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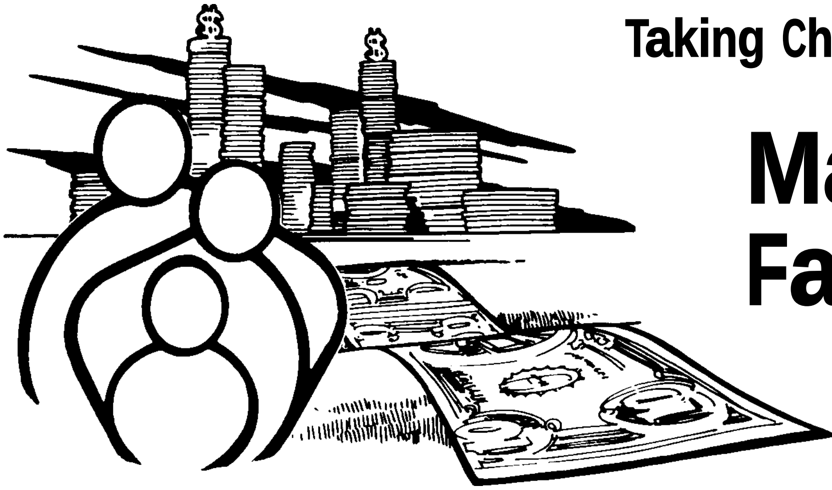

Taking Charge of Family Finances

Managing Farm Family Finances

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Do you find it difficult to know how much to spend each month for family living needs? Many farm families do. For most farmers, income is both irregular and unpredictable. Although living standards on the farm have become more and more comparable to those of nonfarm families, there are some important differences in managing farm family finances. This publication is designed to help the farm family take control of family living expenses by sharpening managerial skills.

The Farm Family is Unique

Although farm households are similar in many respects to the typical rural or urban household, there are some unique and important differences in managing farm family finances.

1) Income is irregular and uncertain. Except for some enterprises like dairy and poultry production, farm income fluctuates widely and is often received in a few very large amounts. Production, prices, and costs can vary widely from projected levels.
2) Household expenditures are small when compared to farm expenses. Many farm couples find it difficult to control family living expenses when they spend large amounts for the farm business.
3) Cost of housing is often lower than for nonfarm families. In rural areas where good off-farm job opportunities are beyond reasonable commuting distance, most of the farm mortgage or rent is usually considered for land and production facilities, not the farm house. Also, in North Dakota, the farm house is exempt from real estate tax if farming is the main occupation.
4) Food expenditures may be lower than for nonfarm families. Family living from the farm — meat, vegetables and fruits — can cut grocery bills considerably. However, in families with a lot of in-town activities, there may be a considerable amount of food eaten away from home, adding greater expense to the food budget.
5) Insurance and health costs are usually higher. There is typically no employer to pay a portion of the insurance premiums.
6) Farm and home compete for surplus cash. It is often difficult to determine whether to reinvest farm business profits back into the farm business or to make expenditures on the home or the family. Decisions concerning farm and family goals should be made by the entire family.
7) Business items are tax deductible. Some expenses such as vehicles, office equipment, machinery, and travel expenses can be at least partially tax deductible when used for the farm business, even though they are used for family purposes as well.
8) Although transportation expenses are often related to the farm business and can be tax deductible, these expenses are often higher for rural families because of the greater distances they must travel to reach community services.

Setting Goals

Farm and family management tasks and responsibilities are difficult to separate. When farmers live where they work, these two areas of management have a tendency to blend

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together into a complex interdependent unit. It becomes necessary for families to practice goal-directed management to achieve personal, family and farm business goals.

What do you want out of life? How can you best use your resources of time, money, talent and effort to achieve what you want? Your choice of goals, influenced by your economic situation, your abilities and skills, your attitudes, your values, your standards and your stage of the family life cycle should provide the answers to these questions.

Whatever they are, setting goals and establishing priorities among them requires a frank discussion involving all family members. Having all family members involved can help make each member more sensitive to the family's total financial picture. It may also serve to increase each individual's commitment to decisions on how money is spent and what each person can do to help assure success. Think of involving the entire family as a critical foundation for taking control of your living expenses.

Below is a simple goals worksheet for your family to use in beginning to identify and prioritize your farm and family goals. By specifying the goal, when you want to accomplish it, the amount of money needed to reach it, and what will need to be saved monthly or annually, your family can begin to set some short- and long-term goals. Prioritize your goals within each category, then check to see if there is competition among goals in categories which compete for your family's resources. Adjustments and compromises will have to be made by the entire family.

Charting Cash Flow

Now that you know where you want to go (your goals), you will need to make a cash flow plan to help you get there. A cash flow plan shows you the estimated timing and amount of both income and expenditures for your family. Time is a crucial element in budgeting. Successful budgeting will adjust expense timing to closely match that of expected income.

To deal with household expenditures, look at each expenditure and total them to get an estimate of the amount you need to allow for family living each year.

Family living expenditures should be categorized in a manner that is useful in developing a budget, but the number of categories should be limited so the record keeping process does not become too burdensome.

Our Goals – What We're Working Towards

Goal	Priority	Date to Achieve	Money Needed	-- Amount Needed to Save -- Monthly	Weekly
PERSONAL GOALS					
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
HOUSEHOLD GOALS					
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
FARM GOALS					
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______
______	______	______	$______	$______	$______

An example of a set of categories for living expenditures is:

Food	*Utilities*
Medical	*Telephone*
Vehicle operation	*Household supplies*
Education	*Recreation & Entertainment*
Charity	*Personal*
Gifts	*Insurance*
Clothing	*Miscellaneous*

For some expenditures, you know the amount of money required and when the amounts are due. Examples are insurance premiums and installment credit payments. Other expenses, such as auto maintenance and medical expenses (other than insurance), are more difficult to accurately budget. Utilities vary by the season of the year and should be budgeted for in a way that reduces the shock of high bills.

It is important to include personal spending money for each member of the family as a regular expense. Although a budget must be followed closely to be successful, it is important that each family member feels they have control over some portion of the family income.

Most people do not know the pattern of their current spending. If you are one of them, the best way to get started is to record expenditures made by all family members for at least one month. Keep the record in a place that is easily accessible to everyone, such as on the refrigerator door. A sheet of notebook paper will do fine for a start. Later, someone can separate the expenses by the categories in the budget. Good recordkeeping of historical spending can be a basis for predicting future spending, or budgeting.

Recordkeeping books with pre-defined household expense categories are available at many stores. For computer owners, there are many good inexpensive home finance programs available to set up your budget, record income and expenses, and balance your checkbook.

To help with recording expenses, pay as many expenses as possible by check. Be sure to keep track of where the extra cash goes if you write a check for more than the actual purchase. If you use the services of an accountant or a record keeping service, printouts from your service can be used to help see where money has been spent in the past.

If you make a lot of purchases with cash or a credit card, keep receipts to help itemize your expenditures. The wisest use of credit is to pay your credit card balance when it is due. If you need help controlling your credit card use, contact your local county office of the NDSU Extension Service and ask for publication HE-260, Credit — Using It Wisely.

To work, a budget must remain flexible. Comparing your actual expenditures to what was budgeted will allow you to see what categories you have under- or over-budgeted for and help you adjust the budget.

Separate Accounts

Do you have separate accounts for family and business expenditures?

Budgeting, financial recordkeeping 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 much more easily this way.

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.

Deciding how to allocate income between farm and home before it is received can prevent conflict. Here are some examples of systems for deciding how income will be divided between farm and family expenditures:

- Transfer a fixed amount to the household account each month for basic necessities. At the end of each year, allow a certain proportion of net farm income (10 to 15 percent) for nonessential household expenditures for the coming year. Use your list of priorities as a guide.
- Earmark a fixed percentage of all farm sales for family use. For many farm families, 10 percent may be reasonable. For high sales/high expense enterprises, such as cattle feeding, a lower percentage may be sufficient.
- Where off-farm income is available, it may be channeled into the family account. Or certain enterprises on the farm, such as the sale of cull cows, dairy calves or extra crops, may be designated for extra family living income.

There are additional costs in both time and money when separate accounts are set up, such things as maintaining several minimum balances, managing multiple accounts and managing checkbooks. But all in all, the benefits of separate accounts for farm and home far outweigh the problems involved.

Balancing the Farm Household Budget

Sometimes expected expenses are greater than expected income. In the short term you may be able to borrow funds to cover the situation. If this approach does not solve your problems, you will need to look at some longer term solutions. Two possible long-term solutions are either to increase income or to reduce expenses.

Increasing and Stretching Farm Family Income

The constant challenge to every farm operator is to determine the mix of crops and/or livestock raised, production practices and the methods of acquiring inputs and marketing products that will increase net farm income without increasing risk to undesirable levels. Other than by an increase in profit from farm operations, additional income may be obtained by sending a worker into the labor force, substituting home production, selling or trading unused or unneeded items, or receiving assistance payments. Older children can look for ways to earn spending money and, in some cases, can supplement family income with their earnings.

Increasingly, one or both farm spouses are participating full or part-time in off-farm employment. In North Dakota, 16 percent of farm operators also have full time (over 200 days per year) employment off the farm. On over half of the farms the farmer and/or spouse have off-farm employment sometime during the year. When considering employment as a new source of income, you will need to consider the costs involved in working out of the home and off the farm. NDSU Extension Service publication HE-256, Working — Is It Worth It? is available from your local county extension office and may help you weigh the costs and benefits of employment.

Home production may be an important resource to stretch family income. A family garden can reduce the grocery bill considerably. Home clothing construction and repair can help with clothing expenses. Handmade gifts for family members are often treasured far more than purchased, mass-produced gifts and often cost much less to make than purchasing similar gifts.

Selling unused or unneeded items can also add income. The price of a small advertisement may be all that it takes.

Assistance payments such as food stamps, reduced or free school lunches, fuel assistance, and other public and private assistance may be available if income has dropped. Such programs were designed to help those with temporary financial difficulties. For more information, contact your county office of the NDSU Extension Service and ask for publication HE-274, What to Do When Your Income Drops.

Decreasing Farm Family Expenditures

Reducing expenditures requires that a family decide which planned expenses are necessary for physical and mental health and the safety of the family (essential expenses) and which are nice but not essential for survival (discretionary expenses). Discretionary expenses can be trimmed from the budget. Reduced spending on activities such as eating out, recreation and entertainment may make those activities seem more special and enhance enjoyment on the occasions when these expenditures are made. In some cases, priorities might have to be placed even on necessities. Hopefully, your family's goals can help in this process.

Sometimes, credit and other installment debt can be made more manageable. It is wise to work directly with the creditor as soon as possible to work out an acceptable payment plan before a payment is past due.

Additional Considerations

When making changes in your management of family resources, ask yourself these questions:

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

Should household expenditures be financed with credit? And how do consumer credit interest rates compare with farm interest rates? (If you have any questions related to tax management, your best source of information is a tax practitioner who is familiar with your own situation.)

Do your itemized personal tax deductions exceed the minimum 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 qualify as tax deductible?

Do you pay your spouse or children a reasonable wage for farm work? This can result in lower income taxes and social security taxes. You can check with a tax consultant about paying wages with commodities such as grain instead of cash.

A Final Word

A budget cannot perform miracles. It can, however, be an invaluable tool to help you be in charge of your family finances. It can help you to see where you are and help you get to where you want to be in the future.

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