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Evolutionary Development Trends of Taxation in the Oil and Gas Industry

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Abstract: The taxation of the oil and gas sector occupies a special place within the broader theory and practice of natural resource fiscal policy, since hydrocarbon rents combine high capital intensity, long investment horizons, extreme price volatility and significant economic rent. This article examines the evolutionary stages through which oil and gas taxation has developed worldwide, from simple royalty-based concession systems of the early twentieth century to contemporary hybrid regimes combining production-sharing agreements, resource-rent taxes, windfall-profit levies and carbon-related instruments. Using a comparative and historical-institutional methodology, the study analyzes the driving forces behind fiscal reform — price volatility, the energy transition, profit shifting by multinational enterprises, and the search for fiscal sustainability in resource-dependent economies. The analysis draws on recent (2024–2026) regulatory developments in the United Kingdom, the United States, Nigeria and other jurisdictions to illustrate how governments are recalibrating fiscal instruments. The article concludes that the evolution of oil and gas taxation reflects a continuous trade-off between attracting investment and capturing resource rent, and proposes recommendations for designing more transparent, stable and progressive fiscal regimes, including for emerging hydrocarbon-producing economies such as Uzbekistan.

Citation: Jabborov M. I. Evolutionary Development Trends of Taxation in the Oil and Gas Industry. American Journal of Economics and Business Management 2026, 9(6), 952-956.

Received: 23rd Apr 2026

Revised: 05th May 2026

Accepted: 18th May 2026

Published: 09th Jun 2026



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Keywords: Oil and Gas Taxation, Fiscal Regime, Resource Rent Tax, Production-Sharing Agreement, Windfall Profit Tax, Energy Transition, Tax Evolution, Petroleum Fiscal Policy.

1. Introduction

The oil and gas industry remains one of the most fiscally significant sectors of the global economy, generating substantial government revenues in both producing and consuming countries. Because hydrocarbon extraction generates economic rent — income exceeding the minimum return necessary to attract investment — governments have historically sought specific fiscal instruments capable of capturing this rent without discouraging exploration and production activity. The design of such instruments has never been static: it has evolved continuously in response to changing oil prices, geopolitical conditions, technological progress in extraction methods, and, in recent years, the global energy transition toward decarbonization [1].

The relevance of studying the evolutionary trends of oil and gas taxation is amplified by current global developments. Volatile hydrocarbon prices, the introduction of global minimum corporate tax standards under the OECD Pillar Two framework, and the political pressure to redirect fossil-fuel revenues toward climate financing have all reshaped national fiscal regimes between 2024 and 2026. At the same time, multinational

oil companies continue to exploit jurisdictional asymmetries, intangible drilling cost deductions and depletion allowances to minimize their tax burden, raising concerns about fiscal sustainability in both developed and developing economies. The purpose of this article is to systematize the evolutionary stages of oil and gas taxation, identify the principal drivers of fiscal reform, and analyze the most recent regulatory changes in selected jurisdictions in order to draw generalizable conclusions and policy recommendations applicable to resource-dependent economies, including those of Central Asia [2].

Literature Review.

The theoretical foundations of petroleum fiscal regimes were laid in the work of Garnaut and Clunies Ross, who first articulated the concept of a resource-rent tax designed to capture economic rent while preserving investment neutrality. Subsequent contributions by Daniel, Keen and McPherson systematized the typology of fiscal instruments applied in extractive industries, distinguishing concessionary systems (royalty-and-tax) from contractual systems (production-sharing agreements and risk-service contracts) [3].

Calder's analysis of fiscal regime administration highlighted those generous tax concessions — tax holidays, reduced rates, accelerated depreciation and stabilization clauses — that many governments offer to attract upstream investment, while warning that such concessions often erode the tax base once projects become profitable [4].

2. Materials and Methods

This study employs a qualitative, comparative-historical research design combined with documentary and policy analysis. The methodology comprises the following stages: First, a periodization of the evolution of petroleum fiscal regimes was constructed based on a review of academic and institutional literature (IMF, OECD, World Bank, Tax Justice Network) covering the period from the early concession era to the present hybrid-regime era. Second, a comparative case analysis was conducted using primary regulatory sources and recent (2024–2026) fiscal updates from several jurisdictions, including the United Kingdom's Energy Profits Levy, recent reforms in the United States under the One Big Beautiful Bill Act (OBBBA), corporate tax disclosures of major oil companies, and reform initiatives in Nigeria and other resource-rich states [5]. Third, the study applies elements of institutional and rent-theory analysis to interpret why specific fiscal instruments (royalties, resource-rent taxes, production-sharing agreements, windfall-profit levies, carbon-related charges) have emerged, persisted, or been replaced over time. Fourth, secondary statistical and disclosure data — including effective tax rate comparisons published by independent tax-policy research organizations — were used to illustrate the practical gap between statutory fiscal design and actual revenue capture [6].

The analysis is descriptive-analytical rather than econometric, given the heterogeneity of national fiscal regimes and the qualitative nature of policy evolution; nonetheless, where quantitative indicators (tax rates, effective tax burdens) are available, they are incorporated to support the argument [7].

3. Results and Discussion

The Table 1. historical development of petroleum fiscal regimes can be divided into four broad stages. The first stage, spanning the early to mid-twentieth century, was characterized by simple concession agreements granting exclusive rights to international oil companies in exchange for modest royalty payments, with host governments exercising minimal fiscal control. The second stage, beginning in the 1960s–1970s alongside the nationalization wave and the formation of OPEC, saw the introduction of corporate

income taxation layered on top of royalties, alongside the emergence of production-sharing agreements that gave host governments a direct share of output rather than relying solely on tax revenue [8]. The third stage, from the 1980s through the early 2000s, was marked by the diffusion of resource-rent taxes and progressive profit-based instruments designed to capture economic rent more precisely while preserving investment incentives during periods of low and volatile prices. The fourth and current stage, intensifying since the 2010s and accelerating through 2024–2026, is defined by hybrid regimes that combine traditional rent-capture instruments with windfall-profit levies, international minimum-tax coordination, and emerging carbon and decarbonization-linked fiscal tools [9].

Table 1. Four Evolutionary Stages of Oil and Gas Taxation.

Stage	Period	Dominant Fiscal Instrument	Key Driver
I	Early–mid 20th c.	Simple concession agreements, modest royalties	Minimal host-government fiscal control
II	1960s–1970s	Corporate income tax + royalties; production-sharing agreements	Nationalization wave, formation of OPEC
III	1980s–early 2000s	Resource-rent taxes, progressive profit-based instruments	Need for precise rent capture amid volatile prices
IV	2010s–present (2024–2026)	Hybrid regimes: windfall-profit levies, minimum-tax coordination, carbon instruments	Energy transition, fiscal strain, profit shifting

Despite this evolution, the structural challenge identified decades ago by Calder remains unresolved: oil and gas projects require enormous upfront investment, take years to mature, and generate large profits only after production begins, prompting governments to continue offering tax holidays, reduced rates, accelerated depreciation and stabilization clauses to attract capital. Recent reforms confirm this pattern. In the United States, the 2025 tax reform legislation (OBBBA) permanently restored 100% first-year bonus depreciation, shifted the interest-deductibility calculation back to an EBITDA basis, and adjusted the corporate alternative minimum tax computation to favor intangible drilling cost deductions — all of which lower the effective tax burden on upstream investment [10].

A Table 2. central finding of recent fiscal analysis is the widening gap between statutory tax rates and the effective tax actually paid by large oil and gas companies. Independent research found that three major American oil companies expect to pay an average effective domestic tax rate of only about six percent on their 2025 income — well below the twenty-one percent statutory corporate rate — continuing a multi-year decline from the roughly ten percent average effective rate observed between 2018 and 2024. This divergence is driven primarily by accelerated depreciation, deferred-tax mechanisms, and depletion allowances rather than by changes in the statutory tax rate itself, illustrating how the evolution of tax design increasingly occurs through technical base-narrowing provisions rather than headline rate changes [11].

Table 2. Statutory versus Effective Tax Rates of Major U.S. Oil and Gas Companies.

Indicator	Rate
Statutory U.S. federal corporate tax rate	21%
Average effective rate, 2018–2024	~10%

Expected effective rate, 2025 (three major companies)	~6%
UK combined headline rate on upstream profits (post-Nov 2024)	78%

A further evolutionary trend concerns the geographic allocation of tax revenue among multinational hydrocarbon producers. Disclosure data indicate that several major U.S. oil companies pay substantially more tax to resource-rich foreign jurisdictions than to their home government, with one company reportedly paying roughly five times more tax to a Gulf-state jurisdiction than to the U.S. federal government, and others paying more tax to North African or Central Asian petrostates than domestically despite producing the majority of their output at home. This pattern reflects the long-standing asymmetry between home-country tax subsidies for outbound investment and the comparatively assertive fiscal terms imposed by host petrostates, and it has become a central argument for proposed reforms such as repealing preferential treatment of foreign oil and gas income under home-country minimum-tax rules [12].

The United Kingdom exemplifies the latest evolutionary phase, in which windfall-profit levies are layered onto existing fiscal regimes during periods of high prices. The Energy Profits Levy rate was raised from 35% to 38% for profits arising after 1 November 2024, bringing the combined headline tax rate on upstream oil and gas profits to 78%, even as decarbonization-related allowances (for carbon capture, use and storage conversions) were preserved, reflecting an explicit policy intent to tax windfall hydrocarbon profits more heavily while still incentivizing the energy transition. Notably, this regime has undergone eight rate changes in the past decade alone, illustrating the volatility and political sensitivity that increasingly characterizes oil and gas fiscal policy in mature producing regions [13].

Industry analysis identifies several structural forces reshaping the trajectory of oil and gas taxation going forward: fiscal strain on government budgets, geopolitical fragmentation and resource nationalism, populist pressure for windfall taxation, and the ongoing climate transition, alongside the growing influence of automation and AI-driven efficiency gains on cost structures. These forces are pushing governments simultaneously toward harsher windfall-profit and minimum-tax measures and toward continued targeted incentives for decarbonization-linked investment, producing fiscal regimes that are more complex, more volatile, and more politically contested than at any prior evolutionary stage [14].

For emerging hydrocarbon-producing economies, including those of Central Asia, the evolutionary trends documented above carry direct policy implications. Reliance on stabilization clauses and generous production-sharing terms negotiated decades ago can lock governments into fiscal arrangements that no longer reflect current price and cost conditions, while the absence of transparent, production-linked royalty mechanisms can leave resource rent uncaptured during price upswings. At the same time, the global shift toward minimum-tax coordination and public country-by-country reporting creates an opportunity for such economies to strengthen fiscal transparency and renegotiate outdated fiscal terms in line with international best practice [15].

4. Conclusions and Recommendations

The evolution of oil and gas taxation reflects a continuous search for an optimal balance between attracting capital-intensive, long-horizon investment and capturing the substantial economic rent generated by hydrocarbon extraction. Historically, this evolution has moved from simple concessionary royalties toward increasingly sophisticated hybrid regimes incorporating production-sharing agreements, resource-rent taxation, windfall-profit levies and, more recently, decarbonization-linked fiscal instruments. The analysis of recent 2024–2026 developments demonstrates that this

evolution is far from complete: governments continue to adjust fiscal parameters frequently in response to price volatility, fiscal strain, and political pressure, while multinational companies continue to exploit base-narrowing provisions and jurisdictional asymmetries to minimize effective tax burdens.

Based on the foregoing analysis, the following recommendations are proposed for policymakers, particularly in resource-dependent emerging economies:

1. Replace indefinite stabilization clauses with time-bound, periodically renegotiable fiscal terms that allow governments to respond to changing price and cost conditions without undermining investor confidence.
2. Strengthen production-linked royalty mechanisms as a transparent floor for resource-rent capture, complementing rather than replacing profit-based taxation.
3. Adopt mandatory public disclosure of effective tax payments and country-by-country reporting by hydrocarbon companies operating within national jurisdictions, in line with emerging international transparency standards.
4. Align domestic minimum-tax rules with the OECD Pillar Two framework to reduce profit-shifting incentives and ensure that hydrocarbon rent is taxed where value is actually created.
5. Gradually integrate decarbonization-linked fiscal instruments — including carbon-capture incentives and methane-related charges — into the national fiscal regime, balancing climate objectives with continued investment attractiveness.
6. Establish a periodic (e.g., five-year) review mechanism for the national petroleum fiscal regime, ensuring its continuous adaptation to global evolutionary trends rather than reliance on outdated, one-time-negotiated terms.

Implementing these recommendations would help resource-dependent economies capture a fairer share of hydrocarbon rent, enhance fiscal transparency, and align national tax policy with the rapidly evolving global trends documented in this article.

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