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Family Living and Net Farm Income

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The average family living costs for the 119 Kentucky Farm Business Management (KFBM) farm families whose 2023 living expenses were included in the family living study was \$88,522 or \$7,375 per month. Their average Net Farm Income (NFI) was \$123,618. The average family living costs over the past five years have been \$85,409 and the average over the last ten years has been \$79,023. The average NFI during those same periods has been \$237,152 and \$148,244, respectively. Total family living costs include contributions, medical, life insurance, capital items (non-farm) and expendables. It does not include income and social security taxes which were an additional \$31,941 for 2023.

For 2023, the average earnings from non-farm income were \$39,653. If you combine the NFI (\$123,618) with the non-farm income (\$39,553) you have a total of \$163,271 available to fund the family living needs. The total family living needs (including taxes) were \$120,463. So, for 2023 there were enough available funds to support family living. If there were not enough funds to support the family living costs the additional funds would come from either savings accounts, stock accounts, sale of assets or from additional borrowing of funds. This is certainly a possibility for 2024 given the projected decrease in NFI and increased family living expendables. In addition, many operations defer tax liability which could result in a build-up in income tax liability from previous years that will be difficult to pay when cash flow is strained.

When harvest wraps up and operations start budgeting for the next crop year, it is always important not to overlook the line item for family living. Particularly if there are not any sources of non-farm income. There are a few cost-saving measures that farm families can use to help trim the family budget. Health Savings Accounts (HSA) and flex spending accounts can be used to put money away pre-tax for out-of-pocket medical costs. Contributions could be made with commodities rather than cash, which would decrease the amount of social security tax owed. If the operation is a sole proprietorship or a partnership where the spouses are the only partners and their kids (under 18) work on the farm, then the amounts paid to them could be deducted as employee wages with zero withholdings. These are just a few ideas to help in planning the family budget. Talk to your financial advisor or tax preparer about the details and rules involved with these types of options.

As the previous numbers indicate, there is a wide variation year to year of NFI while there is a steady incline of family living expenditures. Discussing family living expenses can be difficult for everyone involved. However, budgeting ahead of time on how the family living needs will be met will alleviate issues later. Write the family living budget down! Remember, goals that are not written down are just wishes.

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