

Improving Russia's Tax Policy in the Oil Production Taxation Field amid the World Economic Development

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Abstract

The paper reviews pressing issues related to the corporate taxation in the oil industry amid the financial crisis, sanctions imposed against Russia, and low oil prices. Special attention is paid to the analysis of the first results of the tax reform, to the introduction of a profit-based tax. The purpose of the study is to find an effective tax mechanism for the taxation of the oil industry. The subject of the study is the current issues of oil taxation, in particular, the application of the taxation mechanism of the financial results of oil companies and the reform of the taxation system of export duties to the oil refining industry.

Keywords: tax policy, taxation, oil industry, profit-based tax.

JEL: E62, H21, H30.

1. Introduction

At present, the modern state is characterized by focusing on developing and building a reliable tax system, and that is particularly noticeable in the oil industry since that same industry provides a significant part of tax revenues to the budget

of the Russian Federation. Amid the global economic crisis, the sanctions imposed against Russia in recent years, and relatively low oil prices, issues emerging in the oil industry related to the ever-changing tax laws are up for a special debate.

Implemented over the recent years, the reform has made it possible to significantly improve budgetary efficiency of the tax system, bringing it closer to the best international practices. In contrast, the changes made have failed to address all the issues. The deterioration of oil production conditions requires further improvement of the tax system, providing necessary incentives for investments in the development of new fields.

With that, over an extended period of time, Russia's oil tax legislation was aimed at ensuring an adequate level of the country's tax budget revenues no matter whatever it takes. According to Cherkasov (2018), the current system of taxation in the oil industry has the biggest tax burden in the world, amount of oil and gas revenues was more than 43-51% of all budget revenues over past decades, remaining its main source.

At that, economic efficiency was being forced to the background. This resulted in an extremely unfavorable tax climate hampering

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the intensive development of the industry and its performance increase.

As Ponkratov (2015) rightly pointed out, the level of cumulative tax burden that oil producing companies bear is much higher than that of the companies from other sectors of the economy. This is determined by the policy of the Russian Government. To a certain extent, excessive tax burden might be seen as an effort, on the part of the State, to exclude the resource rent that comes in effect when the subsoil user companies extract hydrocarbons. It is important to boost the technological development of domestic economy with the help of rent income and promote its shift from orientation to fuel and raw materials in the world division of labour.

The lasting unfavorable price situation on the global hydrocarbon market actualizes the problem of crude export development, through the use of innovative products, technology development, import substitution, and certainly the search for new fiscal mechanisms of oil industry taxation.

It is these new tax mechanisms of oil production taxation in Russia that will be discussed in this paper. Within the framework of the studied problem, the author identified major issues that the oil industry faces when taxing oil, a range of questions that need to be answered within the framework of this paper was identified, and appropriate conclusions and proposals on further tax policy reforming in the country's oil industry were made.

Based on the analysis of Russian legislation and international legislations, a comparative analysis of international tax legislations, litigation practices, the author formulates major directions for improving the current tax legislation of the Russian Federation.

Definitely, the issue of searching for a new tax mechanism for taxing oil production

in Russia is very urgent nowadays. The new tax mechanism should meet every challenge of the world economy and ensure an uninterrupted cash inflow to the country's budget system.

At the same time, when developing a tax mechanism for the oil industry, it is necessary to take into account that the main task of the state regarding the oil industry taxation should be a stimulating tax policy, and not a continuing fiscal tax policy. New taxation mechanisms can help to increase production volumes and increase the profitability of oil companies, while the state influence on the industry's economy will become as effective as possible.

According to Gafarova (2015), the existing taxation system hampers investments in development of new deposits and does not stimulate the maintenance of production volume in depleted areas. The system is still focused on mature deposits. In order to attract oil companies to develop new deposits, it is necessary to considerably reform the legislation.

The key findings of the study are that such crucial issues as the tailoring of legal mechanisms for the oil industry taxation, having to meet the international policy challenges and respond to the sanctions imposed against Russia, have not been settled yet to this date.

The issue of searching for a legal mechanism for the oil industry tax collection is currently at the heart of the heated political and economic debate.

In addition, as of today, the issue of the design of an effective legal model of the oil industry taxation, aimed at oil companies' surplus profit withdrawal in favor of the state, is also highly urgent. It is timely to note that the legal model of the oil industry taxation, on the

one hand, should ensure stable tax revenues to the budget of the Russian Federation, on the other hand, provide incentives for investment in Russia's oil industry.

The issues posed by the world practice to the industry determined its further development and improvement, including the taxation field. To this date, the author has identified two major issues that the oil industry faces.

First, increased depletion of the developed oil reserves, which definitely will lead to decreased oil production and decreased tax revenues from the oil industry;

Second, the share of hard-to-recover reserves in the developed fields is increasing. With that, oil companies are not in a rush to develop new fields;

Third, a pressing issue for the oil industry is the reform of the export duty system for the oil refining industry.

Practically, this situation leads to the fact that oil companies do not invest their funds in the development of new fields, which contribute to oil production rates and tax revenues to the budgetary system of the Russian Federation.

Certainly, the issues mentioned above have to be addressed as soon as possible, primarily for the further development of the oil industry. Since it is the oil industry that is the engine of the Russian economy.

The following questions were raised during the study:

What are the major directions of further tax policy development in the oil industry in oil production?

What issues are encountered when taxing oil companies?

What are the international practices of the oil production taxation?

What are the disadvantages of the current Russian taxation system for oil companies?

What conclusions have been made following the implementation of main reforms within the industry (the "60-99" system, the "60-99-90" system, the "small tax maneuver", the "large tax maneuver"?)

2. Materials and Methods

The purpose of the study is to find an effective tax mechanism for the taxation of the oil industry. It is assumed that the answers to the above questions will help to achieve this goal and will contribute to the development of recommendations for improving tax policy in the oil industry.

Within the framework of achieving this goal, the author proves that the most perfect form of oil production taxation is the additional (net) income taxation determined in one way or another.

The tasks are to develop specific tactics for achieving the strategic goal of tax reform, which involves determining the timing and stages of the reform, tax parameters at each stage of the reform, measures of state support for the most vulnerable sectors of the economy.

The methodological basis is determined by the use of a set of general scientific and specific scientific methods of cognition based on the dialectical theory of cognition: historical-legal, comparative-legal and others, which allow to consider the financial and legal regulation of the taxation of oil production in Russia with regard to related concepts, as well as to identify the features of the legal structure and develop recommendations for its improvement.

The historical-legal method was used to study the genesis of the sources of financial and legal regulation of the taxation

of oil production in Russia. In addition, this method was used as part of the analysis of international practices of introducing a profit-based tax instead of the previously existing tax system on the example of international tax systems. The comparative-legal method contributed to the relationship between the concepts of tax policy and oil production taxation in Russia. The use of the system-structural method made it possible to classify regulatory legal acts, as well as to determine the mechanism of oil production taxation in Russia. The formal-logical method was used to determine the financial and legal nature of taxes imposed on oil production enterprises.

A deep and comprehensive study of the legal regulation of oil production taxation, the identification of the most significant priorities and the development of effective mechanisms for improvement are impossible without studying the fundamental scientific works of leading legal scientists in the field of financial and tax law. Among them, it is particularly necessary to distinguish the works of E. M. Ashmarina, O. Y. Bakaeva, O. V. Boltinova, A. V. Bryzgalin, E. L. Vasyanina, D. V. Vinnitsky, O. N. Gorbunova, E. Y. Gracheva, A. S. Emelyanova, S. V. Zapolsky, Y. A. Krokhina, I. I. Kuchеров, N. A. Povetkina, E. V. Pokachalova, Y. L. Smirnikova, M. V. Sentsova (Karaseva), N. I. Khimicheva, I. A. Tsindeliani, A. I. Tsidilina, N. A. Sheveleva, S. O. Shokhina, A. A. Yalbulganova and other scientists.

The theoretical fundamentals of financial and legal regulation of the oil and gas industry taxation of the Russian Federation were studied by such scientists as

G. R. Golovanov, E. N. Komissarova and other scientists.

Among the recent works devoted to the of oil-producing enterprises taxation, it should be noted the study of M. A. Ilyicheva.

3. Results

As a result of the study, the following conclusions were made.

3.1. Waiving of the MET and the introduction of profit-based tax

When analyzing the evolution of the MET calculation formula, it is obvious that when making the decision in 2001 to introduce the MET tax system, the legislator pursued, first of all, the principle of simplicity of tax calculation and administration of tax payments from MET, but today it is difficult to say that this principle applies considering the recent changes in the MET calculation formula.

The use of coefficients in the formula for calculating the tax base for MET is a different kind of tax benefits for this tax and is clearly individual in nature, characterizing a particular degree of development of deposits or the location of the developed field, etc.

Due to the increase in the number of coefficients used in the calculation of taxes every year, which leads to difficulties in calculating the real MET, it seems necessary in the future, in our opinion, to abandon this tax system.

In addition, the introduction of such a number of coefficients in the calculation of the tax base for the MET leads to the optimization of the oil revenues taxation.

As mentioned above, the targeted tax benefits for MET provided by the Russian Government have undoubtedly led to increased oil production. However, we must agree with the scientists that targeted benefits will lead to a decrease in the budget revenue from the oil industry. Moreover, this is confirmed by the author's analysis of the budget performance

reports for 2016 and 2017 and the Explanatory Notes to them posted on the website of the Ministry of Finance of the Russian Federation.

According to Ovchar (2017), the new formula for calculating the MET for oil will lead to an increase in raw material prices, and, as a result, to the suspension of new promising projects in small, medium and large oil fields, as well as it will affect oil refining. It should be noted that the modern mechanism of the oil industry taxation cannot be considered rational, since it is characterized by a high level of tax exemptions, an irrational level referenced to the dynamics of world oil prices, which leads to an increase in petroleum products prices, hindering the development of other economic sectors.

The unsystematic expansion of tax incentives, without a comprehensive assessment of their potential impact on budget revenues, the qualitative characteristics of the tax system and economic activity, is also a threat to macroeconomic stability. In recent years, there has been a tendency to expand the list of tax benefits and exemptions for basic taxes: the Tax Code has been supplemented with a significant number of new provisions establishing tax benefits. In addition, tax legislation retains benefits and exemptions that are narrow, almost individual in nature.

Thus, the introduction of hit-the-spot or targeted benefits for individual oil fields and individual oil companies, individual regions of the Russian Federation, leads, first of all, to an imbalance in the financial and legal regulation of the oil industry and contradicts the principles of designing the tax policy of the state. Unfortunately, the principle of fairness and equality towards the oil companies' taxation is not observed in the mineral extraction taxation.

According to experts, the existing taxation system hampers investments in new oil fields development, failing to stimulate keeping the production volume in depleted areas up. The system is still focused on mature deposits. In order to make new deposits attractive for oil industry companies to develop, it is necessary to significantly reform the legislation.

Moreover, according to Likhachev (2015), the current MET regime provides for certain exemptions for hard-to-recover reserves, tax incentives, but there is no systematic approach at the legislative level that allows effectively solving the problem of stimulating the mining profitability.

Considering the above, it can be concluded that the existing mining extraction taxation system does not fully reflect the modern approaches inherent in the global oil business, in which tax rates are often set depending on one or more parameters, for example, on profitability, well productivity, oil production volumes.

Due to the high competition on world hydrocarbon markets, maintaining the production and putting new oil fields into production are becoming extremely important for the Russian oil industry. The oil industry needs tax incentives to be competitive on world markets.

The introduction of the profit-based tax in the tax system will allow for correcting the problems that have emerged in the industry. In this connection, it seems that the introduction of the profit-based tax will immediately solve the above problems. This is to increase the oil production volume, due to the development of new fields and increase tax revenues to the country's budget.

3.2. Reforming of the export duty system

As E. L. Vasyanina pointed out in her PhD thesis research, the participation of the member states of the Eurasian Economic Union in the WTO has a negative impact on the implementation of the principles of regulation of the fiscal systems of the member states of the Eurasian Economic Union. In some cases, this is due to conflicting provisions of international agreements concluded within the framework of the WTO and the Eurasian Economic Union. Thus, the Customs Union Functioning Treaty within the framework of the multilateral trading system provides for the priority of WTO provisions in the event of conflicts with the norms of the Customs Union legal framework, as well as the obligation of the Customs Union to fulfill the conditions of accession to the WTO of its member states.

Of course, the abolition of export duties on oil and petroleum products will lead to the search for investments, including at the expense of budget funds, in order to modernize oil refineries. It is obvious that the abolition of export duties on oil and petroleum products will lead to an increase in their cost in the domestic market, the final consumer of which is the Russian citizens. Also, with the abolition of export duties, the volume of oil refining may be reduced, since the system of duties is designed in such a way that petroleum products export is cheaper than the exported oil, i.e., the production and sale of petroleum products should be profitable. In addition, it should be noted that the low oil prices only encourage European refineries to purchase Russian raw materials for processing, of course, this makes processing in our country not profitable and leads to a shortage of petroleum products in the country and higher prices for them.

In this regard, in recent years, there has been an active debate on the feasibility of lifting the export duty on oil and the consequences that these actions will lead to negative effects both for the country's budget, and oil companies and the country's population.

Speaking about the expediency of the abolition of export duties on oil and petroleum products, we can definitely say that these actions are justified from the perspective of further reform of tax and customs tariff legislation. Moreover, according to the author, the Russian tax system should gradually move away from tax mechanisms that directly depend on the price of oil on the world market. The first step in this direction will be the abolition of export duties on oil and petroleum products. However, in order to maintain a balance of interests between the state, oil companies and the population, it is advisable to introduce a compensatory tax mechanism for oil companies.

The author's opinion is shared by a prominent scientist in economics, the developer of one of the concepts of the tax maneuver, G. Vygon, according to him, "the use of a sliding MET scale and duties with reference to oil leads to a systemic problem: you need to constantly "guess" the future price of oil in order to set adequate incentives for both production and processing, and it is impossible to properly calibrate the system when the real price of oil deviates greatly from the forecast."

In addition, as professor A. Z. Bobyleva points out, in general, the validity of the use of export duties raises serious doubts, since:

- low energy prices hinder their efficient use;
- individual companies receive surplus profits;

- processes of economic modernization slow down;
- investment processes in the oil industry slow down;
- the national economy is subsidized, but the society, being an owner of natural resources, does not benefit from lower prices for final goods;
- reduced transparency in making operational, investment, and financial decisions;
- companies receive targeted benefits for export duties and mineral extraction tax.

It seems that the introduction of a reverse excise tax to compensate for the subsidy with the gradual abolition of export duties on oil and petroleum products may only be a justified step on the part of the Government of the Russian Federation after the completion of the modernization of all oil refineries.

Summing up the above, it is necessary to make a fundamental emphasis on the “forced” abolition of export duties on oil and petroleum products, in connection with the obligations assumed before the WTO.

The process of abolishing export duties on oil and petroleum products, according to the author, should be implemented in several stages, which will lead to less negative effects of the abolition of export duties, both for the national budget, and for oil companies and the population.

According to the author, the step-by-step reform of export duties on oil and petroleum products is seen as following:

Step 1. Reduction of the rate of export duty on oil and complete abolition of export duty on petroleum products;

Step 2. The export duty on oil is completely abolished. Due to the introduction of the AIT for oil production in the piloted mode, the

budget revenues from the oil industry are partially compensated.

Step 3. Transition to the profit-based oil industry taxation system. Introduction of the PBT in the piloted mode, gradual abolition of the MET.

4. Discussion

4.1. According to Dykusova (2018), in order to ensure a required volume of budget revenues with regard to asset wearing and limited access to new technologies because of sanctions of the European Union, the Russian government has to review the mineral extraction taxation policy and develop a relevant support program for the energy industry.

Also, interesting is the opinion of Emelyanov (2005), which is as follows: “... the efficiency of public finance cannot be considered as the ultimate goal. It should be kept in mind that the effectiveness of public finance is one of the main conditions for the realization of constitutional rights and freedoms of citizens, ensuring their security, improving their well-being and living standards. Public finances cannot be considered effective if the interests of citizens are not ensured; if their incomes do not allow them to meet the minimum level of their needs; if the state is not able to guarantee their rights and freedoms...” .

According to Professor Bobyleva (2015), the application of the profit-based income (PBT) allows to consider not only gross income received by the producer (MET and export duty), but also the costs of oil production at a particular oil field, since all the characteristics of the field are ultimately reflected in the income received during its development. These taxes ensure the differentiation of the tax burden depending on the specific conditions of oil production, provide an

acceptable level of profitability even at high costs, if there is an operation profit. As a result, it does not put economic barriers to the oil fields development being characterized by increased capital, operational, transportation costs.

Opponents of this approach usually object that in the Russian tax system, even now, when calculating the MET rate, the difference in costs is taken into account by means of coefficients. However, it is known from the practices that the current system is not transparent enough, and allows for a selective, "manual" management approach. In turn, according to Bobyleva (2018), linking the tax system to financial results, as international experience shows, provides a systematic transparent tool:

- significantly reduces the possibility of lobbying when making decisions on taxing a particular project;
- allows to not collect the tax until the full payback on capital costs, to design the subsequent taxation in accordance with profitability indicators;
- encourages investment in the development of new oil fields, as well as HTR reserves and other fields with high costs.

With that, it should be noted that the state aims to create a tax system that would ensure the inflow of most of the rent to the state budget, especially during a period of high prices for raw materials and derivative products, would not create administrative difficulties, would not require significant tax costs and would minimize tax evasion. Also, this system would encourage producers to independently develop deposits, which would stimulate economic efficiency.

As noted by Malis (2015), the main goal of tax policy is the tax impact on priority

economic sectors so as to ensure a fair distribution of the tax burden and maximum production efficiency.

4.2. Justification of the need for adopting a tax mechanism in the form of profit-based tax

As mentioned above, the analysis made it possible to identify two main issues that oil companies face when applying existing tax mechanisms and to identify ways to solve them:

First, under the current system of taxation in the form of mineral extraction tax (MET), it is not profitable for oil companies to invest money in capital and operational costs, for example, in the development of new fields in hard-to-reach places or offshore development, since these costs do not affect tax rates and are not considered when calculating the tax base. This followed by a drop in oil production and a reduction in revenues to the budget system from oil production enterprise.

This problem is the main one for oil production, and its solution, according to the author, appears in the reform of the current tax system by gradually eliminating the MET and introducing a profit-based tax for oil production enterprises, with the enterprises' costs to be taken into account in full. With that, oil production enterprises will be interested in investing funds in the development of new fields without providing targeted benefits for industry taxes, which will lead to an increase in tax revenues to the budget system of the Russian Federation.

Second, a pressing issue for the oil industry is the reform of the export duty system for the oil refining industry. An analysis of the main industry reforms (the «60-99» system, the «60-99-90» system, the «small tax maneuver», the «big tax maneuver») shows that frequent

changes in legislation lead to the outflow of investors, since they cannot predict a clear plan for investing in the industry. In addition, the dependence of export duty on the Urals oil prices in foreign markets leads to the dependence of the entire national economy on the oil prices dynamics.

We see the solution to this problem in the gradual zeroing of the export duty on crude oil and petroleum products and the completion of the tax maneuver.

At the same time, the oil production taxation with profit-based tax will partially solve the problem of maintaining oil production volumes in depleted fields and will allow oil companies to develop new fields.

According to Bolshakov (2018), the increase in the MET income alongside the refusal to grant oil customs subsidies within the Eurasian Economic Union will make sources of additional income to the federal budget. The new system provides for a reduction in the total amount of taxes that depend on gross indicators (MET-oil and oil customs duty) and imposing of the added extraction income taxation (hereinafter - AIT). As a result, higher flexibility of taxation is ensured due to the dependence of the taxes amount on the economic performance from the reserves development.

The adoption of the draft law proposed by the author will allow us to implement one of the strategic state objectives, that is, to encourage oil companies to develop new unprofitable fields. With the introduction of PBT, the taxpayer has the opportunity to share the risks and successes of developing a new field with the state to a certain extent.

The concept proposed by the author clearly tracks the ability of oil companies to

invest in the development of new fields at the expense of free cash.

Considering the above, the author proposes to introduce a special tax regime for 80% profit-based tax into the tax system of the Russian Federation as a tax regime for hard-to-recover, mature, and depleted oil fields developed at the time of transition.

In substantiating the author's position on the need to introduce a new tax into the tax system of the Russian Federation based on profit-based tax for oil production enterprises, we present below the calculations made by both oil companies themselves and economic scientists.

Within the framework of the analysis of the prospects for the PBT introduction, a team of scientists made the following calculations. It was assumed that with the transition to profit-based taxation, the growth of oil production due to the development of more HTR fields or their parts would increase to 80%, the growth of budget revenues from taxes — up to 70 %, additional investments of oil companies — up to 200 %.

Based on the expert scientific forecasts, as well as CEOs of oil and gas companies, it can be concluded that with the introduction of profit-based tax, companies will have an incentive and opportunity to develop new fields that will become objects of tax collections in the future, and, ultimately, a huge increase in cash inflow to the country's budget.

In addition, the above analysis of international tax legislation based on the financial result showed that the transition to the PBT did not lead to a decrease in tax revenues to the budget, on the contrary, it served to increase the rate of oil production in these countries and increased the state's income.

It seems that the introduction of a profit-based tax into the tax system of the Russian Federation will lead to an increase in oil production due to the development of more HTR fields and an increase in budget revenues, both to the federal and regional budgets.

It should be noted that the profit-based tax, as a rule, depends on the financial result of the oil company. The losses incurred by the company in the development of labor-intensive oil fields are ultimately covered by the net profit of the remaining oil fields. This mechanism allows oil companies to tax the financial result of the companies, but not all the profits received by the company. A positive point from the administration opinion is the non-proliferation of tax benefits for profit-based tax, since it is impossible to calculate the benefits for this tax.

It is also necessary to indicate that the introduction of the profit-based tax is necessary in order to attract an investor to the oil industry who would understand that the tax legislation in the oil industry is stable and the conditions under which the investor came to the oil sector will remain unchanged throughout the whole investment project, and the investor would be able to implement long-term investment plans. This mechanism will allow oil companies to invest free cash in the exploration of new oil fields and in the future to make them profitable.

According to the author, the PBT taxation mechanism should be adopted in order to increase the profitability level of subsurface areas development, to ensure the inflow of investment in the development of depleted and unconventional reserves or to involve in

the deposits development that are not being developed under the current tax system.

With the above, it can be stated that the main reasons for the adoption of the law proposed by the author are the following:

- avoiding turnover taxes and eliminating targeted benefits for specific oil companies and specific oil fields;
- increased oil production and development of new oil fields due to the transition to profit-based taxation;
- formation of a tax policy within the oil production taxation that meets all the requirements and challenges of the modern economy;
- additional income to the budget system of the country for the purposes of implementing the provisions of Article 7 of the Constitution of the Russian Federation, the May decrees of the Russian President, getting out of the unfavorable epidemiological situation, etc.;
- attracting investment in new projects, development of new oil fields by oil companies themselves;
- the opportunity for oil companies to resume the development of hard-to-recover and mature oil fields, preserved oil fields since with the profit-based taxation, all their development costs will be taken into account when determining the tax base;
- fair distribution of the tax burden on oil companies, which depends on the stage of operation and the level of capital costs;
- positive international practices in applying profit-based tax.

5. Conclusion

In conclusion, it should be noted that further improvement of the tax policy of the Russian Federation through the transition to the profit-based oil industry taxation system is already a forced measure, in this regard, it is proposed in a separate paragraph to consider the main elements of profit-based tax proposed by the author.

It seems that the introduction of a profit-based tax into the tax system of the Russian Federation will lead to an increase in oil production due to the development of more HTR fields and an increase in budget revenues, both to the federal and regional budgets.

In conclusion, it should be stated that the profit-based tax, as a rule, depends on the oil producer's profit. The losses incurred by the company in the development of labor-intensive oil fields are ultimately covered by the net profit of the remaining oil fields. This mechanism allows oil companies to tax the financial result of the companies, but not all the profits received by the company. A positive point from the administration opinion is the non-proliferation of tax benefits for profit-based tax, since it is impossible to calculate the benefits for this tax.

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According to the author, the PBT taxation mechanism should be adopted in order to increase the profitability level of subsurface areas development, to ensure the inflow of investment in the development of depleted and unconventional reserves, or to involve in the development of oil fields that are not being developed under the current tax system.

The rational combination of adequate government tax policies and interests of subsoil users can become a basis for increasing the potential of innovation development of the energy industry. The current taxation system is unilateral and fiscal. Amendments to the oil legislation constantly increase tax revenues by decreasing profits from investment expenditures of subsoil users (Tufetulov & Yartiev, 2016).

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