


Petroleum Industry Act (PIA): A new Fiscal Framework for the Taxation of Oil & Gas Industry

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November, 2021

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Our Focus: Presentation Objectives

This presentation will focus majorly on Chapter 4 of the Petroleum Industry Act and is made with a view to achieving the following:

01

Deepening participants' understanding of the Petroleum Industry fiscal framework and changes in the oil & gas taxation

02

exposing participants to the tax implications of Chapter 4 of the Petroleum Industry Act., and

03

Highlighting the possible impact of the fiscal changes on government revenue in the short and long term.

Setting the stage…..

- *The Nigerian Petroleum Industry has been yearning for reforms in decades past; it has now come, although a bit late (considering the gradual global shift from fossil fuel to other green energies and renewables), it is indeed better late than never.*
- *The present Petroleum Profit Tax Act commenced in 1958 while the Deep offshore inland Basin and Production Sharing Contract Act commenced in 1999 and was recently amended in 2019 to reflect the economic realities of the present time.*
- *Following a journey of more than two (2) decades, the President on **Monday 16th August,2021** signed into law the much anticipated Petroleum Industry law.*
- *Stakeholders are optimistic that the new law has the potential of putting to an end, the decades of uncertainties concerning the future of the Nigeria Oil & Gas industry, **and attract investors around the globe.***

PIA: Fiscal Objectives

To establish a progressive fiscal framework that encourages investment in the oil & gas industry, ensuring risks are adequately rewarded and enhancement of government revenues.

Provide a forward-looking fiscal framework that is based on core principles of clarity, dynamism and fiscal rules of general application

Establish a fiscal framework that expands the revenue base of the Federal Government while ensuring a fair return for investor

Simplify the administration of petroleum tax, and promote equity and transparency in the petroleum industry fiscal regime.

PIA: An Investors Delight

WHY OIL & GAS INVESTORS MUST

get on

BOARD

FISCAL INCENTIVES AVAILABLE TO POTENTIAL INVESTORS IN THE OIL & GAS INDUSTRY

Oil & Gas Investors' Fiscal Guide.

FISCAL INCENTIVES AVAILABLE TO POTENTIAL INVESTORS IN THE OIL & GAS NDUSTRY

For Oil Exploration, Development & Production

- Reduced Tax Rates for Upstream companies to a marginal rate of 60% for converted contracts, 45% for new entrants and marginal fields.

- Hydrocarbon tax not applicable to frontier acreages until it is reclassified pursuant to Section 68(3) of the Bill and Deep offshore.

- Lower Royalty rates. For deep offshore fields with production during the month of not more than 50,000 bopd, royalty rate shall be 5%, and maximum of 7.5% for crude oil and condensate production not more than 10,000 bopd.

- Marginal Fields to be converted to PPL or PMLs and applicable marginal rate of 45% as specified under section 267 (b) of the PIA.

FISCAL INCENTIVES AVAILABLE TO POTENTIAL INVESTORS IN THE OIL & GAS NDUSTRY

Oil Exploration, Development & Production

- Generous Production allowances:

  - For existing License holders, the lower of 20% of the fiscal oil price and $ 2.50 per barrel for any volume
  - For new projects or leases granted after the commencement of the Act, the lower of 20% of the fiscal oil price and $ 8 per barrel up to a determined cumulative maximum production.

- Tangible and Intangible Drillings Costs on 1st & 2nd Appraisal Wells, to be expensed 100% in the year it was incurred.

- Existing Joint Ventures or new companies can go into IJVC with NNPC and the initial capitalisation costs and transactions required to create the IJVC shall not be subject to additional tax liabilities, provided that all assets, interests and liabilities previously held shall be transferred to the IJVC at their net book value.

FISCAL INCENTIVES AVAILABLE TO POTENTIAL INVESTORS IN THE OIL & GAS NDUSTRY

Gas Production, Re-injection and Distribution

- Investors in gas pipelines are granted additional five years tax-free period after the expiration of the tax free period under Section 39 of CITA. Cumulative tax free period now 10 years.
- Costs incurred on gas development up to measurement points is recoverable under Hydrocarbon Tax & Companies Income Tax.
- Integrated Upstream Companies, to now pay only CITA on their Midstream operations and benefit fully from the incentives of section 39 of CITA. Previously income from midstream operations that are integrated with upstream operations were taxed under PPTA @85%.
- Costs of gas re-injection wells, which are re-injecting natural gas that otherwise would be flared subject to ratification by the Commission will be allowed as tax deduction.
- Costs consolidation across terrain are allowed for CITA, while for HT it is allowed across the terrains in which the companies hold licences or leases in accordance with the two categories of chargeable tax under Section 267 of the Act

Oil & Gas Investors' Fiscal Guide.

FISCAL INCENTIVES AVAILABLE TO POTENTIAL INVESTORS IN THE OIL & GAS NDUSTRY

Gas Production, Reinjection, Distribution & Power

- Introduction of a strong Gas Domestic Delivery Obligation to correct the defect of Domestic Gas Supply obligation as well as opening up the midstream sector.

- In order to create long term stability and predictability for the prices of marketable natural gas, the pricing framework is included in the PIA.

- Gas Pricing stability for the Power and Commercial Sector as provided for in the Third Schedule of the PIA.

- Suppliers and buyers can also build their own pipelines (subject to third party access) in order to transport their gas.

- Creation of Midstream Infrastructure Funds for the purpose of construction of pipelines that allows producer, supplier and consumer to transport their own gas through such lines created from the midstream infrastructure funds.

FISCAL INCENTIVES AVAILABLE TO POTENTIAL INVESTORS IN THE OIL INDUSTRY

- Funds created for decommissioning and abandonment to be **maintained and managed** by the lessee or licensee which will be held by a financial institution that is not an affiliate of the lessee or licensee in the form of an escrow account assessable by the Commission or the Authority .
- Such Contributions shall be allowed for tax deduction under the Hydrocarbon tax and Companies Income Tax.
- Reduced tax rates across all terrain up to zero rates for deep offshore operations.

02 Tax Changes in the PIA

Dual Tax Concept (Hydrocarbon Tax & Companies Income Tax.

Petroleum Industry Fiscal Framework: CH-4

CHAPTER

Chapter 4

PARTS

11 PARTS.

PART I- XI

SECTIONS

49 SECTIONS

Sc. 260-301: Hydrocarbon Tax

Sc. 302: CITA

Sc.306: Royalty

APPLICABLE SCHEDULES

2 SCHEDULES
(out of 8 Schedules)

Sch. 5: Capital Allowances

Sch. 6: Production Allws. & CPR

PIA- Fiscal Administration. (who & what to do…!)

01

All monies collected (taxes, royalties, profit oil, signature bonuses etc) from the petroleum industry due to Government shall be timely transferred to the Federation Account

02

FIRS to assess and collects Hydrocarbon taxes, Companies Income Tax and Education Taxes from the oil & gas industry .

FIRS is also responsible for the enforcement of the provisions of chapter 4 of the Act as it relates to taxes.

03

The Commission to determine and collect royalties, signature bonus and related payments of production shares , profit oil from the Upstream Petroleum Sector.

04

The Authority to determine and collect all related payments from downstream and midstream sector of the industry including gas flare penalty..

Dual Tax Concept: Hydrocarbon Tax & CIT

Petroleum Industry Act introduces a dual tax system to the Nigerian Tax administration. A system that has proven to be effective for the taxing of natural resources. One of the country that has successfully adopted this system is Norway.

Dual tax system imposes a special tax on oil resources to guarantee governments take on oil exploitation and also ensure that oil & gas companies pays their corporate income taxes.

Companies in Upstream Petroleum operations in the onshore, shallow water and deep offshore, will now be subjected to tax under Hydrocarbon Tax (HT) and Companies Income Tax (CIT). Hydrocarbon Tax shall apply to crude oil as well as field condensates and liquid natural gas liquids produced in the fields upstream of the of measurement points.

Hydrocarbon Tax shall not be applicable to Frontier until it is reclassified after a significant discovery has been made.

Companies under Upstream Petroleum Operations shall also be subjected to Companies Income Tax and the tax already computed under hydrocarbon taxes shall not be deducted from the Companies income tax liability.

PIA; Key Changes

Upstream Petroleum Operations terminates at the Upstream Measurement Points.

Unlike PPTA, under section 11, Condensates and natural gas produced from NAG fields, and volumes determined at measurement points, if subsequently comingled with crude oil will not be taxed under hydrocarbon tax.

Dual Tax Concept Cont'd

Hydrocarbon Tax shall not apply to:

- Associated natural gas, including gaseous natural gas liquids produced in the field and contained in the rich field gas and non associated natural gas.
- Condensates and natural gas liquid produced from non-associated gas in fields or gas processing plants, provided that the related volumes are determined at the measurement points or at exit of gas processing plants regardless of whether they are subsequently comingled with crude oil.
- Condensates and natural gas liquids produced from associated gas at gas processing or other facilities downstream of the measurement points.
- Costs of production of associated gas upstream of the measurement points to be treated as part of crude oil for the purposes of calculating Hydrocarbon Tax, with exception from gas cap associate gas well.

There is no chargeable tax rates for Upstream Petroleum Operations in the Deep offshore waters. The companies will however be subjected to Companies Income Tax Act.

PIA; Key Changes

Upstream companies in the deep offshore waters will not be subjected to Hydrocarbon Tax.

AGFA provisions under PPTA retained up to measurement points.

Costs of production of Associate Gas from a gas cap well shall not be charged to Hydrocarbon tax.

Concept of Voluntary Conversion /Relinquishment upon renewal

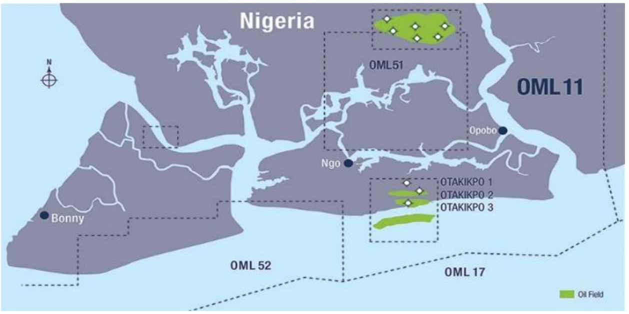
PIA Section 92 & 93

- A holder of an existing oil prospecting license or oil mining lease may enter into a voluntary conversion contract under this Act.

- A converted license or lease shall benefit with the fiscal provision of chapter 4 of the Act. The terms shall include termination clauses of all arbitration and court cases related to respective OPL or OML.

- All stability clauses provisions provided by NNPC shall be null and void and the AGFA Incentives provided for under section 11 & 12 of PPTA shall not apply.

- All conversion contract to be concluded at the earlier of 18 months from the date of passage of the Act (effective date) or the expiration date of the OML or OPL.



Marginal Fields/Voluntary Conversion ,Relinquishment upon renewal

PIA Section 92, 93 ,94 & 303

- Where a holder fails to convert, all terms applicable to the OPL & OML continues until the termination or expiration of the respective OPLs & OMLs

- An OPLs or OMLs that fails to convert at the expiration of contract period shall be relinquished or renewed at the new fiscal terms under the PIA. Furthermore, new entrant arising from bids rounds to be carried out after the passage of the act, shall be subjected to the provision of the PIA.

- A producing Marginal Field shall be allowed to continue to operate original royalty rates and farm out agreements, but shall convert to a Petroleum Mining Lease under this Act, with applicable lower tax rates for license holders after the Act within 18 months from the effective date.

- Any discovery declared as marginal field prior to 1st January, 2021 and is not producing shall be converted to petroleum prospecting license and shall benefit from the terms for new acreage under PIA.

- No new Marginal Field shall be declared under the Petroleum Industry Act.

Decommissioning, Restoration & Abandonment

PIA Section 232

- Decommissioning and abandonment of petroleum wells, installations, structures, utilities, plants and pipelines on land and offshores for petroleum operations shall be in line with international petroleum industry best practice.

- A decommissioning and abandonment shall not take place without the written approval of the Commission or Authority as the case may be. The responsibility and liabilities relating D&A shall be on that of the licensee or lessee as Contractor under Production sharing Contract.

- Each lessee and licensee shall **set up, 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 Commission or the Authority as the case may be.

- The new escrow agreement shall include any funds that have accrued prior to the effective date of this Act, and the fund shall forms part of the funds under this act.

Decommissioning, Restoration & Abandonment

PIA Section 232

- The decommissioning and abandonment plan shall establish the yearly amount to be contributed to the respective D&A Fund which shall be base on reasonable estimate by the licensee or lessee and subject to approval by the Commission.

- Bank account to be controlled by the investor, which the Commission can have direct access to the fund in case of default. The lessee or licensee are to provide statement of account every year, to the Commission, Authority and Service.

- The yearly amount contributed into the D&A Fund shall be tax deductible and where there is excess in the D&A Fund after decommissioning and abandonment has been carried out and approved by the Commission or Authority, the excess shall be considered as income for tax purposes.

03

PIA Key Section Review

Revenue determination,
Deductions,
Tax Rates, Allowances & Royalty.

Fiscal Value determination

PIA Section 262 & 268

In relation to an accounting period of the company, crude oil revenue of a company shall be the value of chargeable oil adjusted to the measurement points based on:

- Proceeds of all chargeable oil sold by the company
- Value of all chargeable oil disposed by the company.

The value of chargeable oil disposed of, shall be regarded as aggregate of the value of that crude oil determined for royalties for all fields in accordance with the Act.

The fiscal price for the fiscalisation of crude oil sold or disposed shall be determined by the Commission on export parity basis.

PIA; Key Changes

Crude oil to be sold by the company.

Where crude oil is exported by another company on behalf of the owner, the crude shall for the purpose of PIA be deemed to have been exported by the owner of the crude.

PIA no longer recognize any financial agreement or arrangement between the federal government and the international oil companies which could alter the fiscal rules. (e.g MCA & other alternatives funding arrangements). Previously under section 9(2) of PPTA.

The Commission to determine fiscal price

Incidental Incomes under section 9 of PPTA, previously taxed as part of oil revenue to now be treated under CITA.

Allowable deductions under Hydrocarbon Tax

PIA Section 263

In the determination of adjusted profit of a company in upstream petroleum operations for any accounting period, there shall be deducted expenses that are wholly, reasonably, exclusively and necessarily incurred.

Expenses directly incurred for the production of the crude oil like, rent, royalties incurred and paid, repairs of field plants, tangible and & intangible for the drilling of first two appraisal wells in the same fields.

Expenses incurred directly in connection of drilling of first exploration wells, all costs the liabilities of which was incurred by the company to the FGN, State or Local Government.

Any amount contributed to a fund for the purpose of decommissioning and abandonments. Any surplus or residue of the fund shall be subjected to Hydrocarbon tax.

Costs of gas reinjection wells; any amount contributed to Host Community, Environmental remediation Fund, NDDC etc.

PIA; Key Changes

Section 10 of PPTA provides for all **outgoings** & expenses, under PIA the word Outgoings was deleted.

Reasonability is now considered under hydro carbon tax for the determination of allowable deduction.

All Intangible drilling costs and subsequent exploration wells costs to be treated as capital expenditure and amortized over five (5 years Unlike PPTA where they were expensed 100% in the year it was incurred.

Costs of gas reinjection wells which are re-injecting natural gas that otherwise be flare, to be allowed for deduction under hydrocarbon tax.

Ascertainment of Chargeable tax

PIA; Key Changes

Section 267

- Tax Rates will now be on PML (Converted OML) and PPL (New Leases) basis pursuant to section 267.

- Removal of Incentives for lower tax rate of 65.75% for the first five (5) years for onshore & shallow water assets currently in practice as most asset are de-risk.

DESCRIPTION	PETROLEUM MINING LEASES OPERATION WATER DEPTH	TAX RATE		TOTAL MARGINAL NEW RATE	OLD RATE
		HT	CIT		
Existing & Converted Licence Holders	**Onshore/Shallow Water Area** (Pursuant to section 93 (6) (b) & 93 (7) (b) of the PIA	30%	30%	**60%**	**65.75% & 85%**
	Deep offshore Water Area (Pursuant to section 93 (6) (b) & 93 (7) (b) of the PIA	0%	30%	**30%**	**65.75% & 85%**
Licence Holders after the Act, Relinquishment/renewal and Marginal Fields (PPLs & PMLs) Holders	**Onshore/Shallow Water Area** (Pursuant to section 93 (6) (a) ; 93 (7) (a) & 94 (1) of the PIA	15%	30%	**45%**	**65.75% & 85%**
	Deep offshore Water Area (Pursuant to section 93 (6) (a) & 93 (7) (a) of the PIA	0%	30%	**30%**	**65.75% & 85%**

Non-Allowable deductions under hydrocarbon tax

PIA Section 264

All expenses that are not wholly, reasonably, exclusively and necessarily incurred for the petroleum operation shall not be allowed for hydrocarbon tax purposes.

Corporate expenses like interest expenses, bank charges, head office overhead, arbitration and litigation costs, production and signature bonuses paid for the acquisition of rights over petroleum deposit or renewal of licenses.

Tax inputted into a contract or an agreement on net of tax basis and paid by the company on behalf of a vendor

All custom duties, amount incur in the respect of tertiary education tax, company income tax.

Expenditure incurred as penalty, natural gas flare fees or imposition relating to natural gas flare.

Any contribution to a pension, provident or other society scheme.

PIA; Key Changes

Gas flare penalties not allowed as deduction under hydrocarbon tax.

Costs arising from Net of taxes contract are now disallowable costs in the hands of the company bearing the taxes on behalf of the vendor.

Most disallowable deductions under the PPTA were retained.

Expenses for the purchase of information for petroleum deposit other than for the acquisition of geophysical and geological data and information, not to be allowed as deduction under hydrocarbon tax.

Costs and Taxes Consolidation

PIA Key Changes

PIA Section 272

- Costs consolidation across terrain are allowed for CITA only for companies engaged in Upstream Petroleum Operations while for Hydrocarbon Tax, it is allowed across the terrains in which the companies hold licences or leases in accordance with the two categories of chargeable tax under Section 267 discussed in the previous slide.

- Any loss incurred by a company selling or transferring its trade to another company shall not be allowed against the assessable profit of the company acquiring the company.

- A company that is a contractor, shall be allowed to consolidate its losses and revenues across PPL & PMLs on commencement of this act.

Cost Price Ratio (CPR)

PIA Section 266 (2) & 6th Schedule

- In the determination of the chargeable profit, the total cost shall not exceed the cost-price ratio.
- The costs price ratio limit shall be 65% of gross revenue determined at the measurement point.
- All allowable total costs (i.e allowable expenses under section 263 and capital allowances under the fifth schedule shall be subjected to CPR. (excluding production allowances, rent, royalty & contribution to fund or scheme approved by the commission, e.g. Host Com fund, Environmental remediation fund, NDDC etc)
- Any unrecovered costs will be allowed to be carried over to the subsequent year.
- Any cost that exceed the CPR at the termination of upstream petroleum operations, shall not be deductible for the purpose of calculation of the terminal hydrocarbon tax

PIA Key Changes

Production Allowance

<u>**6th Schedule of PIA**</u>

- The PIA intends to reward output rather than costs. Hence Investment Tax Credit (ITC), Investment Tax Allowance (ITA) & Petroleum Investment Allowances have been replaced with Production Allowances.

- Production Allowances shall be granted per field for crude oil production by a company in each year of production as follows:

a. For existing license holders after conversion contractor or renewal of licenses, the Production Allowances shall be:

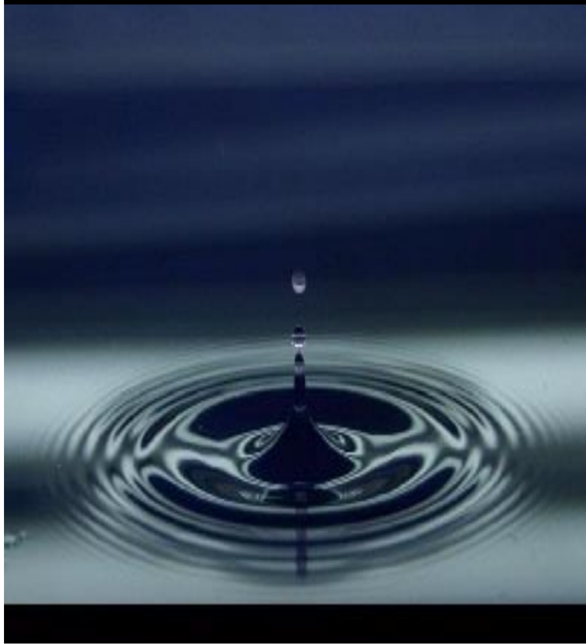
➢ the lower of 20% of the fiscal oil price and $ 2.50 per barrel for any volume

b. For new projects or leases granted after the commencement of the Act:

➢ the lower of 20% of the fiscal oil price and $ 8 per barrel up to a cumulative maximum production of:

- **Onshore**: 50million barrels
- **Shallow**: 100million barrels
- **Deepwater:** 500million barrels

20% of oil (fiscal) price/bbl or US $4.00 per Barrel thereafter



Production Allowance cont'd

6th Schedule of PIA

- Any allowances for crude oil shall also apply to condensates and liquid natural gas liquids.
- No production allowance shall be granted on natural gas production.
- Production allowances shall be excluded in the determination of total costs for the purpose of Cost Price ration and shall be 100% granted in the year of production.
- The detailed procedures for the determination of production allowances shall be established in regulations by the Commission.

PIA Key Changes

Capital Allowance cont'd

5th Schedule of PIA

Capital expenditures on .

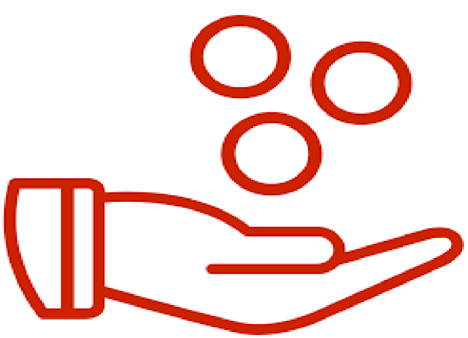
- Qualifying Plant Expenditure
- Qualifying pipelines (including FPSO)
- Qualifying building expenditure
- Qualifying Drilling Expenditure (both tangible and intangible)

- Both tangible and intangible drilling costs to be now capitalized and amortized over a period five (5) years with 1% retention value in the 5th year.

- Pre-production costs amortization rule is also retained.

- Additional exploration and appraisal wells expenditures (i.e after the 1st & 2nd Appraisal wells) to be amortized over five years.

PIA Key Changes



Application of Companies Income Tax Act

PIA Section 302

PIA Key Changes

- Companies income tax to be applicable to upstream, midstream and downstream petroleum operations.

- For upstream companies, the revenue stream shall be from crude oil sold or disposed of, Condensate, natural gas sold and any other incidental income.

- A company can elect to be in more than one stream, provided that it shall register and use a separate company for each stream.

- Stamp duties and capital gains tax shall be waived for existing companies that convert to this fiscal regime and want to venture into more than one stream.

- Companies can also engage in an Integrated Strategic Projects (ISP), i.e produce oil and natural gas, refined to finished products and supplied in wholesale solely to domestic market. Its midstream operations shall be consolidated with upstream operations and relevant tax rules applies including transfer pricing rules.

- Hydrocarbon tax shall not be an allowable deduction in determining the Companies Income Tax.

Companies Income Tax Act rules Cont'd

PIA Key Changes

PIA Section 302

- Natural gas transferred or disposed from upstream to midstream or downstream shall be subject to tax under the Companies Income Tax Act (CITA).
- Midstream and downstream oil and gas operations to benefit from the incentives provided under section 39 of CITA and investors in gas pipeline will be granted additional tax free period of five (5) years at the expiration of tax free period provided under section 39 of CITA.
- Natural gas liquids and liquid petroleum gas derived from natural gas shall be subject to tax under CITA.
- Capital allowances for upstream assets to be granted in accordance with fifth schedule for upstream operations , while midstream and downstream shall be in accordance with the Second Schedule of the CITA.
- All companies involved in upstream petroleum operations shall apply the accounting period and taxing rules provided under hydrocarbon tax. (including filing and payment of Companies Income Tax on estimates).

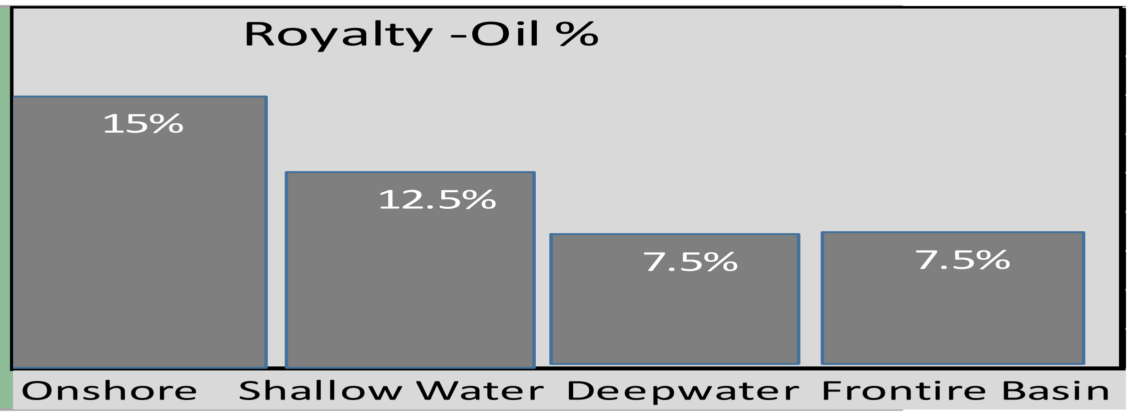
Royalty determination

7th Schedule of PIA

- The Act introduces royalty by production and royalty by price.

Royalty by Production Rates (Oil)

Royalty Rates by
Production



- For deep water operation with production during a month of not more than 50,000 bopd, the royalty rate shall be 5%, above 50,000 bopd shall be at the rate specified above.

- For onshore and shallow water fields, including marginal field with crude oil and condensate production not more than 10,000 bopd during a month, the royalty rate shall be:
  1st 5,000 bopd = 5%
  next 5,000 bopd= 7.5%.

Fields with crude oil and condensate production above 10,000 bopd during a month, the share of production above the 10,000 barrels shall be at the rate specified in the table above.

Royalty determination

7th Schedule of PIA

Royalty by Production Rates (Oil Production)

- Where a single field covers two or more PMLs, the royalty rate shall be determined based on total production from the field.
- Where a field is located partially in onshore and in shallow water, or partially in shallow water and deep offshore areas, the weighted average royalty shall be calculated.
- The calculation shall be stated in Regulations that will be release by the commission from time to time.

PIA Key Changes

The introduction of lower Royalty rate for production threshold is to encourage investment and discourage over burden of the PML holders.

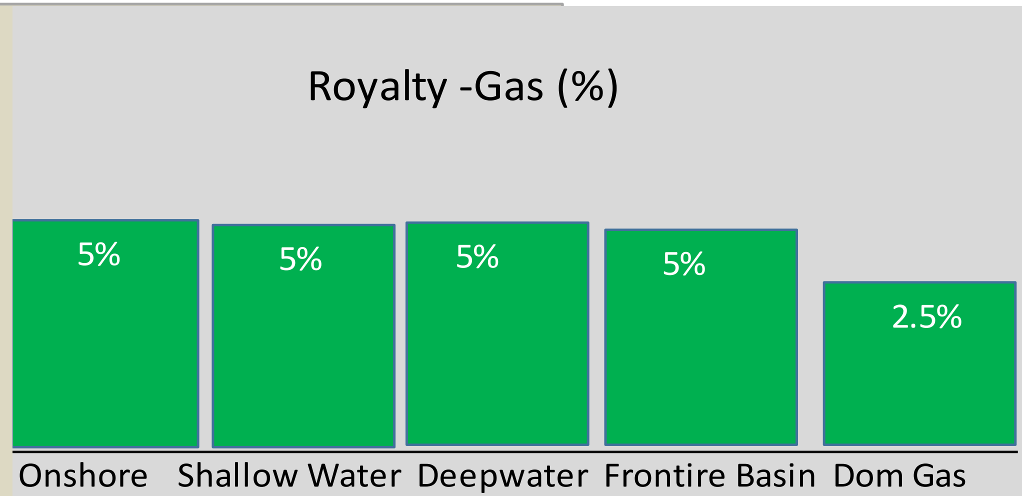
Royalty rates for Straddles oil fields across different terrain to be determined on weighted averaged and provided through regulations.

Royalty determination

7th Schedule of PIA

Royalty by Production Rates (Gas Production)

Royalty Rates for **Gas Production**



- Royalty rates for gas production is 7% for onshore and shallow waters and 5% for deep offshore, PIA has equalized these rates to encourage gas development and utilization.

- There shall be no royalty by price for gas and frontier acreages.

Royalty by Price determination

7th Schedule of PIA

Royalty by Prices

Royalty Rates by **Price**

Price Range	Onshore, Shallow & Deep waters
From US$0 and up to US$50/barrel	0 per cent
From US$51 and up to US$100/barrel	5 per cent
Above US$150/barrel	10 per cent

- **There is a liner interpolation between prices above $ 50 per barrel and $150 per barrels , For instance if the price is $ 75 per barrels, the royalty rate is 2.5%.**
- **The price benchmarks are adjusted yearly for inflation by adding 2% per year to the benchmark price.**
- **Royalty derived by price shall be for the credit of the Nigerian Sovereign Investment Authority.**
- **Where any royalty due and payable under the Act is not paid within two (2) months after the month in which the royalty is due, then it qualifies to be debt and shall attract:**

(a) 10% penalty plus LIBOR (foreign currency) and NIBOR (local currency) plus 10% basis point

(b) subsequent defaults = 1st day of default- N10m or USD Equivalent

N2m /USD Equivalent for each day the failure continues.

04

PIA: Changes in Tax Compliances Rule

Filing, Payments and Penalties for defaulters.

PIA: Filing and Payment Rules

PIA Key Changes

- Existing companies that convert, are to file their 1st set of returns 18 months from the date of commencement of the Act.
  - *Current government revenues preserved for 18 months for stability and planning.*

- Introduction of the self- assessment regime: Upstream Petroleum Operation Companies to file their actual tax returns with evidence of payment of the final tax (13th Installment) unlike current practice where the final installment payment is due within 21 days from the date of receipt of assessment notices.

- Companies to file estimates for Companies Income Taxes and pay monthly installment. – This guarantees speedy revenue for government.

- All companies to file tax returns including companies that are yet to come into production.

PIA: Filing and Payment rules

PIA Key Changes

- All companies to file estimates and revise its estimates once there are changes in any of its costs, price or volumes.
- FIRS now has the power to review estimated tax returns and raise Demand notices where there are under-estimations
- All hydrocarbon tax computation shall be made in US Dollars.
- Penalties for late filing of returns now N10m in the month of default and N2m for each and every day the failure occurs. This is applicable to filing of estimates and actual returns.
- A person found guilty of an offences which no penalty is specifically provided, on conviction shall be liable to a fine of N20m or other sum as prescribed by the Minister of Finance
- A schedule showing total production allowance from each field to form part of returns of a company in upstream petroleum operations.
- A Company that is yet to commence production to file audited accounts within 18 months from the date of incorporation in case of a newly incorporated organization and within five months for other companies as it is presently provided under the PPTA.

05

Miscellaneous & Savings Clauses

Unrecouped Capital Allowances, ITC & ITA, IJVC
and Fiscal stability etc.

Repeals and Saving clauses

Section 310 & 312

The Fiscal provisions of the PIB will in the future, sunset……

1. **Petroleum Profit Tax Act** (Cap. P13 LFN 2004 as amended – (1958);
2. **Petroleum Act** (Cap. 350 LFN 1990 as amended – which came into force on 27 November 1969);
3. **Deep Offshore and Inland Basin Production Sharing Contracts Act** (No. 9 of 1999 (as amended – (1993);
4. **Associated Gas Re-Injection Act** Cap A 25 LFN 2004
5. **Finance (Miscellaneous Taxation Provisions) Decrees** 1996 – 1999; and
6. Other Oil & Gas industry relevant Acts.

Note: *Petroleum profit tax Act, Deep offshore and inland basin production sharing contract act shall be fully repealed upon completion of the conversion process under section 92 or upon expiration of oil licenses that were recently renewed.*

Repeals, Saving & Miscellaneous clauses

Section 311 & second sch.

Existing PSC licenses where renewal negotiations have commenced before the effective date of the Act, such contracts shall be signed within one year of the effective date. Any failure to sign it within 1 year, the contract shall deemed to conform with PIA.

A renewed leases renegotiated PSCs shall not feature ITC unless carried forward as part of the negotiation.

Unrecouped capital allowances from existing license holders that convert pursuant to the act, shall be carried forward to the new fiscal regime.

Where existing Joint Ventures can create an Incorporated Joint Venture (IJVC) and carry on upstream, midstream or downstream petroleum operations, then:

- the initial capitalization of the IJVC and the transaction required to create an IJVC shall not create additional tax liability to holders of shares in the IJVC and
- Each dividend payment or other distribution shall be subject to Dividend WHT.

Repeals, Saving & Miscellaneous clauses

IJVCs Cont'd

Where an existing JV company opts for IJVC and will be venturing into more than one stream, then the provision of section 302 (3) shall apply.

IJVC shall be owned by the parties in accordance with their existing joint operating agreement and in the same proportion as their existing participating interest.

The IJVC shall at all-time be the operator of the leases and account for the transaction taxes emanating from operating the jointly owned leases.

FISCAL STABILITY CLAUSES

Fiscal stabilization clauses contained in any PSC or other contract entered into before the commencement of this act, shall not be applicable to the fiscal provisions listed below whether favorable or unfavorably to the Contractor:

- Generally applicable taxes, such as WHT, VAT, income tax, tertiary tax.
- Levies, taxes or payments to comply with modern principles in respect of environment, labour laws HSE etc.
- New taxes, levies or duties to implement Nigeria's commitment to climate change.

06

Wrap up

Way forward, Conclusion , Q&A

Wrap up: Upstream Tax Implications

- Fiscal uncertainty that has before now bedevilled the Nigeria Oil & Gas space has now gotten clarity and direction through the passage of the PIA.

- It is expected that with the fiscal reforms in the PIA, Foreign and local investors will be more attracted into the Oil & Gas Sector.

- The Act has provided a plethora of incentives earlier discussed, especially in midstream & downstream gas aimed at reaching a cleaner energy goal.

- The replacement of investment based incentives with production based incentive (Production allowance) will encourage more exploratory activities and enhanced oil production which will result into increased daily production of crude oil.

Way forward & Conclusion.

- The conversion of the existing lease or licenses Within 18 months from the passage of the Act, will guarantee funds for Government budget and administration.

- The Saving Clauses will allow the present tax laws to run until expiration of licenses. For instance OML 118 that was renewed in 2021 will be taxed under PPTA & DOIBPSCA in the next 20 years if the operators choose not to convert.

- In totality, the Act is aimed at growing the pie for the Government and to guarantee competitive returns on investments to the investors.

Appreciation

Thanks for your time

Q&A