

Nigeria's Oil & Gas Tax Revolution:
*How the Nigeria Tax Act, 2025 Introduces
Key Policy Shifts to the Petroleum Industry
Act Fiscal Framework*

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INTRODUCTION

Nigeria’s petroleum sector has long operated under a layered and evolving fiscal framework, with the Petroleum Industry Act, 2021 (“PIA”) representing the most comprehensive legislative overhaul of the sector. The PIA modernised the industry by consolidating regulatory and fiscal provisions governing upstream, midstream, and downstream petroleum operations, establishing new institutions, and introducing fiscal instruments such as Hydrocarbon Tax, production allowances, and revised royalty frameworks intended to attract investment while safeguarding government revenue.

However, the enactment of the Nigeria Tax Act, 2025 (“NTA”) and the Nigeria Tax Administration Act, 2025 (“NTAA”), signed into law on 26th June 2025 and effective from 1st January 2026, has introduced significant changes to the petroleum fiscal landscape. Notably, the NTA amends the PIA by deleting Parts I–IX of Chapter Four¹, which previously provided for the fiscal framework of the petroleum industry.

Together, the NTA and NTAA amend, replace, and in some instances build upon the PIA’s provisions, recalibrating the balance between fiscal efficiency and government revenue collection. This article, examines the most consequential policy shifts introduced by these statutes in comparison with the PIA and how they reshape the legal and operational landscape for companies in Nigeria’s petroleum sector.

KEY POLICY SHIFTS UNDER THE NIGERIA TAX ACT AND NIGERIA TAX ADMINISTRATION ACT

1. Extension of Hydrocarbon Tax to Deep Offshore Operations

Under the PIA, Hydrocarbon Tax (“HCT”) did not apply to deep offshore operations or frontier acreages.¹ While the PIA imposed HCT on onshore and shallow water operations, companies operating in deep offshore terrain and frontier acreages were exempt from this tax.

The NTA restructures this position by retaining the exemption for frontier acreages.² However, unlike the PIA, the NTA does not extend the exemption to deep offshore operations. By omitting deep offshore from section 65(4), while section 65(1) broadly applies HCT to upstream petroleum operations, the NTA effectively expands the HCT base to capture deep offshore production for the first time. This represents a notable increase in the tax burden on deep offshore operators and may affect the economics of existing and prospective deep-water projects.

2. Mandatory Cash Payment of Royalties

Under the PIA, royalties could be paid either in cash or in kind.³ These afforded operators flexibility in discharging their royalty obligations, including the option of settling royalties through the delivery of crude oil or other petroleum products in lieu of monetary payment.

¹Section 260(3), Petroleum Industry Act, 2021.

²Section 65(4), Nigeria Tax Act, 2025.

³Paragraph 9(1) of Part 3, Seventh Schedule, Petroleum Industry Act, 2021.

The NTA removes this flexibility by providing that royalties shall be paid in cash, eliminating the option of in-kind payment entirely.⁴ This ensures that royalty receipts accrue to the Federal Government in monetary form and simplifies the audit and enforcement of royalty obligations.

3. Transfer of Royalty Administration to the Nigeria Revenue Service

Under the PIA, royalty administration in respect of upstream petroleum operations was vested in the Nigerian Upstream Petroleum Regulatory Commission (“NUPRC”).⁵ The NUPRC was responsible for determining and collecting royalties, which were then paid directly into the Federation Account.

The NTA effects a material transfer of this administrative function.⁶ By amending the PIA and deleting its petroleum industry fiscal framework in Chapter 4, including the capital allowances provisions under the Fifth Schedule and the production allowances under the Sixth Schedule, the NTA vests royalty administration in the Nigeria Revenue Service (“NRS”) as the relevant tax authority. Monthly and annual returns of petroleum royalty are now governed by the NTAA, under which licensees and lessees file self-assessment royalty returns with the NRS. The NTAA further grants the NRS exclusive responsibility to administer taxes on companies, consolidating petroleum revenue collection under a single federal authority.

4. Revocation of Petroleum Licences or Leases for Unpaid Royalties or Taxes

The PIA did not expressly link a petroleum company’s failure to pay taxes or royalties to the revocation of its licence or lease as an enforcement measure within the tax administration framework.

The NTA introduces this linkage⁷ and provides that where any petroleum royalty or tax due and payable by a company engaged in petroleum operations remains unpaid after a demand notice has been issued, the NRS shall notify the NUPRC or the relevant Ministry or agency of such default for the revocation of the licence or lease under applicable law. This provision creates a direct nexus between tax compliance and the continued validity of a petroleum company’s operating rights. Persistent default on petroleum fiscal obligations may therefore result in the loss of the licence or lease under which the company conducts its upstream operations.

5. Mandatory Stream Separation for Income Tax Purposes

Under the PIA, upstream, midstream, and downstream petroleum companies were each subject to Companies Income Tax under the Companies Income Tax Act.⁸ However, the PIA did not require companies operating across multiple petroleum streams to ringfence their activities through separate legal entities.

The NTA introduces a mandatory stream separation requirement.⁹ Thus, where a company intends to be involved in more than one stream of petroleum operations, whether upstream, midstream, or downstream, it must incorporate a separate company for each stream. This

⁴Paragraph 2 of the Seventh Schedule, Nigeria Tax Act, 2025.

⁵Part 3, Paragraph 9(1) of the Seventh Schedule, Petroleum Industry Act, 2021.

⁶Section 197(1)(c), Nigeria Tax Act, 2025.

⁷Section 63, Nigeria Tax Act, 2025.

⁸Section 302, Part 10, Chapter 4, Petroleum Industry Act, 2021.

⁹Section 79, Nigeria Tax Act, 2025.

ensures that costs, revenues, and taxes for each stream are assessed independently, preventing cross-stream offsets that would otherwise reduce overall tax liability. Each separate company is subject to the applicable tax regime for its stream, being HCT or Petroleum Profits Tax for upstream operations, and the relevant income tax provisions for midstream and downstream activities. Importantly, the NTA carves out an exception for Integrated Strategic Projects, which permit fiscal consolidation across upstream and associated midstream operations where qualifying conditions are met.

6. Exemption, Suspension, and Deferral of Value Added Tax on Petroleum Products

Value Added Tax (“VAT”) under the NTA is charged and collected on taxable supplies of goods, services, and incorporeal property made in Nigeria.¹⁰ The PIA did not address VAT treatment for petroleum products in a consolidated manner, and the pre-existing Value Added Tax Act did not provide a coherent sector-specific framework for oil and gas operators.

The NTA exempts oil and gas exports, crude petroleum oil, and feed gas for all processed gas feeds from VAT.¹¹ In addition, section 186(2) of the NTA, read together with paragraph 3 of the Eleventh Schedule, suspends the charging and collection of VAT on automotive gas oil (diesel), aviation turbine kerosene, premium motor spirit, household kerosene, locally produced liquefied petroleum gas, compressed natural gas, liquefied natural gas, and other gaseous hydrocarbons, pending a commencement order by the Minister of Finance.¹² The Minister is also empowered to reclassify equipment, components, and services relating to the conversion and installation of CNG and LPG as exempt or zero-rated supplies. Together, these provisions substantially reduce the VAT burden on oil and gas operators and improve the competitiveness of Nigerian petroleum exports.

7. Surcharge on Fossil Fuel Production

The PIA did not impose any surcharge on fossil fuel production. Its fiscal instruments were limited to HCT, Petroleum Profits Tax, royalties, and signature bonuses. The NTA introduces a surcharge on fossil fuels at the rate of 5%, to be charged at the first point of sale, supply, or payment, whichever occurs first.¹³ This surcharge is an entirely new fiscal imposition with no equivalent under the PIA.

Section 162(1) of the NTA exempts clean or renewable energy products, household kerosene, cooking gas, and compressed natural gas from the surcharge. The Minister of Finance is empowered to determine the date of commencement of the surcharge by order published in the Official Gazette,¹⁴ and accordingly the surcharge has not yet come into effect. Operators should nonetheless factor this potential liability into their medium-term fiscal planning.

8. Updated Rules for Business Reorganisation

The PIA required, as a condition for tax-neutral treatment on the transfer of a trade or business in upstream petroleum operations, that the companies involved must have been members of a

¹⁰Chapter 6, Nigeria Tax Act, 2025.

¹¹Section 186(1), Nigeria Tax Act, 2025.

¹²Section 202, Nigeria Tax Act, 2025.

¹³Chapter 7, Section 159, Nigeria Tax Act, 2025.

¹⁴Section 161(1), Nigeria Tax Act, 2025.

recognised group of companies for a consecutive period of at least three years prior to the date of reorganisation.¹⁵ Only where this three-year requirement was met, could the carry-over of unutilised capital allowances and the transfer of assets at tax written-down values apply.

The NTA removes this explicit three-year requirement.¹⁶ The reorganisation provisions of the NTA no longer condition eligibility on a minimum duration of group membership prior to the reorganisation. This makes it easier for upstream petroleum companies to qualify for tax-neutral treatment on business transfers, asset reorganisations, and internal group restructurings, providing greater flexibility for corporate structuring in the sector.

9. Local Domiciliation Requirement for Decommissioning and Abandonment Funds

The PIA provides that every lessee and licensee shall establish, maintain, and manage a decommissioning and abandonment fund held by a financial institution that is not an affiliate of the lessee or licensee, in the form of an escrow account accessible by the NUPRC or the Nigerian Midstream and Downstream Petroleum Regulatory Authority.¹⁷ The PIA did not require the financial institution to be Nigerian; it only required that it be non-affiliated with the operator.

The NTA modifies this by making local domiciliation a condition for tax deductibility.¹⁸ Decommissioning and abandonment provisions are only deductible for tax purposes where at least 30% of the fund is deposited in an escrow account with a Nigerian bank accredited by the Central Bank of Nigeria. Operators who do not meet this threshold lose the tax deduction on their decommissioning and abandonment provisions, effectively increasing their taxable income. By virtue of section 87 of the NTA, this framework does not apply to companies that did not convert their licences and leases under the PIA conversion process; those companies continue to be governed by the fiscal terms of their pre-conversion arrangements.

CONCLUSION

The reforms introduced by the NTA and NTAA reflect a clear policy direction towards greater fiscal centralisation, enhanced enforcement, and improved revenue assurance within Nigeria's petroleum sector. By redefining administrative responsibilities and strengthening the link between tax compliance and operational rights, the new framework raises the stakes for regulatory adherence. For operators, the implications extend beyond compliance to strategic decision-making. The evolving regime demands a more deliberate approach to structuring, reporting, and risk management, as regulatory expectations become more exacting. As implementation unfolds, the ability to anticipate and adapt to these changes will be critical to maintaining operational stability and long-term viability within the sector.

¹⁵Section 271(1), Petroleum Industry Act, 2021.

¹⁶Section 190, Nigeria Tax Act, 2025.

¹⁷Section 233(1), Petroleum Industry Act, 2021.

¹⁸Section 86, Nigeria Tax Act, 2025.

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