



How Are Family Living Expenses Funded?

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Family living expenses are not a tax-deductible expense of the farm business, but they must be budgeted for to sustain the living expense of the farm operator and their family. Family living expense, principal payments and income taxes are all non-deductible expenses that must come from farm (and can be supplemented by non-farm) earnings.

Data for today's article comes from a group of Illinois FBFM members who maintain records accounting not only for all farm income and expenses, they also for all non-farm income and expenses including family living expenses. This group consists of sole proprietors only. The five broad categories of family living expenses are: charitable contributions, medical expenses, life insurance premiums, expendables and capital expenses. Medical expenses include out of pocket expenses for medical, dental, vision care as well as the premiums for any health, dental or vision insurance products purchased. Examples of items in the expendables are groceries, dining out, household repairs, household insurance, clothing, personal items, entertainment, education, gifts, personal transportation, and personal interest. For this analysis, family living expense is divided by the number of tillable operator acres to arrive at a 'per acre' value of family living expense. This article then considers per acre family living expense for three groups of farm operators – under 500 tillable operator acres, 500 to 999 tillable operator acres and 1,000 and over tillable operator acres.

Figure 1 tells of the level of per acre family living expense for the three groups. As one might suspect, it is evident in the data that larger farm operations have a lesser family living cost per acre. The opposite is evident as well with the under 500 acre group report per acre family living costs that are roughly double that of the 500 to 999 acre group. For the period under study, the family living expense of the under 500 tillable operator acre group shows a steadily increasing level with a slight decrease at the end of the period. In 2006, the family living expense per acre was \$195. This rises to \$236 in 2016, an increase of 21%. This group shows a bit more variation over the period as well. The over 1000 tillable acre group shows a more muted increase. In 2006 the family living expense was \$53 for this group and rises to \$66 in 2016. Revealing an increase of 24% which is similar to the smaller acreage farms.

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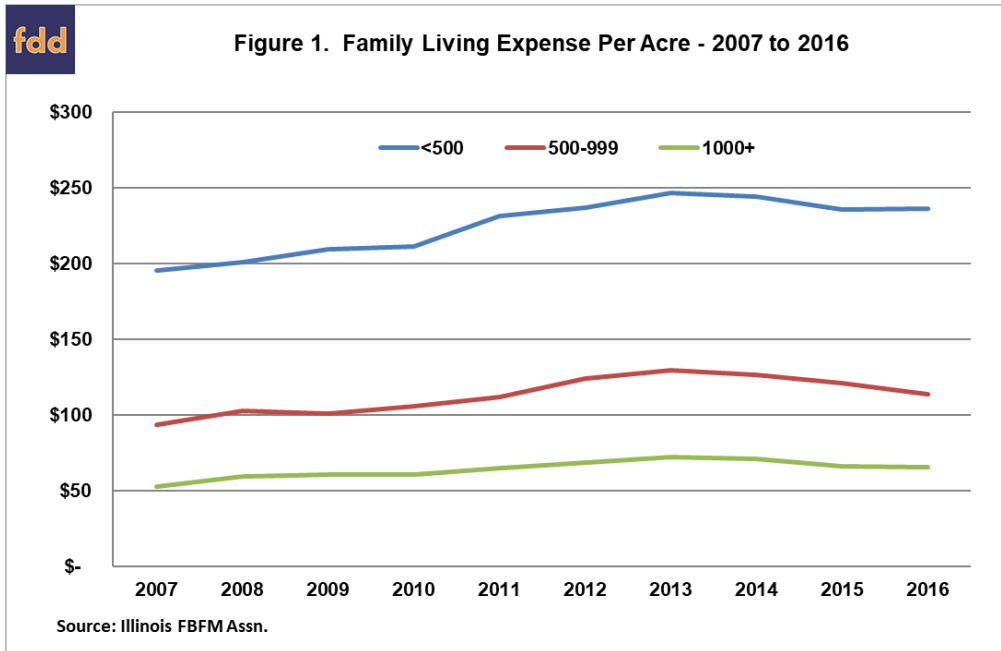


Figure 2 reveals the per acre level of net non-farm income of the same group of farm operators. Net non-farm income recognizes the contribution of non-farm income (wage and business) net of non-farm expenses that might exist. Note that the under 500 acre group has a much higher level of net non-farm income than the two remaining groups. It appears that the operators of smaller (in acres) farm operations realize that family living expense must be supplemented from off-farm sources to be adequate to support family living needs. Non-farm income for the under 500 acre group is significant in that it is more than double the per acre non-farm income of the 500 to 999 or 1000 acre plus groups. For the period at hand, the percent increase in net non-farm income is 22% for the under 500 tillable operator acre group, 53% for the 500 to 999 tillable operator acre group, and 78% for the over 1000 tillable operator acre group.

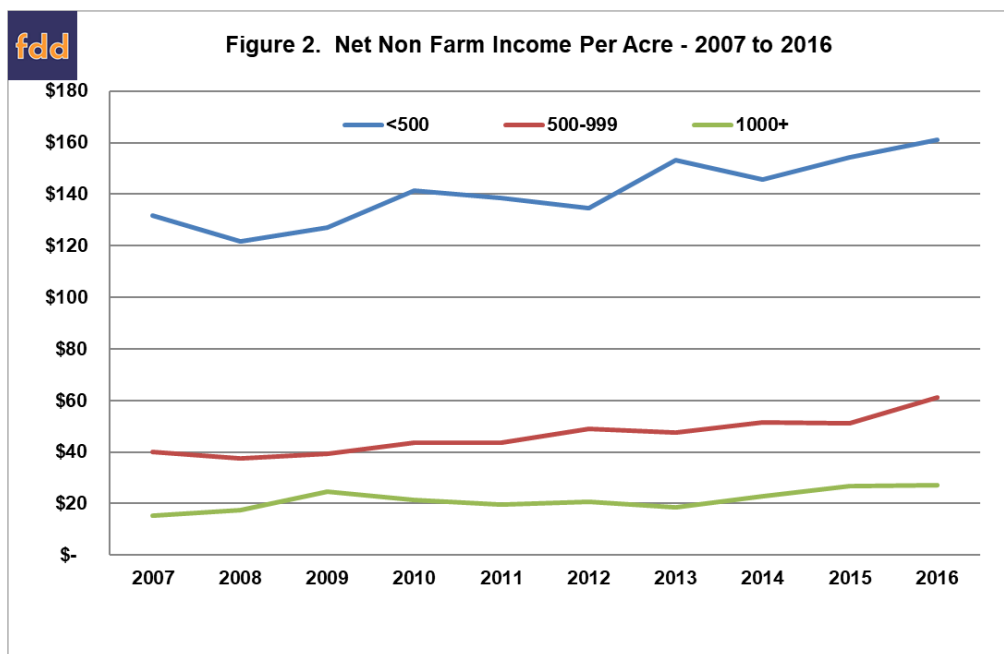
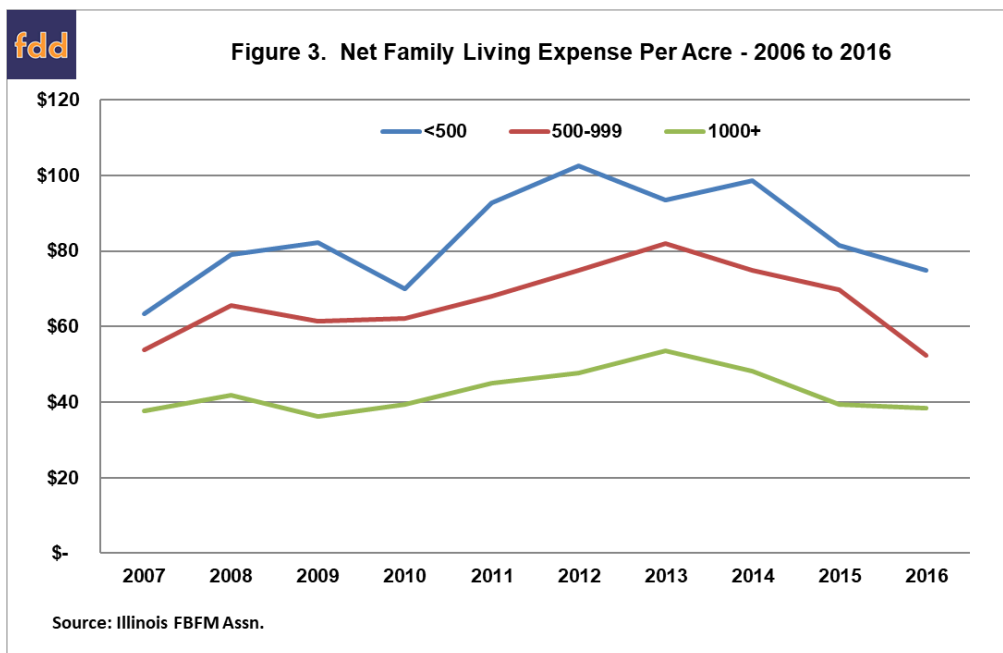


Figure 3 shows per acre family living expense reduced by the per acre net non-farm income. This reveals the 'net' of family living expense after the contributions of non-farm income are realized. This figure shows the draw on farm earnings made by net family living expense. The level of net family living expense per acre increases in the 2007 to 2012 period and decreases in the 2013 to 2016 period. For the period at hand, the percent increase in net family living expense is 18% for the under 500 tillable operator acre

group, -3% for the 500 to 999 tillable operator acre group, and 2% for the over 1000 tillable operator acre group.



Summary. Family living expenses generally increased from 2007 to 2016 at a rate just over 20%. Farm operators in the 500 to 999 tillable operator acres group and the over 1000 tillable operator acre groups increased the amount of net non-farm income in this era more so than did the under 500 tillable operator acre group. This results in net family living expense being relatively flat over the period for the 500 to 999 tillable operator acre group and the over 1000 tillable operator acre group acre groups where the under 500 acre group shows a more marked 18% increase in net family living expenses.

The authors acknowledge the data used in this article are from the larger dataset maintained by the Illinois Farm Business Farm Management Association. Without the cooperation of the members and staff of Illinois FBFM, information as comprehensive and accurate as this would not be available for educational purposes. Illinois FBFM maintains a roster of approximately 5,700 members who are served by 69 professional field staff. Illinois FBFM is a not-for-profit entity with membership available to all farm operators in Illinois. Illinois FBFM field staff provide counsel and guidance in the areas of recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the Illinois FBFM office located in Mumford Hall within the Department of Agricultural and Consumer Economics at the University of Illinois. The phone number is 217.333.5511 and the website is www.fbfm.org.