The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Finance Ministry to Use Tax to Boost Stock Market

By Peter Hobson

June 07, 2013



The Finance Ministry is planning to tweak the tax system to attract long-term investment to the stock market, Vedomosti reported.

The ministry is working on draft legislation that would increase personal income tax deductions and time frames on capital gains and at the same time decrease the attractiveness of keeping money in the bank. The bill may be introduced in the State Duma in the current session.

Under current law, the first 3 million rubles ($94,000) of income on the sale of stock owned for more than three years is subject to a zero rate of tax. For each further year that the stock is owned, an extra million rubles is added to the tax deductible amount. The new proposals will lift the deduction to 9 million rubles and add an additional 3 million rubles for every year beyond the third.

At the same time earnings on bank deposits will see their tax deductions reduced. Interest earned on deposits is currently tax free up to the Central Bank refinancing rate (currently 8.25 percent) plus 5 percentage points. The Finance Ministry will propose to reduce this to 3 percentage points above the refinancing rate.

On the Moscow Exchange there are about 800,000 individual accounts, said Alexei Timofeyev, chairman of the National Association of Equity Investors. About 80,000 have at least one transaction per month, said Andrei Shemetov, deputy chairman of the Moscow Exchange. For comparison, there are about 90 million individual equity investors in the United States, 94 million in China and 20 million in Brazil.

“This incentive could affect a large number of investors. The top end of the middle class will be able to count on this benefit,” Timofeyev said.

Other industry players disagree. The amount of long-term equity holders is minute, said Vladimir Tsuprov of TKB BNP Paribas Investment Partners. The tax incentives may fail to inspire individual investors, he said, as there may be no profit to tax.

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