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Taxation of Oil and Gas Companies under Nigeria's New Fiscal Framework

Deconstructing the Tax Reform Act Series

INTRODUCTION

Since oil was first struck in Nigeria, the oil and gas industry has been the heartbeat of the nation's economy, powering economic growth, attracting investment, and driving public revenue. According to a Federal Inland Revenue Service (**FIRS**) report, petroleum-related taxes generated ₦3.69 trillion in the first half of 2025 alone, representing a 41.7% increase compared to the same period in 2024. In fiscal terms, its significance to Nigeria's fiscal landscape is therefore beyond dispute.

It is to be recalled that the industry recently underwent sweeping reforms with the enactment of the Petroleum Industry Act (**PIA**) 2021, which repealed the erstwhile Petroleum Act. Beyond overhauling the regulatory architecture for petroleum operations, the PIA introduced key fiscal reforms, establishing itself alongside the Petroleum Profits Tax Act (**PPTA**) and the Deep Offshore and Inland Basin Production Sharing Contracts Act (**DIBPSCA**), as primary taxing statutes for oil and gas operations.

Building on this foundation, the newly passed Nigeria Tax Act takes this reform a step further. It consolidates the myriad of fiscal provisions applicable to petroleum operations into a single piece of legislation, while also introducing notable policy and compliance developments.

In this edition of our *Deconstructing the Tax Reform Acts Series*, we provide a clear-eyed overview of the current tax framework for petroleum operations under the new legislative regime. Additionally, we examine key developments and critical compliance obligations, which stakeholders must bear in mind.

OVERVIEW OF THE TAX FRAMEWORK UNDER THE NIGERIA TAX ACT

The NTA consolidates the fiscal framework for petroleum operations by retaining the dual regime introduced under the PIA while preserving legacy provisions for non-converted assets. The current position may be summarised as follows.

a. **Hydrocarbon Tax (HCT):** Introduced by the PIA 2021 and integrated into NTA 2025. HCT applies to crude oil operations under new or converted petroleum prospecting licences (**PPLs**) and petroleum mining leases (**PMLs**).[1]

b. **Companies Income Tax (CIT)**: Applies only alongside HCT in respect of such new or converted PPLs/PMLs. It does not extend to unconverted leases or licenses.

c. **Petroleum Profits Tax (PPT)**: Continues to apply to pre-PIA oil prospecting licences (**OPLs**) and oil mining leases (**OMLs**) under either the standard PPT regime or the special regime governing upstream operations in deep offshore and frontier basins under production sharing contracts (**PSCs**).

These regimes are examined in greater detail below.

1. *Section 65(1) NTA 2025*

HYDROCARBON TAX

HCT is levied on the profits of companies engaged in upstream petroleum operations. It specifically applies to crude oil, as well as field condensates and natural gas liquids derived from associated gas and produced in the field upstream of the measurement points.[2] Importantly, operators under this regime are also subject to CIT on the same operations.

HCT will not be applicable to: (x) associated and non-associated gas; (y) condensate and natural gas liquid produced from non-associated gas in fields and gas processing plants; and (z) any condensates and natural gas liquids produced from associated gas at gas processing or other facilities downstream of the measurement points (all of which will be liable to CIT).[3]

Section 72 of the NTA prescribes the applicable HCT rates for companies engaged in crude oil production, expressed as a percentage of their aggregated chargeable profit for the relevant accounting period. The rates are as follows:

- 30% – Applicable to profits from crude oil under petroleum mining leases (PMLs) in onshore and shallow water areas.
- 15% – Applicable to profits from crude oil under onshore and shallow water petroleum prospecting licences (PPLs).

PETROLEUM PROFITS TAX

The NTA integrates the PPT regime for existing OPLs and OMLs that have not yet converted under the PIA. For these assets, the chargeable tax rate remains 85% of chargeable profits. As previously provided under the PPTA, a reduced rate of 65.75% may apply for up to five years for companies that have not fully amortised their pre-production capital expenditure.

DEEP OFFSHORE PSCs.

The NTA also consolidates the framework for the taxation of upstream operations in deep offshore and frontier basins under production sharing contracts (**PSCs**). The PPT rate for PSC contract areas is set at a flat rate of 50% of chargeable profits for the duration of the contracts.

KEY DEVELOPMENTS INTRODUCED BY THE NIGERIA TAX ACT

01 **Hydrocarbon Tax to be levied on Deep Offshore Operations**.

A key modification under the NTA is the extension of HCT to deep offshore operations. Under section 260(3) of the PIA, HCT was inapplicable to both frontier acreages (until reclassified) and deep offshore projects. While section 65(4) NTA retains the exemption for frontier acreages, it removes the carve-out for deep offshore. In effect, deep offshore projects, which were previously subject only to CIT and royalty payments, now seem to fall within the scope of HCT.

This reform carries substantial implications, as it broadens the tax base of the HCT to include projects that were previously exempt. This development will likely lead to increased fiscal obligations for deep offshore operators and could potentially impact future investment strategies within this sector of the industry.

02 **Removal of 1% Capital Allowance Residue**

Companies operating in the upstream oil and gas sector are now able to claim 100% capital allowance on their qualifying capital expenditure. Historically, under the PPTA, 1% of the initial cost of an asset was to be retained in the books of the company. This retained 1% could only be written off upon the physical disposal of the asset.[4] Crucially, this disposal required the authority of a Certificate of Disposal, issued by the Minister or any person authorised by him.[5] This meant that a small portion of the capital expenditure could not be fully claimed for tax purposes until the asset was no longer in use and a formal certificate was obtained.

Similarly, under the PIA, acquisition costs of petroleum rights and other qualifying capital expenditures (such as plant, pipeline, building, and drilling expenditure) are subject to annual allowances, but with a retention value of 1% in the last year until the asset is disposed of.[6] Echoing the PPTA, the PIA provides that this 1% of the initial cost of the asset must be retained in the books and can only be written off upon disposal, which, under the PIA, requires a Certificate of Disposal issued by the Commission.[7]

Whilst the NTA still requires that 1% of QCE be recorded in the capital allowance computation schedule for statistical purposes until the asset is disposed of, the NTA clarifies that this 1% is a notional amount and shall not increase or reduce the amount of capital allowance claimable.[8]

2. *Section 65(2)(a) NTA*
3. *Paragraph 6(2), Second Schedule to the PPTA*
4. *Paragraph 6(3), Second Schedule to the PPTA*
5. *Paragraph 5(2), Fifth Schedule to the PIA*
6. *Paragraph 5(3), Fifth Schedule to the PIA*
7. *Paragraph 4(2), Part II, Second Schedule to the NTA.*

This means that under the NTA, capital allowances can now be fully claimed during the asset's useful life for tax purposes, without a mandatory 1% balance being held back from full deduction.

03 Requirement for Local Domiliciation of Abandonment Fund

A notable change introduced by the NTA is the requirement that at least 30% of a licensee's or lessee's decommissioning and abandonment **(D&A)** fund must be domiciled with a Nigerian bank, to be eligible for tax deductibility.

A D&A fund is a ring-fenced financial mechanism designed to ensure that petroleum facilities are safely dismantled, and the environment restored when production ceases. Sections 232–233 of the PIA first introduced the mandatory establishment and maintenance of such funds for every licence and lease granted under the PIA. Under this regime, the D&A fund is to be held by a non-affiliated financial institution in an escrow account accessible by the relevant regulator (i.e. the Nigerian Upstream Petroleum Regulatory Commission or the Nigerian Midstream and Downstream Petroleum Regulatory Authority).

The PIA provided that any amount contributed to this fund would be deductible for tax purposes, provided that any surplus or residue of the fund remaining at the end of life of the field, would be subject to tax if returned to the lessee.[8]

The NTA has modified this position. Section 88 of the NTA now provides that a provision made for D&A will only be deductible for tax purposes where:

a. the licensee or lessee deposits a minimum of 30% of the D&A fund with a Nigerian Bank in the form of an escrow account, and the Nigerian bank is accredited; and

b. the Nigerian bank is accredited in accordance with the criteria for accreditation for participation in the management of the fund, determined by the Central Bank of Nigeria.

04 Royalties are to be Paid Exclusively in Cash

The NTA has introduced an explicit requirement for all petroleum royalties to be paid exclusively in cash.[9] This marks a clear departure from the previous regime under the PIA, which permitted royalties to be paid either in cash or in kind, at the discretion of the Commission.[10]

This provision confirms that the option for in-kind royalty payments is no longer available. Consequently, petroleum royalties under the new tax framework must now be settled solely through cash payments. In light of the foregoing, companies must now adjust their financial and operational models to ensure they have sufficient cash flow to meet their royalty obligations, rather than relying on in-kind payments.

05 Royalties are to be administered by the NRS as opposed to the NUPRC

The NTA designates the Nigeria Revenue Service **(NRS)** as the sole authority for the administration and collection of royalties, a function previously handled by the Nigerian Upstream Petroleum Regulatory Commission (**NUPRC**) under the PIA.[11] Specifically, Section 89(2) of the NTA explicitly states that the NRS is the relevant tax authority for royalty administration. This is further supported by paragraph 2 of the Seventh Schedule to the NTA, which reiterates that the NRS shall administer royalty payments.

Additionally, the Nigeria Tax Administration Act (**NTAA**) also grants the NRS exclusive responsibility to administer taxes on companies, which includes the collection and accounting for taxes accruing to the Government of the Federation.

06 Companies Income Tax Rate

The NTA outlines the general corporate tax rate structure for companies, including those engaged in petroleum operations. Under section 56:

- Small companies remain exempt from tax (0%).
- All other companies, including petroleum companies, are liable to tax at 30% of total profits.

A new and notable feature of this provision is the express empowerment of the President, acting on the advice of the National Economic Council (NEC), to issue an Order reducing the applicable corporate tax rate for non-small companies from 30% to 25%, with effect from a date specified in such Order.

8. *Sections 263(1)(e) and 302(11) (b) of the Petroleum Industry Act*
9. *Paragraph 2, Seventh Schedule to the Nigeria Tax Act*
10. *Paragraph 9(1), Seventh Schedule to the Petroleum Industry Act*
11. *Paragraph 1(1), Seventh Schedule to the Nigeria Tax Act*

07 Revocation of Petroleum or Mining Licence or Lease for Unpaid Royalties or Taxes

Section 63 NTAA provides that if a company engaged in petroleum or mining operations fails to pay any royalty or tax due, despite having received a formal demand notice, the NRS is empowered to notify the relevant regulatory authority (e.g., the Nigerian Upstream Petroleum Regulatory Commission, or the pertinent ministry or agency). This notification serves as a trigger for the revocation of the company's license or lease, as stipulated under the relevant laws governing its operations. This is a new introduction under the NTAA, and it signals heightened enforcement of royalty and tax obligations by linking tax obligations directly to the continuation of a company's license.

08 Deductibility of Expenses

The NTA makes a notable departure from the position under previous tax statutes, which required that, for an expense to be deductible, it must be "wholly, exclusively, reasonably and necessarily" incurred in the production of income. The requirement of "reasonably" and "necessarily" introduced a more subjective test, giving tax authorities broader discretion to challenge deductions on the grounds of perceived necessity or reasonableness.

Under the NTA, the deductibility test has been modified, as an expense will now qualify for deduction if it is proven to be "wholly and exclusively incurred" in the production of the relevant income. This change removes the subjective elements for deductibility, creating a more objective and predictable standard. A similar principle applies to capital allowances. The qualifying expenditure must be "wholly and exclusively" incurred for the purposes of the company's trade or business.

It is also important to note that the NTA explicitly provides for the non-deductibility of "any expense on which Value Added Tax is due but was not charged, or in the case of imported items, any expense on which the applicable import duty or levy was not paid".

In effect, the NTA has now linked tax deductibility to compliance with other tax and customs obligations. This means that a company could incur a cost that is wholly and exclusively for its business but still be denied an expense deduction (or capital allowance non-chargeability) if it failed to properly account for VAT, or to pay the relevant import duties or levies.

09 Incorporation of Non-Associated Gas Greenfield Development Incentives into the NTA

The NTA formally legislates the incentives for Non-Associated Gas (**NAG**) greenfield developments in onshore and shallow water locations, which were previously introduced by the Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024 (the **Order**).

These incentives, originally issued by the President, were part of a broader package under the Order, which also provided fiscal benefits for midstream gas utilisation projects and deep offshore oil and gas developments.

The NTA, entrenches the NAG greenfield incentives, granting gas tax credits and allowances for qualifying NAG developments in onshore and shallow water locations. The applicable benefits are determined by factors such as the extent of hydrocarbon liquid content of the gas field and the date of first commercial production. Additionally, the NTA clarifies that the incentives shall apply to both OMLs and PMLs.[12]

It is important to note that while the NTA has absorbed the NAG-specific provisions into its framework, the other incentives contained in the Oil and Gas Incentives Order remain preserved under Section 199 of the NTA. This section ensures that all existing notices, guidelines, rules, orders, regulations, circulars, and other subsidiary legislation issued under any repealed or amended enactments continue to have effect as if issued under the NTA, except to the extent that they are inconsistent with the NTA.

For a detailed breakdown of the NAG incentive structure, including all relevant conditions and fiscal terms, please refer to our Newsletter.

12. *Section 85(6) Nigeria Tax Act.*

10 Updated Rules for Business Reorganisation.

The NTA introduces a revised and generally more favourable framework for business reorganisation, which includes specific provisions for petroleum operations.

Under the pre-NTA regime, Sections 29(9) of the CITA; 42 of the Value Added Tax Act (**VAT Act**); and 32 of the Capital Gains Tax Act (**CGT Act**) contained stringent anti-avoidance rules. These rules required that a restructuring group must have been so related for at least 365 consecutive days prior to the reorganisation in order to qualify for restructuring incentives under the relevant Act. In addition, these provisions also allowed for a claw back of incentives enjoyed where the assets that are subject of the reorganisation are disposed of within 365 days after such reorganisation.

In addition to the above, and with specific respect to upstream petroleum operations, Section 271(1) of the PIA addressed the sale or transfer of a trade or business in upstream petroleum operations for purposes of "better organisation" or "transfer of its management to Nigeria." This section also contained a pre-reorganisation requirement, mandating that the connected companies must have been members of a recognised group of companies for a consecutive period of at least three years prior to the date of reorganisation to qualify for the transfer of unutilised capital allowances. It also included a provision to withdraw incentives if restructuring assets were disposed of within three years post-acquisition. The NTA removes this explicit three-year pre-reorganization requirement, making it easier for upstream petroleum companies to qualify for tax-favourable treatment during mergers or asset transfers.

Specifically, Section 190 of the NTA does not reintroduce these specific 365-day/3-year pre- or post-reorganisation time limits before companies can enjoy restructuring incentives. Instead, the NTA provides for tax neutrality in mergers, ensuring that:

- a new trade or business is not deemed to have commenced as a result of the merger, and cessation provisions do not apply to the ceased business as a result of the merger;[13]
- chargeable gains provisions do not apply to assets transferred;[14]
- assets of the merging entities would be deemed to have been transferred at Tax Written Down Value;
- capital allowance shall apply on the disposed asset on its remaining useful life;
- unutilised capital allowances, unabsorbed losses, and taxes deducted at source are available to the new or surviving trade or business;[15] and
- VAT shall not apply in relation to restructuring carried out under section 190 of the NTA. It should be noted that the merger incentives highlighted above (except the VAT incentive) may not apply where the restructuring results in the cessation of a trade or business.

11 Introduction of Economic Development Incentive

The NTA introduces the Economic Development Tax Incentive (**EDTI**) as a replacement for the Pioneer Status Incentive established under the Industrial Development (Income Tax Relief) Act. Under the EDTI framework, specific sectors are designated as priority sectors for which incentives may be granted, as outlined in the Tenth Schedule to the Act.[16] Whilst a company engaged in petroleum operations may not be able to take advantage of the EDTI, companies engaged in the refining of crude oil and the manufacture of petroleum products are entitled to apply for this economic incentive.

Upon a company's successful application for the EDTI, it is issued an Economic Development Incentive Certificate, enabling access to the incentive.[17] **The tax payable on profits derived from priority products or services during the priority period is converted into an Economic Development Tax Credit.** This credit can be used to offset the company's tax liabilities in any year of assessment within the priority period.[18] Unutilized credits at the end of the priority period may be carried forward for an additional five assessment years to offset future tax liabilities. However, any unused portion of the credit after this period will lapse and cannot be applied to reduce tax obligations.

13. *Section 190(1)(a)(i) Nigeria Tax Act*
14. *Section 190(1)(a)(ii) Nigeria Tax Act*
15. *Section 190(1)(a)(v)-(vii) Nigeria Tax Act*
16. *Section 166 of the Nigeria Tax Act. .*
17. *Section 169(1) of the Nigeria Tax Act*
18. *Section 178 of the Nigeria Tax Act*
19. *Section 57 Nigeria Tax Act*

12 Surcharge on Fossil Fuel Production

The NTA introduces a 5% surcharge on fossil fuels to be charged at the first point of sale, supply/payment. This surcharge is to be collected when a chargeable transaction occurs. Section 160 of the NTA describes "chargeable transaction" as the supply of, sale of, or payment for fossil fuel products, whichever of the three occurs first. This proposed surcharge however, does not apply to clean or renewable energy products, household kerosene, cooking gas and compressed natural gas **(CNG).**

The exemption granted to clean or renewable energy products, as well as fuels used in everyday life, marks a progressive policy shift. It not only promotes the development of the clean energy sector but also helps ease the tax burden on essential fuel-related transactions, such as cooking gas, thereby supporting both environmental and economic goals.

It is noteworthy that the Minister of Finance is empowered under the NTA to, by Order, indicate the commencement of the administration of this surcharge. To exercise this power, the Minister can decide to publish the start date of this Surcharge through an Order in the Official Gazette.

13 Effective Minimum Tax Rate under the NTA

The NTA has now established a mandatory minimum effective tax rate of 15 percent.[19] This provision mandates that where a company's effective tax rate (**ETR**) for any year of assessment falls below 15%, that company is required to recompute its tax and pay an additional amount to bring its ETR up to 15%.

For clarity, the ETR is defined as the rate obtained by dividing the aggregate covered taxes paid by the company in a given year by its profit for that year. For this purpose, "profit" is calculated as the net profit before tax, as reported in the company's audited financial statements, less 5% of the company's depreciation and personnel costs for the year.

The application of the ETR applies to

- a constituent entity of a multinational enterprise (MNE) group with an aggregate group turnover of at least €750 million (or its equivalent); or
- any other company with an aggregate turnover of N50b and above in the relevant year of assessment.

The rule does not apply to approved enterprises operating in free zones, except in respect of:

- Sales within the Nigerian customs territory; or
- Where the enterprise is part of an MNE group that meets the threshold under (1) above.

In view of this provision, oil and gas companies or other large taxpayers that fall within these categories must carefully evaluate their tax positions to confirm that their computed ETR does not drop below 15%. Where it does, the company will be obligated to make an additional payment equal to the shortfall, notwithstanding that it has already applied the statutory corporate income tax rate of 30%.

14 Development Levy

The NTA now requires all Nigerian companies, including oil and gas companies, to pay a development levy of 4% of assessable profit. The development levy replaces the erstwhile Tertiary Education tax, National Information Technology Development Agency (NITDA) levy, Police Trust Fund Levy, and National Agency for Science and Engineering Infrastructure (NASENI) Levy. The newly introduced Development Levy does not apply to small companies as defined under the NTA.

15 Implications for VAT

VAT Exemptions

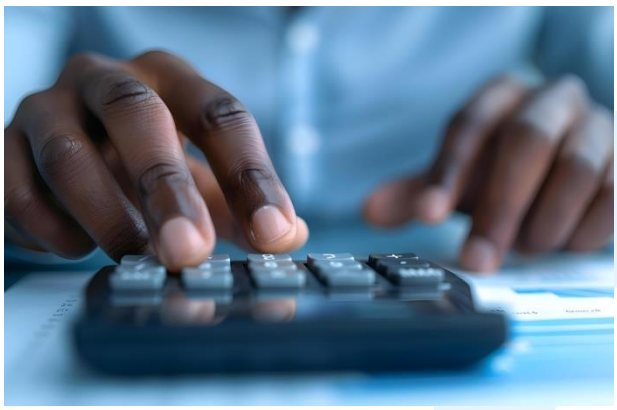
The NTA retains the VAT exemption placed on oil and gas exports and crude petroleum oil and feed gas for all processed gas.[20]

20. *Section 186(1) Nigeria Tax Act*

Suspension or Deferral of VAT [21]

The NTA provides that VAT shall not be chargeable on the following goods except as may be ordered by the minister in an official gazette:

- Petroleum products, including automotive gas oil, aviation turbine kerosene, premium motor spirit, household kerosene, and locally produced liquefied petroleum gas;
- Compressed Natural Gas (CNG);
- Liquefied Petroleum Gas (LPG); and
- Other gaseous hydrocarbons.



16 **Ministerial Powers of Classification** [22]

The NTA also provides that the Minister of Finance may, by order published in the Official Gazette, designate certain goods and services relating to CNG and LPG as exempt or zero-rated supplies, including:

- Equipment, components, and infrastructure for the conversion, installation, or expansion of CNG and LPG facilities, including conversion kits; and
- Services relating to the conversion and installation of CNG and LPG.

COMPLIANCE OBLIGATIONS

1. General Income Tax Filing Obligation: Under the NTAA, all companies are required to file their income tax returns within six months after the end of their accounting year.[23]
2. Estimated Returns for Midstream Liquefied Natural Gas Companies: Midstream companies engaged in LNG operations are required to submit to the NRS an estimated return of their profits or losses for that period for income tax purposes, not later than two months after the start of each accounting period.[24] Section 50 NTAA further provides that the applicable tax due for any accounting period shall be payable in equal monthly instalments together with a final instalment. This is a new introduction for midstream companies.
3. Estimated and Annual Returns for Upstream Petroleum Operations: The NTAA retains the compliance obligations for companies engaged in upstream petroleum operations. Such companies must submit an estimated return of their profits or losses each accounting period, covering hydrocarbon tax, petroleum profit tax, and income tax (as applicable), not later than two months after the commencement of each accounting period.[25] For newly incorporated companies, audited accounts and annual returns must be filed within 18 months of incorporation. For all other companies, audited accounts and returns must be filed within five months after any period ending 31 December.[26] Section 50 also requires the applicable tax to be paid in monthly instalments.
4. Monthly Returns of Petroleum Royalty: Every licensee or lessee engaged in petroleum operations must, from the commencement of the NTAA or the start of production, whichever is earlier, file a self-assessment return of royalty with the NRS in the prescribed form. Monthly royalty returns are due on or before the 14th day of the following month, whether or not production has occurred.[27] Additionally, every licensee or lessee is required to file an annual return of actual royalty paid in an accounting period not later than five months from the end of that accounting period.

21. *Section 186(2), Eleventh Schedule to the Nigeria Tax Act*
22. *Eleventh Schedule to the Nigeria Tax Act*
23. *Section 11 Nigeria Tax Administration Act*
24. *Section 12 Nigeria Tax Administration Act*
25. *Section 16 Nigeria Tax Administration Act*
26. *Section 17 Nigeria Tax Administration Act*
27. *Section 18 Nigeria Tax Administration Act*

PENALTIES FOR NON-COMPLIANCE

NO.	CATEGORY OF DEFAULT	PENALTY
1	Failure to File Estimated or Annual Returns	○ ₦10,000,000 on the first day of default; ○ ₦2,000,000 for each additional day the failure continues; ○ Or such other sum as prescribed by the Minister.
2	Late Payment of Tax, Royalty, or Remittance (Upstream Petroleum Operations)	○ 10% of the amount payable will be added to the amount due; ○ Interest will also apply: ○ to foreign currency transactions – at the prevailing Secured Overnight Financing Rate (or successor rate) plus 10%. ○ to Naira transactions – at 2% above the Central Bank's Monetary Policy Rate (MPR). ○ In addition to the above, further fixed penalties apply: ○ ₦10 million (or US dollar equivalent) and on the first day of non-payment; ○ ₦2 million (or US dollar equivalent) for each day the delay continues. ○ The NRS, working with the relevant petroleum regulator, also has the power to: ○ seize or auction petroleum products, equipment, and other assets; or ○ suspend or revoke operating licenses. ○ N/B: Interest is compounded and applies to all outstanding tax debts, even if they arose before the NTAA came into effect.
3	General Penalty for Petroleum Operations	○ ₦10,000,000 administrative penalty; ○ ₦2,000,000 per day of continued default. ○ Upon conviction: ○ ₦20,000,000 fine (or as prescribed); or ○ imprisonment for 6 months, or both.

CONCLUSION

Nigeria's new tax reform Acts represent a decisive shift in the fiscal terrain for companies, including those in the oil and gas sector, by introducing a clearer and more structured legislative framework. For industry players, this creates both compliance challenges and growth opportunities. Going forward, the sector's competitiveness and sustainability will depend on effective implementation and sustained collaboration between the government and stakeholders.

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