Development prospects for problems of the taxation facing subsoil users in the case of Kazakhstan

Perspectivas de desarrollo para problemas de impuestos que enfrentan los usuarios del subsuelo en el caso de Kazajstán

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ABSTRACT:

Paper studies the bases of construction of special payments and taxes of subsoil users. The features of the Extractive Industries Transparency Initiative (EITI) in the countries with rich natural resources are revealed. The role of special payments and taxes of subsoil users from the mining and oil sectors in the formation of the financial base of the state are analyzed. the problems affecting the reduction of tax payments from subsoil users are identified. The proposals for improving the prospects of development of system of taxation of subsoil users are developed.

Keywords: Tax, subsoil, subsoil use, budget, rent, natural resources

RESUMEN:

El documento estudia las bases de la construcción de pagos especiales y los impuestos de los usuarios del subsuelo. Se revelan las características de la Iniciativa para la Transparencia de las Industrias Extractivas (EITI) en los países con abundantes recursos naturales. Se analiza el papel de los pagos especiales y los impuestos de los usuarios del subsuelo de los sectores minero y petrolero en la formación de la base financiera del estado. se identifican los problemas que afectan la reducción de pagos de impuestos de los usuarios del subsuelo. Se desarrollan las propuestas para mejorar las perspectivas de desarrollo del sistema de imposición de los usuarios del subsuelo.

Palabras clave: Impuesto, subsuelo, uso del subsuelo, presupuesto, alquiler, recursos naturales

Introduction
Stabilization of economy of the Republic of Kazakhstan in conditions of post-crisis development provides the intensification in the use of financial resources of the state, including the functioning of mineral-raw complex. Rational use of financial resources of mineral-raw complex of the country is the basis for the implementation of current and strategic prospects of economy of the republic. Therefore, payments and taxes of subsurface users have become a vital source of obtaining financial resources for the structural reform of the economy and its qualitative improvement.

The main task of the users of natural resources, both direct and indirect is to preserve and enhance them for the continued economic development of the country. However, the reality can be and vice versa. So, Richard Auty (1993) used the term "resource curse" described the situation where countries rich in natural resources were unable to use this wealth for the development of their economy. [1]

It means that the abundance of natural resources in various circumstances becomes a barrier for development and implementation of meaningful, effective economic policy.

This is confirmed by research of J. Sachs and A. Warner (1995), who examines the relationship between natural resource abundance and poor economic development of the country. [7]

In modern conditions, socio-economic scientists investigated various factors and circumstances that can "neutralize" the negative impact of natural resources. Their records may not only explain the exceptions, but also to promote policies aimed at reducing the adverse effects of natural abundance on economic and social development of the country.

According to Kazakhstan scientists the economic development of countries with rich natural resources influenced factors as scientific and technical progress (Yelubayev (2010)) [12], rental relations (Kargazhanov, Aitekenov, Karibaev (2001) [3], Komekbayeva (2010) [4]), transfer pricing (Yessengeldin, Komekbayeva, Akbayev (2013) [13]) and land tenure (Yessengeldin, Sitenko, Yardyakova (2014) [14]).

The above research and other authors laid the foundation of scientific knowledge necessary for the development of theory and practice in the field of taxation of subsoil users, methods and regulatory framework. However, changing of socio-economic conditions, as well as the experience gained in the course of work, has led to necessity of improvement of normative and methodical materials of the system of taxation of subsoil users that meet modern requirements.

The purpose of this article is to study the characteristics of the collection of payments and taxes of subsoil users in modern conditions and to propose ways to improve their development.

To address this goal the following tasks were set:
- to determine the mechanism of construction of special payments and taxes of subsoil users;
- to analyse the role of special payments and taxes of subsoil users in the formation of the financial base of the state;
- to develop proposals for improving the prospects of development of system of taxation of subsoil users.

The used research method is a systemic and comparable analysis of scientific literature and political documents as well as statistical data.

1. The features of collection of special payments and taxes of subsoil users

The important component of the economic potential of the Republic of Kazakhstan, like a number of states, is the subsoil with deposited minerals. The feature of the subsoil is high liquidity of minerals in the global market, the production of which is rapidly growing and brings huge profits.

Natural resources are not infinite and not eternal. For this, they demand constant measures for
their safety. Therefore, the following conditions exist:

1. Natural resources should be carefully used (especially in relation to nonrenewable resources);
2. Effective measures should be applied to fill the natural resources (to restore and enhance the natural fertility of the land, to carry out a reforestation, to reproduce the inventory of water bodies);
3) Secondary raw materials and waste production should be maximum used;
4) Ecological purity of production and management.

In countries with rich natural resources such as oil, gas and other mineral resources, there is a tendency of weak economic activity, high incidence of conflict and suffer from poor governance. For example, some African countries are under these conditions. Where the effects are not inevitable, and it is hoped that by encouraging greater transparency in countries rich in these resources, some of the potential negative consequences can be prevented. In this aspect, the important role played the concept of Extractive Industries Transparency Initiative (EITI) that was launched at the world debate in September 2002, by Prime Minister Tony Blair at the world summit on sustainable development in Johannesburg.

The emergence of the EITI standard (2013, 2016) [10, 11] was a response to economic problems in countries rich in natural resources. High profitability of oil and gas becomes a cause of social stratification, corruption, the motive of the struggle for political power. The EITI provides for disclosure of government information on payments received from resource companies (taxes, royalties, bonuses, etc.). Currently, the status of EITI compliant (2015) had 31 countries (Albania, Norway, Kazakhstan, Kyrgyzstan, Nigeria, Iraq, Mongolia, and others), and 49 countries (UK, USA, Azerbaijan, Afghanistan, Ukraine and others) implements EITI but are not yet compliant the standard. [2]

The Republic of Kazakhstan, which has rich reserves of oil, gas and mineral resources is EITI compliant. Currently, the development and efficient use of natural resources of Kazakhstan is becoming a major factor in the growth of its economy. Therefore, payments and taxes of subsoil users for the use of natural resources in the system of factors of the implementation of natural resource policy of the state are significant.

The state plays a dual fiscal role in relation to the mineral sector: it is detected the higher tax authority and the owner of natural resources. The formation of state policy in the sphere of reproduction, consumption and protection of natural resources is a prerequisite for the successful implementation of economic reforms in our country.

In modern conditions when carrying out subsurface use operations within the framework of subsurface use contracts concluded in the order established by legislation of the Republic of Kazakhstan, subsoil users pay all taxes and other obligatory payments to the budget established by the Tax code (2008). Special payments and taxes of subsoil users include:

1. special payments of subsurface users:
2. subscription bonus;
3. commercial discovery bonus;
4. payment for reimbursement of historical costs;
5. tax on production of useful minerals;
6. excess profits tax. [9]

The common feature for the taxes and payments of subsoil users is the fact that during the calculation of tax base on them are taken into account such costs as the quality of raw materials, transportation and other related expenses. Taking also the geographic location of the country, lack of access to international ports, shipping charges of oil into consideration might affect the calculation. This means that the subsoil users are obliged to keep separate tax accounting of taxation objects and (or) objects, related to taxation, to calculate tax liabilities based on contractual activity in terms of each subsurface use contract.
2. The role of the special payments and taxes of subsoil users in the formation of the financial base of the state

In the Republic of Kazakhstan, the receipt of special payments and taxes of subsurface users is adjusted by the Budget code (2008) [8] and the Concept of formation and use of National Fund (2010) [6]. Special payments and taxes of subsoil users from the mining sector are a source of government revenue, and tax payments of the oil and gas sector submitted to the National Fund of the Republic of Kazakhstan.

Below we consider the entry of special payments and taxes of subsoil users of mining sector and define their share in the revenues of the state budget of the Republic of Kazakhstan for 2010-2014 (table 1).

<table>
<thead>
<tr>
<th>№</th>
<th>Years</th>
<th>Total budget revenues</th>
<th>Revenues from subsoil users</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>In tenge</td>
</tr>
<tr>
<td>1</td>
<td>2010</td>
<td>4 299 132</td>
<td>231 273</td>
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<tr>
<td>2</td>
<td>2011</td>
<td>5 370 826</td>
<td>298 039</td>
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<tr>
<td>3</td>
<td>2012</td>
<td>5 813 003</td>
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<tr>
<td>4</td>
<td>2013</td>
<td>6 382 353</td>
<td>312 444</td>
</tr>
<tr>
<td>5</td>
<td>2014</td>
<td>7 321 277</td>
<td>278 083</td>
</tr>
</tbody>
</table>


As can be seen from table 1, each year the state budget received about 300 billion tenge of special payments and taxes of subsoil users, except for receipts from oil sector organizations. However, in recent years, the proportion of special payments and taxes of subsoil users of mining sector decreased from 5.38% in 2010 to 3.79% in 2014.

This is due to the fact that the economy of Kazakhstan showed a slowdown in growth in 2014. The preliminary estimate for 2014 real GDP growth compared with 2013 was 5%, which is 0.4 percentage points below the target. Brief economic indicator in 2014 was amounted to 102.5 %.

Therefore, the decrease in the proportion of special payments and taxes of subsoil users in the revenues of the state budget was affected by:

Firstly, failure to meet the goal of indicator for industry, which explains the low rates in the manufacturing industry. The growth in the industry amounted to 102.3%, with projected growth of 103.4%.

Secondly, reasons for not achieving the planned growth in the manufacturing industry. In 2014, global demand for Kazakhstan exports, including metallurgy is decreased. The index of physical volume of production in the metallurgical industry amounted to 95.1%, or below the projected level (97.0%) by 1.9%. As a result, the negative contribution of industry to GDP growth was 0.2%;
Finally, lack of modern technology, new and high-quality product samples that would be equal to foreign analogues.

Special payments and taxes of subsoil users in the oil sector are the main source of income of the National Fund of the Republic of Kazakhstan. This Fund was established for these three reasons: stable socio-economic development of the country, accumulating savings for future generations and reduce the economy's dependence on adverse external factors.

<table>
<thead>
<tr>
<th>№</th>
<th>Years</th>
<th>Total revenues</th>
<th>Payments and taxes</th>
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<td>In tenge</td>
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<tr>
<td>1</td>
<td>2010</td>
<td>2 407 723</td>
<td>2 256 346</td>
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<tr>
<td>2</td>
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<td>3</td>
<td>2012</td>
<td>3 843 885</td>
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<td>4</td>
<td>2013</td>
<td>3 991 604</td>
<td>3 396 516</td>
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<tr>
<td>5</td>
<td>2014</td>
<td>5 459 637</td>
<td>3 467 395</td>
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</table>

Table 2 shows that the total amount of direct tax revenues on the organizations of oil sector increases annually. At the same time the decrease in specific weight of payments and taxes in the total amount of receipts of National fund is observed in recent years (from 96.3% in 2011 to 63.5% in 2014).

The system of the taxation of subsoil users have accumulated the set of the problems connected with the fluctuation in prices of oil resources occurring lately and with decline in yield of some oil companies of Kazakhstan. This problem is related with obligatory use of goods, works and services of the Kazakhstan contents in the sphere of subsurface management. Legislative provisions obliging the subsoil user to buy the Kazakhstan goods, works and services, do not expose any requirements to the producer of goods, the contractor and the service provider. This circumstance cannot stimulate the producer of goods and the service provider to improve the quality of their production, their competitiveness because the issue of their implementation is resolved at the legislative level. Poor quality of the turned-out Kazakhstan products finally leads to increase in expenses of oil companies as forces to distract additional funds to repair or replace of the low-quality equipment.

### 3. Prospects for the development of system of the taxation of subsoil users.

The improvement of system of payments for the use of natural resources, as well as development of a uniform technique of their definition are serious issues of national science. Production activity of natural resources of Kazakhstan brings in to subsoil users the additional income gained not due to activity of subsurface mining companies, but due to unique properties of mineral deposits. This income which is formed regardless of activity of the extracting
enterprises is called a natural rent.

The problem of a rent cannot be reduced only to a distribution problem with the subsequent withdrawal in the budget. As the category of production, its integral function is compensation of public and recognized expenses and stimulation of more economical and effective use of a natural resource.

Implementation of rent payments system is in the process of distribution of rents between the state and the subsoil user via the mechanism of withdrawal of a rent by means of tax and other levers which have to establish maximum the level of a collectable natural rent in the form of rent payments. The rent relations occur in the course of withdrawal, distribution and use of means of a natural rent.

Differentiation of individual costs of exploration and production of minerals makes it necessary to calculate the maximum permissible, closing costs of production which are the top limit of prime cost of this mineral. The difference between the closing and individual prime cost makes the differential natural income which directly depends on an economic assessment of geology object.

Therefore, we offer for improvement of system of the taxation of subsoil users:
- at inclusion of explored reserves of minerals in a subsoil they should be estimated at structure of national wealth of the country taking into account the cost of searches and investigation, i.e. to consider already enclosed work at the first stage of development of richness of a subsoil;
- the rent assessment for the taxation has to be exposed to continuous revision and discounting taking into account the average prices in the world market;
- payments have to be raised from the company subsoil user in the form of payment of all cost of field reserves minus expenses and the enterprise income including licensing fees at the conclusion of contracts.

4. Conclusions

Taking all points into consideration, there are many obstacles confronting subsoil users in Kazakhstan which can cease development in terms of oil sector benefits. One of the main problem is taxation in that sectors because the conditions can whether attract or repel subsoil users in relation to profitability. Therefore, the government needs to find taxation trade-off for subsoil users in order to use advantages of the natural resources belong to their country. Rational use of financial resources of mineral-raw complex of the country is the basis for the implementation of current and strategic prospects of economy of the republic. Payments and taxes of subsurface users, therefore, have become a vital source of obtaining financial resources for the structural reform of the economy and its qualitative improvement. The implementation of following policy recommendations may have some prospects in the future of developing Kazakhstan.

Policy Recommendations

1. Exhaustible and nonrenewable natural resources require effective use, including due to a deep industrial processing and preservation for future generation. Therefore, payments and taxes of subsoil users pursue the aims of economic regulation of environmental management, stimulation of the rational and complex use of diverse types of natural resources and environmental protection.

2. EITI is an international standard that ensures transparency and accounting regarding countries with rich mineral resources. The benefits for the countries which are carrying out introduction of EITI consist in the following: improvement is promoted investment climate of the country for investors and the international financial institutions; can promote conflict prevention, arising around oil, gas and mining sectors; allow to make the conclusion about that, it is how transparent and responsibly the budget of the country at the expense of means of
subsoil users is replenished.

3. In the Republic of Kazakhstan special payments and taxes of subsoil users are sources of the income of the state budget and National fund of the Republic of Kazakhstan. In recent years, the decrease in taxes from mining and oil sectors, in connection with reduction of world demand for the Kazakhstan export production and fluctuation in prices of oil resources is observed.

4. There are problems in the sphere of subsoil use on obligatory use of goods, works and services of the Kazakhstan contents. These problems can be solved with creation of competitive, knowledge-intensive and high-tech productions for satisfaction of needs of the sphere of subsurface use. At the same time, the most accelerated will be this process if to attract for this purpose the known world commercial brands, by formation of joint ventures, having provided them the best and attractive investment conditions.

5. Strengthening of a rent orientation of the special taxation of subsoil users is observed. Optimization of rent payments for subsoil use has to be carried out taking into account the enclosed work at the first stage of development of richness of subsoil, the average prices in the world market and all cost of field reserves minus expenses and the enterprise income including licensing fees at the conclusion of contracts.

References