ERS-383

FARM AND OFF-FARM INCOME REPORTED ON FEDERAL TAX RETURNS

farm profits and losses
wages and salaries
dividends
interest
nonfarm business
capital gains

ECONOMIC RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE

CONTENTS

SUMMARY

1. Individual proprietors accounted for nearly 96 percent of the more than 3 million farm tax returns filed for 1965, and reported more than three-fourths of the farm business receipts. Partnerships accounted for fewer than 4 percent of the tax returns, but reported about 11 percent of the total farm receipts. Farm corporations, representing only 0.6 percent of the returns, reported 12 percent of the receipts.

2. Many individuals report small farm receipts and relatively few report large receipts. It is significant that those with small receipts often could not expect to live solely by farming. The semiretired, individuals with full-time off-farm jobs, and landlords with small holdings account for some of those with small farm receipts.

3. This study is based on "Statistics of Income" published by the Internal Revenue Service (IRS). The study departs from the concept of a farm and relates income to individuals. A picture emerges of a farm economy in which most individuals receive some off-farm income and many receive most of their income from off-farm sources. Several individuals or families may share the income from a farm.

4. Individuals with farm income often report little or no profit on their farm tax returns. In 1964, more than one-third reported losses and another two-fifths reported profits of less than $2,000. However, farm profits and losses, as reported on tax returns, need to be interpreted with a clear understanding of IRS rules and definitions.

5. Data from tax returns show the important interrelationship between farm and off-farm income. This relationship is significant in understanding the farm economy. Farm income alone often does not fully measure an individual's income.

6. Wages and salaries totaling $7.1 billion in 1963, reported by 70 percent of those with farm losses and 40 percent of those with profits, were the most important kind of off-farm income. Large farm profits and large wage and salary earnings were not usually received by the same people. Wage and salary income was relatively more important to individuals whose reported farm profits and losses were small. However, many with small profits or losses did not have off-farm work.

7. Dividends, the most unequally distributed of the various off-farm income sources, were reported most often and were largest for individuals with the largest farm losses. Dividends were also associated with large off-farm incomes.

8. Income from interest was reported by 40 percent of the individuals with farm income in 1963. Interest averaged largest for those reporting large losses. Individuals reporting losses reported interest only slightly more often than those with profits.

9. More than one-tenth of the individuals with farm income reported income from nonfarm businesses. About half of those with nonfarm businesses reported farm losses.

10. When classified by amount of taxable income from all sources, about a million individuals with farm income were classed as poor, 1.9 million were in the middle income groups, and more than 0.3 million were termed well off or wealthy. Individuals at higher income levels were generally those with large off-farm incomes.

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by

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INTRODUCTION

Farm economic analysis has traditionally been associated with the farm operating unit. The concept of a farm has been built around a set of physical resources--a tract of land, a set of buildings, machinery, livestock, and labor. This operating unit or farm firm has served as the basis for microstudies concerned with efficient use of limited resources and maximization of farm income. Because farm statistics are collected with the farm operating unit in mind, macroeconomic studies and farm policies are also often implicitly tied to the farm firm. The notion of a farm has so dominated thinking about agriculture that alternative units of observation have seldom been considered.

In the past it was reasonable to believe that farmers were people who lived on farms, tilled the soil with their labor and equipment, and cared for their own farm animals. Farmers received the fruits of their labor and management and a return on their investment--farm income. It was generally assumed that the farm operation was separate from and influenced relatively little by nonfarm occupations or nonfarm business and investment interests of the farm operator. Farm production units were taken to correspond with family income-earning and spending units.

Farming today is mixed with nonfarm pursuits, but little is known about how individual incomes are affected.1/ Farms and farmers are no longer as easily identifiable as they once were. Off-farm income such as wages and that from nonfarm businesses and investments is a major part of the income of people with farm earnings, especially those who own farmland but are not directly engaged in farming. In fact, most individuals with farm income receive some off-farm income, and many receive most of their income from off-farm sources. Individuals often receive income from farming although they neither live on a farm nor participate directly in farm operations. Moreover, some farm operators do not live on farms. For some people, farming is a sideline; for others, a hobby.2/

1/ About four-fifths of the 1964 census farm operator households reported some off-farm income. Average off-farm income reported was $3,900.

2/ It should be noted that developments such as vertical integration have also decreased the usefulness of the concept of a farm for some types of studies, and have strengthened the need for a shift toward other analytic units.

This report focuses on the income of individuals. Analysis of individual incomes can provide new insights from an alternative vantage point, and is potentially valuable because it is unique. Not only are there few studies of the income sources of those involved in farming but there are few data which would allow this kind of analysis.

Understanding the income situation of people with farm incomes is crucial to enlightened farm policy decisions. Policymakers need to know for which groups and to what degree income problems exist before more effective solutions can be developed. Farm operators may have lower farm earnings than indicated by the income of the farm they operate because landlords or others may share this income. Also, some of those with low farm incomes may have little need for direct farm income support because of substantial off-farm incomes.

The development of new sources of information for individuals may help in understanding the flow of funds into and out of farming. If the off-farm income of individuals associated with farming is large, it may be an important source of farm investment funds. Nonoperator landowners and other investors in agriculture may also rely on credit sources generally thought to have little influence on farming. Money and credit available for farming from nonfarm sources may increase pressure on farmland prices, increase farm output, and tend to lower the prices of some farm products.

Objectives

The specific objective of this study is to determine the amount of income from various sources received by individuals who derive some of their income from farming. The emphasis is on the income of individuals rather than the income of farm firms. A secondary but important objective is to evaluate farm tax returns as a source of data for studies of income from farming.

Federal Income Tax Returns as a Source of Data

This is a study of gross farm receipts, farm profits or losses, and the off-farm income of those reporting farm income on Federal income tax returns. 3/ Data are for individuals, including farm operators, landlords, and others with a business interest in farming. 4/ Income data are also included for partnerships and corporations whose major source of receipts is farming.

3/ The data come largely from "Statistics of Income, U.S. Business Tax Returns" and "Statistics of Income, Individual Income Tax Returns," Internal Revenue Service, U.S. Treasury. For a description of the sample and sampling procedures, see these annual reports. In 1962, the sample included about 50,000 individual farm proprietors, 6,000 farm partnerships and about 1,000 farm corporations. The report includes data for 1945-65, but emphasizes 1962 and 1963. It was sometimes necessary to show tables for different sets of years because tabulations of the IRS differ from year to year.

4/ For tax purposes, individual proprietors are farm operators (including tenants), landlords, and others, such as informal partners not using the partnership return, with income from farming and gross income from all sources of $600 or more ($1,200 for individuals 65 years old and over). Self-employed individuals must also file a return and pay self-employment taxes for social security purposes if their net earnings from self-employment are $400 or more. Individual returns (tabulated from Form 1040) and individual proprietor returns (tabulated from the farm and business schedules) are essentially the same and are treated alike in this report. The number of individual returns in 1964 was about 0.6 percent smaller than the number of individual proprietors. About 80

Farm receipts on tax returns include sales of market livestock, livestock products, and crops. Receipts also include Federal agricultural program payments, patronage dividends of cooperatives, income tax refunds, Federal gasoline tax refunds, and ordinary gain or loss on sales of farm real estate and personal property. Sales of livestock held 12 months or longer by individuals or partners for draft, breeding, or dairy purposes are not counted as farm receipts, but are treated as sales of capital assets. Capital gains and losses are included with the farm income of corporations.

Farm profit or loss for tax purposes is the difference between farm receipts and farm business deductions. Business deductions include hired labor, materials, taxes, and depreciation. Some land development costs, such as the cost of land clearing, are also treated as deductible expenses. Wages and salaries paid to the owners of a partnership and payments by a corporation to its managers are deductible. Individual proprietors cannot deduct wages for themselves.

Social security benefits, welfare payments, and interest on State or local bonds are not taxable and are thus not reported. The value of home-consumed farm products is not taxable, and the cost of producing them is not a deductible expense.

Off-farm income reported on farm tax returns includes wages and salaries, dividends, interest, income from nonfarm businesses, rents, royalties, pensions and annuities, and other miscellaneous income.

The total amount of farm receipts from tax returns compares favorably with the amount of cash receipts estimated by the Economic and Statistical Analysis Division, Economic Research Service, USDA. Net farm income from the two sources, however, differs greatly. It is important to keep in mind that estimates by USDA and those from IRS are developed under different definitions from separate sources. Data have not been adequate to fully reconcile these differences.5/

Farms and Farm Tax Returns

Data from tax returns will be more easily understood if the differences between persons who file farm returns and farm operators are clear. The total number of farms is about the same as the total number of tax returns, but farm operators and persons who file farm tax returns are not identical populations. Most farm operators file a return, but some are not required to do so because their income is below the taxable minimum. For some farms, there are two or more tax returns because landlords or informal partners share the income. Sharing income under landlord-tenant arrangements on low income farms increases the probability that no one will receive sufficient taxable income to file a return.

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percent of individual returns are joint returns of husbands and wives. A small number of individuals with more than one farm are counted more than once when treated as individual proprietors, but are counted only once when treated as individuals.

Farm partnerships file information returns, but no income tax is paid with these returns. Each member of the partnership transfers his share of the partnership income to his individual return and, when due, taxes are paid on the individual return. These individual returns from farm partners are not tabulated with other individual returns. Data for farm partnerships are from the partnership information return. Many informal farm partnerships do not file information returns; the partners file separately and are counted as individual proprietors.

5/ For a discussion of differences in income reported, see the appendix.

The relationship between persons who file farm tax returns and farm operators is illustrated by two overlapping circles (fig. 1). The area AB represents all farm operators; area BC represents all individuals and businesses reporting farm income on tax returns. Area A represents farm operators not filing a return because they receive less than the minimum taxable income. The shaded area B, common to both circles, can be thought of as representing farm operators receiving more than the minimum gross taxable income and filing a return. Farm landlords, informal partners, and other nonoperators with business interests in farming receiving more than the minimum gross taxable income are included in area C.

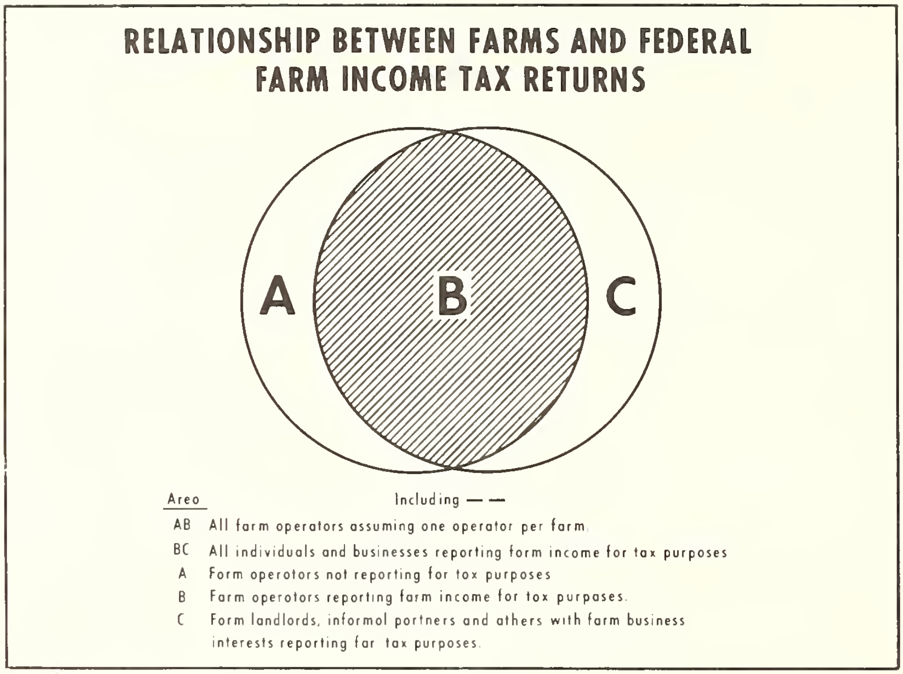

Figure 1

Data by States show that the number of farms and the number of farm tax returns do not correspond on a one-to-one basis. In 1963, 22 States had more Federal farm income tax returns than farms (fig. 2). These States were mainly in areas known to have relatively high farm incomes, especially where there were many part-owners and tenants. Tenants and part-owners are important since each has at least one landlord who may also file a farm return. There were fewer than 80 percent as many tax returns as farms in 15 States in the Appalachian, Southeast, Delta, and Northeast Regions.

When U.S. farms and farm tax returns are classified by size of receipts, the distributions are similar (table 1). 6/ Although the similarity is partly coincidental, approximately three-fifths of the farms and tax returns showed receipts of less than $5,000, and about a fourth of each reported $10,000 or more.

6/ The distribution of farms by value of sales, as estimated by the USDA, is compared with a distribution of tax returns by farm business receipts.

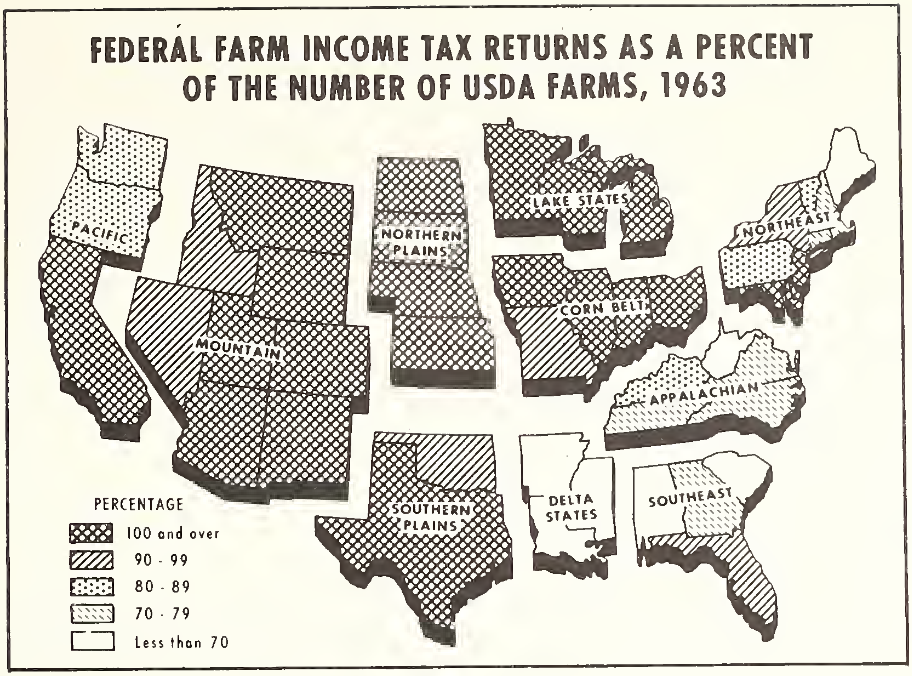

Figure 2

Table 1.--Number of farms and Federal farm income tax returns by amount of farm receipts, 1962

Farm receipts (value of sales)	Farm tax returns 1/		Farms 2/	
	Number	Number as percentage of total	Number	Number as percentage of total
	Thousands	Percent	Thousands	Percent
$10,000 or more	862	25	894	24
$5,000 to $9,999	633	18	583	16
Less than $5,000	1,962	57	2,211	60
Total	3,457	100	3,688	100

1/ U.S. Business Tax Returns, 1962. Includes returns of individual proprietorships, partnerships, and corporations. The distribution of the 15,000 farm corporations by receipts was estimated by the author from the distribution of 22,000 agriculture, forestry, and fishery corporations. Data are for the 50 States, Puerto Rico, and the Virgin Islands.

2/ U.S. Department of Agriculture, Economic Research Service. Farm Income Situation, July 1967. Data include the 48 conterminous States.

There were a few more farms than tax returns with receipts greater than $10,000. This is probably because taxpayers sometimes shared income from a farm, and each reported only his share of the receipts. Income sharing on larger farms also helps explain the slightly greater number of tax returns than farms in the class with receipts of $5,000 to $9,999. For example, the income of a farm with receipts of $18,000 might be shared by two individuals, each reporting $9,000 in receipts. Although no one would receive more than $10,000, two individuals would report receipts of $5,000 to $9,999.

The 10 percent fewer tax returns than farms with receipts of less than $5,000 suggest that a return was not filed for some farms where no one received the minimum taxable income. Many of those not reporting probably had no income tax to pay. 7/ They may live mainly on social security or other nontaxable income. Apparently relatively few who receive the minimum gross taxable income fail to report.

FARM INCOME

Income tax returns include two measures of income from farming: (1) farm business receipts, and (2) farm profits or losses. Business receipts help establish the relative importance of each type of business organization--individual proprietors, partnerships, and corporations--in the total farm mix. 8/ Receipts also serve as a measure of the size of farm business, except when receipts from a farm are shared by two or more individuals or businesses. While farm receipts alone are an unsatisfactory measure of an individual's income, the amount of farm receipts sets an upper bound on farm profits.

Profits or losses are, of course, generally preferable to receipts in measuring an individual's farm income. Also, because expenses have been deducted, farm profits or losses of individuals can be combined with taxable income from other sources to arrive at a more complete income picture.

Trends in Reporting Farm Income for Tax Purposes

In 1965, some 3.2 million Federal income tax returns included farm income, 10 percent fewer than the number in 1955 (appendix table 13). This decline is probably due to the decreasing number of farms. Individual proprietors and partnerships with profits have decreased in number, but those with reported losses have in general increased in recent years. One-fourth of the individual proprietors reported losses in 1953; one-third reported them in 1965.

7/ The 1964 census data suggest that about 600,000 farm operators sold less than 600 dollars worth of farm products. Often these operators and others over 65 with less than $1,200 in farm receipts and little or no taxable off-farm income would not have been required to report income. About half the farms reported in the census with receipts of less than $600 were in 12 Appalachian, Southeastern, and Delta States where there were the fewest tax returns in relation to the number of farms estimated by USDA.

8/ The receipts picture is complicated by partnerships and corporations that are engaged in activities other than farming, since the industry classification is based on the major source of receipts.

An increase in Federal farm income tax returns between 1953 and 1955 seemed to reflect the extension of social security coverage to farmers in 1955. Qualifying for social security coverage may have increased the total number of individuals filing farm tax returns by as much as 10 percent. Some of those reporting under the gross income option available to low income farm taxpayers would not have filed a tax return otherwise. Optional reporting for social security probably also contributed to the greater number reporting net farm losses for Federal income tax purposes.

Farm business receipts reported for 1965 were more than double those reported in 1945. But individual proprietors accounted for a somewhat smaller percentage of the total farm receipts than in 1945 because of a more rapid increase in receipts of partnerships and corporations. Partnerships just maintained their relative position; corporations increased their share of receipts (appendix table 14).

Farming was the major source of receipts for slightly more than 18,500 corporations in 1965. These corporations, representing less than 0.6 percent of the number of farm returns, reported business receipts of $4.9 billion--about 12 percent of the total reported farm receipts. Farm corporations represented 67 percent of the number and a similar share of the business receipts of all agriculture, forestry, and fishery corporations as classified by IRS.

The number of agriculture, forestry, and fishery corporations more than quadrupled between 1945 and 1965. Nearly one-third of the increase after 1957 can be explained by tax legislation that favored small family-type corporations.

Business Receipts in the Farm Economy

Individual proprietors--mainly farm operators, landlords, and informal partners--dominate the farm economy (tables 13 and 14). In 1965, these proprietors reported receipts of $29.9 billion, averaging $9,760 each. They accounted for 96 percent of all returns and reported three-fourth of total farm receipts.

Many individuals report small farm receipts; relatively few report large receipts. In 1962, about 58 percent of the individual proprietors reported receipts of less than $5,000, 19 percent reported $5,000 to $9,999, and 23 percent reported $10,000 or more (table 2). Receipts averaged 14 percent more in 1965 than in 1962.

It is not surprising that some individuals who are not full-time farmers report little farm income. The semiretired, those with full-time off-farm jobs, and landlords with small holdings account for some of the small receipts. Of course, there are also full-time farm operators reporting small receipts.

Many individuals who have farm receipts can not expect to live solely on income from farming. Prospects for a satisfactory living from farming are remote for all individuals with receipts of less than $5,000, and most of those with receipts of less than $10,000 can expect only moderate net incomes from farming.

Partnerships accounted for fewer than 4 percent of the 1965 farm tax returns, but reported more than 10 percent of total farm receipts. The average partnership (2.5 partners) received $35,220, about 3.6 times the average for individual proprietors. The most recent distribution of partnership receipts for 1962 indicates that

Table 2.--Farm proprietorships, partnerships, and corporations by amount of farm receipts, 1962 1/

Type of business	Number of businesses	Percentage with receipts of-- Less than $5,000	$5,000 to $9,999	$10,000 to $24,999	$25,000 to $49,999	$50,000 or more
	Thousands	Percent	Percent	Percent	Percent	Percent
Individual proprietorships	3,319	58	19	17	4	2
With profits	2,302	49	22	22	5	2
With losses 2/	1,017	78	11	8	2	1
Partnerships	123	27	15	26	16	16
With profits	94	20	16	28	18	18
With losses 2/	29	49	12	17	11	11
Corporations 3/	15	9	9	11	14	57
All businesses	3,457	57	18	18	5	2

1/ U.S. Business Tax Returns, 1962. Data are for the 50 States, Puerto Rico, the Virgin Islands, other U.S. possessions, and foreign areas.

2/ Including returns with receipts equal to deductions.

3/ Farm corporations were assumed to include 70 percent of the agriculture, forestry, and fishery corporations as they did when tabulated separately for 1963. The percentage distribution by amount of receipts was estimated from the distribution of corporations classified as agriculture, forestry, and fishery. Because there are relatively few farm corporations, the distribution for all farm businesses together is not changed significantly if corporate returns are excluded.

more than 40 percent of these partnerships reported less than $10,000. However, nearly one-third reported receipts of $25,000 or more, and half of these reported receipts of $50,000 or more (table 2).

Available data from agriculture, forestry, and fishery corporations for 1964 indicated that more than half of the farm corporations had receipts of $50,000 or more; nearly one-fifth reported receipts of less than $10,000. Receipts of all corporations averaged about $230,000.

Producing areas. About half of the farm produce in the United States in 1963, measured by reported farm receipts of individual proprietors and partnerships, was concentrated in 12 North Central States (fig. 3). Five Corn Belt States alone accounted for about one-fourth of the total; the Northern Plains and Lake States accounted for another fourth. The Pacific and Southern Plains Regions each accounted for somewhat less than one-tenth of all production.

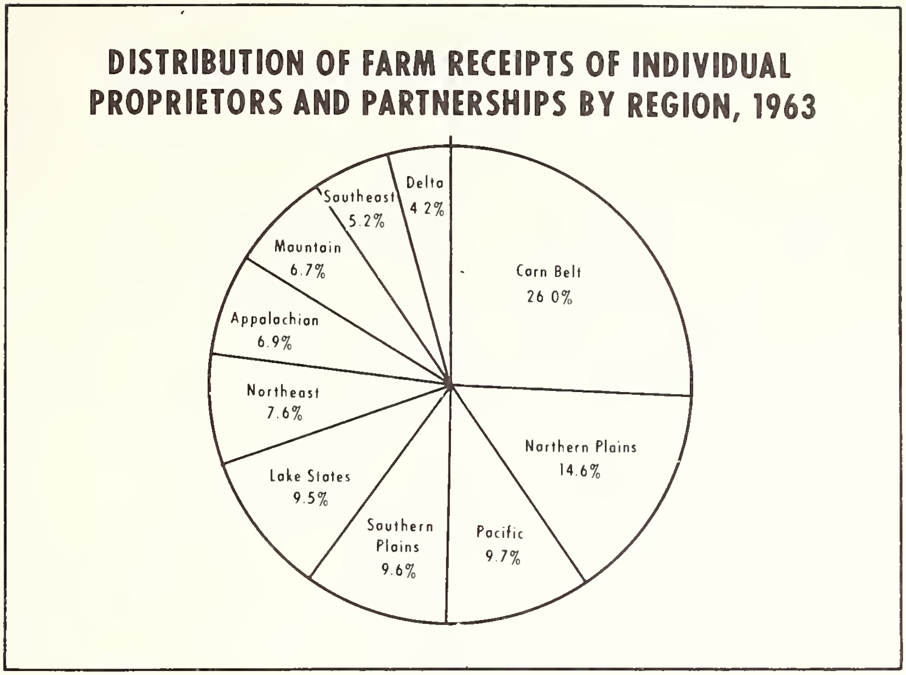

Figure 3

Farm Profits or Losses

Tax returns are unique in that they provide distributions of proprietorships and partnerships by amount of farm profit or loss. However, these data need to be interpreted with a clear understanding of the reporting rules and definitions used by IRS. Also, because income tax returns are filed mainly by individuals rather than for farm operating units, the notion of a farm is not particularly useful in analyzing the data.

Many individuals with farm income report little or no profit on their farm tax returns. In 1964, about 41 percent reported profits of less than $2,000 and another 36 percent reported losses (table 3). Fewer than 8 percent reported profits of $5,000 or more.

Farm partnerships generally reported larger profits than sole proprietors, but in 1964, 29 percent of the partnerships reported losses and another 20 percent reported profits of less than $2,000.

About 82 percent of all individuals in the Northern Plains with farm income reported profits in 1962, the highest proportion reporting for any region (table 4). The percentages were also relatively high in the Corn Belt, Appalachian, and Lake States--76 percent, 74 percent, and 71 percent, respectively. Comparatively few, 52 percent, reported farm profits in the Pacific Region. The percentage of individuals reporting profits was often different among States within these regions (fig. 4).

Regions where profits were most frequent were not always those with large average farm receipts nor those where farming risks are low. For example, the Appalachian Region had the smallest average receipts in the Nation, but the proportion of persons that reported profits was above the U.S. average. Many from the Appalachian

Table 3.--Farm proprietorships and partnerships by amount of profit, 1964 1/

Farm profit	Proprietorships: Number	Proprietorships: Number as percentage of total	Partnerships: Number	Partnerships: Number as percentage of total
	Thousands	Percent	Thousands	Percent
Less than $2,000	1,267	40.5	23	19.5
$2,000 to $4,999	507	16.2	23	19.5
$5,000 to $9,999	180	5.7	18	15.3
$10,000 to $24,999	51	1.6	15	12.7
$25,000 or more	6	.2	5	4.2
Businesses with profits	2,011	64.2	84	71.2
Businesses with losses 2/	1,119	35.8	34	28.8
Total, all businesses	3,130	100.0	118	100.0

1/ U.S. Business Tax Returns, 1964.
2/ Including returns with receipts equal to deductions.

Table 4.--Individuals with farm profits and losses, and average receipts, by region, 1962 1/

Region	All individuals: Number	All individuals: Average farm receipts	All individuals: Percentage with farm profits	Individuals with farm profits: Number	Individuals with farm profits: Average farm receipts	Individuals with farm losses: Number	Individuals with farm losses: Average farm receipts
	Thousands	Dollars	Percent	Thousands	Dollars	Thousands	Dollars
Northeast	229	9,460	61	139	11,450	90	6,400
Lake States	391	7,240	71	279	8,440	112	4,220
Corn Belt	843	8,660	76	638	10,110	205	4,120
Northern Plains	348	11,650	82	284	12,430	64	8,250
Appalachian	476	4,460	74	353	4,780	123	3,530
Southeast	206	7,080	60	123	8,770	83	4,590
Delta States	145	7,860	61	89	10,220	56	4,100
Southern Plains	316	8,540	58	183	11,240	133	4,820
Mountain	155	12,590	65	101	14,660	54	8,770
Pacific	182	13,820	52	95	19,500	87	7,570
United States 2/	3,296	8,580	69	2,287	10,060	1,009	5,210

1/ U.S. Business Tax Returns, 1962.
2/ U.S. totals include Alaska, Hawaii, and other areas not included in the regions.

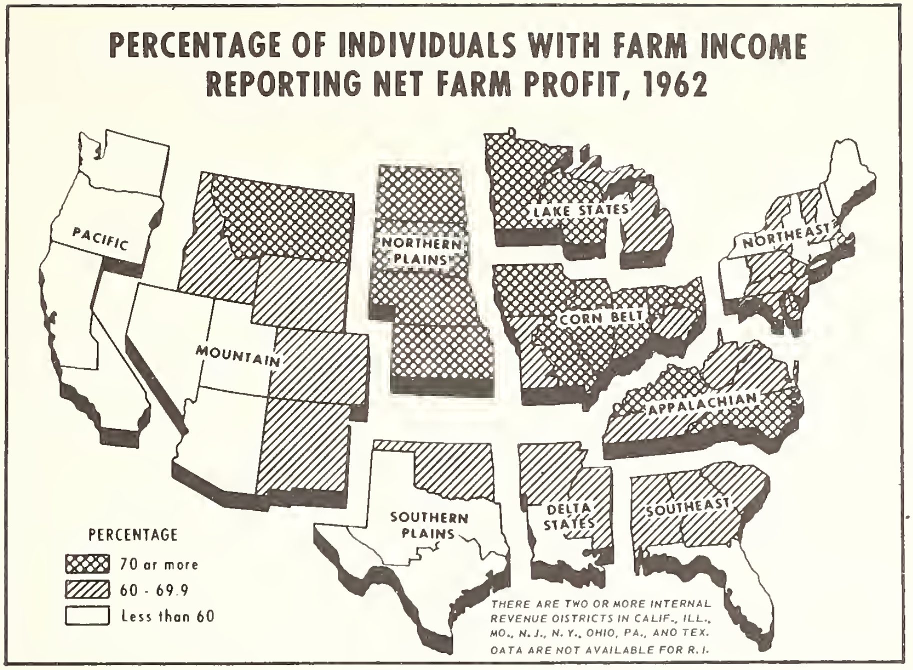

Figure 4

and other low-income regions probably do not report small farm losses. This reduces the total number of returns and tends to increase the percentage showing profits. The percentage of individuals with profits was lowest in the Pacific Region, despite relatively large farm receipts. The Northern Plains, often thought to be a high-risk region, had both high average receipts and a large proportion of individuals reporting profits.

The importance of off-farm income appears to be closely associated with reported farm profits or losses. Losses of those with income solely from farming can often be attributed to weather, crop or livestock diseases, insects, low farm prices, or ill health of the farm operator. But to understand why others show farm losses, it is useful to consider how off-farm income may affect reported farm income.

Some low-income farmers who have recently begun to earn taxable nonfarm income may find it more advantageous to report their farm losses now than in earlier years when they had no taxable nonfarm income. The withholding tax system also tends to increase the number of returns with farm losses. Income taxes are generally withheld from nonfarm wages and salaries even though no taxes may be due when the individual files his tax return. When filing for a refund, the taxpayer may also report small amounts of farm income and small farm losses that he might not be required to report if he had no off-farm income.

Farm operators and landlords with off-farm income sometimes subsidize their farm operations. While this is sometimes done only during a period of development or expansion, it may become a mode of operation. In these instances, the farm business can show losses for several years, or it may never become profitable. Farm operators without off-farm income ordinarily cannot survive losses over an extended period of years.

Individuals with large off-farm incomes sometimes attempt to farm in grand style, hopefully for a profit. Even when earning profits is the objective, these ventures frequently result in farm losses. Others, including "hobby farmers" with little interest in earning farm profits, are even more likely to have farm losses. Expenses of operating a farm for recreation or pleasure are not allowable business deductions when the farm results in a continual loss from year to year.

OFF-FARM INCOME[9/]

The relationship between farm and off-farm income is probably more significant than has generally been recognized in understanding the U.S. farm economy. In 1963, individuals with farm income also reported off-farm income of $10.9 billion and capital gains of $1.2 billion. Wages and salaries totaling $7.1 billion represented the most important off-farm income. Dividends and interest totaled $1.5 billion. Nonfarm business income was also nearly $1.5 billion. Other miscellaneous income such as that from rents, royalties, pensions, and annuities amounted to $0.8 billion.

Mixing farm and off-farm income results partly from efforts of farm people to increase or stabilize their incomes. Off-farm income is frequently received by individuals who continue to farm but also earn wages or salaries or have other off-farm interests. For some of these people, farm earnings dominate the income picture; however, farm earnings are often overshadowed by off-farm income.

Some of those who have left farms during recent decades for better nonfarm opportunities have retained or inherited a financial interest in farming, such as through ownership of farmland or farm business investments. In addition to those with a farm background, others who have few ties with agriculture may own farmland or invest in farming.

Individuals 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 and apparently the less likely that the individual made his living by farming (tables 5 and 6). After subtracting farm losses, those with losses in 1963 averaged $5,250 from combined farm and off-farm income. This was about one-fifth greater than the $4,340 combined income reported by individuals with farm profits. It is clear that reported farm profits and losses alone are a poor indicator of the income situation of individuals.

In 1963, off-farm income and capital gains averaged only 36 percent as much for individuals with farm profits as for those with losses. However, they accounted for about half of the combined income of those with farm profits and were more important than farm profits for 38 percent of those reporting profits. One-fifth of the individuals with farm profits reported that 80 percent or more of their combined income consisted of off-farm income or capital gains. 10/ Among individuals reporting profits, off-farm income averaged highest for those with the largest farm profits but accounted for a larger share of the combined income of individuals with small profits.

9/ Farm and nonfarm capital gains are also discussed in this section.

10/ For further detail on farm profits of individuals as a percentage of their combined farm and off-farm income, see table 10, Individual Income Tax Returns, 1963, Internal Revenue Service, U.S. Treasury Department.

Table 5.--Percentage of individuals with farm income reporting off-farm income from specified sources, by amount of farm profit or loss, 1963 1/

Farm profit or loss	Number	Average farm receipts	Percentage reporting any off-farm or other income	Percentage reporting off-farm income from-- Wages and salaries 2/	Dividends	Interest	Nonfarm sole proprietorships	Partnerships	Other sources 3/
	Thousands	Dollars	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Farm profit:									
$10,000 or more-	50	60,450	88	24	30	62	6	10	76
$5,000-$9,999---	167	26,660	85	27	19	50	6	4	74
$1,200-$4,999---	854	11,820	79	33	11	39	6	3	64
$400-$1,199-----	584	5,100	75	41	7	35	8	3	54
$100-$399-------	337	3,270	86	55	9	37	12	3	60
Less than $100--	111	2,660	92	65	10	39	14	4	66
Farm Loss:									
Less than $100--	96	2,690	95	69	9	37	16	4	68
$100-$399-------	241	2,840	95	71	10	40	12	4	67
$400-$1,199-----	381	3,390	96	74	10	40	14	4	70
$1,200-$4,999---	310	6,540	97	70	16	43	16	7	75
$5,000-$9,999---	40	16,190	96	51	30	53	26	18	84
$10,000 or more-	26	55,220	94	42	46	64	30	24	87
Individuals with farm profits-----	2,103	10,440	80	40	11	39	8	3	62
Individuals with farm losses------	1,094	5,790	96	70	13	42	15	6	71
All individuals	3,197	8,850	86	50	12	40	10	4	65

1/ U.S. Business Tax Returns, 1963.
2/ For additional detail, see table 7.
3/ Including sales of farm and nonfarm capital assets, rents, royalties, pensions and annuities, ordinary gain from sales of depreciable property, estates and trusts, sales of property other than capital assets, and other miscellaneous items. See table 10 for number of individuals reporting and amounts reported.

Table 6.--Average farm and off-farm income of individuals, by amount of farm profit or loss, 1963 1/

Farm profit or loss	Combined farm and off-farm income 2/	Farm profit or loss	All off-farm and other income 3/	Off-farm income from--3/					
				Wages and salaries	Dividends	Interest	Nonfarm sole proprietorships	Partnerships	Other sources 4/
	Dollars								
Farm profit:									
$10,000 or more	20,120	16,150	4,520	2,640	2,880	1,130	(180)	1,610	2,190
$5,000-$9,999	8,500	6,670	2,150	2,030	990	640	1,360	2,070	810
$1,200-$4,999	4,170	2,570	2,020	2,360	730	460	2,000	1,860	580
$400-$1,199	2,790	770	2,720	3,250	820	390	1,960	2,250	500
$100-$399	3,180	260	3,410	3,760	860	400	2,060	3,130	530
Less than $100	3,970	50	4,260	4,460	830	450	2,040	3,010	520
Farm loss:									
Less than $100	4,160	(56)	4,440	4,540	1,000	420	2,080	4,850	500
$100-$399	4,540	(240)	5,050	5,100	1,100	420	2,610	3,870	600
$400-$1,199	4,700	(740)	5,660	5,480	1,280	440	3,060	4,910	660
$1,200-$4,999	5,140	(2,260)	7,670	6,480	2,300	660	5,310	5,020	1,320
$5,000-$9,999	7,720	(6,910)	15,260	9,030	7,590	1,450	7,750	7,450	4,290
$10,000 or more	21,700	(22,750)	47,100	19,300	27,500	2,930	9,740	8,490	19,320
Individuals with farm profits	4,340	2,220	2,650	3,090	950	480	1,930	2,210	620
Individuals with farm losses	5,250	(1,740)	7,310	5,890	4,290	640	4,170	5,410	1,520
All individuals	4,650	860	4,430	4,430	2,240	540	3,040	3,800	960

1/ U.S. Business Tax Returns, 1963.
2/ Combined farm and off-farm income is referred to as "adjusted gross income" by the Internal Revenue Service.
3/ Average amounts are for those reporting. See table 5 for percentage reporting.
4/ See footnote 3, table 5.

Wages and Salaries. Wages and salaries represented the main off-farm income of those with farm income in 1963. About half of the returns, including joint returns of husbands and wives, showed wages or salaries averaging $4,430 (tables 5 and 6). Wages and salaries totaled $7.1 billion and accounted for 65 percent of the total off-farm income. The importance of wages and salaries demonstrates that many individuals with farm income will accept off-farm employment when it is available. For many, combining off-farm employment with farming is a more attractive alternative than either full-time farming or wage work alone.

Large farm profits and large wage and salary earnings were not usually received by the same people, probably because those with large farm businesses have little time for off-farm work. Slightly more than one-fourth of the 217,000 individuals reporting farm profits of $5,000 or more reported wage or salary earnings. Seven out of 10 of these wage and salary earners received less than $2,000 (table 7). Thus, because they were mainly full-time farmers, most earned little from off-farm work.

One-third of the 854,000 individuals with farm profits of $1,200 to $4,999 reported wages and salaries, and about 40 percent of these reported wages and salaries of $2,000 or more. Wages were more important in relation to total income for this group than for individuals with larger farm profits, but not as important as

Table 7.--Percentage of individuals with farm income reporting wages or salaries of specified amounts, by amount of farm profit or loss, 1963 1/

Farm profit or loss	Number	Percentage earning wages or salaries of-- Less than $2,000	$2,000-$4,999	$5,000-$9,999	$10,000-$24,999	$25,000 or more
	Thousands	Percent	Percent	Percent	Percent	Percent
Farm profit:						
$10,000 or more	12	71.1	15.5	7.4	4.5	1.5
$5,000-$9,999	45	71.6	17.1	8.2	2.7	.4
$2,000-$4,999	162	67.9	19.6	10.3	1.9	.3
$1,000-$1,999	166	53.7	28.4	14.6	3.1	.2
Less than $1,000	454	38.4	33.5	23.7	4.2	.2
Farm loss:						
Less than $1,000	462	18.5	34.4	40.1	6.6	.4
$1,000-$4,999	269	13.9	28.1	44.5	12.4	1.1
$5,000-$9,999	20	24.2	24.2	22.1	21.8	7.7
$10,000 or more	11	21.4	10.8	20.2	22.3	25.3
Individuals with farm profits	839	49.4	28.7	18.2	3.5	.2
Individuals with farm losses	762	17.0	31.6	40.9	9.3	1.2
All individuals	1,601	34.0	30.0	29.0	6.3	.7

1/ Individual Income Tax Returns, 1963.

for those with smaller farm profits or losses. Wages alone accounted for nearly half of the off-farm and capital gains income of this group. For the group as a whole, including some farmers with marginally adequate incomes, farm profits exceeded off-farm income, but farm profits alone, averaging $2,570, would have often been too low for a satisfactory level of living. With average farm receipts of $11,820, some of these individuals may have had farms that were large enough in the past but scarcely adequate today.

Wage and salary income was particularly important to individuals whose reported farm profits were less than $1,200 and whose farm losses did not exceed $1,200. This group, heavily dependent on off-farm income, received more than 70 percent of its off-farm income from wages and salaries. While it is difficult to identify a dominant characteristic, the group probably included many part-time farmers and some farm landlords. Many seemed to supplement reasonably adequate nonfarm wage work with a bit of farm income. Others were subsidizing their limited farm operations with their own or their wives' off-farm income.

Although more than a million individuals with farm profits and losses of less than $1,200 benefited from off-farm employment, about 734,000 at this income level had no wages or salaries. Many of those without off-farm jobs are probably older people with little prospect for improved incomes through wage work, or they may live where off-farm employment opportunities are inadequate.

Individuals with farm losses of $1,200 to $4,999 include many who combine farming with full-time wage work or small nonfarm businesses. This group of 310,000 individuals had larger farm receipts and more off-farm income than those with smaller losses, but the sources of income for both groups were generally similar. Wages and salaries averaging $6,480 per individual, enough to indicate that most had full-time off-farm work, were reported by 70 percent of those in this group and accounted for 60 percent of their off-farm and capital gains income.

Individuals with farm losses greater than $5,000 earned wages and salaries less often than those with smaller farm losses, but they reported each of the other types of off-farm income more frequently. The average amount of wage and salary income received suggests that many earned salaries in managerial positions.

As a group, those with farm losses of $10,000 or more averaged farm receipts of $55,220 and farm losses of $22,750. About 94 percent had off-farm income or capital gains; this income averaged $47,100. Clearly, most were not farmers under usual definitions.

Large salary earnings were particularly evident for about 11,000 individuals from the group reporting farm losses of $10,000 or more (table 7). Two-thirds reported wage or salary earnings of $5,000 or more. Nearly half reported $10,000 or more and one-fourth reported $25,000 or more. It is unlikely that many of these individuals supplied a significant amount of farm labor, although they often owned or had interests in sizable farm businesses.

More than one-third of those with wage or salary earnings, 561,000 individuals, did not have any other taxable off-farm income. They depended almost entirely on wages and salaries which averaged about $3,800. Farm profits of these individuals (including those with farm losses) averaged only $171.

In 1962, wages and salaries were reported most often and were highest in the Pacific Region, where 57 percent of the individuals reported an average of $5,760 (tables 8 and 9). Wage and salary earnings were lowest and were reported by the smallest percentage of persons--38 percent--in the Northern Plains. In that region, where there are relatively few off-farm employment opportunities, wage and salary income averaged only $2,820--less than half as much as in the Pacific Region.

In each production region, a smaller percentage of individuals with farm profits than with losses reported wages and salaries. There were substantial differences among regions in the average amounts of wages and salaries reported. However, the differences in amounts reported by persons with farm profits and those with losses were greater than the differences among regions.

Dividends. About 12 percent of the individuals with farm income in 1963 reported dividends totaling $825 million--8 percent of the reported off-farm earnings of individuals. Individuals with dividends averaged about $2,240 from this source in 1963, but dividends were less equally distributed than other types of income. About 86 percent of all dividends were reported by fewer than 4 percent of the individuals, those with dividends and income from all sources of $10,000 or more.

Dividends were reported most frequently by and were largest for individuals with farm losses; those with the largest farm losses reported the largest dividends (tables 5 and 6). Too, the greater the income from all sources combined, the larger the reported dividends.

The association of dividends with large off-farm incomes and farm losses suggests that most of those with large dividends do not farm for a living. Nevertheless, the amount of dividends and the frequency with which they are reported have important implications. Individuals with both farm income and large dividends clearly have large nonfarm financial assets and often have relatively large farm operations, measured in terms of farm receipts and expenditures. It is apparent that they are often not engaged in farming for farm profits alone, though the farm income produced may go to nonfarm people. Wealthy individuals with farm investments--particularly those with large farm losses--may have little interest in farm profits or they may seek tax advantages by combining farm and nonfarm investments.

In 1962, a year for which regional data were available, dividends were particularly important in the Northeast where 17 percent of the individuals reported an average of $6,650 in dividends. Individuals with farm losses and dividends averaged about $12,470 from dividends; those with profits averaged about $1,470 (tables 8 and 9).

Interest. Income from interest, totaling about $680 million and averaging $540 per individual, was reported on 40 percent of the 1963 individual farm income tax returns. This source of income accounted for about 7 percent of all off-farm income. Like dividends, reported interest averaged more for those with large losses. However, interest was more widely distributed. Not only was it reported more often than dividends at all levels of farm profit but there was less variation by level of farm profit in percentages reporting and in amounts reported. Individuals with losses reported interest only slightly more frequently than those with profits (tables 5 and 6).

Regional data for 1962 indicate that interest was more common and averaged more in the Pacific Region, where just under half of the individuals with either farm

Table 8.--Percentage of individuals with farm profits or losses reporting off-farm income from specified sources, by region, 1962 1/

Region	Percentage reporting income from--					
	Wages and salaries	Dividends	Interest	Nonfarm sole proprietorships	Partnerships	Other sources 2/
	Percent					
Individuals with farm profits:						
Northeast	42	14	36	9	2	42
Lake States	34	9	30	5	1	53
Corn Belt	38	10	32	8	3	53
Northern Plains	34	8	25	6	2	57
Appalachian	40	5	18	10	3	24
Southeast	42	8	22	13	5	27
Delta States	35	5	14	8	3	26
Southern Plains	43	8	26	9	5	51
Mountain	47	10	31	7	4	50
Pacific	45	14	46	9	5	49
United States 3/	39	9	28	8	3	45
Individuals with farm losses:						
Northeast	70	19	38	14	4	50
Lake States	71	7	29	11	2	49
Corn Belt	70	10	30	15	7	52
Northern Plains	56	9	24	13	6	61
Appalachian	75	10	27	17	7	40
Southeast	75	12	29	20	6	42
Delta States	78	9	19	15	5	35
Southern Plains	71	10	29	19	9	57
Mountain	69	8	32	14	10	54
Pacific	71	16	47	17	9	54
United States 3/	71	11	31	16	6	50
All individuals:						
Northeast	53	17	37	11	3	45
Lake States	47	8	30	7	2	52
Corn Belt	46	10	32	10	4	52
Northern Plains	38	8	25	7	3	57
Appalachian	49	7	20	12	4	28
Southeast	55	10	25	15	5	33
Delta States	52	7	16	11	4	30
Southern Plains	55	9	27	13	7	53
Mountain	55	9	31	9	5	51
Pacific	57	15	47	13	7	51
United States 3/	49	10	29	10	4	47

1/ U.S. Business Tax Returns, 1962.
2/ See footnote 3, table 5.
3/ U.S. totals include Alaska, Hawaii, and other areas not included in the regions.

Table 9.--Average farm profits or losses of individuals and average off-farm income from specified sources, by region, 1962 1/

Region	Farm profit or loss	Off-farm income from--2/ Wages and salaries	Dividends	Interest	Nonfarm sole proprietorships	Partnerships	Other sources 3/
	Dollars						
Individuals with farm profits:							
Northeast	1,780	3,580	1,470	540	1,520	4,540	760
Lake States	1,780	2,820	620	430	1,920	2,020	520
Corn Belt	2,310	3,280	990	520	2,150	2,650	680
Northern Plains	2,810	2,390	480	440	1,610	2,560	670
Appalachian	1,280	2,790	1,210	410	1,750	2,670	770
Southeast	1,530	3,300	1,140	700	1,600	3,020	1,160
Delta States	1,920	2,650	1,040	660	1,750	4,010	920
Southern Plains	2,500	3,100	900	580	1,570	1,760	1,210
Mountain	3,041	2,740	700	670	1,500	1,850	940
Pacific	3,690	4,110	1,660	880	2,080	2,210	1,480
United States 4/	2,170	3,050	990	540	1,830	2,550	790
Individuals with farm losses:							
Northeast	(1,760)	6,640	12,470	840	3,720	9,280	2,560
Lake States	(1,020)	5,540	3,150	510	3,760	4,080	1,010
Corn Belt	(1,240)	5,970	4,100	600	4,000	6,030	1,210
Northern Plains	(1,400)	3,990	1,590	560	3,390	5,200	1,590
Appalachian	(1,290)	5,560	4,590	590	4,500	4,780	1,820
Southeast	(1,810)	6,100	3,630	1,140	4,680	5,620	2,460
Delta States	(1,450)	5,170	2,240	690	3,720	6,720	2,530
Southern Plains	(1,950)	5,840	4,010	880	3,300	5,440	3,070
Mountain	(2,320)	5,200	4,360	930	3,550	5,960	2,280
Pacific	(2,260)	6,910	3,990	1,160	6,000	6,280	2,930
United States 4/	(1,580)	5,820	5,200	790	4,100	5,810	2,060
All individuals:							
Northeast	---	5,180	6,650	660	2,680	7,420	1,540
Lake States	---	4,320	1,270	450	2,740	2,820	650
Corn Belt	---	4,270	1,750	540	2,860	4,200	800
Northern Plains	---	2,820	670	470	2,220	3,420	850
Appalachian	---	3,880	2,610	470	2,800	3,660	1,160
Southeast	---	4,820	2,430	900	3,180	4,360	1,820
Delta States	---	4,120	1,660	680	2,790	5,490	1,660
Southern Plains	---	4,600	2,310	720	2,620	3,820	2,040
Mountain	---	3,860	1,890	760	2,560	3,610	1,440
Pacific	---	5,760	2,860	1,020	4,560	4,660	2,210
United States 4/	---	4,280	2,470	620	2,880	4,150	1,200

1/ U.S. Business Tax Returns, 1962.
2/ Average amounts are for those reporting. See table 8 for percentages reporting.
3/ See footnote 3, table 5.
4/ U.S. totals include Alaska, Hawaii, and other areas not included in the regions.

profits or losses reported receiving interest. Interest was reported least frequently in the Delta Region (tables 8 and 9).

Nonfarm businesses. Individuals with income from farming are often also engaged in nonfarm businesses. About one out of 10 of those with farm income in 1963 reported nonfarm sole proprietorship income; one out of 25 reported partnership income. Together, income from these sources amounted to nearly $1.5 billion and accounted for 14 percent of total off-farm income. Seventy percent of this income was from nonfarm sole proprietorships; 30 percent was from partnerships. Individuals with farm losses reported nonfarm business income nearly twice as often as those with farm profits, and their nonfarm business income averaged more than twice that of persons with farm profits. Nonfarm business income was reported most frequently by those with the largest farm losses. Thirty percent of the individuals reporting farm losses of $10,000 or more reported nonfarm sole proprietorship income averaging $9,740; about one-fourth reported partnership income that averaged nearly $8,500.

Combinations of farm and nonfarm sole proprietorships seem to be particularly important in the Southeast (tables 8 and 9). Both those with farm profits and those with farm losses in 1962 had larger percentages reporting such income in the Southeast than in any other region. Average dollar income in the Southeast from nonfarm sole proprietorships was $3,180. This was exceeded only by the $4,560 reported in the Pacific Region. Partnership income was reported by a greater percentage of individuals in the Southern Plains and Pacific Regions, but income from partnerships averaged more in the Northeast.

Other income, including capital gains. About two-thirds of all individuals with farm income in 1963 also reported other income totaling nearly $2 billion. This includes net gains or losses from the sale of farm and nonfarm capital assets, rents, royalties, pensions and annuities, ordinary gain from the sale of depreciable property, income from estates and trust funds and from the sale of property other than capital assets (table 10).

"Other" income was distributed among individuals at the various farm profit or loss levels in somewhat the same way as dividends, although it averaged less than half as much (tables 5 and 6). Average amounts reported were more for individuals with the largest farm losses.

About 61 percent of the other income reported in 1963, an estimated $1.2 billion, was net gain from the sale of farm and nonfarm capital assets. An estimated $428 million of these net capital gains were from the sale of livestock; $294 million were from farmland sales.11/ It is significant that for individuals with farm income, 55 percent of the net gains from the sale of capital assets accrued to 121,000 individuals with income of $10,000 or more from all sources.

11/ Net capital gains from sales of livestock and farmland were estimated from data in "Statistics of Income . . . 1962, Sales of Capital Assets Reported on Individual Income Tax Returns, Internal Revenue Service, U.S. Treasury Department, 1966.

Table 10.--Number and percentage of individuals with farm income reporting income from other sources, and amount of other income reported, 1963 1/

Other sources of income 2/	Individuals reporting income from other sources: Number	Individuals reporting income from other sources: Percentage	Amount of income reported from other sources
	Thousands	Percent	1,000 dollars
Sales of capital assets	1,051	33	1,215
Rents	532	17	376
Royalties	114	4	174
Pensions and annuities	46	1	71
Ordinary gain from sale of depreciable property	56	2	56
Estates and trusts	31	1	49
Sales of property other than capital assets	83	3	-36
Miscellaneous	82	3	82

1/ Individual Income Tax Returns, 1963.
2/ Income items listed in this table are included as other income on tables 5, 6, 8, 9, 11, and 12.

Reported by more than half a million individuals with farm income and second in importance in the "other" income category, rents amounted to $376 million. Royalties reported by about 114,000 individuals amounted to $174 million. Each of the remaining income sources accounted for less than 5 percent of other income.

THE FINANCIAL SITUATION OF INDIVIDUALS

All individuals reporting farm income in 1963 were classified in one of five groups. These groups, based on farm profits or losses and taxable income from all sources, are indicators of the financial situation of individuals. A better measure would consider income received over several years. Also, these income groups reflect wealth only insofar as it produces taxable income. The following chart shows how individuals were classified for this study.

Income from all sources	Individuals with farm profits	Individuals with farm losses of--				
		Less than $400	$400-$1,199	$1,200-$4,999	$5,000-$9,999	$10,000 or more
$25,000 or more----	wealthy	wealthy	wealthy	wealthy	wealthy	wealthy
$10,000-$24,999----	well off	well off	well off	well off	well off	wealthy
$5,000-$9,999------	high middle	high middle	high middle	high middle	well off	wealthy
$2,500-$4,999------	low middle	low middle	low middle	high middle	well off	wealthy
Less than $2,500---	poor	poor	low middle	high middle	well off	wealthy

Individuals with farm profits were classified on the basis of their taxable income from all sources. For example, those with farm profits and taxable income of $5,000 to $9,999 were classified in the high-middle group. Individuals with farm losses were classified according to the size of their losses as well as by amount of taxable income. This was done on the hypothesis that large farm losses generally must be offset by substantial nonfarm income or wealth, regardless of reported taxable income. For example, an individual was classed as wealthy if he had either $25,000 of taxable income or reported $10,000 or more in farm losses. This method of classification may have resulted in the misclassification of a relatively small number of individuals who had large farm losses that were not offset by off-farm income, capital gains, or wealth.

The poor. More than a million individuals, 32 percent of those with farm income, were classed as poor. They were poor not only because their farm income was low but also because they earned little taxable off-farm income (tables 11 and 12). While farm receipts of the poor averaged only $5,590, about 87 percent reported farm profits. Wages and salaries, like all other off-farm income, were reported less often and were smaller for the poor than for all other groups. Only about one-fourth reported any wage or salary income; that of those reporting averaged about $830, suggesting that most had only part-time wage work.

It seems unlikely that many of those classed as poor have much prospect of becoming full-time farm operators with an adequate income. Some are apparently part-time farmers with part-time farms but no off-farm jobs. Social security payments, pensions, welfare, or other nontaxable income may make up for part of the apparent income gap, but within this poor class many may be in need of income support.

The middle income groups. The main difference between the upper-middle and lower-middle income groups was that off-farm income was more important to the upper-middle group. The two groups, including 58 percent of the individuals reporting farm income, were about equal in size. Average farm receipts were $8,830 for the upper-middle group and $8,030 for the lower-middle group. Off-farm income was less than half as great for the lower-middle group as for the upper-middle group. Though they were less likely to report profits, both farm profits and combined farm and off-farm income averaged more for the upper-middle group.

Table 11.--Percentage of individuals with farm income reporting farm profits and off-farm income from specified sources, by classification of taxpayer, 1963 1/

Classification of taxpayer	Individuals with farm income		Percentage reporting--							
					Off-farm income from--					
	Number	Average farm receipts	Farm profits	Any off-farm or other income	Wages and salaries	Dividends	Interest	Nonfarm sole proprietorships	Partnerships	Other sources 2/
	Thousands	Dollars	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Wealthy	66	40,130	31	97	48	60	77	31	30	91
Well off	251	17,090	56	97	61	32	66	19	13	83
Upper middle	926	8,830	48	96	71	13	46	11	4	74
Lower middle	925	8,030	65	91	54	8	36	10	3	68
Poor	1,029	5,590	87	68	26	5	29	7	1	49
All individuals, total or average	3,197	8,850	66	86	50	11	40	10	4	65

1/ U.S. Business Tax Returns, 1963.
2/ See footnote 3, table 5.

Table 12.--Average farm and off-farm income of individuals, by classification of farm taxpayer, 1963 1/

Classification of farm taxpayer	Combined farm and off-farm income 2/	Net farm profit 3/	Net farm loss 3/	All off-farm and other income 3/	Off-farm income from--3/ Wages and salaries	Dividends	Interest	Nonfarm sole proprietorships	Partnerships	Other sources 4/
	Dollars									
Wealthy	37,280	13,270	14,110	44,150	20,650	15,850	2,790	16,860	12,080	13,780
Well off	12,000	6,210	3,080	10,210	9,030	1,370	900	6,300	4,490	1,890
Upper middle	5,610	3,190	1,480	5,040	5,400	510	440	2,250	2,010	580
Lower middle	3,220	2,150	590	2,240	2,630	340	370	1,250	1,020	420
Poor	1,210	900	180	1,740	830	180	270	310	350	250
All individuals	4,650	8,850	860	4,430	4,430	2,240	540	3,040	3,800	960

1/ U.S. Business Tax Returns, 1963.
2/ Combined farm and off-farm income is referred to as "adjusted gross income" by the Internal Revenue Service.
3/ Average amounts are for those reporting. See table 11 for percentage reporting.
4/ See footnote 3, table 5.

The upper-middle group, with 71 percent reporting wages or salaries averaging about $5, 400, appears to include many part-time farmers with relatively higher incomes. Often their wages alone were large enough to place them in this income group. For them, farming seems to be a relatively minor source of income. Slightly fewer than half reported farm profits.

The well off. About a quarter of a million individuals were classified as well off. Averaging $12, 000 from all sources and with farm business receipts of $17, 090, this group had more than twice the income reported by the upper-middle group. Included were some 40, 000 individuals who were truly well off in terms of farm income. They reported average farm receipts of nearly $52, 000 and farm profits of $10, 000 or more. Although comparatively few in number, they accounted for 80 percent of those reporting farm profits of $10, 000 or more; the remaining 20 percent were classified mainly as wealthy.

Nearly 150, 000 individuals, three-fifths of those in the income group, were well off not because of their high farm incomes but in spite of their low farm profits or farm losses. About 111, 000 reported farm losses and more than 38, 000 reported farm profits of less than $1, 200.

A somewhat smaller percentage of the well-off individuals reported wages or salaries than persons in the upper-middle income group, but those reporting averaged two-thirds more income from these sources--about $9, 030. This appears reasonable since few of those classified as well off would be expected to be wage workers. They are apparently often salaried individuals and persons with investment incomes or nonfarm businesses.

While nonfarm investment and business income was important to some individuals in the upper-middle income group, it was relatively more important to the well-off group. Nearly one-third of the well off reported dividends averaging $1, 370; almost two-thirds reported receiving interest which averaged $900. Nearly one-fifth of the well off reported income from nonfarm sole proprietorships; one-eighth reported partnership income. Average amounts reported were $6, 300 and $4, 490, respectively.

The wealthy. The 66, 000 wealthy individuals who reported farm income in 1963 can hardly be thought of as farmers, yet they generally reported income from sizable farm operations. Their farm business receipts averaged $40, 130, far larger than the receipts of the other four income groups. Nevertheless, more than two-thirds reported farm losses. Wealthy individuals with farm profits averaged $52, 770 in receipts and $13, 270 in profits. Those with losses averaged $34, 420 in receipts, but because their farm business deductions averaged about $48, 530, they reported average losses of $14, 110.

Most of the wealthy have prospered in nonfarm pursuits. They were more likely to have income from nonfarm businesses and investments, and it was greater than that of those at lower income levels. Significantly, individuals classified as wealthy reported wages and salaries less frequently than those in the well-off and middle income groups, though their average salary earnings were higher.

IMPLICATIONS

An important implication of this study is that it is unrealistic to tie farm income policies to the income level or income-producing capacity of farm production units alone. Public policies aimed at increasing human welfare need to be divorced from the earnings of farms and related directly to the income situation of individuals. Because they control few farm resources, many people with small farm earnings live largely from their off-farm income. Thus, not all those with low farm incomes are in need of special income assistance. Some with little farm income have relatively large incomes from all sources combined. Also, because current farm programs are essentially farm resource based, individuals with low incomes and few resources may benefit little under these programs.

Recent discussions have shown considerable dissatisfaction with the economic classification of farms by value of sales. No substitute measure of size of business has been found to be generally acceptable, however. An implication of this study is that for many uses, a more appropriate classification for both commercial and noncommercial agriculture should be based on the individual or the family spending unit--especially for income studies.

In planning for future farm capital and credit needs, it may be that greater recognition should be given to the role of individuals who neither live nor work on farms. Some individuals retain a financial interest in farming after they leave agriculture. Others may invest in farming for financial or personal reasons. Those with nonfarm interests may also have access to credit sources not used by most farmers.

Formal models that attempt to explain or predict farm supply response must rely on assumptions about the organization of the farm economy. To be realistic and produce significant results, such models may need to recognize that the farm operator often shares decisionmaking with others who have a business interest in his farm operation. Also, nonfarm interests of farm families may affect many farm decisions. Firm growth and financial management studies will also need to consider both farm and off-farm income sources of individuals.

This study suggests that a new class of specialists may be replacing farmers who provide the land, labor, and most of the capital used in their farm businesses. Farm entrepreneurs may be becoming specialists in combining resources owned by others and less dependent on resource ownership. Thus, entrepreneurship is the new area of specialization; resource ownership may increasingly be left to others. Farm resource ownership by nonfarmers also helps explain the importance of off-farm income.

A further implication of this study is that farm tax returns offer a new, relatively inexpensive source of information on the farm economy. Although tabulations from farm tax returns have until recently been fragmentary and relatively unknown, data are now available in considerable detail. Further exploration of these data as a source of detailed information on both farm and off-farm income of individuals should be valuable. Users will need to recognize differences between these data and other more familiar sources.

Tax Returns as a Source of Income Data

In this report, tax returns serve as a source of information on incomes. Evidence was presented to show that farms and farm tax returns do not correspond on a one-to-one basis. Nevertheless, since farm income reported by taxpayers is mainly from crop, livestock, and livestock product sales, and from Government payments--the main sources of income estimated by the U.S. Department of Agriculture--it seems reasonable to expect the income estimates to be somewhat comparable.

Gross Farm Income

Although there are several differences in income concepts and in the way the data are collected, gross farm receipts reported to the Internal Revenue Service and the gross cash farm income estimates of the USDA are surprisingly close (appendix table 16). There is little to suggest that large amounts of farm receipts are intentionally excluded from farm returns. 12/ Some of the conceptual differences between the two estimates tend to narrow the spread between the two receipt figures; others increase the differences. The following discussion should be recognized as only a partial reconciliation of differences. While desirable, a complete reconciliation is outside the scope of this report.

An important difference in the gross cash income concepts is intrastate livestock sales to other farmers. These sales, estimated at about $1.8 billion in 1963, are not included in USDA estimates, but are reported for tax purposes. Since farmers who purchase livestock can deduct their purchases, this difference cancels out in the net income figures.

About $1.0 billion should be added to the business receipts estimated by IRS to account for gross sales of livestock reported on tax returns as sales of capital assets. 13/ These sales are included as receipts in USDA estimates.

A substantial amount, perhaps as much as $1 billion in 1963, was probably excluded from farm receipts reported on tax returns because some crop share tenants report only their own share of the farm receipts, and their landlords report their income as rent. The landlord's income may thus not be identified and tabulated as farm income.

Farm receipts on tax returns from the sale of products such as milk, livestock, cotton, and grain may sometimes exclude marketing costs such as transportation and commissions and reflect only the amount received by farmers. This probably reduced the total receipts estimated by IRS by $0.6 billion in 1963. USDA estimates should

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12/ See: Stocker, Frederick D. and John C. Ellickson, "How Fully Do Farmers Report Their Incomes?" National Tax Journal, Vol. XII, No. 2, June 1959.

13/ The actual value of livestock treated as sales of capital assets is substantially greater than reported capital gains. The tax rate on net long-term gains is limited to 25 percent.

Capital gains (or losses) = ½ (long-term gains - long-term losses) + (short-term gains - short-term losses) include the full value of these farm products. Since marketing costs are subtracted in computing net income for USDA estimates, the omission of marketing costs on tax returns would not affect the comparability of the net income figures.

Receipts reported on farm tax returns include items such as machine work; gasoline tax and lubricating oil tax credits; sales of soil, sand, and gravel; and crop insurance indemnities. These items are not included in the marketings reported by USDA. Together, they are estimated at about $0.6 billion for 1963. Another item included in the figures reported by IRS but not included in USDA estimates is patronage dividends of cooperatives. The 1962 data of IRS indicate that a reasonable allowance is $0.2 billion.

Amounts reported by corporations include some receipts from foreign areas. Also, the farm receipts of corporations and partnerships that are mainly nonfarm businesses are excluded, and some nonfarm income of farm businesses is included. For example, the farm income of corporations that both produce and process farm products will generally not be tabulated as farm income when processing is more important than production. A net adjustment of $0.8 billion is included to account for these differences in reporting concepts for corporate receipts and for other miscellaneous items.

Differences between the gross income estimates appear to be greater in low-income areas and for those with small receipts. Part of this difference may be accounted for by individuals who report small amounts of farm income but do not properly identify it on their tax returns. A small amount of farm income received by those with less than the taxable minimum is not reported.

Tax returns are tabulated in the districts where they are filed. This obviously does not always coincide with the district in which the income was earned. These reporting districts may have a relatively minor effect on regional and State income estimates.

Capital gains on farmland sales are not reported as farm receipts but are included in table 10. Amounts reported are probably lower than actual capital gains on such sales because gains from land sales are often spread over several years through sales agreements and land contracts. Also, some sales of farmland may be excluded from sales of farm capital assets because the sale is not identified as farm property by the taxpayer.

Net Farm Income

Net cash farm income estimated by USDA and net farm profits reported on farm tax returns differ greatly. Amounts reported for 1964 and 1965 are shown in the following tabulation.

	1964 (bil. dol.)	1965 (bil. dol.) 1/
USDA net farm income		
Realized net farm income	13.1	13.9
Noncash income	3.2	3.2
Net cash income 2/	9.9	10.7
IRS net farm profits		
Sole proprietors	2.6	3.4
Partnerships	.5	.6
Corporations	.1	.2
Total farm profits	3.2	4.2

1/ Preliminary.
2/ Derived from official USDA estimates of cash receipts, Government payments, and total production expenses.

Data are inadequate for a full understanding of these differences in net income. However, since the gross income estimates are reasonably close, an important part of the differences in net income is probably due to the differences in concepts used in accounting for expenses.

It is clear that accounting for differences in the gross cash income estimates will aid in reconciling the net income figures. For example, net farm income estimates of the Internal Revenue Service would be greater if livestock sales reported as sales of capital assets were not excluded from net profits.

Some individuals and partnerships, particularly those with relatively large incomes from all sources, and many farm corporations show extremely large business deductions. Further work is needed to understand how expenses reported by these taxpayers differ in concept and amount from those included in USDA estimates.

Table 13.--Number of Federal farm income tax returns filed by individual proprietorships, partnerships, and corporations, 1945-65 1/

Year	Total (excluding corporations)	Individual proprietorships			Partnerships 2/			Corporations 4/
		Total	With profits	With losses 3/	Total	With profits	With losses 3/	
	Thousands							
1945	2,756	2,659	2,280	379	97	87	10	---
1947	3,018	2,904	2,542	362	114	101	13	---
1949	---	2,987	2,511	476	---	---	---	---
1951	---	3,139	2,538	601	---	---	---	---
1953	3,261	3,126	2,356	770	135	106	29	---
1955	5/3,553	3,417	2,424	993	5/136	---	---	---
1957	3,480	3,343	2,436	907	137	106	31	---
1958	3,509	3,374	2,526	848	135	105	30	---
1959	3,519	3,387	2,331	1,056	132	100	32	---
1960	3,485	3,359	2,295	1,064	126	96	30	---
1961	3,489	3,362	2,360	1,002	127	97	30	---
1962	3,442	3,319	2,302	1,017	123	94	29	---
1963	3,328	3,208	2,110	1,098	120	88	32	16
1964	3,248	3,130	2,011	1,119	118	84	34	6/18
1965 7/	3,180	3,064	2,013	1,051	116	84	32	6/19

1/ U.S. Business Tax Returns, Internal Revenue Service, U.S. Treasury Department.

2/ Including only businesses whose major source of receipts was from farming. Informal partnerships are included under individual proprietorships. Partnerships averaged about 2.4 partners each in years when number of partners was reported.

3/ Including returns with receipts equal to deductions.

4/ Including only corporations whose major source of receipts was from farming.

5/ The number of partnership tax returns was interpolated by the author for 1955.

6/ About half of the farm corporations reported profits in 1964; 56 percent reported profits in 1965.

7/ Preliminary.

Table 14.--Farm business receipts of individual proprietorships, partnerships, and corporations as reported on Federal income tax returns, 1945-65 1/

Year	Total (excluding corporations) 2/	Individual proprietorships			Partnerships 2/			Corporations 4/
		Total	With profits	With losses 3/	Total	With profits	With losses 3/	
	Million dollars							
1945	15,940	14,227	12,872	1,355	1,713	1,595	118	---
1947	20,963	18,381	16,894	1,487	2,582	2,394	188	---
1949	---	18,993	16,735	2,258	---	---	---	---
1951	---	22,093	19,211	2,882	---	---	---	---
1953	24,150	21,317	17,887	3,430	2,833	2,340	493	---
1955	---	20,779	16,660	4,119	---	---	---	---
1957	25,843	22,416	18,509	3,907	3,427	2,895	532	---
1958	28,144	24,674	20,744	3,930	3,470	2,835	635	---
1959	29,855	26,279	21,063	5,216	3,576	2,936	640	---
1960	29,161	25,529	20,725	4,804	3,632	2,943	689	---
1961	30,179	26,291	21,600	4,691	3,888	3,196	692	---
1962	32,390	28,311	23,131	5,180	4,079	3,398	681	---
1963	32,078	28,285	21,950	6,335	3,793	3,082	711	5,354
1964	31,761	27,746	21,786	5,960	4,015	3,187	828	4,038
1965 5/	34,005	29,908	24,381	5,527	4,097	3,411	686	4,877

1/ U.S. Business Tax Returns, Internal Revenue Service, U.S. Treasury Department.
2/ Including only the business receipts of partnerships whose major source of receipts was from farming. See footnote 2, table 13.
3/ Including returns with receipts equal to deductions.
4/ Including only corporations whose major source of receipts was from farming.
5/ Preliminary.

Table 15.--Estimated number of farm corporations, 1945 to 1965 1/

Year	Number of tax returns from agriculture, forestry, and fishery corporations 2/	Number of farm corporations 2/	Estimated number of farm corporations
1945	6,152	---	4,306
1947	7,329	---	5,130
1949	8,006	---	5,604
1951	8,734	---	6,114
1953	9,405	---	6,584
1955	10,303	---	7,212
1957	11,833	---	8,283
1958	13,945	---	9,762
1959	15,603	---	10,922
1960	17,139	---	11,997
1961	18,981	---	13,287
1962	22,130	---	15,491
1963	23,270	16,227	16,289
1964	25,933	17,578	18,153
1965 3/	27,582	18,526	19,307

1/ These estimates are extrapolated from Internal Revenue Service data for agriculture, forestry, and fishery corporations, 1945-65, and for farm corporations, 1963-65. In making these estimates (colume 3), the author assumed that 70 percent of the agriculture, forestry, and fishery corporations were farm corporations. Farm corporations actually accounted for 70 percent of the agriculture, forestry, and fishery corporations in 1963, 68 percent in 1964, and 67 percent in 1965.

2/ U.S. Business Tax Returns, Internal Revenue Service, U.S. Treasury Department.

3/ Preliminary.

Table 16.--Partial reconciliation of estimates of farm receipts as reported by the Internal Revenue Service and the U.S. Department of Agriculture, 1955 and 1963

Item	1955 1/	1963
	Billion dollars	Billion dollars
U.S. Department of Agriculture		
Cash marketings	29.9	2/37.4
Government payments	.2	2/1.7
Adjustment:		
Intrastate livestock sales	+.9	3/+1.8
Total (including adjustments)	31.0	40.9
Internal Revenue Service		
Business receipts	25.8	4/37.4
Adjustments:		
Livestock sales reported as capital gains	+1.0	5/+1.0
Share rent	+.7	6/+1.0
Marketing costs	+.6	7/+.6
Machine work, other services, crop insurance indemnities	-.5	7/-.6
Patronage dividends	-.2	8/-.2
Other	-.6	9/-.8
Total (including adjustments)	26.8	38.4

1/ Estimates by Frederick D. Stocker and John C. Ellickson, "How Fully Do Farmers Report Their Income?", National Tax Journal, Vol. XII, No. 2, June 1959, pp. 116-126.

2/ Farm Income, State Estimates, 1949-1966, Supplement to the July 1967 Farm Income Situation, Economic Research Service, U.S. Department of Agriculture.

3/ Based on livestock expenses reported in the 1964 Census of Agriculture, Vol. II, Chapter 6, Table 15, p. 648 and livestock purchases excluding intrastate purchases reported in the Farm Income Situation, Economic Research Service, U.S. Department of Agriculture, July 1967, Table 13 H, p. 56.

4/ Statistics of Income--U.S. Business Tax Returns 1963, Internal Revenue Service, U.S. Treasury, Table 1, p. 30.

5/ Based on Statistics of Income--1962, Sales of Capital Assets, Internal Revenue Service, U.S. Treasury, Table 1, p. 24.

6/ Based on unpublished data, Economic and Statistical Analysis Division, Economic Research Service, U.S. Department of Agriculture and rent deducted on farm income tax returns as reported in Statistics of Income-1963, U.S. Business Tax Returns, Table 1, p. 30.

7/ Based on unpublished production expense estimates, Economic and Statistical Analysis Division, Economic Research Service, U.S. Department of Agriculture.

8/ Statistics of Income 1963, U.S. Business Tax Returns, Table 9, p. 79.

9/ Including an adjustment for corporate receipts from foreign areas.

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