Tax Wins in Contributing to Super Over Time

We're often asked for strategies to save on tax and invest for the future and one of the best ways to do this is to make extra contributions into your super fund.

The beauty of contributing is that it saves tax in a couple of places and makes your money work for you!

The first win

The first big win is that it saves you tax on the way into superannuation.

For most taxpayers their marginal tax rate (including Medicare levy) is 21% or more – possibly up to 47%. If you direct your income into superannuation, then it counts as a tax deduction and saves you tax based on your marginal rate. There is a contributions tax of 15%* for deductible contributions going into super but the net benefit can still be considerable.

For example, if you are on a marginal tax rate of 39% then for every dollar that you contribute into superannuation you get a net tax benefit of $0.24. ($1 x (39% - 15% contributions tax)).

This means that even if you can only contribute an extra $1000 a year into super you would still be saving $240. If you do this every year for years, then the benefit builds over time and leaves a nice little investment in your super fund for you to access when you retire.

The second win

It also saves you tax on your investment earnings

Using the same example as above, if you were on the 39% marginal tax rate and invested your savings in your own name then you would also be paying tax on earnings from those investments at 39%. When your super fund is in accumulation stage then it is only paying 15% tax on the investment earnings – saving $0.24 per dollar of income that can be reinvested back into your super fund rather than given to the tax man. Another fantastic saving that

Superannuation is a great way to invest in a tax effective manner.

You should do your research with superannuation funds and select one that aligns with your investment and risk profile but once this is done, they can be very low maintenance if you choose them to be. If you're unsure what super fund is right for you our financial planners can provide advice. The key concept is just to get some extra money in over time, however small you start, and it will grow for rewards on retirement.

Note this tax is 30% for those earning more than $250,000 – this additional 15% on superannuation contributions is called a Division 293 tax. It does reduce the benefit from contributing to super but taxpayers levied with this will be on a 47% marginal rate so will see benefits of contributing to super regardless.