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College Education: Is It Worth the Money?

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College education: Is it worth the money?

There is a great deal being written these days about the rising cost of a college education. Just Google “cost of college education,” and you will see millions of articles anywhere from the New York Times to your local newspaper. Many have been led to question whether the traditional wisdom that a college education is a solid investment into the future is really true or whether the case for college has been overstated.

There are even incentive programs aimed at explicitly discouraging young people with an entrepreneurial mind from attending college.

The purpose of this subject made me curious about the cost of a college education in the southeastern United States. I looked at a sample of 13 universities from Virginia to Florida (excluding the flagship schools since flagships generally do not educate the typical college student).

From my sample, the average cost of tuition for eight years of attendance plus books is $23,720, ranging from $8,024 at Kennesaw State to $33,792 at James Madison.

On the face of it, these figures seem relatively reasonable to me, given that your education lasts forever. But a college education also raises earnings of most college graduates by an amount as high as $450,000 over a lifetime, according to a February 2010 Wall Street Journal article by Mary Pilon. And that is not all.

Data compiled by the U.S. Department of Education National Center for Education Statistics found the median annual earnings of young college-educated males (ages 25-34) remained relatively stable between 1980 ($8,500) and 2008 ($8,500). The median annual earnings of high-school educated males actually decreased from $44,200 to $32,000 in 2008 (a 27.6 percent decrease).

For females in the same age range the pattern is similar. College-educated females experienced a 16 percent increase in earnings, while high-school educated females experienced 13 percent decrease. But these facts will not convince many people of the value of a college education. One fact that you will be told is that it is common for college students to leave with debt.

The average student nationally leaves with around $23,000 in college-related debt. In the South, I suspect the number is closer to $20,000.

This of course sounds elitist and undemocratic, but that is only because our society no longer touts the value of skills training. Nor will it turn up in political speeches.

Our society hates the thought that an eighth-grader should be told her full potential is HVAC installation and repair. Ironically, this skill set falls in a class of skills that is least likely to be outsourced and quite likely to lead to solid earnings over a lifetime.

A fundamental shift needs to occur. This shift would encourage students with strong academic credentials and strong likelihood of success to attend four-year colleges and encourage other students to explore other avenues to acquire highly valued skills.

These steps alone would reduce the time to complete college, the total expenditures and the level of frustration experienced by parents, pundits and politicians.

This idea is, of course, quite irreverent and will most likely not happen; meanwhile we will continue to complain.

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‘Bonus depreciation’ and what’s right for you

Many taxpayers and small business owners are familiar with the Section 179 Depreciation Deduction. Under normal depreciation rules, the cost of an asset must be deducted over the life of the asset.

But, subject to certain limitations, Section 179 allows a taxpayer to write off 100 percent of the cost of qualified business assets in the year of acquisition. Even if the asset is not paid for, a taxpayer can take advantage of the deduction as long as the asset is put into use before the end of the year.

Effective Sept. 9, 2010, businesses are allowed 100 percent Section 168(k) deduction (commonly called bonus depreciation) in addition to the Section 179 deduction.

The choice of which method to use can be decided on an asset-by-asset basis. And while having these two methods of depreciation available is great news, it can be somewhat confusing, leaving taxpayers asking “which method should I choose?”. Here are things to consider before making that decision.

• New and used assets

While section 179 does not distinguish between new and used assets, this is not true with bonus depreciation. Assets must be new to qualify for the bonus deduction.

• Section 179 limitations

A Section 179 deduction is limited to $500,000 per year. Further limitations come into play if the taxpayer has more than $82 million of qualified assets placed into service during the year. Bonus depreciation has no such limitations.

Section 179 also imposes a $25,000 deduction limitation on certain SUVs, while there is no such limitation under the bonus depreciation rules.

• Taxable income requirement

Section 179 requires the taxpayer to have taxable income in order to take advantage of the asset write-off. Under the Section 168(k) rules, there is no taxable income requirement.

• Trusts and estates

Section 179 is not available to trusts and estates.

• Restaurant property and qualified retail improvements

Normally, real estate acquisitions are not available for either Section 179 or bonus depreciation. However, Section 179 has special provisions that allow write-off of up to $250,000 for certain qualified restaurant and retail property.

• Your state may have different rules

Many states allow Section 179 deduction, not as a dollar reduced amount, but do not allow bonus depreciation.

• Timing considerations

100 percent bonus depreciation expires at the end of 2011. Unless Congress extends the current law, the deduction will drop to the pre-Sept. 9, 2010, deduction of only 50 percent. Section 179 deduction has no expiration date.

If you have questions on the Section 179 or Section 168(k) rules, feel free to contact me.

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