

THE EFFECT OF OIL TAXATION ON INVESTMENT ACTIVITY OF COMPANIES AND ECONOMIC GROWTH IN RUSSIA

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Oil industry is the main income-producing sector of Russian economy. From 2006 year oil & gas revenues provide about 40-50% of consolidated budget [4]. Any changes in this industry have not only multiplying economic but also geopolitical effect, since Russia is one of the world leaders in oil reserves, its production and export.

Nowadays the following trends in oil industry development should be emphasized:

- despite oil extraction increase, depletion of oil fields is rising;
- the quality of new geological discoveries decreases and therefore the capital intensity of the development of complex and remote fields is growing;
- export's geography is changing: there is decline of oil & gas deliveries to Europe and growth to the Asia-Pacific Region;
- new entrants appear at the international market;
- many countries shift to alternative energy sources and develop energy-saving technologies;
- taking into account the dependence of Russia on equipment's import and foreign loans, current sectoral sanctions encourage delay of some investment projects' execution;
- recession in Russian economy slows down the growth of fuel and energy domestic demand and reduces investment activity within fuel and energy complex.

All these serious challenges need an adequate response. One of the main steps within solution of oil industry problems (and, hence, problems of oil-depending Russian economy) is formation of adequate tax regime, which would allow, from the one hand, to provide completion of budget and performing of social functions by the State, and to meet needs of long-term development of this important industry – from the other.

Thus, the *goal of the research* is an assessment of the existing oil & gas tax regime's performance and justification of its development key indicators to improve the sustainability of the Russian economy.

Contemporary tax regulation system has being forming from the late 2002. The important part of reforms in the beginning of 21st century was introduction of mineral extraction tax (MET) in 2002, then taxation reforms of 2007 [6], 2013-2014 and many other adjustments took place. As the result, taxation system became more transparent and close to international practice, completeness of the budget has increased together with the growth of extraction and refining activities.

At the same time, tax regulation is still based on gross revenues from extraction, refining and export: it allows to administer taxes in relatively effective way and to fill the budget, but it neither stimulates the development of oil companies' investment potential nor provides correlation between financial results of companies and paid taxes.

Nowadays the *strategic tasks of further tax regime reforming* are the following:

- establishing of stable and predictable terms of taxation;

- nature rent withdrawal without sacrificing of financial sustainability and investment attractiveness of efficient companies of fuel and energy complex;
- efficient allocation of revenues generated by fuel and energy sector between the State and business (determination of optimal tax burden);
- attraction of investments to hard-to-reach reserves' extraction, exploitation of small, depleted oil and gas fields.

An important part of tax regime strategic reform in Russia can become an introduction of widely used in developed oil producing countries supplementary charges – Excess profits tax and Tax on financial result [1]. These taxes implementation provides tax differentiation depending on concrete oil extraction conditions, acceptable level of net revenue in case of availability of operational profit. All tax mechanisms based on such excess profits taxes has significant advantages in comparison with prevailing using of mineral extraction tax (MET): they reduce opportunities for selective approach to taxation of certain oil projects, stimulate investments to discovery new fields since the tax does not apply until the full payback of capital expenditures.

In 2016 the concept of Tax on financial result was developed together by Ministry of Finance and Ministry of Energy of Russia, which implies pilot adoption of this new tax in 2018. In parallel export duty will gradually decline to balance internal and external oil prices.

Nevertheless, in contemporary Russia the shift to EPT has also weaknesses and certain threats. Our SWOT-analysis [2] evolved the following:

- complexity of establishing new system of cost control and tax administration, providing true recording of production, investment and financial measures. In Russia it is difficult to build because of practice of “creative” accounting, transfer pricing;
- many project, price and currency risks should be assumed by the State, which can lead to decrease of budget incomes.

Thus, the threats of dramatic tax maneuver for Russia seem quite serious. After EPT implementation budgetary revenues can diminish, in particular, because many projects of hard-to-reach reserves' extraction will be under construction in the coming years and have relatively low profitability. In a whole, systematic approach to reformation of oil industry tax regime should consider concrete stages (road map) of such tax move to achieve balance between the society's interests and oil companies. Long term milestones and road map should exclude the possibility of frequent and random law adjustments and give oil companies and the State an opportunity to plan for a long perspective.

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