



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

OFF-FARM INCOME OF PEOPLE INVOLVED IN FARMING

Edward I. Reinsel*

Two years ago, in his presidential address, Dr. C. E. Bishop told members of the American Agricultural Economics Association that "... our preoccupation with the problems of the farm firm has resulted in little or no attention to problems that are much more important to the majority of the rural population" [1, p. 999].

Preoccupation with the farm firm is evident in our traditional approach to the study of incomes of farm people. There is still a tendency to look at the incomes of farm firms rather than at the incomes of people who farm. Present income statistics are oriented to the farm firm in a way that makes it fairly difficult to study the economic well-being of people involved in farming. As a consequence, we are more effective in studying microeconomic efficiency and aggregate supply problems than in analyzing human income problems. However, recent developments indicate that it is possible to improve statistics on the total income status of people who receive some income from farming.

TAX RETURNS AS AN ALTERNATIVE SOURCE OF INFORMATION

Data from Federal income tax returns have been used in the Farm Production Economics Division to study incomes of people involved in farming. Income tax data are available as special tabulations and in published reports of the Internal Revenue Service (IRS) [2]. Data on gross farm receipts and farm profits or losses are included. More importantly, tax returns allow these measures of farm income to be related to the off-farm income of individuals.¹

Tax data have some limitations; for example, they

*Edward I. Reinsel is an agricultural economist with the Farm Production Economics Division, Economic Research Service, USDA, Washington, D. C.

Views expressed are the author's and do not necessarily represent those of the U.S. Department of Agriculture.

¹More limited information is available for farm partnerships and corporations.

exclude nontaxable items such as social security, welfare, and veteran's payments. Individuals with less than the minimum taxable income are often not included. Measures of wealth are also lacking. Users should be mindful of differences between these and other more familiar data.

THE RELATIONSHIP BETWEEN FARMS AND TAX RETURNS

Because there are actually about the same number of farms and tax returns, it would be easy to assume that these are the same populations. It should be stressed, however, that farm operators and farm tax returns do not correspond on a one-to-one basis. Differences arise largely because (1) some farm operators have so little income that they are not required to report, and (2) persons other than farm operators may share in and report income from farms. Farms are the production units; tax returns are filed mainly by individuals (and jointly by husbands and wives).

FARM INCOME

The picture of farm receipts, presented through tax returns, is basically the same as that shown in Economic Research Service (ERS) farm income statistics, i.e., many farms have small receipts. In 1966, for example, nearly 1.7 million tax returns, including proprietors, partnerships and corporations, showed farm receipts of less than \$5,000 (Table 1).

When you consider that farm receipts are generally small it is not surprising that individuals often report little or no farm profit. In 1966, about one-third of those with farm income reported losses and another two-fifths reported profits of less than \$3,000. Thus,

more than three-fourths reported less than \$3,000 net from farming. Twelve percent reported profits of \$5,000 or more (Tables 2 and 3).

Farm profits are most often reported in the Northern Plains, the Corn Belt, and Lakes States where farm incomes are relatively high and off-farm incomes are relatively small. Aggregate profits reported to IRS are substantially smaller than ERS net income estimates. Present data do not allow this difference to be fully reconciled. Some of the difference is accounted for by income concepts used and the way the data are collected.

OFF-FARM INCOME

In 1966, individuals with farm income reported \$13.8 billion from off-farm sources. They also reported about \$1.7 billion in farm and nonfarm capital gains. Thus, the conventional image of farming, in which we think of farm production being separate from the nonfarm activities of the people involved, may no longer be adequate. To some extent, the growing importance of off-farm income has paralleled, but has attracted less notice than adjustments evidenced by outmigration from the farming sector.

It is immediately clear that reported farm profits and losses alone are a poor indicator of the income situation of individuals (Tables 2 and 3). Whether individuals report profits or losses is related to the kinds and amounts of off-farm income they earn. Those whose incomes appeared to be inadequate when only farm profits and losses were considered often had the largest combined farm and off-farm incomes. In fact, the greater the reported farm losses, the larger the average income from all sources combined.

Wages and Salaries

Wages and salaries were reported on 56 percent of the farm returns and accounted for two-thirds of the off-farm income. Large farm profits and large wage and salary earnings are not usually received by the same people.

As you move from high to low farm profits, wages and salaries tend to increase in frequency and in average amount reported. For returns with smaller farm losses, percentages reporting wages and salaries increase as losses increase. However, those with large losses (\$3,000 or more) are somewhat less likely to be

TABLE 1. NUMBER OF FARMS AND FEDERAL FARM INCOME TAX RETURNS BY AMOUNT OF FARM RECEIPTS, 1966

Farm receipts (value of sales)	Farm tax returns ^a		Farms ^b	
	Number	Number as percentage of total	Number	Number as percentage of total
	Thousands	Percent	Thousands	Percent
\$10,000 or more	994	31	1,006	31
\$5,000 - \$9,999	494	16	464	14
Less than \$5,000	1,666	53	1,769	55
Total	3,154	100	3,239	100

^aU. S. Business Tax Returns, 1966. Includes returns of proprietorships, partnerships and corporations. Data are for the 50 States, Puerto Rico and Virgin Islands. The total number of farm corporations with receipts less than \$10,000 was reported by IRS. This number was allotted to the "less than \$5,000" and the "\$5,000-\$9,999" classes by the author.

^bU. S. Department of Agriculture, Economic Research Service. Farm Income Situation, July 1969.

TABLE 2. PERCENTAGE OF INDIVIDUALS WITH FARM INCOME REPORTING OFF-FARM INCOME FROM SPECIFIED SOURCES, BY AMOUNT OF FARM PROFIT OR LOSS, 1966^a

Farm profit or loss	Number	Average farm receipts	Percentage reporting off-farm income from						
			Wages and Salaries	Dividends	Interest	Nonfarm sole proprietorship	Partnership	Capital gain or losses	Other sources ^b
	Thousands	Dollars	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Farm profit									
\$10,000 or more	103	63,310	27	24	65	6	8	57	67
\$5,000 - \$9,999	267	27,060	35	14	54	6	4	58	61
\$3,000 - \$4,999	276	17,060	38	11	46	6	3	48	51
\$1,200 - \$2,999	514	10,580	45	9	41	9	3	39	54
\$ 400 - \$1,199	471	4,950	51	8	41	10	3	27	54
Less than \$400	383	3,240	63	8	44	12	2	24	65
Farm Loss									
Less than \$400	312	2,780	74	10	47	17	4	28	69
\$ 400 - \$1,199	344	3,520	77	10	48	16	5	33	70
\$1,200 - \$2,999	241	5,580	77	11	49	17	7	40	68
\$3,000 - \$4,999	65	9,710	67	21	52	19	12	48	76
\$5,000 - \$9,999	41	16,190	60	27	59	19	18	60	78
\$10,000 or more	26	53,590	44	44	75	34	27	77	94
Individuals with farm profits	2,014	13,640	47	10	45	9	3	38	57
Individuals with farm losses	1,029	5,910	74	13	49	17	6	36	70
All Individuals	3,043	11,030	56	11	47	12	4	37	62

^aBased on special tabulations by Internal Revenue Service, U. S. Treasury, from a sample of about 45,000 tax returns.

^bIncluding rents, royalties, pensions and annuities, ordinary gain from sales of depreciable property, estate and trusts, sales of property other than capital assets, and other miscellaneous items.

TABLE 3. AVERAGE FARM AND OFF-FARM INCOME OF INDIVIDUALS, BY AMOUNT OF FARM PROFIT OR LOSS, 1966^a

Farm profit or loss	Combined farm and off-farm income ^b	Farm profit or loss	All off-farm and other income	Off-farm income from ^c						
				Wages and salaries	Dividends	Interest	Nonfarm sole proprietor	Partnership	Capital gain or loss	Other sources ^d
----- Dollars -----										
Farm profit:										
\$10,000 or more	19,350	15,980	3,450	2,240	2,270	1,020	4,080	2,420	1,640	420
\$ 5,000 - \$9,999	9,140	6,920	2,270	2,220	1,070	590	3,370	3,040	940	300
\$ 3,000 - \$4,999	6,150	3,910	2,260	2,780	1,160	560	2,590	3,280	830	260
\$ 1,200 - \$2,999	4,600	1,980	2,650	3,370	1,080	510	2,810	3,070	780	330
\$ 400 - \$1,199	4,070	760	3,310	4,390	1,180	510	2,600	3,100	950	330
Less than \$400	4,650	200	4,460	5,170	1,380	480	2,800	4,590	840	350
Farm loss:										
Less than \$400	6,010	(190)	6,210	6,220	1,560	500	2,890	4,100	970	400
\$ 400 - \$1,199	6,430	(740)	7,160	6,800	1,820	580	3,350	5,940	1,170	390
\$ 1,200 - \$2,999	6,960	(1,870)	8,760	7,520	2,470	720	5,160	6,970	1,700	480
\$ 3,000 - \$4,999	8,680	(3,830)	12,320	9,080	3,920	1,130	7,830	8,350	3,350	870
\$ 5,000 - \$9,999	11,840	(6,870)	18,460	11,870	7,760	1,520	13,360	8,300	5,390	1,460
\$10,000 or more	25,860	(24,640)	48,800	20,610	31,500	3,690	9,090	10,250	19,900	1,990
Individuals with farm profits	6,050	2,990	3,080	3,880	1,290	560	2,820	3,240	920	330
Individuals with farm losses	7,260	(1,870)	9,060	7,300	5,210	790	4,660	6,800	2,720	550
All individuals	6,460	2,610	5,100	5,410	2,810	640	3,740	5,030	1,510	410

^aBased on special tabulations by Internal Revenue Service, U. S. Treasury, from a sample of about 45,000 tax returns.

^bCombined farm and off-farm income is referred to as "adjusted gross income" by the Internal Revenue Service.

^cAverage amounts are for those reporting. See Table 2 for percentages reporting.

^dIncluding rents, royalties, pensions and annuities, ordinary gain from sales of depreciable property, estate and trusts, sales of property other than capital assets, and other miscellaneous items.

wage and salary earners. They tend to have off-farm income from investments and nonfarm businesses.

Investments

Dividends were reported by about 11 percent of the individuals with farm income and totaled about \$938 million in 1966, but dividends were less equally distributed than other types of income. About 88 percent of all dividends were reported by fewer than 5 percent of the individuals — those with dividends and income from all sources of \$10,000 or more. More than 40 percent of those with \$10,000 or more in losses reported dividends averaging \$31,500. Interest, totaling about \$912 million, is received most often and averages larger for those with large profits and large losses. But interest is more widely distributed than are dividends.

Nonfarm Businesses

More than one-tenth of the individuals with farm

income have income from a nonfarm business. This income source is most important for those with farm losses. The greater the reported farm loss the more important the nonfarm business.

POLICY IMPLICATIONS

Our present farm policy objectives of raising and stabilizing farm incomes grew out of an earlier era when farm operators typically earned most of their income from farming. There is a need to critically reappraise how well policies that satisfy these objectives apply today. Clearly, not all people with low farm incomes are "poor" for most of those with farm earnings receive some off-farm income. By considering both farm and off-farm income, we can better identify the poor who are associated with farming. New policies can then be aimed specifically at this group.

REFERENCES

1. Bishop, C. E., "The Urbanization of Rural America: Implications for Agricultural Economics," *J. Farm Econ.*, 49:99-1008, Dec. 1967.
2. Internal Revenue Service, U. S. Treasury, *Business Income Tax Returns, Statistics of Income, 1966*, Pub. No. 438, June 1969.
3. Reinsel, Edward I., *Farm and Off-Farm Income Reported on Federal Tax Returns*, ERS-383, Economic Research Service, USDA, Aug. 1968.

