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INDIVIDUAL INVESTMENT ACCOUNT – TOOL TO ATTRACT PERSONAL SAVINGS TO THE COUNTRY'S ECONOMY

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Abstract

The task of attracting investment resources of developed countries to the country's economy is facing the state at all times, and during the period of economic and political upheavals is particularly acute. This article presents one of the new financial instruments for attracting internal sources of financial resources (savings of the population) to the economy of our country in the form of investments. The author sought to objectively show the fundamentals of the functioning of the investment market and current trends in its development, focusing on the fact that an individual investment account is an actively growing type of financial instrument, the importance of which for society and the economy is difficult to overestimate. The analysis of the development of individual investment accounts in different countries is carried out. A brief description of an individual investment account as a new financial instrument for attracting investments into the economy is given. Statistics of deposits of individuals in the Russian Federation for a number of years are given, their dynamics is given. The types of individual investment accounts are identified and analyzed, the mechanism for obtaining a tax deduction for an individual investment account is determined, and the advantages and disadvantages of an individual investment account are identified.

Keywords: Broker, financial instrument, investment account, investments

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1. Introduction

The issue of attracting investments into the country's economy has always remained relevant. The investment market as a segment of the global financial market is influenced by general factors of modern political, economic and social life of society, as well as specific factors that determine the vectors of investment activity in the world. Today, in the era of sanctions by many countries, when the country's economy has faced many economic diseases, the savings of the population can become a panacea. At all times, when the state is actively trying to attract Western investments, the population successfully maneuvers free money by storing and withdrawing them from circulation. However, the thrifty citizen, in turn, is interested in increasing his capital. It is more difficult to attract domestic investments of the population than external ones from Western countries. Consumers of financial and credit services have already formed distrust due to sad experience. For example, many banks and other financial institutions violate the rights of borrowers. Let's focus on the main:

i. illegal imposition of insurance – life and health insurance of the borrower;

ii. collection of illegal bank commissions;

iii. unilateral modification by banks of the existing terms of the agreement;

iv. illegal activity of collectors;

v. other violations.

The reason for such a plan of violations of borrowers' rights is mainly financial illiteracy, distrust of financial instruments on the part of the population.

Basically, the population of the country uses credit services and 5-10 years are trying to get out of this debt burden. Such a sad experience has a negative impact on investments, as a potential investor, having distrust of financial and credit institutions, chooses a method to store his capital "under the pillow" rather than put it into circulation.

Currently, the most popular financial instrument for saving money among Russians is a bank deposit account or, as it is commonly called, a bank deposit. According to the Central Bank, in August 2016, Russian individuals kept in deposits in the total amount of 23.5 trillion rubles (this amount of money is almost 1/3 of Russia's GDP) (Kuropyatnik, 2009; Suslov, 2021).

For banks, deposits of individuals are obligations that must be returned on time and still pay interest on them. What do banks do with this money? They invest them in the economy by issuing loans to other individuals, companies and the state, and also invest them in financial assets: securities, currency and other financial instruments.

Due to the income received from investments, banks return money to depositors with interest. A bank deposit is considered one of the most reliable tools for saving citizens' funds. Deposits up to 1,400,000 rubles are insured by the state, and even if the bank suffers a financial collapse, the depositor will be refunded the funds placed on the deposit within the insured amount. The downside of such reliability is rather low interest rates, which only allow you to save real income (real income is income minus inflation), but not to multiply capital.

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For example, in 2021, inflation in Russia amounted to 12.9%, and the average rate on ruble bank deposits for a period of 1 year during the same time was about 13.1% per annum. That is, the difference between inflation and the average return on a bank deposit was only 0.2 percentage points. Thus, bank deposits last year allowed their owners to barely save funds from inflation, but not to receive investment income. At the same time, many mutual funds investing shareholders' funds in the securities market have allowed their investors to get a yield of 20-30% for 2021.

Since January 2015, amendments to Federal Law No. 39-FZ "On the Securities Market" have come into force, which regulate the procedure for opening and maintaining individual investment accounts (Ivanova, 2020). According to the law (Article 10.2-1.), an individual investment account is an account that is designed to account for funds and securities of individual clients (Shchedrin, 2020). An individual investment account is opened and maintained by a broker (a broker is an investment company or bank) on the basis of a Contract for maintaining an individual investment account (Vorobyova, 2019).

2. Problem Statement

The task of attracting investment resources from developed countries to a country's economy is always challenging, especially during times of economic and political instability. Therefore, it is essential to explore new financial instruments that can attract internal sources of financial resources, particularly the savings of the population, to the economy. One such instrument is an individual investment account. The article aims to provide an objective overview of the fundamentals of the investment market and current trends in its development, with a specific focus on the growing importance of individual investment accounts for society and the economy.

3. Research Questions

The task of attracting investment resources from developed countries to a country's economy is always challenging, especially during times of economic and political instability. Therefore, exploring new financial instruments that can attract internal sources of financial resources, particularly the savings of the population, to the economy is essential. One such instrument is an individual investment account. This article provides an objective analysis of the development of individual investment accounts as a new financial instrument for attracting investments into the economy.

To achieve this objective, the study focuses on the fundamentals of the investment market and current trends in its development. The research questions addressed include: what are the fundamentals of the investment market, and what are the current trends in its development? How does an individual investment account function as a financial instrument for attracting investments into the economy? How have individual investment accounts developed in different countries, and what are their advantages and disadvantages? What is the mechanism for obtaining a tax deduction for an individual investment account?

The study identifies and analyzes the types of individual investment accounts, determines the mechanism for obtaining a tax deduction for an individual investment account, and outlines their advantages and disadvantages. Additionally, the study provides an overview of the dynamics of deposits

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made by individuals in the Russian Federation over several years. By doing so, the study seeks to highlight the importance of individual investment accounts for society and the economy and encourage their use as a means of attracting investments.

4. Purpose of the Study

The purpose of this study is to provide an objective analysis of the development of individual investment accounts as a new financial instrument for attracting investments into the economy. The study aims to identify the types of individual investment accounts, analyze their advantages and disadvantages, and determine the mechanism for obtaining a tax deduction for such accounts. Additionally, the study provides an overview of the dynamics of deposits made by individuals in the Russian Federation over several years. By doing so, the study seeks to highlight the importance of individual investment accounts for society and the economy and encourage their use as a means of attracting investments.

5. Materials and Methods

In carrying out this research, the author used such general scientific methods as analysis, synthesis, statistical method, method of abstract thinking, etc. In addition, a large volume of periodic and statistical material has been analyzed.

6. Findings

We examine in more detail the current financial instrument - an individual investment account.

An individual investment account is a new way to invest savings, which appeared on the Russian market in 2015. It is aimed at financially literate people who understand the importance of long-term investment to maintain their own stable financial position. For 1.5 years since the opportunity to open an individual investment account appeared, more than 143 thousand citizens have already opened such accounts. According to investment consultants, up to 7 million citizens can potentially open an individual investment account in Russia, and the total amount of funds invested in individual investment accounts during the first five years of operation of this investment instrument can reach 1 trillion rubles.

Recall that Russians hold about 23.5 trillion rubles on bank deposits. The development of an individual investment account in Russia will be facilitated by the improvement of the welfare and growth of financial literacy of Russian citizens. If we consider the dynamics over a number of years, we observe a positive growth in the opening and maintenance of individual investment accounts from the moment of the appearance of such a financial instrument to the era of the pandemic (Figure 1).

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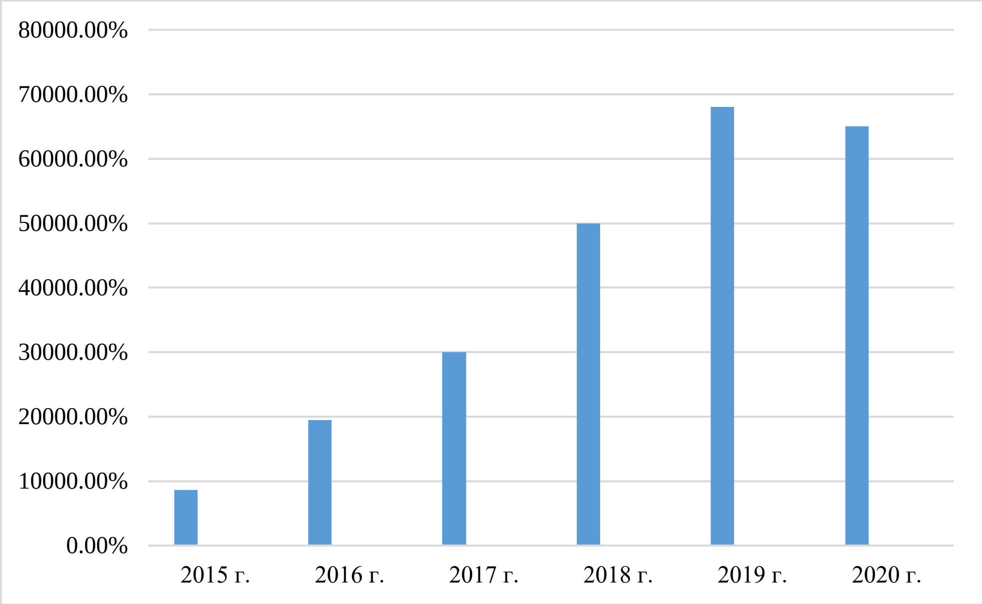

Figure 1. Number of individual investment accounts (thousand rubles)

To stimulate investors' interest in investing in an individual investment account, the state offers tax benefits for citizens who have opened their own individual investment account (Khachatryan & Maziy, 2019). The procedure for calculating tax benefits for an individual investment account is prescribed in Article 219.1 of the Tax Code of the Russian Federation "Investment Tax Deductions". The state uses all possible levers for the development of this new financial instrument, because an individual investment account is designed to generate long investment money in the economy, allowing for the sustainable development of the country (Selyutin, 2019). In order to take advantage of tax benefits, the owner of an individual investment account must invest his funds for a period of at least 3 years.

An individual investment account allows citizens to invest their own funds in securities of the largest companies, which makes them not only observers, but also direct participants in the economic life of the country. After 3 years, the investor of an individual investment account will receive a certain financial result from the investment, and, additionally, tax benefits. An individual investment account also provides an intangible benefit in the form of expanding the investor's horizons, getting acquainted with new financial instruments (Lebedeva & Raikova, 2022) and new opportunities for profitable investments.

An individual investment account can be considered as a riskier, but more profitable alternative to a bank deposit. Financial consultants recommend opening an individual investment account for middle- and high-income citizens who already have a financial "safety margin" in the form of bank deposits, but would like to get new opportunities to place their savings.

The minimum investment period for an individual investment account is 3 years, so such accounts can be effectively used for long-term savings. For example, for paid education, a car or a down payment for a mortgage.

An analysis of the development of individual investment accounts in different countries shows us that analogues exist in other countries with a developed credit and financial system: In the USA, the analogue of an individual investment account is individual retirement accounts (IRA). These are special accounts for American citizens, which they can open for self-accumulation and investment of funds for

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their future retirement. The maximum amount for an annual contribution to an IRA is limited to $5,500 (in terms of the ruble exchange rate, this is about 360,000 rubles). You can open an account at any age up to 70.5 years. IRA accounts also have certain tax benefits. Economic models show that over the past 30 years, the average return on an IRA could be about 6.5% per annum (in dollars) (Shust, 2019; Zinevich & Indychenko, 2019).

There are individual savings accounts (ISAs) in Britain. Britons aged 16 and older can open an ISA. The investment profit received on such accounts is completely exempt from taxes. The maximum limit on the contribution to the ISA is about 15 thousand pounds (in terms of the ruble exchange rate, this is about 1,250,000 rubles). Similar accounts exist in Japan (NISA), Canada (Tax-free SA). In all these countries, the state encourages citizens to use the broad opportunities presented by the securities and investment market, and at the same time, involves long investment resources in the economic cycle.

Let's analyze two types of individual investment accounts. An individual who is a tax resident of the Russian Federation can open only one individual investment account. The maximum amount from which it will be possible to receive tax benefits is limited and amounts to 400 thousand rubles for each year of investment. The investor can deposit money to the IIA both at a time and gradually over the course of a year.

The minimum investment period is 3 years. If an investor urgently needs money, he can withdraw it from an individual investment account partially or completely before the expiration of the 3-year period. However, in this case, he loses the right to receive tax benefits. An investment account can be opened with a broker (bank or investment company) offering a service for opening and servicing an individual investment account (Popova & Osintsev, 2022). When choosing a broker who will store and keep records of your funds in an individual investment account, you should pay attention to the reliability of the company, experience in the market and feedback from other clients. The owner of an individual investment account has the right to transfer his funds and securities from one company (or bank) to another if he is not satisfied with the quality of service or tariffs.

A broker (an investment company or a bank in which an individual investment account has been opened) charges a certain fee for its services. This remuneration can be fixed (for example, 100-200 rubles per month) or set as a percentage of the turnover of funds in the account (for example, 0.15% of the turnover per month). When choosing a broker, you need to know exactly how much its services will cost you, since too high tariffs can negate the effect of the investment income received. In order to receive tax deductions, an individual investment account is divided into 2 types: type A and type B.

An individual investment account of type A assumes receiving an annual tax deduction in the amount of 13% of the amount of funds deposited to an individual investment account. The maximum contribution to an individual investment account is limited and amounts to 400 thousand rubles per year. Thus, the maximum amount of tax deduction for an individual investment account of type A cannot exceed 13% of 400 thousand rubles, that is, 52 thousand rubles for each year of investment.

If an investor deposits less than 400 thousand rubles to the account, the amount of tax deduction that he can receive will also decrease proportionally. An investor may not deposit funds for the 2nd and 3rd year of ownership of an individual investment account, in which case he will not have the right to receive a tax deduction in these years.

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All contributions to an individual investment account are documented (payment orders, broker's reports on depositing funds to the account), so both the investor, the broker, and regulatory authorities can unambiguously determine how much money has been invested. At the end of each year, the investor submits a tax return on Form 3-personal income tax and an application for a tax deduction. After checking the tax return, the tax inspectorate will transfer the amount of the tax deduction to the investor's bank account. A number of brokers offer their clients the service of processing documents for an individual investment account for the tax service (Medyanik, 2022). Financial advisors advise using an individual investment account of type A for people with a permanent job and an average and above average income level (Tavbulatova et al., 2019a).

An individual investment account of type B offers a different scheme for obtaining a tax benefit. It exempts the investor from tax on income received after 3 years of investing funds in an individual investment account. The maximum contribution amount for investors of an individual investment account of type B is also limited: 400 thousand rubles a year.

An individual investment account of type B is recommended for citizens who do not have permanent income, for example, wages. In this case, obtaining a type A tax deduction is inconvenient or not possible. An individual investment account of type B will be very effective in case of favorable market conditions – when the securities markets are growing and bring high returns on invested funds.

If an investor has an individual investment account of type B, then after 3 years it will be necessary to provide the broker company with a certificate from the tax inspectorate that you have not received tax benefits on an individual investment account. Based on this certificate, the broker will not withhold income tax that you received on an individual investment account of type B, and the investor will have the invested capital plus the profit earned during this time.

Let's analyze the ways to get a tax deduction for an individual investment account of type A.

If an investor has opened an individual investment account of type A, then he is entitled to an annual tax deduction in the amount not exceeding 52 thousand rubles (13% of the maximum possible amount to be deposited to an individual investment account – 400 thousand rubles). At the end of the tax period – that is, the first calendar year – the investor submits to the tax inspectorate a tax return (3-personal income tax) and an application for a tax deduction. By law, from the moment the documents are submitted, the Federal Tax Service has 4 months to check them and transfer funds to the investor's bank account.

You can file a tax return either in person at your place of residence or remotely: through your personal account on the website of the Federal Tax Service. Package of documents for obtaining a tax deduction (Tavbulatova et al., 2019b):

i. A document confirming the opening of an individual investment account (an agreement with a broker on the opening of an IIA).

ii. An application for a tax deduction indicating the bank details where these funds will be transferred.

iii. Documents confirming the deposit of funds to an individual investment account (payment orders or reports on the deposit of funds, certified by a broker).

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iv. Certificate of income of an individual (2-personal income tax).

v. A completed tax return (3-personal income tax), in which the amount of tax to be refunded will be indicated (it is calculated based on the amounts deposited to an individual investment account during the year, and cannot exceed 52 thousand rubles).

By law, from the moment the documents are submitted, the Federal Tax Service has 4 months to check them and transfer funds to the investor's bank account.

According to economic calculations made by the National Association of Stock Market Participants (NAUFOR), provided that the average investment income on an individual investment account is 10% per year, it is more profitable to open an individual investment account of type A for investments for up to 13 years. For investments over 13 years, it becomes more profitable to use an individual investment account of type B, all other things being equal.

The list of financial instruments in which funds can be invested with an individual investment account is established by Law No. 39-FZ "On the Securities Market". These are:

i. Securities of Russian issuers (shares, bonds).

ii. Securities of foreign issuers, but only those that are traded on Russian exchanges. Currently, Russian investors have access to some shares of American, European and Chinese companies that are traded on the St. Petersburg Stock Exchange, as well as units of exchange traded funds (ETFs) that are traded on the Moscow Stock Exchange.

iii. Derivative financial instruments (futures, options, structural products).

iv. Foreign currency (US dollars, euros, Chinese yuan, etc.).

v. Bank deposits, while the share of deposits cannot exceed 15% of the total investment amount (Tavbulatova et al., 2021).

vi. The owner of an individual investment account has two ways to invest:

vii. Independent investment. The investor selects financial assets in the portfolio and makes transactions on their purchase and sale from his account independently.

viii. Investing with the help of a trustee. An investor engages a professional trustee in money management by concluding a securities trust management agreement with an investment company (or bank).

If an investor has decided to act independently, this assumes that he has sufficient knowledge about what investments are, what investment instruments exist, what risks and profitability can be obtained from them. In this case, the investor will follow the economic and business news, make forecasts and make informed investment decisions. Brokers often offer their clients analytical support: free consultations and analytical reviews with investment recommendations.

If the investor has decided to entrust his funds to a professional manager, then he will have to conclude a trust management agreement. According to the agreement, the manager will invest the client's funds according to an investment strategy agreed upon in advance between them. The manager's services are paid, the amount and conditions of the manager's remuneration are indicated in the contract. As a rule,

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the manager's services consist of a fixed and floating part. The fixed part (remuneration for money management) does not depend on the financial results of the management and is paid during the entire term of the contract.

7. Conclusion

Despite the fact that there is a positive trend in the opening of individual investment accounts, the country's economy is not experiencing a positive economic growth. The reason, in our opinion, is the opening and maintenance of empty individual accounts. Depositors open empty individual investment accounts and only at the end of the reporting period replenish the nth amount from which they can receive a tax deduction. It turns out such a picture – an open account for three years (2017-2020) is either completely empty, or insignificant amounts are stored and only in 2020 investment activity is conducted again not in favor of the country's economy, but on the contrary – the withdrawal of income in the form of taxes.

We see the solution to this problem in the following scenario:

It is necessary to fix the conditions for opening and maintaining empty individual investment accounts at the legislative level. Bearing in mind that such harsh conditions can scare off potential investors, it is proposed to determine a minimum limit, for example, 100,000 rubles. This amount of limit is optimal for all participants of the financial market: the investor and the stock market.

As a prerequisite, it is necessary to fix for certain categories, investing in funds with securities of domestic issuers, which leads to the liquidity of the exchange market.

Also, at the state level, consider the introduction of such forgotten types of life insurance as "survival insurance" for owners of actively functioning individual investment accounts. The existing methods of insurance of individual investment accounts are not profitable for investors. And the introduction of such a state life insurance program will interest the owners of individual investment accounts, as it turns out a triple benefit from this investment in the form of:

a) investment income;

b) tax deduction;

c) insurance compensation.

Thus, currently there is a fairly limited list of ways available to citizens of our country to invest their own funds in the domestic economy. At the same time, the fullest possible use of the internal savings potential of the population is one of the ways to ensure the stability of the development of the real economic sector. The growth rates of savings of the population, significantly outpacing income growth, indicate the availability of potential resources that are not used today in the investment process due to the underdevelopment of the mechanism of capitalization of savings.

The main problem of inefficient use of personal savings of the population as investments is the lack of trust of citizens in the activities of state and commercial structures providing financial services. This, in our opinion, is caused, on the one hand, by the negative experience of the past years, when the deposits of a significant part of the population of our country depreciated due to the economic reforms of

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the 1990s, on the other hand, by the low financial literacy of the population, which does not allow you to independently correlate the level of risk and profitability of possible investments.

We see the solution to this problem in the implementation of the following actions by the State:

i. stabilization of the development of the country's banking system;

ii. improvement of legislation that protects the interests of investors;

iii. improving the financial literacy of the population.

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