Benefits of Contributing Early

It's a well-known fact that the earlier in life you start contributing into superannuation, the more it will be worth in years to come.

An easy way to grow your super balance and make your money do the leg work is the use of compounding interest. Through the principle of compounding interest, when you start putting money into super is just as important, if not more, than how much you deposit.

Whilst you may be at a stage of life where your priority is purchasing your first house, raising a family or even putting kids through school, a small financial sacrifice could see you benefiting in a big way, come retirement.

So what is compounding interest?

Compounding interest is the income paid on the initial amount invested (capital), as well as the interest earned to date. This sees you earning income on the money you deposit into your super and on the interest already earned on those savings.

See the scenario in appendix 1 for an example.

How Do I Contribute?

Personal super contribution deductions

Subject to having assessable income to offset, personal contributions can be claimed as a deduction in your personal tax return, up to the concessional contribution cap. These contributions are generally taxed in the fund at a rate of 15% and the deduction in your personal tax return can help reduce any personal tax liabilities.

Whilst there are some drawbacks, there are several tax incentives to grow your super, beyond claiming a personal tax deduction:

Concessional Tax Rate

An incentive of contributing into super is the concessional tax environment. The tax rate on earnings is capped at 15%, whereas outside of superannuation, earnings are taxed at the individual's marginal tax rate.

Super co-contributions

Voluntary after-tax contributions of $1,000 a year paid into the super accounts of low or middle-income earners can earn a $500 co-contribution from the ATO. Eligibility will be determined when you lodge your personal tax return.

Low Income Super Tax Offset (LISTO)

If you earn a low income, you may be eligible to receive a tax refund into your superannuation account. This is on the tax paid on your concessional superannuation contributions up to a cap of $500.

Spouse contributions tax offset

By making a contribution on behalf of a spouse who has a low income or is not working you may be able to use this tax offset. A spouse can make a contribution of $3,000, and the maximum tax offset available is $540.

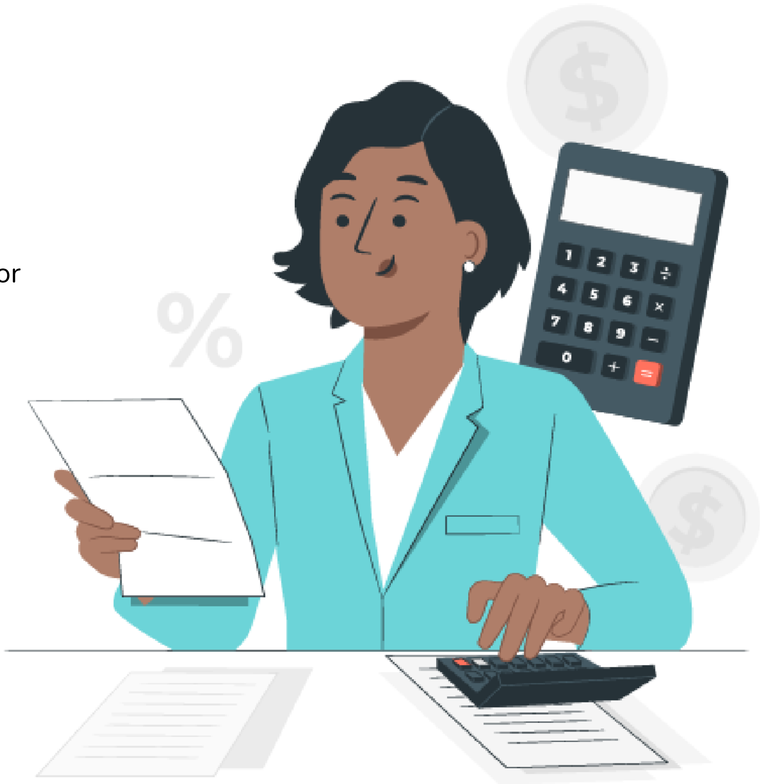
Carry-forward of unused concessional contributions

If your total superannuation balance is less than $500,000 at the end of the previous financial year, you have the opportunity to accumulate the unused portions of your concessional caps from previous years. You can 'carry-forward' any unused amounts of your concessional caps from previous years (up to five years' worth).

Contributions splitting

A way to increase your partner's superannuation is by splitting up to 85% of your before-tax super contributions with them, which you either made or received in the previous financial year.

It is best to speak to your personal tax accountant or financial adviser to investigate what strategies you may be eligible for and have the capacity to utilise.



Appendix 1 | Contributing Early Case Study

Richard and **Amanda** are excited that their son **Daniel** has turned 18 and started working full time in retail. Not only can he start contributing to the bills at home, but he will now be exposed to the world of superannuation.

Richard and Amanda are Trustees and Members of Get Rich SMSF and are looking to add Daniel as a member of the fund. They are eager to educate him on the important of superannuation and contributing to super early. Daniel has done his research on SMSFs and considers it is appropriate in light of his objectives and desire to have control over his superannuation.

Once Daniel has been formally added to the SMSF, Daniel decides to make an initial contribution of $500 and each year thereafter $10/wk in Non-concessional contributions.

Ignoring any other contributions and utilising a simple return figure of 5% compounded annually, Daniel has deposited a total amount of $24,940 but his balance grew to $97,575.

Considering an alternative scenario where Daniel delays this strategy until age 30 (being 12 years later), when he is more established in his career, he would end up with only $49,725, just over HALF, despite still making regular weekly contributions for 35 years.

Your Strategy	
Initial Deposit	$500
Regular Deposits	$24,440
Total Interest	$72,635
Total Savings	$97,575

Alternative Strategy	
Initial Deposit	$500
Regular Deposits	$18,200
Total Interest	$31,025
Total Savings	$49,725