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Estimating the After-Tax Income of Farm Households

by

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The Agricultural Resource Management Survey (ARMS) collects information on income of farm households from a variety of sources. Traditionally, the amount of money income received during a calendar year has been the primary income measure for assessing the economic well-being of farm households. This measure does not include the effects of income and payroll taxes. As the tax code has been increasingly used as a vehicle for the implementation of various policy objectives, the failure to include taxes and the impact of tax law changes in a measure of economic well-being has increased in importance. Recently, the Census Bureau has recognized the inadequacies of the traditional money income concept as a satisfactory measure of economic well-being. In response to these recognized inadequacies, recent Census reports have included alternative income measures that consider income and payroll taxes. At the same time, efforts on the international level to enhance national household income statistics by developing standards related to the estimation of income distribution statistics has resulted in the establishment of a conceptual framework for defining and measuring household income that also includes the effects of income and payroll taxes. Recently, researchers at ERS began developing an added farm household income measure that will incorporate income and payroll taxes into the traditional measure. This will provide a more complete picture of the economic well-being of farm households, allowing it to be compared to new Census measures for nonfarm households and also making it more appropriate for international income comparisons. This paper will present the methodology and discuss obstacles in utilizing farm survey data to estimate an after-tax income measure and provide information on after-tax income of farm households by various sizes of farms and in various regions of the U.S. Information on after-tax income will aid in understanding the financial situation, savings, and investment behavior of farm households.

Key words: average tax-rate, after-tax income, farm households, financial well-being

* Economic Research Service.