

Problems of providing tax benefits to individual investors in the securities market

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Abstract. Tax concessions are widespread in the securities market. They are used by the state as a tool of tax policy to attract individual investors to the securities market. In the Russian Federation, the most common tax benefits for individual investors are in the form of investment tax deductions. When analyzing the problems of providing tax benefits to individual investors in the securities market, the positions of the investor, the issuer, and the state are analyzed. From the position of an individual investor, there are problems in choosing benefits, the complexity of benefits, and technical aspects. The problems of providing investors with tax benefits in the securities market from the position of the issuer consist in the need to include securities in the list in order to receive a tax benefit. The problems of providing individual investors with tax benefits in the securities market for the state are the assessment of the effectiveness of tax expenditures on the provision of tax benefits, as well as the need to choose between the support of the issuer or the investor. The authors conclude that the beneficiaries of tax concessions in the securities market are not only investors, but also issuers and the state. It is stated that it is necessary to assess the fiscal efficiency of state expenditures on the provision of tax benefits to individual investors in the securities market, the need to amend the Tax Code of the Russian Federation in terms of eliminating duplication of tax benefits.

Keywords: Tax benefit · Individual investor · Efficiency of tax benefits.

1. Introduction

The authors identify the following prerequisites of this study:

- 1) Tax benefits for individual investors when buying securities are widespread; at the same time, it is possible to combine benefits.
- 2) Consideration of tax benefits in the securities market for individual investors should be carried out from three positions: investor, issuer, state. At first glance, the beneficiaries of tax benefits in the securities market are the investors themselves. However, the authors further disclose the positions of the issuer and the state.
- 3) The fiscal effectiveness of tax incentives in the securities market from the position of the state is not evaluated due to the complexity, namely, the distribution of investments among a wide range of securities and issuers.

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The purpose of this study is to identify the problems of providing tax benefits to individual investors in the securities market in the Russian Federation and to propose measures to eliminate them.

2. Materials and methods

The statistical data of the Federal Tax Service of Russia on the declaration of income by individuals for 2017-2020 were used as an information base for the study.

The authors applied recognized general scientific general logical methods (analysis and synthesis, logic), general scientific empirical methods (statistical observation, measurement and comparison).

2.1. Theoretical foundations of the study concerning the problems of providing tax benefits to individual investors in the securities market

Theoretically, the study is based on the theory of supply-side economics, in particular, the A. Laffer curve (Laffer, 2004), graphically displaying the relationship between tax revenues and tax rates. The concept of the A. Laffer curve implies the existence of an optimal level of taxation, at which tax revenues reach a maximum. The modern interpretation of the Laffer curve is reflected in the works of many authors, including S.P. Jenkins, A. Brandolini, J. Micklewright and B. Nolan (Jenkins et al., 2013), S.B. Kazman (Kazman, 2014), T. Piketty (Piketty, 2015), G.T. Soldatos (Soldatos, 2016), K. Hiraga and K. Nutahara (Hiraga and Nutahara, 2016), M. Kotamaki (Kotamaki, 2017). The authors of this study believe that tax benefits explicitly represent a reduction in tax rates, and thus the effect of an increase in tax revenues can be achieved. Revealing the theory of supply-side economics in relation to tax benefits, the authors came to the conclusion that there is no contradiction between the interests of the investor, the issuer and the state in providing tax benefits to individual investors in the securities market.

2.2. Concerning the problems of providing individual investors with tax benefits in the securities market

The assessment of tax benefits for individual investors in the securities market can be made from three positions: the investor himself, the issuer and the state. For an investor, granting him a tax benefit is beneficial and increases the return on investment. However, various nuances may arise: the benefit may be granted if certain conditions are met, for example, the purchase of securities of a particular sector, the freezing of funds for a certain period, and others. Also, it is possible to receive benefits for an investor not immediately, but after a certain period of time, subject to its declaration, etc. The traditional criteria for granting individual investors tax benefits are the term of investment, as well as the targeted nature of investment (purchase of certain securities). At the same time, the duration of investment as a necessary criterion for granting tax benefits is noted by a number of authors, including N.V. Pokrovskaya and O.A. Telyak (Pokrovskaya and Telyak, 2021).

The majority of economists do not dispute the growth of the investor's profitability when providing him with tax benefits. However, there is a theory of authorship by M. Miller (Miller, 1977), according to which tax benefits are already embedded in the price of the security itself. Subsequently, this hypothesis became popular and was supported by E.F. Fama and K.R. French (Fama and French, 1998), Sh. Liu, J. Shi, J. Wang and Ch. Wu (Liu et al., 2007), A. Ang, V. Bhansali and Y. Xing (Ang et al., 2010), A. Kalotay and C.D. Howard (Kalotay and Howard, 2014). The authors can state that tax incentives potentially bring higher returns to individual investors. However, the relationship of tax benefits for investors with the price of securities to which these tax preferences apply is also clear.

In the Russian Federation, the most well-known investment tax deductions regulated by Article 219.1 of the Tax Code of the Russian Federation. As part of investment tax deductions, individual investment accounts (types A and B) and a benefit for long-term ownership of securities are allocated. According to the statistics of the Federal Tax Service of Russia, by the end of 2020, 292,764 individual investors used these deductions. At the same time, the amount of tax expenditures of the state amounted to 11.2 billion rubles for the provision of tax benefits for individual investment accounts and 0.45 billion rubles for the benefit of long-term ownership of securities. The amounts of state tax expenditures are calculated by the authors on the basis of data from the Federal Tax Service of Russia on the declaration of income by individuals at the end of 2020.

In addition to investment tax deductions, in the Russian Federation there is a benefit for long-term ownership of securities of the high-tech (innovative) sector of the economy (Article 284.2.1 of the Tax Code of the Russian Federation). At the same time, the current legislation implies the possibility of combining benefits: investment tax deductions with benefits for long-term ownership of securities of the high-tech (innovative) sector of the economy. If investment tax deductions take into account the duration of ownership of securities (at least 3 years), then the benefit for long-term ownership of securities of the high-tech (innovative) sector of the economy takes into account both the duration of ownership (at least 1 year) and the direction of investments (a certain circle of issuers of the innovative sector). These benefits are defined by different articles of the Tax Code of the Russian Federation.

When an investor chooses the type of individual investment account (A or B) in Russian practice, according to the data of the Federal Tax Service of Russia on the declaration of income by individuals, accounts of type A prevail. These accounts imply receiving a tax deduction from the amount of funds deposited in the next reporting year. This situation indicates the desire of investors to receive high short-term returns. Detailed statistical data are presented in the author's work (Belomytseva, 2021). Also, investors may have some technical difficulties related to the closure of individual investment accounts, the possibility of buying over-the-counter instruments, and others.

The position of the issuer in case of granting tax benefits to individual investors is simple. If the securities issued by him are part of the securities for receiving a tax benefit and are traded on the stock exchange, then the probability of their popularity among investors is growing. If there are tax benefits for the purchase of shares, an increase in their price and capitalization of the issuer, a successful IPO are likely. When issuing bonds included in the list of preferential securities, the yield on them may be lower than similar instruments on the securities market, and, accordingly, the issuer will receive cheaper financial resources. At the same time, with significant tax benefits for individual investors and their popularity, issuers can attract significant financial resources in the market. Of course, issuers do not receive direct benefits from the provision of tax benefits on the securities market to individual investors, however, they can receive effects in the form of an increase in debt and equity capital, capitalization growth, and lower interest rates on bond loans. It should also be noted that specific requirements may be imposed on the issuer to classify its securities as eligible. In some cases, issuers themselves are provided with special non-tax benefits for servicing bond loans in order to reduce the cost of credit resources. Government spending on subsidizing coupon payments is essentially similar to providing tax benefits for individual investors in the securities market.

While talking about the position of the state, it is necessary to mark that at first glance the state bears the tax costs of providing a tax benefit and has not quite clear results. It is possible to track the economic effect of the state in providing tax benefits to individual investors through the performance indicators of issuers whose securities were purchased by investors. However, investors who purchase securities taking into account tax benefits invest money in various securities (stocks, bonds, investment units and others) of a wide range of issuers, as a rule – on the stock exchange. Thus, investors' capital is dispersed among various securities and individual issuers, which creates the problem of tracking the effectiveness of tax benefits. Corporations whose securities are purchased by investors belong to different industries, have different scales and profitability. And it is impossible to give a certain average "portrait" of the security issuer. Therefore, the authors propose tracking investors' investments through stock indexes. The methodology of assessing the tax expenditures of the state for fiscal efficiency is analyzed in the work of the author (Belomytseva, 2022).

3. Results

For individual investors, there are problems in choosing benefits, some technical difficulties. It is also possible to combine investment tax deductions and benefits for long-term ownership of securities.

The issuer's position in providing tax benefits to an individual investor is passive. However, if there are benefits to support certain companies or sectors of the economy, the inclusion of its securities in the list of preferential instruments may become a problem for the issuer.

From the position of the state, the problems of providing tax benefits to individual investors are the need to assess their effectiveness, maneuvering benefits to achieve greater effect, as well as the problem of choosing between investor or issuer support (coupon subsidies, IPO support).

4. Discussion

The authors came to the conclusion that the interests of the state, issuers of securities and individual investors are interconnected when the latter are granted tax benefits in the securities market. Such an interpretation is in the spirit of the theory of supply-side economics and contradicts the classical point of view that tax incentives in the securities market are potentially unprofitable for the state.

5. Conclusion

Thus, it is possible to state:

- 1) The need to assess the fiscal efficiency of government spending on providing tax benefits to individual investors in the securities market.
- 2) The need for the state to choose in the securities market between supporting the issuer in the form of subsidizing coupon income, supporting an IPO or an investor in the form of providing the latter with a tax benefit.
- 3) The need to amend the Tax Code of the Russian Federation in terms of eliminating duplication of tax benefits (investment tax deductions and benefits for long-term ownership of securities of the high-tech (innovative) sector of the economy).

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