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**CONTACTS**

Phone: **+998 50 737 87 88**

Website: <https://ist-journal.uz>

Email: [innovationist2025@gmail.com](mailto:innovationist2025@gmail.com)

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# THEORETICAL AND METHODOLOGICAL FOUNDATIONS FOR IMPROVING THE TAXATION PRACTICES OF OIL AND GAS INDUSTRY ENTERPRISES

**Jabborov Mashrab Ismoil ogli**

Interregional Tax Inspectorate for Large Taxpayers Senior State Tax Inspector of the Tax Advisory Department

**Abstract:** This article examines the theoretical and methodological foundations for improving the taxation practice of oil and gas enterprises. The study scientifically analyzes the economic and fiscal characteristics of the oil and gas sector, including the interrelationship among resource rent, investment risk, tax burden, and state interests. In addition, based on the practice of Uzbekistan and international experience, the paper highlights key directions for improving taxation mechanisms for enterprises in the sector. The findings of the study are aimed at ensuring fiscal sustainability in the oil and gas industry, increasing investment attractiveness, and strengthening the efficiency of tax administration.

**Key words:** oil and gas industry, taxation, tax policy, resource rent, excess profit tax, subsoil use, fiscal mechanism, investment attractiveness, tax burden, tax administration.

## INTRODUCTION

In the global economy, the high volatility of commodity markets, fluctuations in energy resource prices, the growing demand for fiscal stability, and the need for transparent regulation of subsoil use relations have made the improvement of taxation practices for oil and gas industry enterprises an urgent scientific and practical issue. In particular, the oil and gas sector differs from other industries due to its high capital intensity, long investment cycles, significant geological risks, the presence of resource rent, and its strong interconnection with the state budget. In this context, the taxation mechanism in this sector should be regarded not merely as a source of fiscal revenue, but as an economic instrument that ensures a balance between investment incentives, rational resource utilization, extraction efficiency, and state interests.

In recent years, Uzbekistan has been implementing consistent reforms aimed at regulating subsoil use and taxation relations. In particular, the new version of the Law "On Subsoil,"<sup>1</sup> adopted on February 02, 2025, clearly defines the rights and obligations of subsoil users, including their responsibility to fulfill taxes, fees, and other mandatory payments stipulated by legislation. This necessitates a reconsideration of the theoretical and methodological foundations of taxation in the oil and gas sector, adaptation to its specific characteristics, and evaluation of existing mechanisms from the standpoint of efficiency. The purpose of this article is to reveal the theoretical and methodological foundations for improving taxation practices of oil and gas enterprises, to generalize scientific approaches to assessing the tax burden based on the economic characteristics of the sector, and to formulate scientific conclusions aimed at improving Uzbekistan's practice. The study pays particular attention to the interrelationship between fiscal efficiency, investment attractiveness, resource rent distribution, and the optimization of tax administration.

## LITERATURE REVIEW

In the scientific literature on the taxation of the oil and gas sector, the key distinguishing features of this industry compared to others are identified as the presence of resource rent, high geological and price risks, substantial initial capital expenditures, and the long lifecycle of projects. For this reason, conventional corporate

<sup>1</sup> <https://lex.uz/en/docs/7195382>

taxation mechanisms are insufficient for oil and gas enterprises; instead, a special fiscal regime is required that takes into account project-level revenues, costs, return on investment, and the government's share. IMF studies emphasize that an effective tax regime for extractive industries should be assessed based on project-level cash flows, where indicators such as government take, progressivity, effective average tax rate, and investment neutrality serve as key analytical metrics. In international scholarly approaches, the most widely used models of taxation in the oil and gas sector include royalties, corporate income tax, resource rent tax, additional profit tax, production-sharing regimes, and their various combinations. The United Nations handbook on taxation of extractive industries highlights that the primary challenge for developing countries lies in achieving a balance between the state's fiscal interests and the level of profitability acceptable to investors. In IMF analytical work published in 2024, it is noted that a progressive fiscal regime allows the government to increase its share under conditions of high resource rent while avoiding excessive discouragement of investment under low profitability conditions.

Among recent studies, increasing attention has been paid to the impact of resource rent taxation on investment neutrality. In particular, research published in 2025 based on Norway's experience demonstrates that a high-rate rent tax, combined with full and accurate cost deductibility, may distort investment decisions to a lesser extent under certain conditions. Official sources on Norway's petroleum tax system also explicitly state that the combination of corporate income tax and a special petroleum tax is designed to achieve a neutral fiscal regime. This approach indicates that, in the oil and gas sector, not only the level of the tax burden but also its structure and cost recovery mechanisms are of decisive importance. Recent regulatory and reform materials in Uzbekistan indicate a certain degree of alignment with these theoretical approaches. In particular, Presidential Resolution No. PQ-6319 (2021) introduced a reduction in the tax rate for subsoil use in relation to oil and natural gas to 10%, the introduction of an additional profit tax for new fields, provisions for deductibility of certain costs from the tax base, and property tax incentives for newly drilled wells. These measures reflect an attempt to transform the tax system in the sector from a purely revenue-generating mechanism into one that also stimulates investment. Subsequently, the new edition of the Law "On Subsoil," adopted in 2024, systematized subsoil use relations and further strengthened the legal framework governing tax and other mandatory payment obligations. Amendments to the Tax Code introduced in 2025 further demonstrate that the process of gradual modernization of fiscal mechanisms in the sector is ongoing. At the same time, the analysis of existing literature indicates that, in Uzbekistan, there is still a lack of comprehensive studies that assess the theoretical and methodological foundations of taxation in the oil and gas sector. In particular, research integrating the structural composition of the tax burden, the efficiency of government rent capture, its impact on investment attractiveness, and comparative analysis with international models remains insufficient. Therefore, the scientific gap in this field is associated with the development of a theoretical and methodological model of a progressive and relatively investment-neutral tax mechanism tailored specifically to the oil and gas sector.

## RESEARCH METHODOLOGY

In this study, a comprehensive approach was applied to reveal the theoretical and methodological foundations for improving taxation practices of oil and gas enterprises. First, the method of institutional and legal analysis was employed to examine the existing regulatory and legal framework governing subsoil use and taxation relations in Uzbekistan. In particular, the new edition of the Law "On Subsoil," the provisions of the Tax Code, and relevant reform-oriented resolutions in the sector were analyzed. This method made it possible to systematically assess the legal boundaries of tax relations in the oil and gas sector, the obligations of taxpayers, and the fiscal powers of the state.

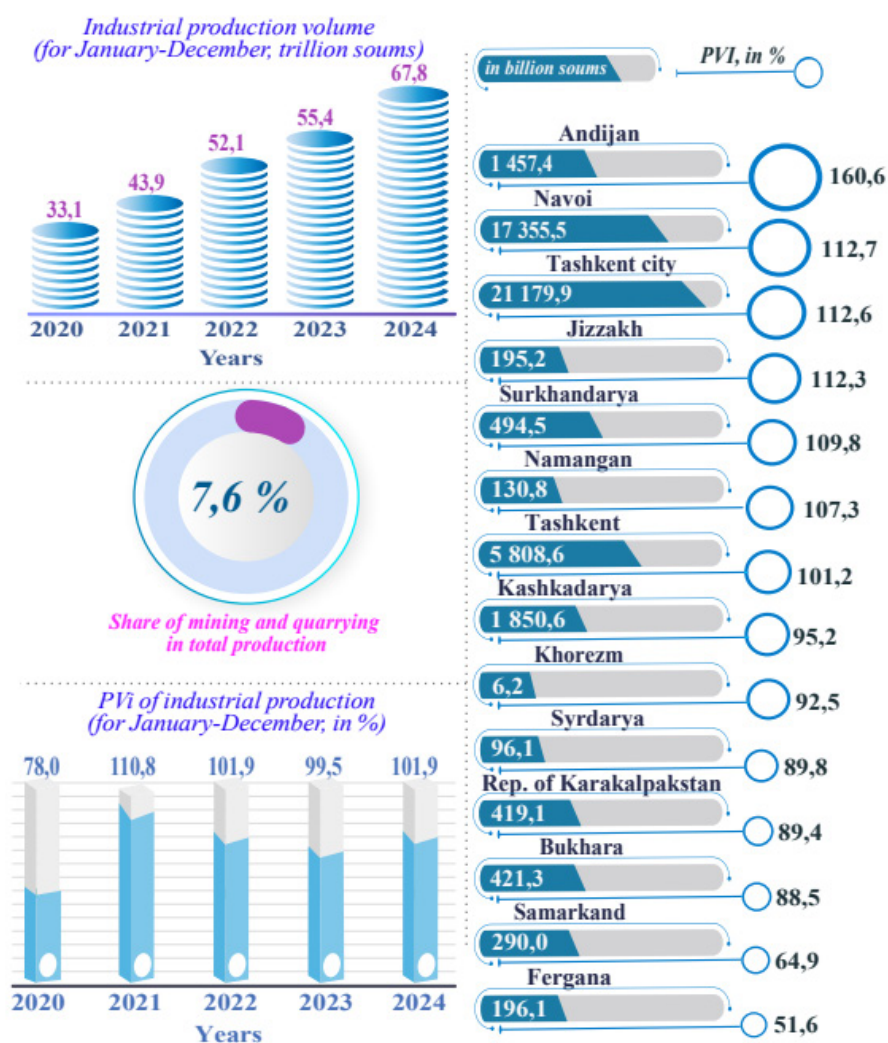
Second, a comparative analysis method was applied to evaluate international models of taxation in the oil and gas sector—such as royalties, corporate income tax, resource rent tax, additional profit tax, and production-sharing regimes—in comparison with Uzbekistan's practice. In this process, methodological materials developed by the United Nations and the International Monetary Fund on extractive industries were used as a theoretical basis, as these sources identify key analytical criteria for evaluating fiscal regimes, including government take, the progressivity of the tax burden, investment neutrality, and the intertemporal distribution of revenues.

Third, the study incorporates an economic and statistical analysis approach. Within this framework, the share of the oil and gas sector in industrial output, production volumes, factors influencing fiscal revenues, and the dynamics of the tax burden are synthesized based on official open data sources. Particular emphasis is placed on data from the most recent 1–3 years, as tax reforms in the sector and changes in the global energy market yield more objective results when analyzed over a recent time horizon. This approach enhances both the relevance and practical value of the study's conclusions. In addition, the research employs methods of scientific abstraction, synthesis, and deduction. Through these methods, the general theoretical principles of taxation in the oil and gas sector, its specific features associated with industry characteristics, and potential directions

for improvement applicable to Uzbekistan are formulated. As a result, the research methodology integrates legal, economic, comparative, and fiscal-modeling approaches, enabling a comprehensive examination of the subject.

## ANALYSIS AND RESULTS

In the economy of Uzbekistan, the extractive segment closely related to the oil and gas sector continues to remain an important component of industry. According to data from the National Statistics Committee, in January–December 2024 the volume of the mining and quarrying sector amounted to 67.8 trillion UZS, accounting for 7.6% of total industrial output.<sup>2</sup>



Picture 1. Industrial production volume

By the end of January–December 2025, this figure increased to 77.0 trillion UZS; however, its share declined to 7.0%.

Thus, although the nominal volume of the sector increased, its relative share in the industrial structure decreased by 0.6 percentage points. This indicates that oil, gas, and other extractive activities remain fiscally significant, while also highlighting the need to reconsider tax policy not only as a revenue-generating instrument but also as a tool for maintaining sectoral competitiveness. Production indicators further confirm the necessity of adapting the tax mechanism to the specific characteristics of the sector. By the end of 2025, the country produced 42.3 billion cubic meters of natural gas and 655.7 thousand tons of oil. Compared to the corresponding figures for 2024—41.3 billion cubic meters and 712.0 thousand tons, respectively—natural gas production increased by 2.4%, while oil production declined by 7.9%. This dynamic suggests that a unified approach to taxation for

<sup>2</sup> <file:///C:/Users/Admin/Downloads/2.INDUSTRY.pdf>

both oil and gas is ineffective: while the fiscal base in the gas segment remains relatively stable, declining oil production may weaken investment incentives under conditions of a high tax burden. Therefore, a differentiated approach to taxation based on product type, field profitability, and stage of extraction is scientifically justified.

An analysis of the current tax architecture shows that both general and sector-specific fiscal instruments are applied simultaneously. The Tax Code and its amendments for 2025–2026 indicate that an excise tax of 12% is imposed on natural gas. At the same time, the institution of an additional profit tax for natural gas remains in force, applied under a separate calculation procedure. Although such a multi-layered structure supports state budget interests, it complicates the transparent assessment of the overall fiscal burden, particularly when calculating the actual effective tax burden at the project level. In comparison with international methodological approaches, a key limitation of Uzbekistan's practice is the insufficient application of comprehensive project-level evaluation of tax regimes. According to the IMF's FARI framework, appropriate tax policy for extractive industries should be assessed not solely based on the level of government take, but also by considering risk and revenue sharing, investment neutrality, and the impact on project cash flows. From this perspective, a more effective model can be developed not merely through rate reductions or tax incentives, but through the introduction of profitability-based progressive mechanisms. Consequently, an improved theoretical and methodological model of taxation for the oil and gas sector should be based on three core principles: fiscal stability, investment neutrality, and progressivity that ensures an automatic increase in the government's share under conditions of high resource rent.

Based on the conducted analysis, the following scientific conclusion has been formulated: in improving taxation practices for oil and gas enterprises, primary emphasis should be placed not on mechanical changes in tax rates, but on the coordination and alignment of fiscal instruments. In particular, a model that reduces the tax burden for low-profitability or declining oil fields, while strengthening rent-based additional instruments for highly profitable gas projects, is considered more appropriate. Furthermore, the introduction of an integrated assessment of the combined impact of subsoil use tax, excise tax, and additional profit tax through a unified cash flow framework would enhance both the scientific robustness and practical effectiveness of oil and gas tax policy in Uzbekistan.

## CONCLUSION

The key issue in improving taxation practices for oil and gas enterprises is not merely determining the magnitude of the tax burden, but rather forming a mechanism that is aligned with the sector's specific characteristics, does not constrain investment, and ensures an adequate government share of resource rent. The analysis conducted demonstrates that, under the conditions of Uzbekistan, it is advisable to apply a differentiated approach to taxation—rather than a unified regime for oil and gas segments—based on their profitability, production dynamics, and levels of investment risk.

To achieve this, it is essential to ensure coordination among fiscal instruments, strengthen rent-based progressive mechanisms, and introduce project-level assessment based on a cash flow framework. As a result, this approach will expand opportunities to ensure fiscal stability in the oil and gas sector, maintain investment attractiveness, and enhance the effectiveness of tax administration.

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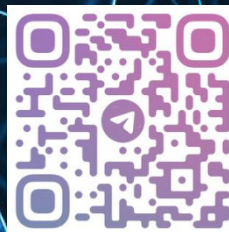
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