living expenses</b>		
Contributions .....	\$ 3,293	\$ 1,246
Medical .....	10,922	4,718
Insurance, life and disability .....	4,109	1,956
Expendables .....	76,457	32,924
Total noncapital expense.....	(94,781)	(40,844)
Capital .....	8,887	4,674
Total, living expenses .....	\$ 103,668	\$ 45,517

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