Managing Farm Family Finances

Ag Decision Maker

File C3-51

Do you find it difficult to know how much to spend each month for family living needs? Many farm families do. Farm income can be both irregular and unpredictable. Although living standards on the farm have become more and more comparable to those of non-farm families, there are some important differences in managing farm family finances.

Differences

- Income is irregular and uncertain. Except for some enterprises like dairy production, farm income fluctuates widely and is often received in a few large amounts during the year. Prices and costs can vary widely from projected levels.
- Housing expense is often lower. For many farmers a large portion of their housing costs is included in the farm rent or mortgage payment.
- Food expenditures may be lower than for non-farm families. Home gardens and homegrown meat and produce can trim grocery bills.
- Insurance and health costs may be higher. There are usually no employers to pick up part of the cost of employee insurance plans, and individual coverage usually costs more.
- Farm and home compete for surplus cash. Deciding whether to reinvest profits in the farm business or to make expenditures on the home or family is a difficult matter for young farm couples.
- Household expenses are small compared to farm expenses. Controlling family expenditures may be difficult when a farm couple is accustomed to spending large sums for farm inputs.
- Business items are tax deductible. Many items, such as vehicles, office equipment, machinery, and travel expenses, can be at least partially tax deductible even if they are also used for family purposes.
- There are no automatic retirement plans that are funded each month.

Cash Flow

Have you ever made a cash flow budget for your farm?
Have you made out a cash flow budget for this year?

Mapping cash income and cash expenditures for the coming year helps you plan ahead. You can estimate how much short-term borrowing will be needed during periods of little or no income, and when operating loans can be repaid.

What are the major sources of cash income in your farming operation?
When are they most likely to occur?

Source of Income	Likely Months

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By combining your expected yields and livestock production with your best estimate of possible selling prices you can project cash inflows or income.

What are the major production expenses and loan payments in your farming operation?
When are they most likely to occur?
Will you need to make any large investments in machinery, livestock or land in the coming year?

Subtracting your best estimates of costs for feed, seed, fuel, chemicals, hired machinery and labor, livestock, repairs, taxes, and other expenses tells how much will be left over for paying debts and family living expenses.

Tips on cash flow budgeting can be found in Twelve Steps to Cash Flow Budgeting (*FM 1792/AgDM C3-15*, store.extension.iastate.edu/Product/FM1792-pdf). Hand worksheets and electronic spreadsheets are included.

Household Budgets

Have you ever made a household spending plan?

A careful estimate of how much is needed each month for family **living expenses** is important but not easy. Projections of expenditures for food, clothing, personal items, health, education, home maintenance and utilities, education, transportation, and giving can best be made from your own past records.

How much do you estimate your family spends each month?
During which months is spending greater than the average?

Item	**Monthly Expenditure**	**Highest Months**
Food, including restaurants	$__________	__________
Clothing and personal items	$__________	__________
House utilities and repairs	$__________	__________
Recreation	$__________	__________
Gifts and donations	$__________	__________
Transportation	$__________	__________
Education	$__________	__________
Life and health insurance	$__________	__________

Were you unsure about some of your answers? Projection and control of family living expenses is difficult without records of past spending habits. Many farm record books and computer systems contain sections for recording living expenses. Whether handwritten, online banking or computer systems are used to track family living expenses, both farm and family records need to be updated regularly.

Off-farm Income

In many farm families, one or more members receive earnings from off-farm employment or businesses. These earnings can be used to pay a significant portion of family living expenses and investments.

What sources of off-farm income do you anticipate having this year, how much income do you expect (after deductions), and when do you expect to receive it?

Source	Amount for the Year	Months Received
______________________	$ ____________	____________
______________________	$ ____________	____________
______________________	$ ____________	____________
______________________	$ ____________	____________
Total	$ ____________	

Adjustments

You may need to adjust last year's expenses due to changes in the family situation, such as a child entering school or a debt being repaid. Adjust for inflation by increasing the previous year's expenditures by a projected rate.

What expenditures did you make last year, such as for a vehicle, furnace, or preschool tuition, that you will not have to make this year?

Item (last year)	Cost for the Year
______________________	$ ____________
______________________	$ ____________
______________________	$ ____________
______________________	$ ____________
Total	$ ____________

What expenditures will you have this year, such as school lunches, car payments, and dental work, that you did not have last year?

Item (last year)	Cost for the Year
______________________	$ ____________
______________________	$ ____________
______________________	$ ____________
______________________	$ ____________
Total	$ ____________

Separate Accounts

Do you have separate bank accounts for family and business expenditures?

Budgeting, financial record keeping, and income tax preparation are all simpler if a farm business bank account is set up separately from the family account. Money can be transferred from the business account to the household account according to your spending plan. Household expenditures can be monitored more easily.

When no farm income is anticipated for several months, it may be useful to place some funds for future living expenses in a separate savings account. Gradually transfer them to the home account to discourage unnecessary spending. When off-farm income is received on a regular basis, a separate account may be set up to deposit this income and pay work-related expenses.

Setting Goals

Most families have a want list for such things as a family vacation, home improvements, or a recreational vehicle. Below you can list some possible extra expenditures you might make for the household, individual family members, or the farm enterprise, if income permits. Estimate the cost. Decide what priority you would give this expenditure. Compare your ideas with those of other family members.

Item	**Cost**	**Priority—High, Medium, or Low?**
Household ______	$ ______	______
______	$ ______	______
Personal ______	$ ______	______
______	$ ______	______
______	$ ______	______
Farm ______	$ ______	______
______	$ ______	______

Establish a System

Does your family have a system to decide how income will be divided between farm and family expenditures?
Or does this present a conflict each time farm income is received?

Deciding how to allocate income between farm and home before it is received can prevent conflict. Here are some examples:

- Earmark a fixed percentage of all farm sales for family use. For many farm families, 10% of gross income may be reasonable. For high sales, high expense enterprises, such as cattle feeding, a lower percentage may be sufficient.
- Transfer a fixed amount to the household account each month for basic needs. At the end of the year, allow a certain proportion of net farm income (10% to 20%, for example) for nonessential household expenditures during the following year. Use your list of priorities as a guide.
- Where off-farm income is available, it may all be channeled into the family expenditure account. Or certain enterprises on the farm, such as the sale of culled cows, dairy calves, or extra crops, may be designated for extra family living income.

Budgeting Labor

Especially during peak farm work periods, the time and labor of family members may have to be budgeted between farm and home activities. Major household projects can be scheduled for months when the farm work load is less demanding. Scheduling work activities will probably result in less conflict than putting jobs off until time permits. Some household expenditures, such as hiring a child care giver, may actually increase the hours of labor available for farm work.

Additional Considerations

Will failure to make certain household improvements result in higher maintenance or operating costs later?

Should household expenditures be financed with credit? How do consumer credit interest rates compare with farm interest rates?

Do your itemized personal tax deductions exceed the standard deduction? If not, it is more profitable to borrow for farm expenses (business interest is always deductible) and pay cash for nonbusiness expenditures.

Can personal expenditures, such as travel and meals, be combined with business activities to make them tax deductible?

Do you pay your spouse or children a reasonable wage for farm work? This can result in lower self-employment taxes. Both spouses can set up their own retirement accounts.

Summary

Carefully budget farm income, farm expenses, non-farm income, and household expenditures.

Verify budgets through actual records. Separating farm and home bank accounts makes this easier.

Set realistic spending goals and priorities.

Develop a system for allocating income and use it.

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