

# Economic Returns to Farming for U.S. Farm Households

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## What Is the Issue?

Of the roughly 2 million U.S. farm households, slightly more than half report negative income from their farming operations each year. The proportion incurring farm losses is higher for households operating smaller farms, where most or all of their income is typically derived from off-farm activities. However, many of these farm households do earn positive farm income in certain years; also, measures of farm income alone may understate the full economic value of owning the farm.

While farm income reflects returns from production, it does not reflect other aspects of owning and operating a farm that can have an effect on a farm household's finances. For example, farm households have seen significant growth in farm asset values over the past several decades, and farm losses can lower a household's tax liability. This means typical farm income measures, such as net profits from the farm, may not capture the full economic value of owning and operating a farm.

This report provides a broader perspective on financial well-being of farm households, including the returns that farmers—as small business owners and landholders—receive from tax law and land ownership.

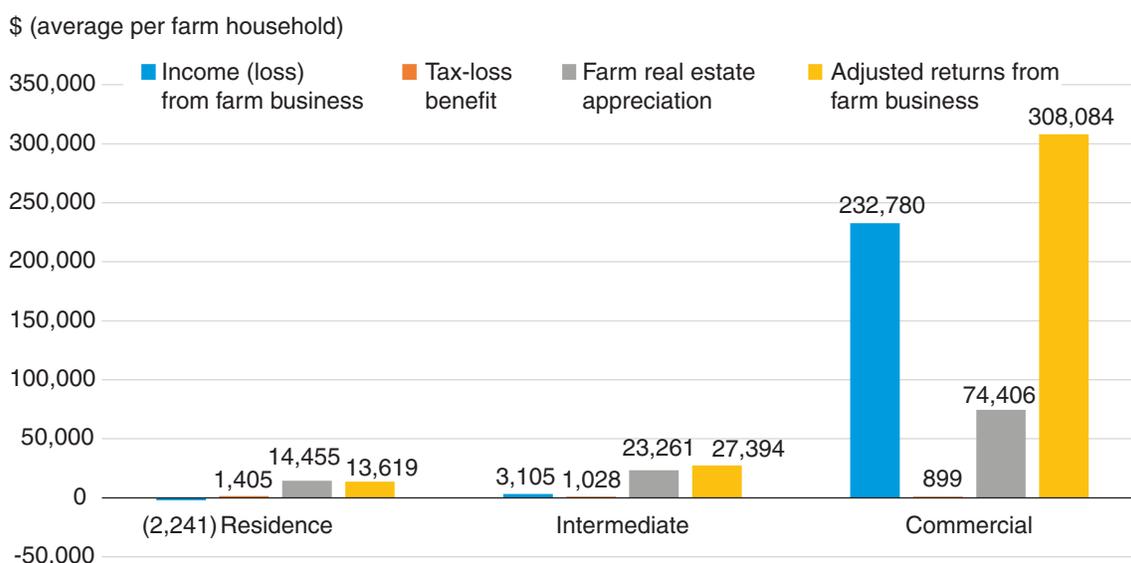
## What Did The Study Find?

- In 2015, the year analyzed in this study, farm households earned an average of \$119,880. Average income for households operating residence farms (farms with less than \$350,000 in gross cash farm income and where the principal operator has a nonfarm primary occupation) was \$114,703. The average income for households operating intermediate farms (less than \$350,000 in gross cash farm income and where the principal operator's primary occupation is farming) was \$70,338. And the average income for households with commercial farms (\$350,000 or more gross cash farm income, regardless of the principal operator's occupation) was \$332,731.
- While 82 percent of households operating commercial farms had positive income from their farming business, only one-third of residence farm households and slightly less than half of intermediate farm households earned money from their farming operation in 2015.
- While the composition of farm household income varies by the size and type of farm, on average, farm households earned between \$64,120 (intermediate farm households) and \$115,337 (residential farm households) from off-farm sources in 2015.
- Between 2003 and 2015, the value of total farm and nonfarm assets held by farm households increased by 40 to 57 percent. In 2015, the average farm household owned approximately \$1 million in farm assets in addition to nearly \$600,000 in nonfarm assets.

ERS is a primary source of economic research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment, and rural America.

- Many farms are labor-intensive, with considerable unpaid household labor put toward the farm operation. “Operator labor and management income,” or OLMI, is an alternative net income measure that accounts for the “opportunity costs” of unpaid labor and capital spent in farming, rather than in other pursuits. Once net farm income is adjusted for opportunity costs, it falls by an average of 52 percent across all family farms. Commercial farms had the highest average OLMI, while intermediate and residence farms had negative average OLMI. Returns were higher for experienced operators (more than 10 years of experience) than for beginning operators (10 or fewer years), even after controlling for assets.
- Between 1990 and 2015, average farm real estate values increased every year except one at an average nominal rate of approximately 6 percent. Households owning commercial farms experienced average asset appreciation of an estimated \$74,406 in 2015.
- Farm households are able to offset their off-farm income with farm losses, thus reducing their taxable income. When tax-loss benefits and appreciation in farm real estate values are considered, average annual farm economic returns increased from an estimated \$232,780 to \$308,084 for commercial farm households in 2015, largely driven by asset appreciation. In addition, the share of farm households with positive returns from their farm operation increased from 43 percent to about 70 percent of all farms.

### Including asset appreciation and tax-loss benefits raises average farm household returns for all types of farms, 2015



Note: Residence farms have annual gross cash farm income of less than \$350,000 and a principal operator with a primary occupation off-farm or who is retired from farming. Intermediate farms have gross cash farm income of less than \$350,000 and a principal operator whose primary occupation is farming. Commercial farms have gross cash farm income of \$350,000 or more, regardless of the principal operator’s occupation. Adjusted return from farm business equals the sum of the income/loss, asset appreciation, and the tax loss benefit.

Source: USDA, Economic Research Service (ERS) estimates based on ERS’s Federal income tax estimation model and USDA’s Agricultural Resource Management Survey (2015).

### How Was the Study Conducted?

This study is based primarily on data from the 2015 Agricultural Resource Management Survey (ARMS), a cross-sectional sample of U.S. farm operations. Conducted annually by USDA’s National Agricultural Statistics Service (NASS) and Economic Research Service (ERS), the survey is representative of the 2 million farms and farm households in the 48 contiguous States. The tax analysis comes from a model developed by ERS that uses applicable 2015 Federal tax provisions and 2015 ARMS data to estimate Federal income, Social Security, and self-employment taxes.