

Abstract

This paper critically evaluates the legal and institutional framework governing the Nigerian petroleum tax regime. It examines key legislation that influences the taxation of petroleum activities in Nigeria, including the Constitution of Nigeria, the Petroleum Industry Act (PIA) 2021, the Finance Act 2023, the Companies Income Tax Act, the Tertiary Education Trust Fund (Establishment, ETC) Act, 2011, the Niger Delta Development Commission Act, 2004, the Coastal and Inland Shipping (Cabotage) Act, 2004, and the Oil Terminal Dues Act, 2004. The paper outlines the legal basis for the imposition of taxes within the petroleum sector, emphasizing the role of the PIA in restructuring the fiscal regime. The paper also highlights critical provisions related to tax liability, deductions, and exemptions. Furthermore, the institutional framework is explored, focusing on agencies responsible for tax administration, such as the Federal Inland Revenue Service (FIRS), the Nigerian Upstream Regulatory Commission (NUPRC), the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), and the Tax Appeal Tribunal (TAT). The operational responsibilities of these agencies, including tax collection, compliance enforcement, and regulatory oversight, are examined in relation to their roles in enhancing tax efficiency. Finally, the paper discusses the challenges and potential reforms needed to promote the growth of the Nigerian petroleum industry in a competitive global economy. In carrying out this research, the researcher adopted the doctrinal method and also employed a combination of the theoretical and analytical approach. Data was majorly collected through secondary sources and reference was made to statutes, law textbooks, notable judicial pronouncements, scholarly articles in local and international journals, and resources on the internet.

Keywords: Tax, Taxation, Administration, Enforcement, Industry, Sector, Petroleum, Oil.

1. Introduction

Petroleum has remained the main source of revenue and bedrock of the Nigerian economy. Revenue generated from taxes paid by petroleum companies is a major source of the income powering the Nigerian economy. In a bid to get more revenue for government and in order to regulate the petroleum industry, the Nigerian government has over the years enacted several tax laws in that area with the aim of generating more revenue for the country.¹ A Tax regime is described as a system of legislation, regulations and policies that govern the imposition, collection, and enforcement of taxes in a particular jurisdiction or sector. It outlines how taxes are structured, who is responsible for paying them, the rates at which they are levied, and the procedures for collecting and administering them. In the context of the petroleum sector, a taxation regime specifically refers to the set of tax laws and regulations that apply to petroleum activities, including how oil companies and other entities in the sector are taxed, what deductions or exemptions are allowed.² This paper analyzed the legal and institutional framework governing the Nigerian petroleum tax regime.

2. The Legal Framework Regulating Nigeria Petroleum Taxation

The legal framework of the oil and gas industry comprises of the various Acts/Legislations that govern and regulate the oil and gas sector in Nigeria. It cuts across the ownership, control, operation of oil and gas in Nigeria. The Constitution being the grand norm and mother of all Laws in Nigeria, the provision of Section 44(3)³ vests the exclusive control, ownership, and management of oil and gas in the Federal Government and not to the State or Local Government where the oil and gas are situated.⁴ The following are some of the major Nigerian legislation which enable the imposition and enforcement of tax in the Nigerian Petroleum Sector:

Constitution of the Federal Republic of Nigeria 1999 (as amended)

The Constitution,⁵ amongst other laws made by the National Assembly and States Houses of Assembly, forms the legal regime on tax collection within the territory of Nigeria. It allowed the National Assembly to promulgate Acts that would enhance efficient and transparent tax administration. Consequently, the National Assembly in the exercise of this power has enacted various laws to regulate taxation in Nigeria. These laws as it affects the Nigerian Petroleum Sector include: The Petroleum Industry Act 2021, The Finance Act 2023, Company Income Tax Act, Tertiary Education Trust Fund (Establishment, ETC) Act, etc.

Petroleum Industry Act 2021

The Petroleum Industry Act (PIA) 2021, is one of the most audacious attempts to overhaul the petroleum sector in Nigeria. The Act seeks to provide legal, governance, regulatory and fiscal framework for the Nigerian Petroleum Industry. It comprises of 319 sections, divided into 5 chapters with provisions on: governance and institutions, administration, host communities' development, petroleum industry fiscal framework and miscellaneous provisions respectively, and 8 schedules.⁶ The PIA introduces a new fiscal regime into the Nigeria Petroleum Industry with the Hydrocarbon Tax which shall be levied upon the

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¹ A Salami & F Oladoke, 'Knowledge: Nigerian Petroleum Industry Fiscal Bill – Encouraging Investment?' (2020) 2(1) *KPMG Nigerian Tax Journal*, 9

² *Ibid*

³ Section 44(3) CFRN 1999 (as amended)

⁴ D Otio, 'An overview of the Oil and Gas Industry in Nigeria' available at: <<https://academia.edu/>> accessed 25th October, 2025.

⁵ CFRN 1999 (as amended)

⁶ PIA 2021

profits of companies engaged in the upstream petroleum operations in the onshore, shallow water, and deep offshore, payable during each accounting period.⁷ The Act stipulates that chargeable tax for petroleum mining leases with respect to offshore and shallow water areas shall be 30% of the profit from crude oil and 15% of the profit from crude oil for onshore and shallow water for petroleum prospecting license, for any accounting period. Also, in addition to the hydrocarbon tax, the Act makes Company Income Tax (CIT) applicable to companies, licensees, concessionaire, lessees, contractors, or subcontractors engaged in the upstream, midstream, or downstream petroleum operations⁸. The PIA also replaces the existing licenses and leases related to the upstream petroleum operations with Petroleum Exploration License⁹ Petroleum Prospecting License¹⁰ and Petroleum Mining Lease.¹¹ Meanwhile it is worthy to note that the PIA has repealed a lot of statuses. Meanwhile, chapter four of the PIA introduces a new fiscal framework for the Nigerian Petroleum Industry.¹² Since the focus of this work is the taxation of petroleum operation in Nigeria, this work shall highlight and analyze the Petroleum Taxation reforms introduced in the petroleum Industry Act 2021 as follows:

Licenses and leases

The PIA renames the existing licences and lease concessions by replacing ‘Oil’ with ‘Petroleum’, such that Oil Exploration licenses (OPL) are now Petroleum Exploration Licences (PEL) while Oil Prospecting Licenses are to be known as Petroleum Prospecting Licences (PPL), and Oil Mining Leases (OML) are now Petroleum Mining Leases (PML). The major variance between the outgoing and the new concessions are the sizes. There is a significant reduction in the overall surface area granted and retained under PPLs and PMLs as against the OPLs and OMLs. Under the OPL Maximum Size is 1000 square miles (approx. 2590 square kilometres) while under the PPL the size is as follows: i) Onshore and shallowwaters-350squarekilometres; ii) Deep Offshore-1000squarekilometres; iii) Frontier-1500square kilometres. The maximum Duration under OPL is five years while under PPL it is as follows:

- For Onshore and shallow waters: six years which is made up of three years’ initial period and three years’ optional extension.
- For Deep Offshore and frontier – ten years made up of five years’ initial period and five years optional extension.

Under the OML the Maximum Size is 500 square miles while under the PML, maximum size is Limited to the commercial discovery to which the PML relates. The maximum duration for both OML and PML is 20 years and renewable for further terms. Under the PIA 2021, the sizes of the concessions are further reduced by a relinquishment regime that reduces the surface areas retained by a PPL or PML holder.¹³

Allowable Deductions

The PIA by virtue of section 263(1) defines deductible expenses as expenses wholly, reasonably, exclusively, and necessarily incurred for upstream petroleum operations related to crude oil or any accounting period and they include:¹⁴

- Rents incurred under a petroleum mining lease or petroleum prospecting license
- Royalties
- Repair and maintenance expenses
- Drilling expenditure of the first exploration well and the first two appraisal wells in the same field
- Decommission and abandonment contributions to an approved fund by the Commission, provided the balance is subject to tax under PIA at the end of life of the field where the lessee receives the surplus.
- Statutory levies, stamp duties, and fees
- Costs of gas re-injection wells subject to ratification by the Commission
- Contribution to host communities’ development trusts and related sums

The PIA still fails to cure the ambiguity in the definition of deductible expenses. It maintains the controversial¹⁵ words ‘*wholly, exclusively, and necessarily*’ and now introduces the word ‘*reasonably*’ which subjects the determination of deductible expenses to the reasonability standard test. It has been opined that the recent introduction of the word ‘reasonable’, is indicative of the

⁷ PIA 2021, s 260

⁸ PIA 2021, s 302

⁹ Which may be granted to qualified applicants to carry out petroleum exploration operations on a non-exclusive basis.

¹⁰ Which is granted to qualified applicants to drill exploration and appraisal wells and do corresponding text production on an exclusive basis.

¹¹ This is granted to qualified applicants to win, work, carry away, and dispose of crude oil, condensates, and natural gas on an exclusive basis; Drill exploration and appraisal wells and carry out related test production on an exclusive basis and; Carry out petroleum exploration operations on a non-exclusive basis.

¹² PIA 2021, s 258.

¹³ ENR advisory, ‘*The Petroleum Industry Act, 2021: What Next for Upstream Players?*’ (August 2021), <https://enradvisory.com/wp-content/uploads/2021/08/PIA_Whats-Next-for-Upstream-Players_Final2.pdf> accessed 02 February 2025.

¹⁴ section 263(1) of PIA

¹⁵ These terms are controversial because they can lead to differences in interpretation and application, causing challenges for both taxpayers (e.g., oil companies) and tax authorities. The controversy surrounding ‘wholly, exclusively, and necessarily’ stems from the strict and subjective criteria they impose, which complicates the process of determining which expenses qualify for tax deductions. This leads to potential disagreements between taxpayers and tax authorities.

intention to give the tax authority a measure of discretion in rejecting expenditure not deemed 'reasonable' for petroleum operations.¹⁶

Non- Deductible Expenses

Section 264 stipulates as non-deductible expenses for the computation of tax, certain expenses incurred from upstream petroleum operations related to crude oil for any accounting period. These expenses include:¹⁷

- Purchase of information on the petroleum deposits other than for the acquisition of petrophysical, geological, and geochemical data and information
- Penalties, natural gas flare fees
- Financial charges, arbitration and litigation costs, bad debts, and interest on borrowing
- Expenses relating to head office or affiliate, shared services, research, and development
- Production bonuses, signature bonuses for petroleum deposits, bonuses or renewal fees for petroleum mining lease
- Tax inserted in a contract on a net tax basis and paid by a company on behalf of the vendor
- Capital employed
- Sum recoverable under an insurance or contract
- Rent or repairs cost not incurred for operations
- Income tax on profits tax or similar taxes
- Depreciation
- Payment to provident, savings, widows and orphans or other society
- Any contribution to a pension, provident or other society scheme
- Costs under paragraph 2 (2) (c) of the Sixth Schedule to PIA

The non-deductible items under the PIA, appears to be more stringent than was obtainable under the Petroleum Profit Tax Act (PPTA).¹⁸

Applicable Taxes

The PIA makes changes to the taxes payable by operators in the Nigerian petroleum industry. Operators in the upstream petroleum operations in the onshore, shallow water and deep waters are now liable to pay both Hydrocarbon Tax (HT) and Companies Income Tax (CIT).

Hydrocarbon Tax : Hydrocarbon Tax (HT) are to be charged on profits of Companies engaged in upstream petroleum operations in the onshore, shallow water and deep waters. The following are also liable to pay HT:

- a) Person/persons/partnership except companies and/or partnership between companies that engages and makes profit from upstream petroleum operations is liable to pay taxes in addition to provided penalties.¹⁹
- b) Companies engaged in upstream petroleum operations either as a Partnership, Joint Ventures or any other arrangement. These companies will be charged in proportion to the equity interest held respectively by them.²⁰

HT applies to crude oil, field condensates and natural gas liquids derived from associated gas and produced in the field upstream of the measurement point but does not apply to:

- a) Associated gas produced which is not upstream of the measurement point²¹
- b) Any frontier acreage until it is reclassified to a general onshore²².

The crude oil taxable under the HT is the value of chargeable oil adjusted to measurement point.²³ The adjusted measurement point, allowable deductions²⁴ adjusted profit and non-allowable deductions²⁵ will be considered in order to determine what is payable as Hydrocarbon Tax (HT). HT is to be assessed and paid in USD²⁶ and it is payable in instalments.²⁷ Hydrocarbon Tax is chargeable on:

- a) Profit on crude oil for Petroleum Mining Leases (PML) with respect to onshore and shallow water areas, which is charged at 30% of the lessee's profit; and

¹⁶ T Owolabi 'The Petroleum Industry Act, 2021 Key Highlights,' available at: <<https://www.olaniwunajayi.net/blog/wp-content/>> accessed 26th October, 2025.

¹⁷ Section 264 of PIA

¹⁸ The Petroleum Profit Tax Act was repealed by the Petroleum Industry Act, 2021.

¹⁹ E Amadi, UP Onyema & A Izuchukwu, 'The Tax and Fiscal Regime under the Petroleum Industry Act 2021: Goldsmiths Solicitors PIA Series III,' available at: <<https://goldsmithsllp.com/the-tax-and-fiscal-regime-under-the-petroleum-industry-act-2021/>> accessed 01 February 2025

²⁰ *ibid*

²¹ PIA 2021, s 260 (2)

²² PIA 2021, s Section 260 (3)

²³ Measurement point is a point to be determined in the field development plan when calculated for Royalties purpose, where not determined, a directly downstream from the flow station in the PML; or where the measurement takes place outside the PML, a deemed measurement point in the PML based on a calculation approved by the Commission.

²⁴ PIA 2021, Ss 263 (1) and 266

²⁵ PIA 2021, s264

²⁶ PIA 2021, s 287

²⁷ PIA 2021, s 291

- b) Profit on crude oil for Petroleum Prospecting Licence (PPL) with respect to onshore and shallow water areas, which is charged at 15% of the licensee's profit.

Companies Income Tax: All companies in the petroleum sector are liable to pay Companies Income Tax (CIT) and are subject to the provisions of the Companies Income Tax Act. Hydrocarbon Tax²⁸, production bonuses and signature bonuses paid for the acquisition of rights in or over petroleum deposits, and signature bonuses or fees paid for renewing Petroleum Mining Lease or Petroleum Prospecting License, are not deductible for the purpose of computing Companies Income Taxation.²⁹ However, royalties, rents, and payments made by a holder of a Petroleum Mining Lease to the Federation Account relating to production sharing, profit sharing, are deductible for the purpose of calculating CIT. Again, companies will still have to pay withholding tax on dividends and Tertiary Education Tax (TET) despite the payment of CIT and HT. This is a departure from the PPTA, where TET is tax deductible.

Consolidation of costs and taxes³⁰: For the purpose of companies' income tax, the PIA allows companies operating in the upstream sector across the different terrains to consolidate costs. However, for the purpose of Hydrocarbon Tax, a company can only consolidate costs and taxes across its assets relating to its petroleum mining lease and petroleum prospecting license in accordance with the tax chargeable for the license and lease. It has been opined that it appears that section 272 seeks to create a form of tax relief for the spectrum of transactions of entities covered by this section and as such, is another win for the investors³¹.

Penalties for tax offences: Section 292 provides Penalty for non-payment of tax within the time prescribed by the Act and enforcement of payment. It provides that defaulters are liable to pay as penalty a sum equal to 10% of the amount due. In addition to the 10% penalty, interest rate based on prevailing LIBOR³² (the basic rate of interest used in lending between banks on the interbank market) or a successor to such rate shall apply. Section 297 stipulates penalties for defaults under the Act of which there is no specific provision for penalties. A person who fails to comply with the provisions of Chapter 4 (Petroleum fiscal regime framework) or any regulation made under the PIA for which no penalty is provided shall pay an administrative penalty of N10, 000, 000 and where default continues beyond the timeframe to comply with any such provision under the chapter or regulation made pursuant to the Act, a penalty of N2, 000, 000 per day shall apply.

Again, a person found guilty of an offence under this same Chapter 4 (Petroleum fiscal regime framework) or in a regulation made under the PIA of which no other penalty is specifically provided shall be liable to pay a fine of N20,000,000 upon conviction or other sum as may be prescribed by the Minister of Finance and where default continues, the defaulter shall pay N2, 000, 000 per day of defaults or imprisonment for 6 months. Section 298 provides penalty against making incorrect accounts, incorrect schedule or statement required to be prepared under section 277 of the Act, false or misleading information in relation to any matter or thing affecting his liability to hydrocarbon tax and other misrepresentation in order to evade tax liability. The said Section 298 provides that the penalty for persons who provide incorrect, false, or misleading information in their accounts thereby affecting their tax liability shall be liable to pay an administrative penalty of the higher of the sum of N15,000,000 and 1% of the amount of tax which has been undercharged and will still be liable to the appropriate tax which would have been charged. Again, all the parties involved in the preparation and submission of false returns and wilful neglect to pay tax will also be liable to the penalty of the higher of the sum of N15,000,000 and 1% of the amount of tax for which the person is liable. Anyone convicted of a wilful omission offense will in addition to the penalty stated above, be liable to pay the appropriate hydrocarbon tax that would have been assessed and charged and/or face imprisonment for six months.

Royalties - 7th schedule to the PIA 2021

Royalties in kind or cash: The Act provides that royalties shall be determined by production and by price and the Nigerian Upstream Regulatory Commission (The Commission) has the discretion to accept royalty in cash or in kind³³. This is a departure from the default position which is that royalty is payable in cash except the Commission indicates otherwise.

Royalty rates: According to the PIA 2021, royalties for crude oil and condensates, will be based on production and price; but for gas, it will be based solely on production. In the case of price-based royalties, the commission is empowered to determine the fiscal oil price³⁴ for each field, taking into considerations factors such as quality differentials and transportation costs within Nigeria³⁵. For natural gas and natural gas liquids, royalty is chargeable at 5% of the chargeable volume and royalty rate for natural gas produced and utilized in-country is 2.5%.³⁶

²⁸ PIA 2021, s 302 (5)

²⁹ S PIA 2021, s 303 (12)

³⁰ PIA 2021, S 272

³¹ C Eze, 'Critical Analysis of the Petroleum Industry Act, 2021 And Emerging Issues,' *CITN*, <<https://portal.citn.org/wp>> accessed 23 January 2025.

³² LIBOR means London Interbank Offered Rate

³³ PIA 2021, 7th schedule para 9(1)

³⁴ PIA2021, 7th schedule para 8(1), Section 304(2),

³⁵ PIA2021, 7th schedule para 8(2)

³⁶ PIA2021, 7th schedule para 10 (6)

Penalty for non-payment of royalty: The Act³⁷ provides that the penalty for non-payment of royalty within two months after the month in which payment was due will be:

- an additional sum of 10% of the royalty due plus interest;
- N10,000,000 or USD equivalent on the first day of failure to pay and N2,000,000 or USD equivalent for each subsequent day.

However, where royalty remains unpaid three months after due date, the Commission may initiate the revocation of the licence or lease and enter the premises possessed or occupied by the licensee or lessee to seize and sell any petroleum products, tools or machineries, for the payment of any arrears of fees, rent or royalty³⁸.

Finance Act 2023

Since its first enactment in 2019, there have been other enactments in the years 2020, 2021 and most recently in 2023. The Finance Act (FA) 2023 though signed on the 28th of May 2023 has its effective date stated as 1st May 2023. The FA 2023 seeks to provide support for the funding of the 2023 Budget of Fiscal Consolidation and Transition.³⁹ According to the 2023 Budget Speech, the Act focuses on 5 key areas; tax equity reforms, climate change/green growth, job creation/economic growth, reforming tax incentives and revenue generation/tax administration.⁴⁰ The Finance Act in itself does not specifically regulate taxation in the Petroleum industry, but it introduces significant changes to the existing petroleum tax laws and regulatory framework, with an aim to foster economic growth, enhance fiscal stability, promote sustainable development,⁴¹ address emerging challenges in the digital economy, and improve tax administration.⁴²

Companies Income Tax Act (CITA) 2004⁴³

Companies operating in all other segments of the petroleum sector like the midstream and downstream sectors are assessed to company income tax at 30% of taxable profits under the CITA. Again, non-crude oil related income / profits earned by petroleum companies are liable to company income tax, separately. Section 9 of the CITA provides that tax is payable at the rate specified in section 40(1) upon the profit of any company accruing in, derived from, brought into, or received in Nigeria in respect of certain transactions. By virtue of the interpretation of a company in section 105 of the CITA⁴⁴ and the provision of section 13(1) and (2) of the CITA, it is clear that the CITA imposes tax on both Nigerian and foreign companies. Section 24 of the Act makes provisions for certain allowable deduction in the assessment of a tax payable by a company. These deductions include the following:

- a. Interest on borrowed money;
- b. Rent or premium paid;
- c. Certain expenses of a property holding company.
- d. Expenses of senior staff and executives;
- e. Expenses of repairs, renewal, or alterations;
- f. Bad debts;
- g. Contribution to pension schemes;
- h. Nigerian Railway Corporation authorised deduction;
- i. Other expenses of trade or business not deductible under any of the above-
- j. mentioned heads of deductions where the liability is incurred wholly, exclusively, necessarily and reasonably.
- k. Industrial Training Funds contributions;
- l. Donations⁴⁵
- m. Deductions for research and development.

It is noteworthy that the CITA has also been amended by the Finance Act 2023. A notable amendment that affects petroleum taxation is the provision of Section 9 of the Finance Act 2023 which redefines Paragraph 24(7) of the 2nd schedule to exempt companies engaged in upstream and midstream petroleum operations from the restriction placed on deductible capital allowances in any year of assessment of sixty-six and two thirds' percent (66 2/3) of assessable profits. The Act also makes provisions for non-allowable deductions by virtue of section 27.

Tertiary Education Trust Fund (Establishment, ETC) Act 2011

Section 1(1) and (2) of the Act as amended requires every company registered in Nigeria to pay 3% of its assessable profit as tertiary education tax annually. The implication of the foregoing is that non-Nigerian companies are not liable to pay the tax.

³⁷ PIA 2021, 7th schedule para 12

³⁸ PIA 2021, 7th schedule para 13

³⁹ D Ernst & T Young, 'Nigeria Highlights of Finance Act 2023,' *Global Tax News (June 2023)*, available at: <<https://globaltaxnews.ey.com/>> accessed 18 January 2025.

⁴⁰ PricewaterhouseCoopers, 'Nigeria's Finance Act 2023 Insights Series', 5, <https://www.pwc.com/ng/en/assets/pdf/nigeria-finance-act-2023.pdf> accessed 02 February 2025.

⁴¹ Ernst & Young, 'Nigeria Highlights of Finance Act 2023,' *Global Tax News (June 2023)*, <<https://globaltaxnews.ey.com/news/2023>> accessed 18 January 2025.

⁴² Ibid.

⁴³ Cap C21 LFN 2004.

⁴⁴ Section 105 defines a company as any company or corporation (other than a corporation) solely established by or under any law in force in Nigeria or elsewhere.

⁴⁵ It is notable that the PPTA unlike the CITA did not make provisions for donations as deductible expenses.

Section 1(3) provides that the assessable profit of a company for the purpose of Education. The purpose of the Education Tax is to improve the standard of education facilities at all levels throughout the country.⁴⁶ The assessment and collection of this tax is the responsibility of the Federal Inland Board of Revenue, but the funds accruing from the tax is managed and administered by the Board of Trustees of the Education Fund.⁴⁷ By virtue of Section 2(2), education tax is due and payable within sixty days after the FIRS has served notice of assessment on the relevant Company. Under the previous tax regime, tertiary education tax (TET) was an allowable deduction for petroleum companies when calculating their taxable income. However, the PIA removed this provision, meaning that tertiary education tax is no longer an allowable deduction for petroleum companies under the new tax regime.

Niger Delta Development Commission (Establishment) (Amendment) Act 2017

On 29 December 2017, the Nigerian President signed into law the Niger-Delta Development Commission (Establishment)(Amendment) Act. The Amendment Act amends the provision of Section 14(2)(b) of the Niger-Delta Development Commission (Establishment, etc) Act (the 'Principal Act') as follow:⁴⁸

There shall be paid and credited to the fund established pursuant to sub-section (1) of this section-

(b) 3 percent of:

(i) the total annual budget of any oil producing company operating onshore and offshore, in the Nigeria Delta area; and;

(ii) the total annual budget of any gas processing company in the Niger Delta area, excluding the cost of feed gas.

Coastal and Inland Shipping (Cabotage) Act 2003⁴⁹

The Coastal and Inland Shipping (Cabotage) Act, No. 5 of 2003 regulates cabotage vessels operating within Nigerian inland waters, coastal waters, Exclusive Economic Zone and Islands within Nigeria. The Act mandates vessels engaged in coastal trade to pay into the Cabotage Vessel Financing Fund, 2% of the contract sum performed by it. The purpose of the fund is to promote the development of indigenous ship acquisition capacity by providing financial assistance to Nigerian operators in the domestic coastal shipping. By virtue of section 44, the fund is collected by the National Maritime Authority and administered under guideline proposed by the minister and approved by the National Assembly. The beneficiaries of the fund by virtue of section 45 are Nigerian citizens and shipping companies wholly owned by Nigerians.⁵⁰

Oil Terminal Dues Act⁵¹

Section 1 of the Act provides that terminal dues may be levied on any ship evacuating oil at any oil terminal for any services or facilities furnished by the Nigerian Port Authority under the Act. Section 1(2) of the Act provides that the master or owner of a ship or every consignor or agent who has paid or made himself liable to pay any dues on account of such ship are persons liable to pay any levied terminal dues on ships evacuating oil at a terminal.

3. Institutional Framework for the Administration of Petroleum Taxation

The key agencies responsible for the administration, collection, and enforcement of taxes and levies under the PIA include:

- a. The Federal Inland Revenue Services
- b. The Nigerian Upstream Regulatory Commission (The Commission)
- c. The Nigerian Midstream and Downstream Petroleum Regulatory Authority (The Authority)
- d. The Tax Appeal Tribunal (TAT).

Federal Inland Revenue Service (FIRS)

The FIRS was established by the Federal Inland Revenue Service Establishment Act (FIRS (Establishment) Act, 2007. The FIRS (Establishment) Act, 2007 granted autonomy to the FIRS, making it independent in both funding and human resources⁵². The FIRS is charged with the responsibilities for assessment, collection of, and accounting for revenues accruable to the Federal Government and for related matters including taxes related to the petroleum sector. The FIRS oversees the implementation of various taxes imposed on the petroleum industry and is responsible for assessing and collecting Hydrocarbon Tax, Tertiary Education Tax and Companies Income Tax from the oil & gas industry. The FIRS is responsible for the enforcement of the provisions of chapter 4 of the PIA 2021 as it relates to taxes.⁵³

The Key Responsibilities of the FIRS in Petroleum Taxation include:⁵⁴

- a. Assessment and Collection;
- b. Tax Compliance and Enforcement;
- c. Tax Audits.

⁴⁶ Section 1(3) of the Act

⁴⁷ Orojo, *op cit*, p 583

⁴⁸ NDDC s. 14(2) (b)

⁴⁹ Cap C51 LFN 2004.

⁵⁰ CISA 2003, S49.

⁵¹ Cap O8 LFN 2004.

⁵² GI Ayogu 'Federal Inland Revenue Service (FIRS) and Revenue Generation in Nigeria 2007-2015', (2019) 2(7) *International Journal of Management and Social Science*, 3.

⁵³ *Ibid*

⁵⁴ OJ Jegede & W Idiaru, 'Nigeria: Legal framework and Requirements for Oil And Gas Investment In Nigeria' available at: <<https://www.mondaq.com/nigeria/oil-gas/>> accessed 28th October, 2025

The FIRS works in collaboration with law enforcement agencies to detect tax fraud and evade tax issues. Additionally, FIRS provides reports and maintains databases on taxable persons, assets, and financial losses resulting from tax fraud. It also ensures the government's policies on taxation and revenue generation are continuously reviewed and implemented. The FIRS is headed by an Executive Chairman⁵⁵ and in exercising its duties and powers, the FIRS is subject to the authority, direction and control of the Federal Minister of Finance. Consequently, any written direction, order or instruction given by the minister, after consultation with the Chairman of the FIRS, shall be carried out by the FIRS⁵⁶.

Federal Board of Inland Revenue (FBIR)

The Federal Board of Inland Revenue is granted the authority to establish legislation concerning the taxation of incomes, transactions, capital gains, and stamp duty from individuals and companies within its jurisdiction in accordance with the Constitution and other applicable laws.⁵⁷

Nigerian Upstream Regulatory Commission (The Commission)

The Commission, established under Section 4 of the PIA, regulates all technical and commercial activities in the upstream sector. It replaces the Department of Petroleum Resources (DPR) and oversees seismic operations, drilling, and the construction of upstream facilities. The Commission is also responsible for overseeing commercial activities, including reviewing field development plans and controlling operational costs. The Commission has a dedicated role in promoting frontier basin exploration, with a Frontier Exploration Fund supported by a portion of NNPC Limited's production-sharing contracts. The Commission is empowered to determine and collect royalties, signature bonus and related payments of production shares, profit oil from the Upstream Petroleum Sector. The PIA mandates that any government body whose actions could affect the upstream industry must consult with the Commission before proceeding, and adhere to any recommendations the Commission may offer. This provision is noteworthy, as it helps mitigate the risk of conflicting actions by government agencies, ensuring that all efforts align with the overarching goal of maintaining the petroleum industry's viability.⁵⁸

The Key Responsibilities of the commission as it relates to petroleum taxation are as follows:

- Upstream Regulation;
- Fiscal and Tax Oversight;
- Setting the Fiscal Oil Price;
- Decommissioning and Abandonment.

Also, where there is a dispute with respect to the date of first sale of chargeable oil or date of cessation of petroleum operations, the Commission is vested with powers to determine the said date and the decision of the commission in this regard cannot be appealed⁵⁹. In summary the Commission is specifically tasked with regulatory oversight of the upstream sector, which involves oil exploration and production.

Nigerian Midstream and Downstream Petroleum Regulatory Authority (The Authority)

Section 29 of the PIA establishes the Authority, which regulates technical and commercial operations in the midstream and downstream sectors. Its duties include overseeing petroleum liquid operations, natural gas operations, tariff determination, and gas flaring penalties. A significant change is that the Authority now holds the exclusive power to grant, modify, or revoke licenses for midstream and downstream operations, replacing the Minister in this role. Section 52 of the PIA establishes the Midstream and Downstream Gas Infrastructure Fund, aimed at increasing domestic natural gas consumption and encouraging private investment in gas infrastructure. The Authority is also empowered to collect a 0.5% levy on the wholesale price of petroleum products and natural gas sold within Nigeria. Its key responsibilities as it relates to petroleum taxation include:

- Midstream and Downstream Regulation;
- Pricing and Compliance;
- Licensing and Infrastructure.

The Authority is saddled with the responsibility of determining and collecting all related payments from downstream and midstream sector of the industry including gas flare penalty.

Tax Appeal Tribunal

The Tax Appeal Tribunal (TAT) was established in 2007 pursuant to Section 59(1) of the Federal Inland Revenue Service (Establishment) Act 2007 and it replaced the former Body of Appeal Commissioners and Value Added Tax (VAT) tribunals.⁶⁰ The TAT is empowered to settle disputes arising from the operations of the Act and others as spelt out in the fifth schedule to the FIRS Establishment Act. By virtue of Section 59(2) of the FIRS Act, the TAT has jurisdiction to entertain disputes arising from the Companies Income Tax Act, Personal Income Tax Act, Capital Gains Tax Act, Value Added Tax Act, Stamp Duties Act, Taxes and Levies (Approved list for collection) Act. Section 288 of the PIA also empowers the TAT to entertain disputes

⁵⁵ Section 11 FIRS (Establishment) Act, 2007

⁵⁶ K T Lawal, 'Taxation of Petroleum Profit under Nigeria's Petroleum Profit Tax Act' (2013) 4(2) *International Journal of Advanced Legal Studies and Governance*, 4

<https://www.icidr.org/ijalsg_vol4no2_august2013/Taxation%20of%20Petroleum%20Profit%20under%20the%20Nigerias%20Petroleum%20Profit%20Tax%20Act.pdf> accessed 27/06/2023).

⁵⁷ TLA 2004, s 4(a).

⁵⁸ KPMG Nigeria, *Petroleum Industry Act (PIA) 2021 - A Game Changer?* (August 2021).

⁵⁹ PIA 2021, s. 318

⁶⁰ Section 59 FIRS (Establishment) Act, 2007

arising from the Petroleum Industry Act. Other laws include laws imposing taxes and levies within the Federal Capital Territory, laws imposing collection of taxes, fees and levies collected by government agencies and companies, including signature bonuses, pipeline fees, penalty for gas flared, depot levies and licence fees for Oil Exploration Licence (OEL, Oil Mining Lease (OML) production Licence, royalties, rents (productive and non-productive), fees for licence to operate drilling rigs, fees for oil pipeline licenses, haulage fees and all other fees prevalent in the oil and gas industry.⁶¹

4. Conclusion and Recommendations

The Nigerian petroleum sector, being one of the largest contributors to the nation's revenue, plays a critical role in the country's economic development. In recent years, the Nigerian government has made significant strides in reforming the petroleum taxation framework through the enactment of the Petroleum Industry Act (PIA) 2021. The PIA introduced a comprehensive legal and fiscal structure aimed at modernizing the petroleum industry, enhancing transparency, improving governance, and attracting more investment into the sector. Despite these commendable efforts, several challenges still persist within the legal and institutional frameworks governing petroleum taxation. The following recommendations are aimed at addressing the gaps and enhancing the efficiency of the petroleum tax regime in Nigeria.

Clarification of Deductible Expenses: The terms 'wholly,' 'exclusively,' 'necessarily,' and 'reasonably' as used in the definition of deductible expenses under the PIA should be clearly defined ensuring that there is no room for subjective interpretation. This would reduce the discretionary power of tax authorities and ensure greater consistency and fairness in the application of the law.

Enhancing Tax Remission Clarity: To address the uncertainty created by Section 292 of the PIA, the government should establish standardized guidelines for tax remissions. Clear criteria for granting remissions, such as addressing genuine errors or voluntary compliance, should be defined in the legislation.

Capacity Building and Training: Continuous capacity building for tax administrators is necessary, especially in the area of petroleum taxation. As the petroleum industry becomes more complex with new fiscal regimes like the Hydrocarbon Tax, Tax authorities should stay updated on international best practices, technological advancements, and industry developments to ensure effective tax collection and enforcement.

Introducing Alternative Dispute Resolution (ADR): ADR mechanisms like mediation and arbitration should be introduced to resolve disputes between oil companies and tax authorities. ADR offers a more flexible, quicker, and cost-effective way to resolve conflicts, which could reduce the backlog of cases and minimize litigation costs.

⁶¹ J Agbonika, 'Tax Dispute Resolution in Nigeria: A Storm in a Tea Cup' (2014) 29 *Journal of Law, Policy and Globalization* 149.