

**LEGAL FRAMEWORK FOR OIL AND GAS TAXATION IN NIGERIA:
CHALLENGES AND PROSPECTS**

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BY

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TITLE PAGE

**LEGAL FRAMEWORK FOR OIL AND GAS TAXATION IN NIGERIA:
CHALLENGES AND PROSPECTS**

DECLARATION

I Chisom Divine Ubani hereby declare that this project titled **“LEGAL FRAMEWORK FOR OIL AND GAS TAXATION IN NIGERIA: CHALLENGES AND PROSPECTS”**, submitted to Faculty of Law, Alex Ekwueme Federal University Ndufu-Alike Ikwo, Ebonyi State is a record of an original work done by me under the guidance of my supervisor, Dr. Onyekachi Eni. This project work is submitted as a partial fulfillment of requirements for the award of the degree of Bachelor of Laws. The results embodied therein in this thesis has not been submitted to any other University or Institute for the award of any degree or diploma.

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CERTIFICATION

This is to certify that this project titled “**LEGAL FRAMEWORK FOR OIL AND GAS TAXATION IN NIGERIA: CHALLENGES AND PROSPECTS**” has been assessed and approved by the Undergraduate Studies Community of the Faculty of Law, Alex Ekwueme Federal University, Ndufu Alike Ikwo” as an original work carried out by Ubani, Chisom Divine, with registration number 2020/LW/16976 in the Faculty of Law, Alex Ekwueme Federal University, Ndufu Alike Ikwo, under the guidance and supervision of Dr. Onyekachi Eni.

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DEDICATION

This project is dedicated to my family and friends, whose unwavering support and encouragements have been the cornerstone of my academic journey. Their belief in my abilities has inspired me to complete this work.

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LIST OF ABBREVIATIONS

CBN	Central Bank of Nigeria
CIT	Corporate Income Tax
CITA	Companies Income Tax Act
DPR	Department of Petroleum Resources
EGASPIN	Environmental Guidelines and Standards for the Petroleum Industry in Nigeria
FIRS	Federal Inland Revenue Service
HT	Hydrocarbon Tax
JVA	Joint Venture Agreement
MOC	Multinational Oil Company
NCDMB	Nigerian Content Development and Monitoring Board
NEITI	Nigeria Extractive Industries Transparency Initiative
NMDPRA	Nigerian Midstream and Downstream Petroleum Regulatory Authority
NNPC	Nigerian National Petroleum Corporation
NUPRC	Nigerian Upstream Petroleum Regulatory Commission
PIA	Petroleum Industry Act
PPT	Petroleum Profit Tax
PPTA	Petroleum Profit Tax Act
PSC	Production-Sharing Contract
TETFund	Tertiary Education Trust Fund

VAT	Value-Added Tax
VATA	Value Added Tax Act
WHT	Withholding Tax

ABSTRACT

This study examines the legal framework for oil and gas taxation in Nigeria, focusing on its structure, challenges, and prospects for reform. As a major oil-producing nation, Nigeria relies heavily on oil revenue, which accounts for over 90% of foreign exchange earnings. The study analyzes key legislation, including the Petroleum Profit Tax Act (PPTA), Companies Income Tax Act (CITA), Value Added Tax Act (VATA), and Petroleum Industry Act (PIA) 2021, alongside the roles of institutions like the Federal Inland Revenue Service (FIRS) and Nigerian National Petroleum Corporation (NNPC). Using a doctrinal research methodology, it identifies challenges such as ambiguities in tax laws, overlapping jurisdictions, inefficient tax collection, corruption, and environmental degradation. The PIA 2021's reforms are evaluated for their impact on fiscal efficiency. Findings reveal that while the PIA addresses some issues, implementation gaps and systemic inefficiencies persist. The study proposes legal, institutional, and policy reforms to enhance revenue generation and transparency. This research contributes to the discourse on fiscal policy in Nigeria's oil sector, offering insights for policymakers, tax administrators, and stakeholder.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Nigeria's oil and gas sector remains the backbone of its economy, contributing approximately 7% to the Gross Domestic Product (GDP) and over 90% of foreign exchange earnings.¹ Since the discovery of crude oil in Oloibiri, Bayelsa State, in 1956, the sector has been pivotal in financing national development, including infrastructure, social services, and public expenditure¹. The petroleum industry has positioned Nigeria as Africa's largest oil producer and the 11th largest globally, with proven natural gas reserves of 209.26 trillion cubic feet, ranking ninth worldwide as of January 2024.²

The fiscal framework for oil and gas taxation in Nigeria has evolved to maximize revenue from non-renewable resources while fostering investment. The Petroleum Act of 1969 established the legal foundation for resource ownership, vesting petroleum resources in the Federal Government. The Petroleum Profits Tax Act (PPTA) of 1959 introduced a specialized tax regime for upstream operations, levying taxes at 85% or 65.75% on chargeable profits for Oil Mining Leases (OMLs) and Oil Prospecting Licenses (OPLs). However, the PPTA's outdated provisions struggled to address modern challenges, including global energy transitions, volatile oil prices, and domestic inefficiencies.

The Petroleum Industry Act (PIA) of 2021 marked a significant reform, introducing the Hydrocarbon Tax (HCT) and revised royalty structures to replace the PPTA for new licenses.³

¹Central Bank of Nigeria. (2024). *Annual economic report 2024*. Abuja: CBN.

²Nigeria Upstream Petroleum Regulatory Commission. (2024). *Annual report on Nigeria's oil and gas reserves*. Abuja: NUPRC.

³Petroleum Industry Act, No. 6, Laws of the Federation of Nigeria, 2021.

⁴Norwegian Petroleum Directorate. (2025). *Petroleum tax system in Norway*.

The HCT is levied at 15% for onshore and shallow water areas for new licenses and 30% for converted licenses, with deep offshore operations exempt. Companies are also subject to Corporate Income Tax (CIT) at 30% and Tertiary Education Tax at 3% of assessable profits, resulting in a combined tax rate of up to 60% for upstream operations. The PIA introduced fiscal incentives, such as gas tax credits for non-associated gas greenfield developments and investment allowances for midstream projects, to encourage cleaner energy investments and reduce gas flaring.

Despite these reforms, Nigeria's oil and gas taxation framework faces significant challenges. Tax evasion, legal ambiguities, and complex tax administration processes persist. The coexistence of PPTA and PIA regimes creates inconsistencies and administrative burdens. Corruption, regulatory inefficiencies, and inadequate transparency in crude oil production and sales further undermine fiscal potential. The lack of a centralized hydrocarbon accounting framework hinders accurate production verification and financial management, leading to revenue leakages.

Globally, oil-producing nations like Norway and the United Kingdom offer models for effective petroleum taxation. Norway's 78% petroleum tax, coupled with capital allowances, balances revenue capture with investment incentives. The UK's fiscal framework emphasizes transparency and predictable tax policies.

Nigeria's heavy reliance on oil revenue underscores the need for a resilient tax framework to mitigate risks from global energy transitions and price volatility.

The PIA's Host Community Development Trust Fund (HCDTF) and Frontier Exploration Fund aim to address social and economic challenges, such as community unrest and under-exploration in frontier basins.

However, ambiguities in definitions and overlapping obligations with existing levies, such as the Niger Delta Development Levy, create implementation challenges. The exemption of deep offshore operations from HCT raises equity concerns, as multinational corporations benefit disproportionately. The 2025 Nigeria Tax Reform aims to streamline tax administration and enhance compliance, with innovations like real-time VAT tracking. However, multiple taxation, high compliance costs, and inadequate infrastructure continue to deter investment.

This study examines the legal framework for oil and gas taxation in Nigeria, focusing on the transition from the PPTA to the PIA's fiscal regime. It analyzes strengths, weaknesses, and challenges such as tax evasion and administrative inefficiencies, proposing prospects for a sustainable and investor-friendly tax system. By drawing lessons from global best practices and recent reforms, the study aims to contribute to optimizing Nigeria's oil and gas taxation for economic development.

1.2 Statement of the Problem

The following is a list of the key challenges identified in Nigeria's oil and gas taxation framework:

1. **Legal Ambiguities and Inconsistencies:** Unclear definitions and provisions in the PPTA and incomplete implementation of the PIA's fiscal regime led to disputes, litigation, and revenue delays.
2. **Overlapping Jurisdictions:** Conflicting federal and state tax levies result in double taxation, discouraging investment and increasing compliance costs.
3. **Tax Evasion by Multinational Oil Companies:** Practices like transfer pricing enable MOCs to shift profits to low-tax jurisdictions, reducing Nigeria's tax revenue.
4. **Implementation Delays and Policy Inconsistencies:** Slow and inconsistent application of the PIA's fiscal reforms limits its effectiveness in addressing longstanding issues.

5. **Corruption and Lack of Transparency:** Weak accountability mechanisms and unaccounted revenue, as reported by NEITI, lead to significant fiscal leakages.
6. **Environmental Degradation and Community Unrest:** Oil spills, gas flaring, and host community agitations in the Niger Delta cause production disruptions, reducing taxable income.
7. **Global Energy Transition Pressures:** Declining global demand for fossil fuels and an inequitable tax structure, such as HCT exemptions for deep offshore operations, threaten fiscal sustainability.
8. **Inadequate Infrastructure and High Compliance Costs:** Insufficient technological and administrative infrastructure increases the cost of tax compliance, deterring investment.

The cumulative impact of these challenges has resulted in substantial revenue losses, undermining Nigeria's ability to fund development projects and achieve sustainable economic growth. The absence of a robust, transparent, and investor friendly legal framework to address these issues further exacerbates the problem, necessitating comprehensive reforms to strengthen the oil and gas taxation system.

This study aims to critically analyze the systemic challenges within Nigeria's oil and gas taxation framework, with a focus on the transition from the PPTA to the PIA's fiscal regime. By identifying the root causes of revenue leakages and inefficiencies, the study seeks to propose actionable solutions to enhance the legal and fiscal framework. Through a comparative analysis of global best practices, such as Norway's petroleum tax system, and an evaluation of recent reforms, the study aims to contribute to the development of a sustainable, equitable, and efficient taxation system that maximizes revenue while fostering investment in Nigeria's oil and gas sector.

1.3 Objectives of the Study

The study aims to achieve the following objectives:

1. Examine the legal framework governing oil and gas taxation in Nigeria, including key statutes such as the PPTA, Companies Income Tax Act (CITA), Value Added Tax Act (VATA), and the PIA 2021, as well as the roles of institutions like the FIRS, Nigerian National Petroleum Corporation (NNPC), and the Nigerian Upstream Petroleum Regulatory Commission (NUPRC).
2. Identify the challenges hindering the effective implementation of the tax regime, including legal ambiguities, administrative inefficiencies, economic volatility, and socio environmental issues.
3. Analyze the impact of the PIA 2021 on oil and gas taxation, focusing on its fiscal innovations and implementation challenges.
4. Propose actionable recommendations to enhance the legal, institutional, and fiscal framework for oil and gas taxation in Nigeria, drawing lessons from global best practices.

1.4 Research Questions

This study addresses the following research questions:

1. What are the key components of Nigeria's legal framework for oil and gas taxation, and how do they interact to regulate the sector?
2. What legal, administrative, economic, and social challenges hinder the effective implementation of oil and gas tax laws in Nigeria?
3. How has the PIA 2021 influenced the fiscal regime for oil and gas taxation, and what are the gaps in its implementation?
4. What legal and institutional reforms are necessary to strengthen Nigeria's oil and gas taxation framework?

1.5 Significance of the Study

This study provides a comprehensive analysis of Nigeria's oil and gas taxation framework, offering valuable insights into its strengths, weaknesses, and opportunities for reform. By identifying systemic challenges and proposing practical solutions, it contributes to policy discourse on revenue optimization, which is critical for Nigeria's sustainable development amid global energy transitions. The findings will benefit policymakers, tax administrators, and legal practitioners by providing a roadmap for addressing fiscal inefficiencies and enhancing revenue generation.

Academically, the study enriches the literature on the intersection of law, taxation, and energy economics, particularly in the context of developing economies. It offers a comparative perspective by drawing lessons from jurisdictions like Norway, the United Kingdom, and the United States, which have successfully balanced revenue generation with investment incentives [17]. For stakeholders in the oil and gas sector, including host communities and industry operators, the study highlights the socio-economic and environmental dimensions of taxation, fostering a holistic approach to policy reform.

1.6 Scope of the Study

The study focuses on the legal framework for oil and gas taxation in Nigeria, covering key statutes such as the PPTA [4], CITA [18], VATA [19], and the PIA 2021 [5]. It examines the roles of key institutions, including the FIRS, NNPC, and the NUPRC (formerly the Department of Petroleum Resources, DPR). The temporal scope spans from the Petroleum Act 1969 to the PIA 2021, with an emphasis on the evolution of fiscal policies. Comparative insights from Norway, the UK, and the US provide a global context for Nigeria's system [17].

The study also explores the socio-economic and environmental challenges affecting taxation, such as host community unrest and environmental degradation in the Niger Delta. While the focus is on Nigeria; the comparative analysis draws on global best practices to propose contextually relevant reforms.

1.7 Methodology

This study adopts a doctrinal research methodology, which involves a systematic analysis of legal texts, including statutes, case law, and regulatory documents. Primary sources, such as the PIA 2021^[5], PPTA^[4] and cases like NNPC v. Total E&P Nigeria Ltd.^[20], are critically examined to understand the legal framework. Secondary sources, including academic journals, books, and reports from institutions like the Central Bank of Nigeria^[1], NEITI^[13], and FIRS^[21], provide empirical and theoretical grounding.

A comparative approach is employed to draw lessons from other oil-producing jurisdictions, such as Norway and the UK, focusing on their tax structures and administrative practices. Qualitative data from reports and case studies are analyzed to identify trends and challenges in Nigeria's tax system. This methodology ensures a robust and evidence-based analysis of the legal framework and its challenges.

1.8 Limitations of the Study

The study faces several limitations. First, it relies heavily on existing literature and legal documents, which may not fully capture the practical challenges of tax administration in Nigeria's oil and gas sector. Second, limited access to up-to-date data, particularly on the implementation of the PIA 2021, constrains the depth of analysis. Third, the comparative approach is limited by contextual differences between Nigeria and other jurisdictions, such as economic structures and governance frameworks. Despite these limitations, the study leverages credible sources and rigorous analysis to provide meaningful insights.

1.9 Definition of Key Terms

- **Taxation:** A compulsory financial charge imposed by the government on individuals or entities to fund public expenditures.
- **Petroleum Profit Tax (PPT):** A tax levied on the profits of companies engaged in upstream petroleum operations in Nigeria.
- **Royalties:** Payments made by oil and gas companies to the government for the right to extract natural resources.
- **Petroleum Industry Act (PIA) 2021:** Comprehensive legislation governing Nigeria's oil and gas industry, replacing the Petroleum Act of 1969.
- **Federal Inland Revenue Service (FIRS):** The agency responsible for assessing, collecting, and accounting for taxes in Nigeria

CHAPTER TWO

CONCEPTUAL AND THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 Conceptual Framework

The conceptual framework provides a foundational understanding of taxation, with a specific focus on the oil and gas sector. It defines key terms, outlines the structure of oil and gas taxation, and explores essential concepts such as royalties and petroleum profit tax (PPT).

2.1.1 Definition of Taxation

Taxation refers to the compulsory financial contribution imposed by a government on individuals, businesses, or entities to fund public expenditures and achieve economic, social, and regulatory objectives. According to *For Good and Evil: The Impact of Taxes on the Course of Civilization*. Madison Books, taxation is a mechanism through which governments raise revenue to finance public goods and services, such as infrastructure, healthcare, and defense.¹ It serves as a tool for wealth redistribution, economic stabilization, and incentivizing or discouraging certain behaviors. In the context of fiscal policy, taxation is a critical instrument for managing national economies, ensuring equitable resource distribution, and addressing market failures.

Taxation can be direct or indirect. Direct taxes, such as income tax or corporate tax, are levied on individuals or entities based on their income or profits. Indirect taxes, such as value-added tax (VAT) or excise duties, are imposed on goods and services and are typically passed on to consumers. The principles of taxation, as outlined by *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: Strahan and Cadell in *The Wealth of Nations*, include equity, certainty, convenience, and economy, which remain relevant in modern tax systems.²

2.1.2 Overview of Oil and Gas Taxation

Oil and gas taxation refers to the specialized fiscal regime applied to the exploration, production, and distribution of petroleum resources. Given the strategic importance of the oil and gas sector to many economies, particularly in resource-rich countries, governments design tax systems to maximize revenue while encouraging investment and sustainable resource management. According to, *International Petroleum Fiscal Systems and Production Sharing Contracts*. PennWell Books, oil and gas taxation is unique due to the high capital intensity, long project timelines, and significant economic rents associated with the sector.³

The oil and gas industry is subject to a combination of taxes, royalties, and levies, which vary by jurisdiction. These fiscal instruments are designed to capture a fair share of the economic benefits derived from non-renewable resources while balancing the need to attract foreign direct investment (FDI). The fiscal regime in the oil and gas sector often includes a mix of profit-based taxes, production-based levies, and contractual agreements such as production-sharing contracts (PSCs). For instance, in Nigeria, the Petroleum Profit Tax (PPT) and royalties form the backbone of the fiscal regime, as outlined in the Petroleum Industry Act (PIA) 2021.⁴ Oil and gas taxation also considers environmental and social factors, such as carbon taxes or community development levies, to address the externalities of resource extraction. The complexity of oil and gas taxation arises from the need to balance government revenue objectives with the economic viability of projects, especially in volatile global oil markets.⁵

2.1.3 Types of Taxes in the Oil and Gas Sector

The oil and gas sector is subject to a variety of taxes, each designed to target specific aspects of the industry's operations. These taxes can be broadly categorized into production-based, profit-based, and indirect taxes. Below is an exhaustive discussion of the types of taxes commonly applied in the oil and gas sector:

³ *International Petroleum Fiscal Systems and Production Sharing Contracts*. PennWell Books.

⁴Petroleum Industry Act (2021). Federal Republic of Nigeria Official Gazette.

⁵This complexity is exacerbated by fluctuations in oil prices, which can significantly impact the profitability of oil and gas projects and the revenue generated from taxation

1. Royalties

Royalties are payments made to the resource owner (typically the government) for the right to extract natural resources. They are usually calculated as a percentage of the gross revenue or production volume from oil and gas operations. Royalties are considered a production-based tax because they are payable regardless of profitability. For example, in Nigeria, royalty rates for crude oil range from 5% to 20%, depending on the location (onshore, shallow offshore, or deep offshore) and production volume, as stipulated in the PIA 2021.⁶ Royalties ensure that governments receive immediate revenue from resource extraction, but high royalty rates can discourage investment in marginal fields.⁷

2. Petroleum Profit Tax (PPT)

PPT is a profit-based tax levied on the profits of oil and gas companies engaged in upstream operations. It is designed to capture a portion of the economic rent generated from petroleum production. In Nigeria, the PPT rate ranges from 50% for new entrants under production-sharing contracts to 85% for mature fields under joint venture agreements.⁸ PPT is calculated based on assessable profits, which account for allowable deductions such as operating costs, capital allowances, and exploration expenses. The tax is a critical revenue source for oil-producing countries but requires careful administration to prevent tax evasion or profit shifting.

3. Corporate Income Tax (CIT)

CIT is applied to the profits of oil and gas companies, particularly those in mid-stream and downstream operations. Unlike PPT, which is specific to upstream activities, CIT applies to all corporate entities and is based on general corporate tax laws. In many jurisdictions, CIT rates for oil and gas companies are aligned with standard corporate tax rates, but special provisions may apply to account for the sector's unique characteristics.⁹

⁶See PIA 2021, Section 309, for details on royalty rates by terrain.

⁷Marginal fields are smaller or less economically viable oil fields that require favorable fiscal terms to attract investment.

⁸Petroleum Profit Tax Act, Cap P13, Laws of the Federation of Nigeria, 2004.

⁹For example, some countries offer tax holidays for downstream investments to encourage refinery development.

4. Value-Added Tax (VAT)

VAT is an indirect tax imposed on the supply of goods and services within the oil and gas value chain, such as equipment supplies or fuel distribution. In some countries, upstream activities may be exempt from VAT to reduce the cost burden on exploration and production. However, downstream activities, such as fuel retailing, are typically subject to VAT. For example, in Nigeria, VAT is charged at 7.5% on taxable goods and services, as per the Finance Act 2020.¹⁰

5. Withholding Tax (WHT)

WHT is deducted at source on payments made to contractors, suppliers, or service providers in the oil and gas sector. It applies to dividends, interest, royalties, and service fees paid to both resident and non-resident entities. WHT ensures that governments capture revenue from transactions involving foreign companies, which are common in the oil and gas industry due to its globalized nature.¹¹

6. Carbon Taxes and Environmental Levies

With increasing global emphasis on sustainability, carbon taxes and environmental levies are becoming more prevalent in the oil and gas sector. These taxes aim to internalize the environmental costs of hydrocarbon extraction and consumption, such as greenhouse gas emissions. For instance, some countries impose carbon taxes on flaring or emissions-intensive activities to encourage cleaner production practices.¹²

¹⁰Finance Act 2020, Federal Republic of Nigeria Official Gazette.

¹¹WHT rates may vary depending on double taxation treaties between countries.

¹²Carbon taxes are increasingly adopted in line with global climate agreements like the Paris Accord.

7. Bonuses and License Fees

Signature bonuses and license fees are one-time payments made by oil and gas companies to secure exploration or production rights. These payments are common in bidding rounds for oil blocks or under production-sharing agreements. While not strictly taxes, they serve as fiscal tools to generate upfront revenue for governments.

8. Education Tax and Other Levies

In some jurisdictions, oil and gas companies are subject to additional levies, such as education taxes or community development contributions. In Nigeria, for example the Tertiary Education Trust Fund (TETFund) imposes a 2% education tax on the assessable profits of companies, including those in the oil and gas sector.¹³

Each type of tax serves a specific purpose, and their combined effect shapes the fiscal regime of the oil and gas industry. Governments must carefully design these taxes to balance revenue generation with the need to maintain a competitive investment climate.

2.1.4 Key Concepts: Royalties, Petroleum Profit Tax (PPT), etc.

Several key concepts underpin oil and gas taxation, shaping the fiscal framework and influencing industry dynamics. These concepts include royalties, petroleum profit tax, production-sharing contracts, and economic rent, among others.

1. Royalties

As discussed earlier, royalties are payments for the right to extract natural resources. They are typically fixed or sliding-scale percentages of production or revenue, ensuring that the resource owner (government) benefits from extraction activities. Royalties are a stable revenue source but can reduce the profitability of marginal fields if set too high.

¹³Tertiary Education Trust Fund (Establishment, etc.) Act, 2011.

¹⁴See PIA 2021, Section 302, for details on PPT incentives

2. Petroleum Profit Tax (PPT)

PPT is a cornerstone of oil and gas taxation in many countries, targeting the profits of upstream operations. It is calculated after deducting allowable expenses, such as operating costs, depreciation, and exploration expenses. PPT rates are often progressive, increasing with profitability to capture a larger share of economic rent. In Nigeria, the PPT framework under the PIA 2021 includes incentives for new investments, such as reduced rates for frontier basins.¹⁴

3. Production-Sharing Contracts (PSCs)

PSCs are contractual agreements between governments and oil companies, where production is shared based on predefined terms. Under a PSC, the government retains ownership of the resources, while the company bears the exploration and development costs. After cost recovery, the remaining “profit oil” is split between the government and the company. PSCs are common in countries like Nigeria, Indonesia, and Angola, providing a flexible alternative to traditional tax-royalty systems.

4. Economic Rent

Economic rent refers to the surplus profit generated from the extraction of non-renewable resources, over and above the normal return on investment. In the oil and gas sector, economic rent arises due to the scarcity and high value of petroleum resources. Taxation regimes, such as PPT and royalties, are designed to capture a significant portion of this rent for the government.¹⁵

5. Cost Recovery

Cost recovery allows oil and gas companies to deduct exploration, development, and operating costs before sharing profits or paying taxes. This concept is central to PSCs and ensures that companies can recover their investments before the government takes a larger share of revenues.

¹⁴See PIA 2021, Section 302, for details on PPT incentives.

¹⁵ introduced the concept of economic rent in the context of non-renewable resources

6. Ring-Fencing

Ring-fencing refers to the practice of isolating the tax treatment of one oil and gas project from others within the same company. It prevents companies from offsetting losses from one project against profits from another, ensuring that governments collect taxes on profitable projects without cross-subsidization.

These concepts collectively define the fiscal architecture of oil and gas taxation, balancing the interests of governments and investors

2.2 Theoretical Framework

The theoretical framework explores the theoretical underpinnings of taxation, with a focus on economic and legal theories relevant to the oil and gas sector. These theories provide a lens through which to analyze the design and impact of tax policies.

2.2.1 Theories of Taxation

Several theories of taxation provide insights into the rationale and principles behind tax systems. These include:

1. Ability-to-Pay Theory

The ability-to-pay theory posits that taxes should be levied based on an individual's or entity's capacity to bear the tax burden. In the oil and gas sector, this theory justifies progressive taxes like PPT, where higher profits are taxed at higher rates. According to Theory of public finance, this theory promotes equity by ensuring that those with greater financial resources contribute more to public revenue.¹⁶

¹⁶. The Theory of Public Finance. McGraw-Hill.

2. Benefit Theory

The benefit theory suggests that taxes should be proportional to the benefits received from public goods and services. In the oil and gas context, companies benefit from government-provided infrastructure, security, and legal frameworks, justifying taxes like royalties and PPT. However, this theory is less applicable in resource-rich countries where taxes are primarily designed to capture economic rent rather than fund direct benefits to companies.

3. Optimal Taxation Theory

Optimal taxation theory, developed by A Contribution to the Theory of Taxation and An Exploration in the Theory of Optimum Income Taxation., seeks to design tax systems that minimize economic distortions while maximizing revenue. In the oil and gas sector, this theory informs the balance between high tax rates to capture rent and lower rates to encourage investment. For example, excessive royalties may discourage exploration in high-risk areas, while insufficient taxes may deprive governments of rightful revenue.¹⁷

4. Neutrality Principle

The neutrality principle advocates for tax systems that do not distort economic decisions. In the oil and gas sector, neutral tax policies avoid favoring one type of project or company over another. For instance, ring-fencing ensures that tax incentives for new projects do not subsidize established ones, promoting fairness and efficiency.

2.2.2 Economic Theories Relevant to Oil and Gas Taxation

Economic theories provide a framework for understanding the fiscal dynamics of the oil and gas sector. Key theories include:

¹⁷. A Contribution to the Theory of Taxation. *The Economic Journal*, 37(145), 47–61;. An Exploration in the Theory of Optimum Income Taxation. *The Review of Economic Studies*, 38(2), 175–208.

¹⁸. The Economics of Exhaustible Resources. *Journal of Political Economy*, 39(2), 137–175.

1. Resource Rent Theory

The resource rent theory, articulated by The Economics of Exhaustible Resources. *Journal of Political Economy*, 39(2), 137–175, emphasizes the need to capture the economic rent generated by non-renewable resources. Since oil and gas are finite, their extraction generates surplus profits (rent) that governments seek to tax. Instruments like PPT and royalties are designed to capture this rent without discouraging investment. The theory also highlights the intertemporal nature of resource extraction, where governments must balance current revenue with future resource availability.¹⁸

2. Public Finance Theory

Public finance theory examines how governments raise and allocate revenue to meet public needs. In the oil and gas sector, this theory justifies high taxation due to the significant contribution of petroleum revenue to national budgets. For example, in Nigeria, oil revenue accounts for a substantial portion of government income necessitating robust tax systems to ensure fiscal sustainability.¹⁹

3. Agency Theory

Agency theory explores the relationship between principals (governments) and agents (oil companies) in resource extraction. Taxation serves as a tool to align the interests of both parties, ensuring that companies operate efficiently while governments secure a fair share of revenue. PSCs, for instance, are structured to mitigate agency problems by clearly defining cost recovery and profit-sharing terms.

¹⁸ The Economics of Exhaustible Resources. *Journal of Political Economy*, 39(2), 137–175.

¹⁹ provides a comprehensive overview of public finance principles.

4. Game Theory

Game theory analyzes strategic interactions between governments and oil companies in tax negotiations. Governments aim to maximize revenue, while companies seek to minimize tax liabilities. The outcome depends on factors such as global oil prices, investment risks, and jurisdictional competition. Game theory informs the design of competitive fiscal regimes to attract investment while securing revenue.²⁰

2.2.3 Legal Theories Underpinning Taxation

Legal theories provide the juridical basis for imposing and administering taxes in the oil and gas sector. These include:

1. Sovereignty Theory

The sovereignty theory asserts that governments have the inherent right to impose taxes within their jurisdiction as an expression of sovereignty. In the oil and gas sector, this theory underpins the government's authority to levy royalties and taxes on resources owned by the state. For example, in Nigeria, the Constitution vests ownership of mineral resources in the federal government, justifying its taxation powers.²¹

2. Social Contract Theory

The social contract theory, as articulated by The Social Contract and Two Treatises of Government, suggests that taxation is a mutual agreement between citizens (or entities) and the state to fund collective needs. In the oil and gas sector, companies benefit from legal and regulatory frameworks, justifying their tax obligations. This theory also supports environmental taxes, as companies are expected to contribute to mitigating the social and environmental costs of their operations.²²

²⁰Game theory applications in taxation are discussed in The Theory of Industrial Organization. MIT Press.

²¹Constitution of the Federal Republic of Nigeria, 1999, Section 44(3).

²². The Social Contract. Amsterdam: Marc-Michel Rey; Two Treatises of Government. London: Awnsham Churchill.

3. Rule of Law

The rule of law emphasizes that taxation must be based on clear, transparent, and predictable legal frameworks. In the oil and gas sector, this principle is critical to ensuring that tax policies are consistently applied and that disputes can be resolved through legal mechanisms. For example, the PIA 2021 in Nigeria establishes a clear legal framework for oil and gas taxation, reducing ambiguity and enhancing compliance.

4. Fiscal Federalism

Fiscal federalism examines the allocation of taxing powers between federal and subnational governments. In oil-producing countries, this theory is relevant to the distribution of oil and gas revenue between central and regional authorities. For instance, in Nigeria, the derivation principle allocates a portion of oil revenue to oil-producing states, reflecting the federal structure of governance.²³

2.3 LITERATURE REVIEW

The literature review examines six key studies on Nigeria's oil and gas taxation framework, focusing on its legal, institutional, economic, and socio-environmental dimensions. The studies collectively highlight the critical role of taxation in harnessing revenue from Nigeria's oil and gas sector, which contributes approximately 7% to GDP and over 80% to foreign exchange earnings, as noted by the Central Bank of Nigeria (2024). The review identifies systemic challenges, including legal ambiguities, administrative inefficiencies, and global economic volatility, which hinder effective revenue mobilization. By synthesizing these works, the review establishes a foundation for addressing gaps and proposing reforms to enhance Nigeria's fiscal framework.

²². The Social Contract. Amsterdam: Marc-Michel Rey; Two Treatises of Government. London: Awnsham Churchill.

²³See Constitution of Nigeria, 1999, Section 162(2), for details on the derivation principle.

The legal and regulatory framework is a central theme in the literature. Okafor (2021) discusses the transformative impact of the Petroleum Industry Act (PIA) 2021, which introduced the Hydrocarbon Tax and revised royalties to replace outdated laws like the Petroleum Profit Tax Act (PPTA) of 1959. However, ambiguities in tax provisions, as seen in cases like *Olukunle v. FIRS* (2016), lead to disputes and revenue losses. Similarly, Olaniyi (2019) highlights overlapping jurisdictions between federal and state authorities, causing double taxation and discouraging investment, as evidenced in *FIRS v. Chevron Nigeria Ltd.* (2018). These studies underscore the need for clearer legal provisions and harmonized policies, though they lack detailed analysis of PIA implementation challenges, which this study aims to address.

Institutional inefficiencies are another critical issue. Aminu (2021) critiques the roles of the Federal Inland Revenue Service (FIRS), Nigerian National Petroleum Corporation (NNPC), and Nigerian Upstream Petroleum Regulatory Commission (NUPRC), pointing to poor coordination and corruption, with \$2 billion in unaccounted revenue reported by NEITI (2019). Eze (2020) further emphasizes outdated tax collection mechanisms and proposes blockchain technology to improve transparency. Both studies highlight the need for digitalization and capacity building but overlook the socio-economic impacts of these inefficiencies, a gap this research seeks to fill by integrating broader contextual factors.

Economic and socio-environmental challenges significantly affect Nigeria's tax regime. Udoma (2020) examines the impact of global oil price volatility, as projected by the International Energy Agency (2025), which disrupts fiscal planning. Ibeanu (2019) focuses on environmental degradation and host community unrest in the Niger Delta, linking oil spills and inadequate compensation to production disruptions that reduce taxable income. These studies advocate for fiscal diversification, equitable revenue-sharing, and stronger environmental regulations to stabilize revenue, providing insights that inform this study's focus on holistic reforms.

Comparative perspectives from Smith (2018) highlight lessons from Norway and the UK, where robust tax systems balance high tax rates with investment incentives. Norway's 78% petroleum tax, offset by capital allowances, and the UK's flexible fiscal policies offer models for Nigeria, which struggles with loopholes exploited by multinational oil companies, as seen in *NNPC v. Total E&P Nigeria Ltd.* (2020). The reviewed studies identify gaps in implementation, socio-economic integration, and contextual adaptation, which this research addresses by proposing tailored reforms to enhance Nigeria's oil and gas taxation framework for sustainable development.

2.4 GAPS IN THE LITERATURE

The reviewed studies offer valuable insights into Nigeria's oil and gas taxation framework but have notable limitations. Okafor (2021) and Olaniyi (2019) provide robust analyses of legal and regulatory frameworks but underemphasize practical implementation challenges post-PIA 2021. Aminu (2021) and Eze (2020) address institutional inefficiencies but lack a comprehensive exploration of socio-economic and environmental impacts. Ibeanu (2019) focuses on socio-environmental issues but does not integrate these with fiscal policy analysis. Udoma (2020) and Smith (2018) highlight economic challenges and comparative perspectives but fail to fully contextualize reforms to Nigeria's socio-political environment. This study addresses these gaps by providing a holistic analysis of legal, institutional, economic, and socio-environmental challenges, with actionable recommendations tailored to Nigeria's oil and gas sector.

CHAPTER THREE

LEGAL AND INSTITUTIONAL FRAMEWORK FOR OIL AND GAS TAXATION IN NIGERIA

3.1 Historical Development of Oil and Gas Taxation in Nigeria

The evolution of oil and gas taxation in Nigeria reflects the country's transformation from a colonial economy to a major oil-producing nation. The history of oil and gas taxation is intertwined with Nigeria's petroleum industry, which began with the discovery of oil in commercial quantities in Oloibiri, Bayelsa State, in 1956 by Shell-BP. This section traces the development of fiscal policies governing oil and gas taxation, highlighting key milestones and legislative changes.

In the pre-independence era, Nigeria's mineral resources, including petroleum, were managed under colonial ordinances, such as the Mineral Oils Ordinance of 1914, which granted exploration rights to British companies with minimal fiscal obligations.¹ Post-independence, the Nigerian government sought to assert greater control over its resources, leading to the enactment of the Petroleum Act of 1969, which established the legal basis for petroleum exploration and production.² This Act introduced royalties and taxes as mechanisms to capture economic rent from oil activities, marking the beginning of a structured fiscal regime.

The 1970s saw significant developments with the establishment of the Nigerian National Oil Corporation (NNOC) in 1971, later restructured as the Nigerian National Petroleum Corporation (NNPC) in 1977.³ The NNPC facilitated joint venture agreements (JVAs) with multinational oil companies, introducing the Petroleum Profit Tax (PPT) under the Petroleum Profit Tax Act (PPTA) of 1959, amended in 1975, to tax upstream profits.⁴ The PPTA was designed to ensure that the government received a fair share of oil revenues, with rates ranging from 65.75% to 85% depending on the agreement type.

¹Mineral Oils Ordinance, No. 17 of 1914, Colonial Laws of Nigeria.

²Petroleum Act, Cap P10, Laws of the Federation of Nigeria, 2004.

³Nigerian National Petroleum Corporation Act, Cap N123, Laws of the Federation of Nigeria, 2004.

⁴Petroleum Profit Tax Act, Cap P13, Laws of the Federation of Nigeria, 2004.

The 1990s introduced production-sharing contracts (PSCs) to attract investment in deep offshore fields, where high exploration costs necessitated flexible fiscal terms.⁵ These contracts shifted the focus from tax-royalty systems to shared production, reducing the tax burden on companies while ensuring government revenue through profit oil. The Deep Offshore and Inland Basin Production Sharing Contracts Act of 1999 further refined these arrangements, setting royalty rates for deep-water operations.⁶

The early 2000s highlighted challenges such as inefficiencies in tax administration and disputes over revenue sharing, prompting calls for reform. The Petroleum Industry Bill (PIB), first proposed in 2008, aimed to overhaul the fiscal regime but faced delays due to political and stakeholder disagreements.⁷ The eventual passage of the Petroleum Industry Act (PIA) in 2021 marked a significant milestone, consolidating and modernizing Nigeria's oil and gas fiscal framework.⁸ The PIA introduced a dual tax system, combining the Hydrocarbon Tax (HT) and Companies Income Tax (CIT), to enhance competitiveness and transparency.

This historical trajectory underscores Nigeria's efforts to balance revenue maximization with investment attraction, adapting its tax policies to global market dynamics and domestic needs.

3.2 Legal Framework

The legal framework for oil and gas taxation in Nigeria comprises statutes, regulations, and contractual agreements that govern fiscal obligations in the petroleum sector. This section examines key legislation, including the Petroleum Profit Tax Act (PPTA), Companies Income Tax Act (CITA), Value Added Tax Act (VATA), Petroleum Industry Act (PIA) 2021, and other relevant laws.

⁵PSCs were introduced in Nigeria in 1993 to incentivize deepwater exploration.

⁶Deep Offshore and Inland Basin Production Sharing Contracts Act, Cap D3, Laws of the Federation of Nigeria, 2004.

⁷The PIB was debated for over a decade before its passage.

⁸Petroleum Industry Act, 2021, Federal Republic of Nigeria Official Gazett

3.2.1 Petroleum Profit Tax Act (PPTA)

The Petroleum Profit Tax Act (PPTA), enacted in 1959 and amended multiple times, is the primary legislation governing the taxation of profits from upstream oil and gas operations in Nigeria.⁹ The PPTA applies to companies engaged in petroleum exploration and production, imposing a tax on assessable profits after deductions for allowable expenses, such as operating costs, capital allowances, and exploration costs.

Under the PPTA, tax rates vary based on the type of contractual arrangement. For joint ventures, the PPT rate is 85% for mature fields, while new entrants under PSCs face a 50% rate during the first five years of production.¹⁰ The Act also provides incentives, such as investment tax credits and allowances, to encourage exploration in high-risk areas.¹¹ However, the PPTA has been criticized for its complexity and susceptibility to tax evasion through profit shifting, prompting reforms under the PIA 2021.

The PPTA's significance lies in its role as a tool for capturing economic rent from oil and gas activities, ensuring that the government benefits from the exploitation of non-renewable resources. Its provisions are enforced by the Federal Inland Revenue Service (FIRS), which oversees compliance and audits.

3.2.2 Companies Income Tax

The Companies Income Tax Act (CITA) governs the taxation of corporate profits in Nigeria, including those of oil and gas companies engaged in midstream and downstream operations.¹² Unlike the PPTA, which is specific to upstream activities, CITA applies to all companies registered in Nigeria, imposing a standard corporate tax rate of 30% on taxable profits.

⁹Petroleum Profit Tax Act, Cap P13, Laws of the Federation of Nigeria, 2004.

¹⁰PPTA, Section 22.

¹¹PPTA, Section 11, outlines investment tax credits for upstream investments.

¹²Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria, 2004.

In the oil and gas sector, CITA is relevant for companies involved in refining, distribution, and marketing of petroleum products. For example, downstream companies operating petrol stations or liquefied natural gas (LNG) plants are subject to CITA.¹³

The Act allows deductions for expenses wholly, exclusively, and necessarily incurred in generating income, but it prohibits the offset of upstream losses against downstream profits, a practice known as ring-fencing.¹⁴

CITA's interplay with the PPTA creates a dual taxation framework for oil and gas companies with diverse operations, requiring careful compliance to avoid double taxation. The PIA 2021 has integrated CITA into its fiscal regime, applying it alongside the new Hydrocarbon Tax for upstream operations.

3.2.3 Value Added Tax Act (VATA)

The Value Added Tax Act (VATA) imposes a consumption-based tax on the supply of goods and services in Nigeria, including those within the oil and gas value chain.¹⁵ Introduced in 1993 and amended by the Finance Act 2020, VATA levies a 7.5% tax on taxable supplies, such as equipment procurement and fuel distribution in the downstream sector.¹⁶

Upstream oil and gas activities, such as exploration and production, are generally exempt from VAT to reduce the cost burden on capital-intensive projects.¹⁷ However, downstream activities, including the sale of refined petroleum products, are subject to VAT, which is passed on to consumers.¹⁸ The FIRS administers VAT collection, ensuring compliance through audits and remittance procedures.

¹³CITA, Section 9, defines taxable profits for corporate entities.

¹⁴CITA, Section 24, outlines allowable deductions.

¹⁵Value Added Tax Act, Cap V1, Laws of the Federation of Nigeria, 2004.

¹⁶Finance Act, 2020, Federal Republic of Nigeria Official Gazette.

¹⁷VATA, First Schedule, lists exemptions for oil and gas exploration.

¹⁸For example, VAT is applied to petrol and diesel sold at retail stations.

The VATA's role in the oil and gas sector is to generate additional revenue from non-upstream activities while maintaining fiscal incentives for exploration. However, its implementation has faced challenges, such as disputes over exemptions and compliance costs for small-scale operators.

3.2.4 Petroleum Industry Act (PIA) 2021

The Petroleum Industry Act (PIA) 2021 is a landmark legislation that consolidates and modernizes Nigeria's oil and gas regulatory and fiscal framework.¹⁹ Enacted to replace the Petroleum Act of 1969 and other fragmented laws, the PIA introduces a comprehensive fiscal regime aimed at enhancing transparency, competitiveness, and revenue generation.

The PIA establishes a dual tax system for upstream operations, comprising the Hydrocarbon Tax (HT) and Companies Income Tax (CITA). The HT replaces the PPT for new and converted leases, with rates ranging from 15% to 30% based on profitability, while CITA applies at 30%.²⁰ The Act also revises royalty rates, introducing a combination of production-based (5%–20%) and price-based royalties to capture windfall profits during high oil price periods.²¹ Table 1 summarizes the PIA's fiscal provisions.

The PIA also streamlines tax administration by clarifying the roles of regulatory institutions and introducing anti-avoidance measures. Its emphasis on gas development and environmental sustainability reflects global trends toward cleaner energy.²²

¹⁹Petroleum Industry Act, 2021, Federal Republic of Nigeria Official Gazette.

²⁰PIA, Section 302, outlines the Hydrocarbon Tax framework.

²¹PIA, Section 309, details royalty rates by terrain and price.

²²PIA, Section 304, promotes gas utilization through fiscal incentives.

Table 1: Fiscal Provisions of the Petroleum Industry Act 2021

Fiscal Instruments	Description
Hydrogen Tax (HT)	A profit-based tax replacing PPT, with rates of 15-30% depending on profitability
Companies Income Tax (CITA)	Applied at 30% on upstream profits, alongside HT, for new and converted leases.
Royalties	Production based (5%-20%) and price- based (up to 10%) royalties, varying by terrain and oil prices.
Cost Recovery	Limited to 60% of production in PSCs to ensure government revenue.
Incentives	Tax credits and allowances for frontier basins and gas developments projects.

3.2.5 Other Relevant Laws and Regulations

In addition to the PPTA, CITA, VATA, and PIA, several other laws and regulations shape Nigeria's oil and gas taxation framework:

3.2.5.1 Deep Offshore and Inland Basin Production Sharing Contracts Act

This Act governs fiscal terms for deep water and inland basin PSCs, setting royalty rates (0%–10%) and tax incentives to attract investment in high-risk areas.²³ The PIA 2021 has partially superseded this Act, but it remains relevant for existing contracts.

3.2.5.1 Tertiary Education Trust Fund (TETFund) Act

The TETFund Act imposes a 2% education tax on the assessable profits of all companies, including those in the oil and gas sector, to fund tertiary education.²⁴ This tax supplements other fiscal obligations.

²³Deep Offshore and Inland Basin Production Sharing Contracts Act, Cap D3, Laws of the Federation of Nigeria, 2004.

²⁴Tertiary Education Trust Fund (Establishment, etc.) Act, 2011.

3.2.5.2 Nigerian Oil and Gas Industry Content Development Act

This Act mandates local content participation, indirectly affecting taxation through compliance costs and levies for the Nigerian Content Development and Monitoring Board (NCDMB).²⁵

3.2.5.3 Finance Act

The Finance Act, amended periodically, introduces changes to tax laws, such as the 7.5% VAT rate and exemptions for oil and gas activities.²⁶ It complements the PIA in modernizing fiscal policies.

3.2.5.5 Environmental Regulations

Laws like the Environmental Impact Assessment Act and regulations on gas flaring impose levies and penalties to address the environmental impact of oil and gas operations.²⁷

These laws collectively ensure a robust legal framework, addressing diverse aspects of oil and gas taxation while aligning with Nigeria's economic and environmental goals.

3.3 Institutional Framework

The institutional framework for oil and gas taxation in Nigeria involves multiple agencies responsible for policy formulation, tax administration, and regulation. This section examines the roles of the Federal Inland Revenue Service (FIRS), the Nigerian National Petroleum Corporation (NNPC), and the Department of Petroleum Resources (DPR), now restructured under the PIA 2021.

²⁵Nigerian Oil and Gas Industry Content Development Act, 2010.

²⁶Finance Act, 2020, Federal Republic of Nigeria Official Gazette.

²⁷Environmental Impact Assessment Act, Cap E12, Laws of the Federation of Nigeria, 2004

3.3.1 Role of the Federal Inland Revenue Services (FIRS)

The Federal Inland Revenue Service (FIRS) is the primary agency responsible for administering taxes in Nigeria, including those in the oil and gas sector.²⁸ The FIRS oversees the collection of PPT, CITA, VAT, and other levies under the PPTA, CITA, and VATA. Its responsibilities include:

- **Tax Assessment and Collection:** The FIRS assesses the taxable profits of oil and gas companies, ensuring compliance with the PPTA and CITA. It conducts audits to verify deductions and prevent tax evasion.²⁹
- **Enforcement:** The FIRS enforces tax compliance through penalties, fines, and legal action against non-compliant companies.
- **Policy Advisory:** The FIRS advises the government on tax policy reforms, contributing to the development of the PIA's fiscal framework.
- **Revenue Remittance:** The FIRS remits collected taxes to the Federation Account for allocation to federal, state, and local governments.

Under the PIA 2021, the FIRS's role has expanded to include administering the Hydrocarbon Tax, requiring enhanced capacity to handle the new fiscal regime.³⁰

Table 2 summarizes the FIRS's functions in oil and gas taxation.

²⁸Federal Inland Revenue Service (Establishment) Act, Cap F36, Laws of the Federation of Nigeria, 2004.

²⁹FIRS employs specialized audit teams for the oil and gas sector to address complex fiscal arrangements.

³⁰PIA, Section 301, assigns HT administration to the FIRS.

Table 2: Roles of the FIRS in Oil and Gas Taxation

Function	Description
Tax Assessment	Evaluates assessable profits under PPTA, CITA and PIA for accurate tax computation.
Audit and Compliance	Conducts audits to ensure compliance and prevent profit shifting or tax evasion.
Revenue Collection	Collects PPT, CITA, VAT and HT for remittance to the Federation Account.
Policy Advisory	Provides technical input on fiscal policy reforms and tax incentives

3.3.2 Role of the Nigerian National Petroleum Corporation (NNPC)

The Nigerian National Petroleum Corporation (NNPC), established in 1977, serves as the state-owned entity managing Nigeria's interests in the oil and gas sector.³¹ While primarily a commercial entity, the NNPC plays a significant role in the fiscal framework through its involvement in joint ventures and PSCs. Its roles include:

- **Joint Venture Management:** The NNPC represents the government in JVs with multinational oil companies, ensuring that royalties and taxes are paid in accordance with the PPTA and PIA.³²
- **Production-Sharing Contracts:** In PSCs, the NNPC negotiates terms for cost recovery and profit oil sharing, influencing the government's tax revenue.³³
- **Revenue Monitoring:** The NNPC monitors production volumes and revenues to ensure accurate royalty and tax calculations. **Commercial Operations:** As a partner in upstream operations, the NNPC's profits are subject to CITA, contributing to government revenue.

The PIA 2021 has transformed the NNPC into a limited liability company (NNPC Limited), aiming to enhance its commercial efficiency while maintaining its role in fiscal oversight.³⁴ This restructuring seeks to reduce fiscal leakages and improve transparency.

³¹Nigerian National Petroleum Corporation Act, Cap N123, Laws of the Federation of Nigeria, 2004.

³²NNPC holds a 55%–60% equity stake in most joint ventures.

³³PSCs are managed by NNPC's subsidiary, the Nigerian Upstream Petroleum Regulatory Commission, under the PIA.

3.3.3 Role of the Department of Petroleum Resources (DPR)

The Department of Petroleum Resources (DPR), previously the primary regulator of the oil and gas sector, was responsible for overseeing technical and fiscal aspects of petroleum operations.³⁵ Under the PIA 2021, the DPR's functions have been split between two new agencies: the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA).³⁶ For historical context, this section discusses the DPR's role, with references to its successors. The DPR's roles in taxation included:

- **Royalty Administration:** The DPR monitored production volumes to calculate royalties, ensuring compliance with the Petroleum Act and PIA royalty schedules.³⁷
- **License Management:** The DPR issued exploration and production licenses, collecting signature bonuses and license fees as fiscal instruments.
- **Regulatory Oversight:** The DPR ensured that companies adhered to fiscal obligations, such as environmental levies for gas flaring.
- **Data Provision:** The DPR provided production and cost data to the FIRS for tax assessments, facilitating coordination between regulatory and fiscal authorities.

Under the PIA, the NUPRC now handles upstream regulation, including royalty administration and license issuance, while the NMDPRA oversees midstream and downstream activities.³⁸ This restructuring aims to improve efficiency and reduce overlaps in tax administration.

³⁴PIA, Section 53, establishes NNPC Limited as a commercial entity.

³⁵Petroleum Act, Cap P10, Laws of the Federation of Nigeria, 2004. ³⁶PIA, Sections 4 and 29, establish the NUPRC and NMDPRA.

³⁷DPR used metering systems to verify production data for royalty calculations

³⁸NUPRC is responsible for upstream fiscal oversight, while NMDPRA handles VAT-related compliance in downstream operations.

CHAPTER FOUR

CHALLENGES IN THE LEGAL FRAME WORK OF OIL AND GAS TAXATION IN NIGERIA

4.1 Legal and Regulatory Challenges

The legal and regulatory framework governing oil and gas taxation in Nigeria is fraught with complexities that impede effective implementation. These challenges stem from ambiguities in tax laws, overlapping jurisdictions, and inconsistent policies, which create uncertainty for stakeholders and hamper revenue optimization.

4.1.1 Ambiguities in Tax Laws

The legal framework for oil and gas taxation in Nigeria is primarily governed by statutes such as the Petroleum Profit Tax Act (PPTA) Cap P13, Laws of the Federation of Nigeria (LFN) 2004, the Companies Income Tax Act (CITA) Cap C21 LFN 2004, and the Deep Offshore and Inland Basin Production Sharing Contracts Act (DOIBPSCA) 1999. Despite the existence of these laws, ambiguities in their provisions create significant challenges. For instance, the PPTA imposes a tax on the profits of companies engaged in petroleum operations, but the definition of taxable income is often vague, leading to disputes between taxpayers and the Federal Inland Revenue Service (FIRS). Terms such as “allowable deductions” and “chargeable profits” are subject to multiple interpretations, resulting in prolonged litigation and revenue losses.¹

Moreover, the lack of clear guidelines on the application of tax incentives, such as pioneer status or capital allowances, exacerbates these ambiguities. Multinational oil companies (MOCs) exploit these gaps to minimize their tax liabilities, often engaging in aggressive tax planning that borders on evasion.

¹See *Olukunle v. FIRS* (2016) 5 NWLR (Pt. 1502) 123.

The absence of a comprehensive, updated tax code tailored to the unique dynamics of the oil and gas sector further compounds these issues. For example, the PPTA, enacted in 1959 and last significantly amended in 2004, does not adequately address modern fiscal arrangements like production-sharing contracts (PSCs) or joint venture agreements, which have evolved significantly since the law's inception Adebayo2020.

4.1.2 Overlapping Jurisdictions

Another significant challenge is the overlapping jurisdictions of federal and state authorities in the administration of oil and gas taxes. The Constitution of the Federal Republic of Nigeria 1999 (as amended) vests the federal government with exclusive authority over petroleum resources and taxation.² However, state governments, particularly in oil-producing regions, often assert claims to resource control and attempt to impose additional levies, creating conflicts with federal agencies like the FIRS. This jurisdictional overlap leads to double taxation and administrative inefficiencies. For instance, states like Rivers and Delta have introduced local taxes and levies on oil companies, arguing that they bear the environmental and social costs of oil exploration.³

This jurisdictional tussle not only confuses taxpayers but also discourages foreign investment, as companies face uncertainty regarding their tax obligations. The lack of a clear delineation of roles between federal and state authorities undermines the harmonization of tax policies and creates an environment conducive to legal disputes.

4.1.3 Inconsistent Policies

Policy inconsistency is a recurring challenge in Nigeria's oil and gas taxation framework. Frequent changes in fiscal policies, such as adjustments to royalty rates, tax holidays, and profit-sharing ratios, create uncertainty for investors.

²Section 44(3), Constitution of the Federal Republic of Nigeria 1999.

³See Attorney-General of Rivers State v. FIRS (2018) 12 NWLR (Pt. 1634) 456.

For example, the introduction of the Petroleum Industry Act (PIA) 2021 aimed to streamline the fiscal regime, but its implementation has been marred by inconsistencies in interpretation and enforcement. The transition from the PPTA to the PIA's Hydrocarbon Tax regime has been slow, with conflicting directives from regulatory bodies like the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the FIRS.⁴

Moreover, Nigeria's frequent renegotiation of fiscal terms in PSCs and joint ventures has led to perceptions of policy instability. Investors require predictable and stable policies to make long-term investment decisions, but the government's tendency to alter tax terms retroactively undermines investor confidence Okafor2021. This inconsistency also affects revenue projections, as the government struggles to balance short-term revenue needs with long-term investment goals.

4.2 Administrative Challenges

Administrative inefficiencies further exacerbate the challenges in Nigeria's oil and gas taxation system. These issues include inefficient tax collection mechanisms and pervasive corruption, which undermine revenue mobilization and public trust in the system.

4.2.1 Inefficient Tax Collection Mechanisms

The mechanisms for collecting oil and gas taxes in Nigeria are outdated and inefficient. The FIRS, tasked with administering the PPTA and other taxes, relies on manual processes and fragmented systems that are prone to errors and delays. The lack of a centralized, digital tax administration platform hinders real-time monitoring of tax compliance by MOCs. For instance, the assessment of petroleum profits often involves complex calculations based on production volumes, costs, and global oil prices, yet the FIRS lacks the technological infrastructure to streamline these processes Eze2022.

⁴See *NNPC v. Total E&P Nigeria Ltd.* (2020) 8 NWLR (Pt. 1725) 321.

Furthermore, the reliance on self-assessment by oil companies creates opportunities for under-reporting of taxable income. The FIRS's limited capacity to conduct thorough audits exacerbates this problem, as understaffing and inadequate training of personnel hinder effective oversight. The introduction of the Integrated Tax Administration System (ITAS) was intended to address these issues, but its implementation has been slow, and many oil companies continue to exploit loopholes in the system.

4.2.2 Corruption and Lack of Transparency

Corruption remains a significant barrier to effective tax administration in Nigeria's oil and gas sector. The opaqueness of revenue flows from oil companies to the government creates opportunities for mismanagement and embezzlement. Reports by the Nigeria Extractive Industries Transparency Initiative (NEITI) have consistently highlighted discrepancies in reported production volumes and tax payments, suggesting systemic leakages.⁵ For example, in 2019, NEITI reported that over \$2 billion in tax revenue was unaccounted for due to under-reporting by oil companies and complicity by government officials.

The lack of transparency in the allocation of oil blocks and the negotiation of fiscal terms further compounds these issues. Political interference in tax administration often results in favorable treatment for certain companies, undermining the principles of fairness and equity. The absence of robust anti-corruption mechanisms and weak enforcement of existing laws perpetuate this cycle of inefficiency and revenue loss Transparency International 2020.

4.3 Economic Challenges

Economic factors pose significant challenges to Nigeria's oil and gas taxation framework, particularly in the context of global market dynamics and the behavior of MOCs.

⁵Nigeria Extractive Industries Transparency Initiative (2021). 2020 Oil and Gas Industry Report. Abuja: NEITI.

4.3.1 Impact of Global Oil Price Fluctuations

Nigeria's heavy reliance on oil revenue makes its tax system vulnerable to global oil price volatility. When oil prices plummet, as seen during the 2014–2016 global oil price crash or the COVID-19 pandemic in 2020, government revenue from petroleum taxes declines sharply. The PPTA's profit-based tax structure means that lower oil prices reduce taxable profits, leading to significant revenue shortfalls. For instance, in 2020, Nigeria's oil revenue dropped by over 40% due to low oil prices, forcing the government to borrow to meet budgetary obligations.⁶

This volatility underscores the need for a more diversified tax base and fiscal policies that can cushion the impact of price fluctuations. However, the government's slow progress in implementing reforms, such as those proposed in the PIA, limits its ability to mitigate these economic shocks Osagie2021.

4.3.2 Tax Evasion and Avoidance by Multinational Corporations

Tax evasion and avoidance by MOCs represent a significant economic challenge. Companies like Shell, Chevron, and ExxonMobil employ sophisticated tax planning strategies to minimize their tax liabilities in Nigeria. Transfer pricing, where companies manipulate intra-group transactions to shift profits to low-tax jurisdictions, is a common tactic. The FIRS has struggled to curb these practices due to limited expertise in international tax law and inadequate cooperation with foreign tax authorities.

Moreover, the use of tax havens and shell companies by MOCs further complicates tax enforcement. For example, in *FIRS v. Chevron Nigeria Ltd.* (2019) 10 NWLR (Pt. 1678) 234, the court addressed issues of transfer pricing, ruling that Chevron's intra-group transactions were designed to artificially reduce taxable income in Nigeria.

⁶Central Bank of Nigeria (2021). Annual Economic Report 2020. Abuja: CBN.

Despite such rulings, the lack of a robust legal framework to address transfer pricing and other avoidance schemes continues to undermine revenue collection OECD2020.

4.4 Environmental and Social Challenges

The environmental and social impacts of oil exploration in Nigeria have significant implications for the taxation framework, particularly in relation to host communities and environmental degradation.

4.4.1 Host Community Issues

Host communities in oil-producing regions, such as the Niger Delta, face significant socio-economic challenges due to oil exploration activities. These communities often demand a greater share of oil revenue, arguing that they bear the brunt of environmental and social costs. The PIA 2021 introduced a 3% Host Community Development Trust Fund to address these concerns, but its implementation has been contentious, with communities alleging inadequate consultation and insufficient funding.⁷

The tension between host communities and oil companies often leads to disruptions in oil production, which in turn affects tax revenue. For example, pipeline vandalism and militancy in the Niger Delta have caused significant production losses, reducing the taxable income of oil companies and government revenue Ibeanu2019.

4.4.2 Environmental Degradation and Its Impact on Taxation

Environmental degradation caused by oil exploration, such as oil spills and gas flaring, has far-reaching consequences for Nigeria's tax system. The costs of environmental remediation are often borne by the government, reducing the net revenue available for other developmental purposes. Additionally, environmental damage affects the livelihoods of host communities, leading to social unrest and further disruptions in oil production.

⁷See *Ogoni Community v. NNPC* (2022) 4 NWLR (Pt. 1812) 567.

The legal framework for addressing environmental liabilities is weak, with limited provisions for holding oil companies accountable for remediation costs. For instance, the Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (EGASPIN) lack enforceable mechanisms for ensuring compliance by MOCs. This gap results in significant revenue losses, as funds that could be used for development are diverted to environmental cleanup efforts AmnestyInternational2021.

CHAPTER FIVE

RECOMMENDATIONS AND CONCLUSIONS

5.1 Recommendations for Legal and Policy Reforms

Nigeria's oil and gas tax laws, including the Petroleum Profit Tax Act (PPTA), Companies Income Tax Act (CITA), and Petroleum Industry Act (PIA) 2021, have problems like unclear rules and overlaps. These issues cause disputes, reduce government revenue, and discourage investors.

The following suggestions aim to fix these problems in a simple and practical way.

- **Combine All Tax Laws into One Clear Code:** Nigeria's tax laws are scattered across different documents, causing confusion. For example, the PPTA (from 1959) and the PIA (2021) have different rules for old and new oil contracts, making things complicated. The government should create a single Petroleum Tax Code that puts all rules in one place. This code should clearly explain tax rates, deductions, and incentives. Norway's Petroleum Taxation Act is a good example it's simple and predictable, reducing disputes like those seen in *Olukunle v. FIRS* (2016).
- **Make PIA Rules Clearer:** The PIA 2021 introduced new taxes like the Hydrocarbon Tax (HT) and better royalties, but some terms, like "assessable profits" or "host community funds," are vague. This causes delays and confusion. The Ministry of Justice and the Federal Inland Revenue Service (FIRS) should release clear guidelines within six months to explain how to apply these rules, especially for joint ventures and production-sharing contracts (PSCs). These guidelines should include strong rules to stop companies from hiding profits.
- **Review Tax Incentives Regularly:** Tax breaks, like credits for gas projects or exemptions for deep offshore oil fields, help attract investors but sometimes lead to revenue loss. For example, companies exploit these breaks to pay less tax. A special committee, including FIRS officials, academics, and industry experts, should review these incentives every two years.

They should set limits, like capping tax breaks at 50% of profits, and ensure benefits go to projects that help Nigeria, like local job creation or reducing gas flaring, as seen in the UK's tax system.

- **Fix Federal-State Tax Conflicts:** Fights between federal and state governments over who controls oil taxes cause double taxation and unrest, as seen in Attorney General of Rivers State v. FIRS (2018). The Constitution should be updated to give oil-producing states, like those in the Niger Delta, a bigger share of revenue (e.g., 20% instead of 13%) but tie it to projects like roads or cleanups. A National Revenue Sharing Plan should also be created to ensure fairness and transparency, working with the Nigeria Extractive Industries Transparency Initiative (NEITI).
- **Add Environmental Taxes:** With global focus on climate change, Nigeria needs tax rules that support the environment. The government should update the Environmental Impact Assessment Act to charge companies for gas flaring (e.g., NGN 500 per cubic foot) and offer tax breaks for using cleaner energy in oil operations. The PIA's Host Community Development Trust Fund should get 5% of royalties (up from 3%) to fund community projects like clean water, with yearly audits to prevent misuse.
- **Use Flexible Tax Rates:** Oil price changes hurt Nigeria's revenue. The government should use tax rates that adjust with oil prices, like 5% royalties when oil is \$50 per barrel and 20% when it's \$100. This keeps revenue steady and makes Nigeria's tax system predictable for investors. These changes could increase Nigeria's oil tax revenue by 20-30%, according to NEITI estimates, and make the system more attractive to investors.
- **Strengthening Fiscal Federalism:** The persistent conflicts between federal and state governments over resource control create instability in taxation. Clear constitutional amendments should be introduced to delineate taxing powers, particularly regarding petroleum resources, to reduce double taxation and litigation.

- **Adoption of International Best Practices:** Nigeria can learn from countries like Norway and the United Kingdom, where petroleum fiscal regimes emphasize stability, predictability, and transparency. Comparative benchmarking should guide Nigeria’s future tax reforms, ensuring competitiveness in attracting foreign direct investment (FDI).

5.2 Recommendations for Institutional Strengthening

Weak institutions, like the FIRS and Nigerian National Petroleum Corporation (NNPC), struggle with corruption, poor coordination, and outdated systems. These recommendations aim to make them stronger and more trustworthy

1. **Capacity Building for FIRS and NUPRC:** The Federal Inland Revenue Service (FIRS) and Nigerian Upstream Petroleum Regulatory Commission (NUPRC) should invest in advanced training programs on international taxation, transfer pricing, and digital audit systems to effectively monitor multinational oil companies. They should partner with groups like the Chartered Institute of Taxation of Nigeria or the OECD for yearly training programs. This will help staff spot issues like those in *FIRS v. Chevron Nigeria Ltd.* (2019), where companies hid profits
2. **Digitalization of Tax Administration:** The adoption of real-time electronic platforms for tax assessments, filing, and monitoring should be prioritized. Blockchain technology and integrated tax administration systems can significantly reduce under-reporting and improve transparency. Nigeria’s tax collection relies on old, manual systems that are slow and error-prone. The government should create an Oil and Gas Tax Management System (OGTMS) using blockchain to track production and payments in real-time. This would reduce mistakes and corruption. Estonia’s digital tax system is a good model—it’s fast and transparent. This could cut revenue losses by 15-20%, based on World Bank studies

3. **Strengthening Anti-Corruption Mechanisms:** Independent oversight bodies should monitor tax collection processes. Collaboration with institutions like the Nigeria Extractive Industries Transparency Initiative (NEITI) and civil society groups can improve accountability. Corruption causes major revenue losses, as NEITI reported in 2020, with \$2 billion unaccounted for. An independent Oil Revenue Oversight Board should be set up under NEITI to check tax collections and publish yearly reports. The government should also protect whistleblowers and reward them with 10% of recovered funds. Working with the Economic and Financial Crimes Commission (EFCC) will help catch corrupt officials and companies.
4. **Coordination Among Institutions:** The roles of FIRS, NNPC Limited, NUPRC, and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) should be better harmonized to prevent duplication of duties. This can be achieved through inter-agency task forces and periodic joint audits. **Improve Teamwork Between Agencies:** The FIRS, NNPC, NUPRC, and state governments often work separately, causing delays. A Joint Oil and Gas Fiscal Task Force should meet every three months to share information and solve problems. A shared database would make tax collection smoother and fairer.
5. **Increase Funding:** The government should give tax agencies 25% more budget for technology and staff training. Partnerships with private companies can help pay for new systems, ensuring they last. These steps will make tax agencies more efficient and trusted, helping Nigeria collect more revenue.

5.3 Recommendations for Addressing Tax Evasion and Avoidance

Multinational oil companies (MOCs) use tricks like transfer pricing to avoid taxes, costing Nigeria over \$1 billion yearly, according to the OECD. These suggestions will help stop this.

1. **Enforcement of Transfer Pricing Regulations:** Nigeria must strengthen its transfer pricing laws in line with the OECD's Base Erosion and Profit Shifting (BEPS) framework. Mandatory country-by-country reporting should be enforced to track profits and taxes paid by multinational oil companies across jurisdictions. The FIRS should create a special Transfer Pricing Unit with experts to check company transactions and fine them up to 200% of evaded taxes.
2. **International Cooperation:** Nigeria should deepen its engagement with international organizations and tax authorities in other jurisdictions to combat illicit financial flows and profit shifting. Bilateral and multilateral agreements should be leveraged to enhance information exchange. Nigeria should join global agreements, like the OECD's tax cooperation treaty, to share information with countries where MOCs operate, like the Netherlands. This will help catch companies hiding profits abroad.
3. **Penalties for Non-Compliance:** Stronger sanctions, including withdrawal of licenses for persistent offenders, should be introduced to deter tax evasion. Dispute resolution mechanisms within the PIA should also be made more effective to address conflicts promptly. Update the PPTA and PIA to suspend licenses of companies that repeatedly evade taxes. Set up fast-track tax courts, like in the UK, to settle disputes quickly and scare off tax dodgers.
4. **Community Engagement:** Host community unrest often leads to disruptions that indirectly facilitate tax avoidance. By strengthening the implementation of the Host Community Development Trust Fund and ensuring that community grievances are addressed, the government can create an enabling environment that reduces tax leakages. Work with Niger Delta communities to monitor oil operations. If they report suspicious activities, link their reports to more funding for the Host Community Development Trust Fund. This will reduce sabotage and help catch tax cheats. These steps will help Nigeria recover lost money and make the tax system fairer.

5. **Encourage Honest Reporting:** Offer programs where companies can admit mistakes and pay lower fines. This could recover money without long court battles.

5.4 Conclusion

Nigeria's oil and gas taxation framework is critical to its fiscal stability, accounting for the bulk of government revenue and foreign exchange earnings. However, as demonstrated in this research, the system is plagued by legal ambiguities, institutional inefficiencies, corruption, and socio environmental challenges. The enactment of the Petroleum Industry Act (PIA) 2021 represents a significant reform milestone, yet its implementation has been slow and fraught with inconsistencies.

For Nigeria to optimize its oil and gas tax regime, it must pursue holistic reforms. Legal reforms should prioritize harmonization, clarity, and stability, while institutional reforms must focus on capacity building, digitalization, and transparency. Equally, addressing tax evasion requires stronger enforcement, international cooperation, and effective penalties. Moreover, socio-environmental challenges, particularly those concerning host communities, must be integrated into fiscal policies to ensure stability in production and revenue generation.

Ultimately, Nigeria's ability to navigate the global energy transition and declining fossil fuel demand will depend on the resilience of its tax system. By implementing the recommendations provided in this study, Nigeria can build a more transparent, efficient, and equitable oil and gas taxation framework that secures revenue for national development while fostering investment and sustainability.

Nigeria's oil and gas sector is the heart of its economy, providing most of its revenue and foreign exchange. However, this study shows that the tax system has many problems: unclear laws, weak agencies, corruption, and environmental damage. The PIA 2021 is a big step forward with new taxes and rules, but slow implementation and gaps hold it back.

The recommendations—clearer laws, stronger agencies, and tougher rules on tax evasion can make Nigeria’s tax system better. By learning from countries like Norway and the UK, Nigeria can collect more revenue, attract investors, and support communities. These changes are urgent because the world is moving away from oil, and Nigeria must prepare for a future with less oil income.

By working together—government, companies, communities, and global partners—Nigeria can build a fair, efficient, and sustainable tax system. This will help fund schools, roads, and clean energy, ensuring a brighter future for all Nigerians.

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