Generate a super return

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Health professionals Eu Queen Ang and husband William Trieu, with children Kean Ming Trieu, 5, Kean Wai Trieu, 3, and Kean Seng Trieu, 1, inject extra money into their super. Picture: Kelly Barnes

HOW TO PLANT YOUR TAX REFUND IN SUPERANNUATION AND WATCH IT GROW

THIS year's average tax refund so far is about $2600 a person, according to Australian Taxation Office data. But using it wisely, it can become so much more.

The power of compound interest can help taxpayers in their mid-20s turn just one $2600 refund into almost $49,000 by retirement simply by putting it into superannuation.

We've crunched the numbers using the **moneysmart.gov.au** compound interest calculator and found that a single $2600 investment, growing at 7 per cent annually, becomes $5225 after 10 years, and then $10,501 after 20 years.

After 30 years that initial $2600 investment grows to $21,103, then doubles again to $42,410 in the fourth decade. Between age 25 and today's retirement age of 67, one average tax refund will have compounded to $48,763.

You can easily do these calculations, based on your own situation, using compound interest and superannuation calculators at **moneysmart.gov.au** and super fund websites.

The Association of Superannuation Funds of Australia (ASFA) says returns from super funds have averaged more than 7 per cent a year over a decade.

ASFA's CEO, Dr Martin Fahy, says members' money is diversified across Australian and overseas shares, fixed income, motorways, ports and a huge range of other assets that people could not access as an individual. "Ultimately what this system does is double your money every 10 years through compounding," he says.

"And it does it because it's across a range of diverse asset classes and it's happening at scale."

Dr Fahy says ASFA encourages people to put their tax refunds and other unexpected financial windfalls to work for their future.

"Don't buy a TV – put it in your super and let the magic of compounding work for the next three decades," he says.

Financial strategist Theo Marinis says his top tip is to put money into super "as soon as you can, as much as you can, for as long as you can".

"It will only be taxed at a maximum of 15 per cent and will compound," he says. "It's where you get the biggest bang for your buck."

Marinis says a $2600 tax refund might pay for a nice holiday within Australia now "but it will get you a massive overseas holiday when you retire".

Health professionals William Trieu and Eu Queen Ang inject extra money into super.

Dr Trieu, principal dentist at Caring Dentistry in Adelaide, says the couple uses tax refunds to create wealth through "a number of avenues including voluntary lump sum superannuation contributions".

"It makes sense to us to grow our nest egg for later in life through the most effective means – by doing the voluntary lump sum it also helps us reduce our taxes," he says.

"As it is reinvested automatically, you don't feel like you are putting anything extra in but it is still working for you in the long run."

Investment platform eToro market analyst Josh Gilbert says start investing early and consistently.

“If you started investing with $500 and continued to invest $500 monthly for 20 years, assuming you make a return of 6 per cent per year, you’d have $229,426,” he says.

And it’s not just asset values that compound – dividends paid by stocks multiply too. “For example, if you invested in Microsoft in 2010, with a 2.1 per cent dividend yield, those still holding shares would now be receiving a yield of 9.1 per cent, per year, just from dividends alone,” Gilbert says.

“People often try to time the market, but adopting a long-term investment strategy is usually more beneficial.”

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