



A Different Look at Non-Farm Expenses?

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The [17 October 2014 farmdoc daily article](#) reviewed the average family living (non-farm) expenses in Figure 1 and on a 'per operator acre' basis in Figure 2 for a ten year period. Today's article will review some of that same data, but from a different perspective.

Figure 1 depicts the six categories of average non-farm expenses as a percentage of all non-farm expenses for the ten years from 2004 to 2013. The six categories are: 1) charitable contributions, 2) healthcare related expenses, 3) life insurance premiums, 4) family living expendables, 5) family living capital items and 6) taxes - federal and state income tax in addition to social security taxes.

Since family living expendables are the largest component of all non-farm expenses, let's take a closer look at that category. The average dollar amount of family living expendables moved from just under \$53,000 in 2004 to just under \$81,000 in 2013 (see the 17 October 2014 article). A short list of items included in family living expendables include: groceries, meals away from home, clothing, entertainment, educational expenses, personal transportation, non-farm interest, non-farm utilities, etc. The percentage of all non-farm expenses devoted to family living expendables decreased from a high of 61% in 2004 to a low of 48% in 2013. (*Note that family living expendables in the 17 October 2014 article are the sum of charitable contributions healthcare expenses, life insurance premium, and family living expendables.*)

Taxes - federal and state income tax in addition to social security tax are the second largest component of all non-farm expenses. The average dollar amount of income and social security taxes moved from just over \$8,000 in 2004 to just over \$40,000 in 2013. This was not unexpected as net farm incomes generally increased over the ten years as well. The percentage of all non-farm expenses devoted to income and social security taxes increased from a low of 12% in 2004 to a high of 31% in 2013.

The remaining four non-farm expense categories depict a remarkably steady trend over the ten year period when expressed as percentage of all non-farm expenses.

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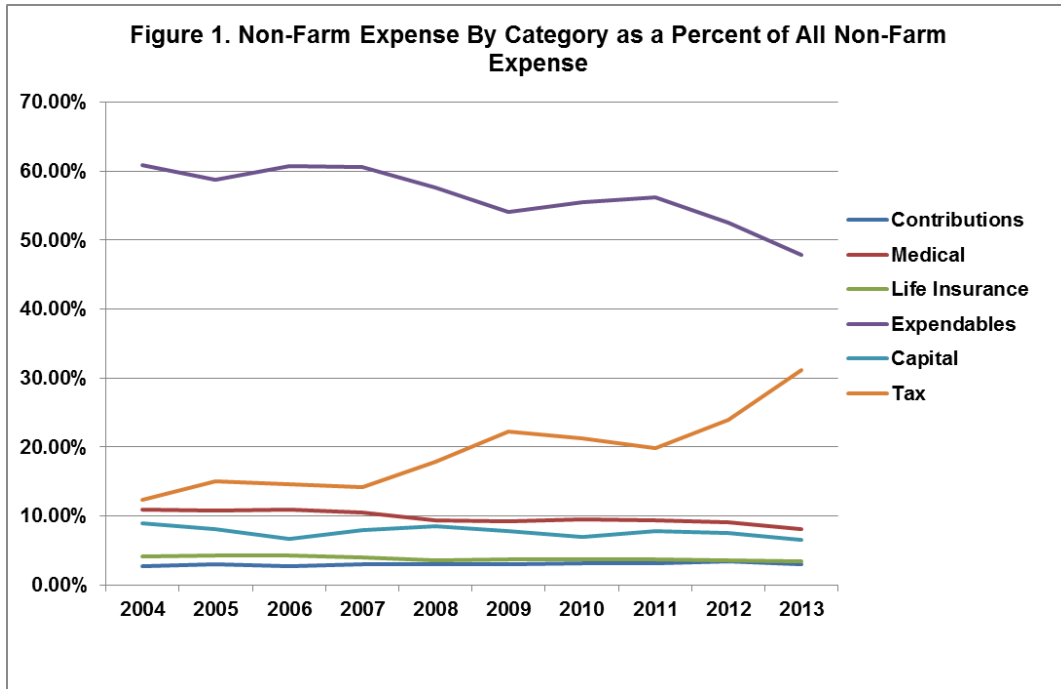
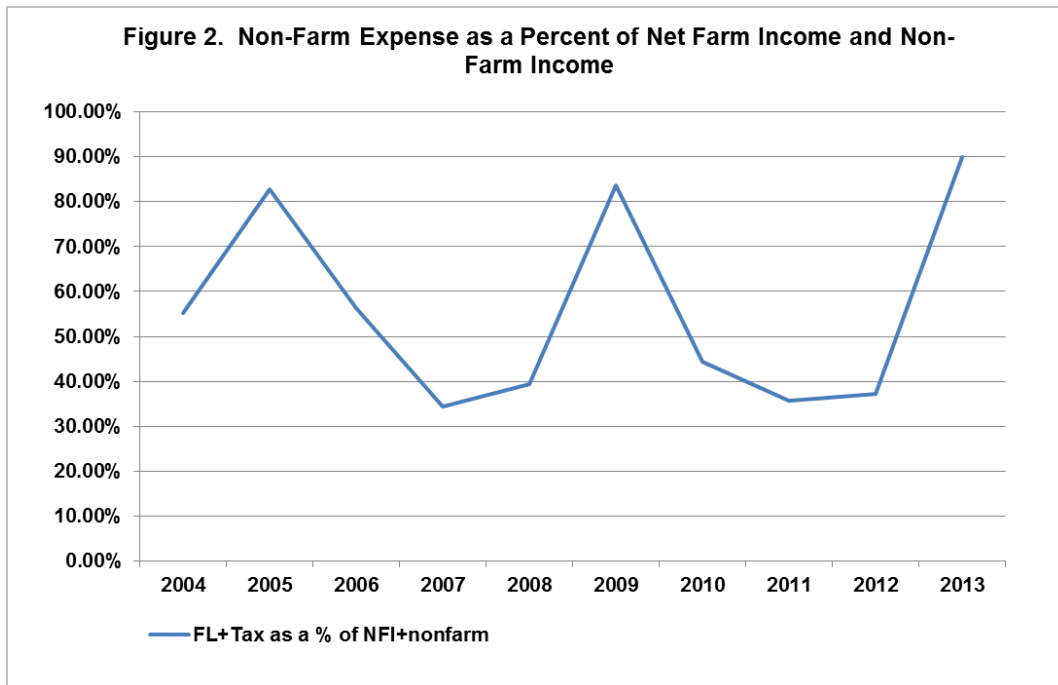


Figure 2 depicts the average non-farm expenses as a percentage of average net farm income plus any non-farm income as one attempts to roughly identify sources of income and the eventual use of that income for the farm businesses in the data. A challenge with this data lies in the fact that some of the metrics are cash and some are accrual making a reconciliation difficult. Average non-farm income increased steadily (by approximately \$10,000) over the ten year period leaving average net farm income as the driver of changes of the two combined. The three high years of 2005, 2009, and 2013 are easily seen as are the large swings. Interestingly, the data show that three of the five highest years (2004, 2005, and 2006) are years where net farm incomes were generally lower while the two highest years (2009 and 2013) are years where net farm income were very high.



Summary

Relative to other non-farm expenses, family living expendables exhibit a down trend while income and social security taxes exhibit an up trend over the ten year period. Future years will reveal if these two trends continue. The remaining four expense categories exhibit a more steady pattern indicating that they expand and contract and income (farm and non-farm) rise and fall.

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 5,700 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.

Reference

Zwilling, B., B. Krapf, and D. Raab. "[With Tightening Margins, Keep in Mind Family Living.](#)" *farmdoc daily* (4):201, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 17, 2014.