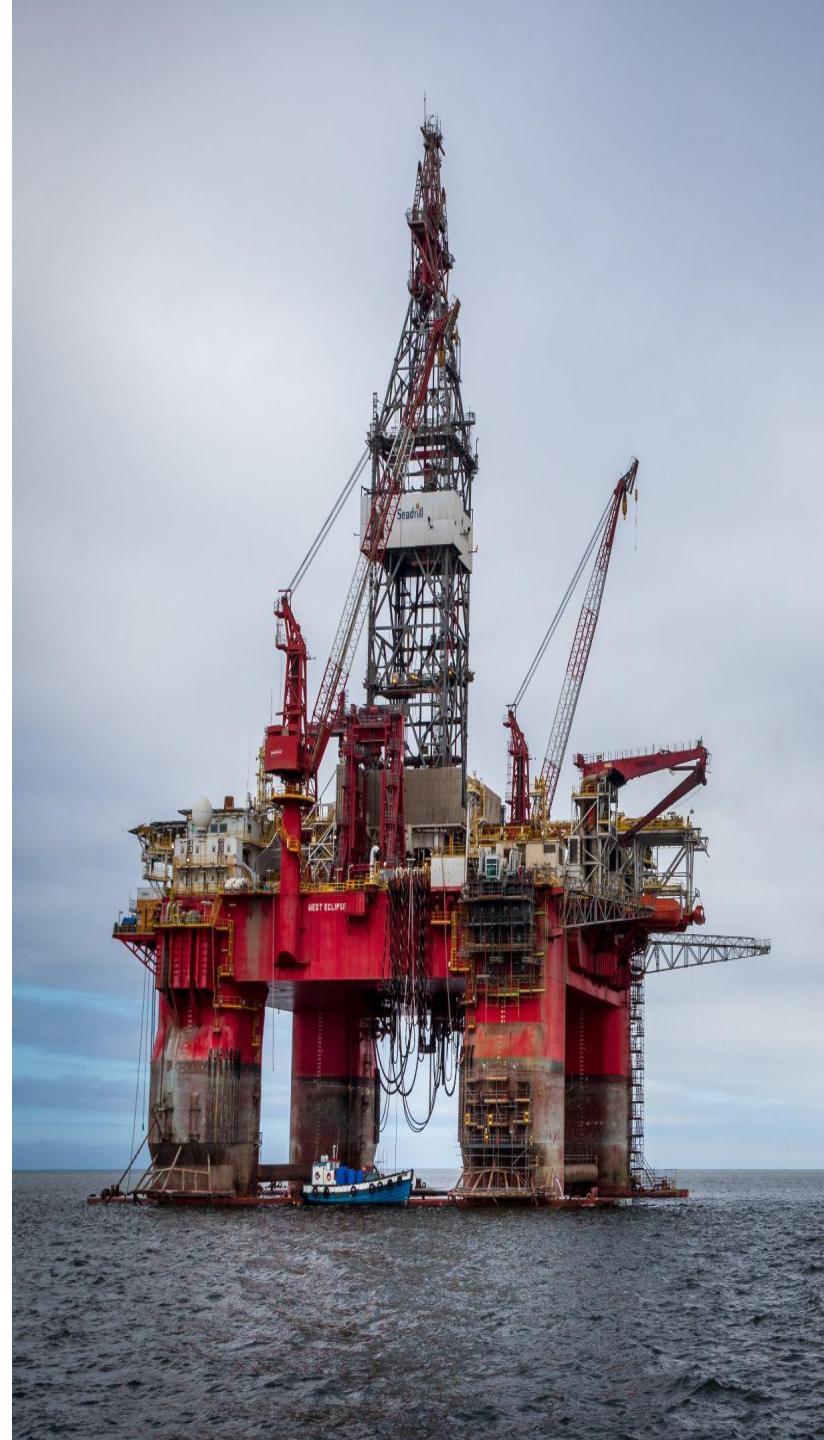




Tax, Fiscal, and General provisions of Petroleum Industry Act 2021

September 2021



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Introduction

- Petroleum Industry Act (PIA) 2021 was signed into law by the Nigerian President on the 16th of August 2021
- Several attempts in the past decade was unsuccessful
- Nigeria lost \$50 billion worth of investment in 10 years (Press)
- Major oil producers are converting to clean energy
- Mixed reactions - usual

Objectives of PIA 2021

1

Encourage investment

2

Provide a sound fiscal framework

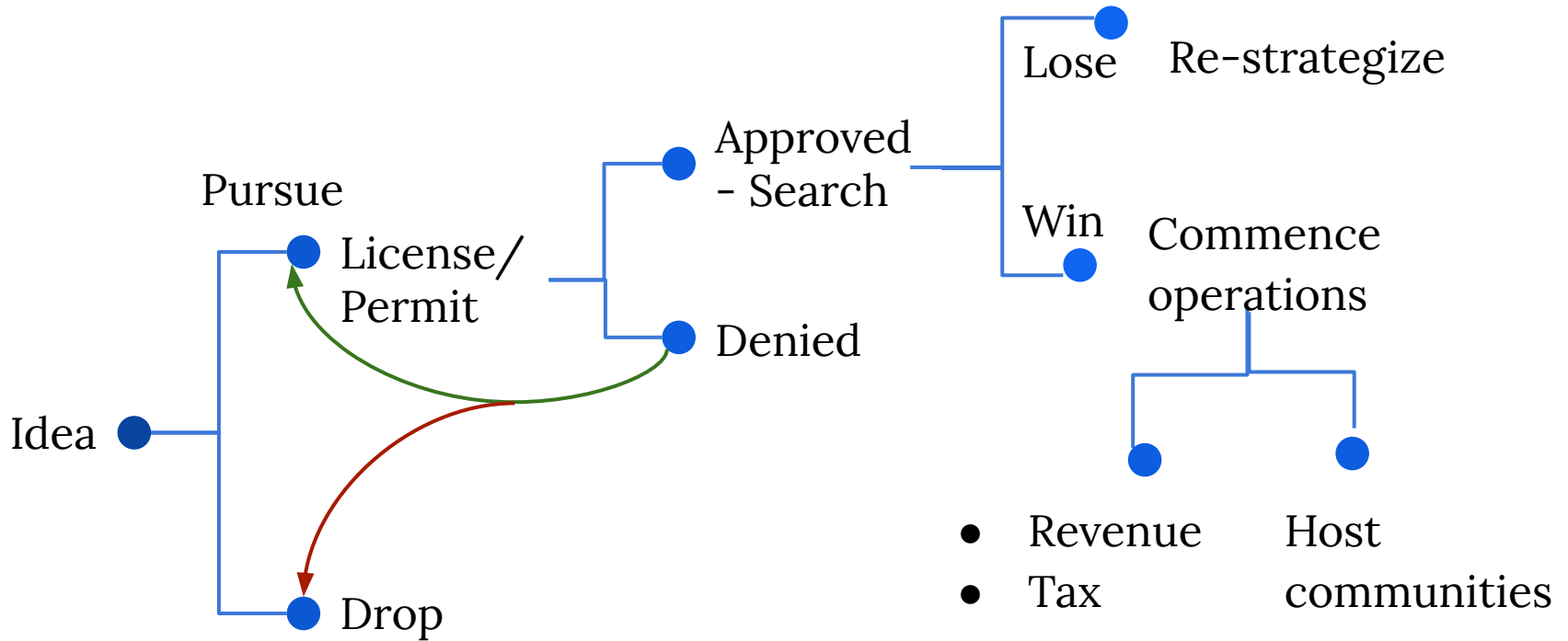
3

Expand fiscal revenue and private investment

4

Promote equity and transparency

Connecting...



Regulators

Technical and commercial regulation functions

Petroleum operations	Upstream	Midstream and downstream
Responsibility	Nigerian Upstream Petroleum Regulatory Commission (Commission)	Midstream and Downstream Petroleum Regulatory Authority (Authority)
Functions	<ul style="list-style-type: none"> Promote the exploration of the frontier basin. Enforce any regulation, provisions, guidelines of the Department of Petroleum Resources or Petroleum Inspectorate. 	<ul style="list-style-type: none"> Regulate the domestic base price of wholesale petroleum products. Ensure the accuracy of metering pumps.

Source of the Commission Fund

- A. statutory allocation
- B. licensees, permit and related fee
- C. cost of collection
- D. publications income and related activities
- E. fees for using facilities of the Commission
- F. grants, aids, contributions

Source of the Authority Fund

- A. federal allocation
- B. licensees and related fee
- C. 0.5% of the statutory levy on wholesale price of petroleum products sold in Nigeria
- D. publications income
- E. fees for using facilities of the Authority
- F. grants, aids, donations

Nigerian National Petroleum Corporation (NNPC) Limited

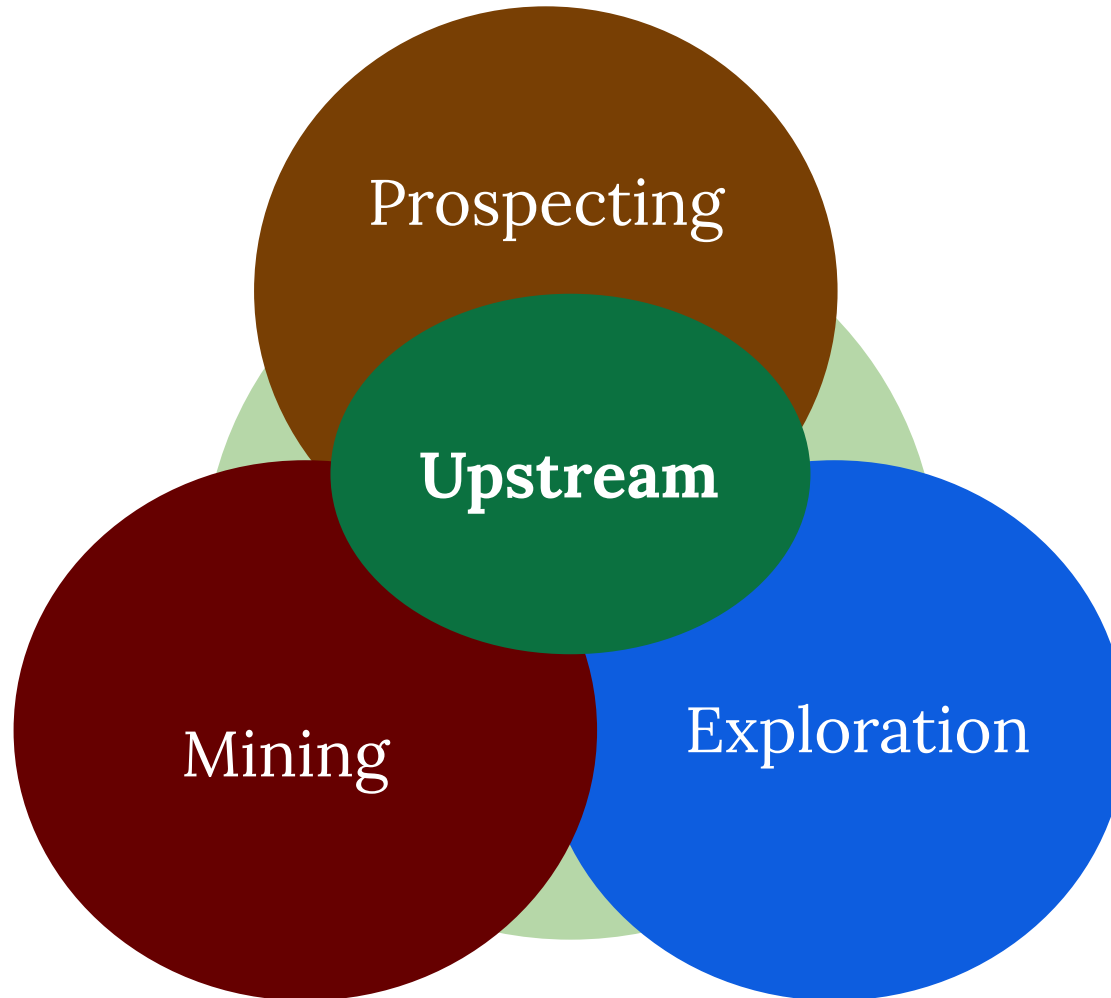
- ❖ A new company to be formed within six months of the commencement of PIA 2021.
- ❖ Government shares in NNPC Limited are non-transferable unless under due process.
- ❖ Minister of Finance will determine the assets, interests and liabilities of NNPC that are transferable to NNPC Limited.
- ❖ Appointed as agent of NNPC during the winding-down process. Employees will be transferred too.
- ❖ Can form agreement with partners on upstream petroleum operations as IJVC (Incorporated Joint Venture Company).

National Grid System

The Commission will use acreage management after consultation with the Surveyor General.

Upstream petroleum operations

Upstream petroleum operations



Petroleum exploration license

- ❖ May cover petroleum prospecting license (PPL) and petroleum mining lease (PML).
- ❖ Onshore and shallow water acreages - Initial period of 3 years, renewable by 3 years.
Deep offshore and frontier acreages - Initial period of 5 years, renewable by 5 years.
- ❖ The area in a petroleum prospecting licence has a maximum of –
 - (a) 350 square kilometres for onshore or shallow water acreages;
 - (b) 1,000 square kilometres for deep offshore acreages; and
 - (c) 1,500 square kilometres for frontier acreages.

Petroleum mining lease (PML)

Maximum period of 20 years; including the development period.

Where development period is not stated, onshore lease will use 5 years. Lease in shallow water, deep offshore or frontier acreage will use 7 years.

Conversion from oil prospecting license to PPL is permitted.

Marginal fields

- Field prior to 1st January, 2021 that is not producing will convert to PPL. A producing field will continue under the old royalty rates and farm-out arrangements but convert into a PPL within 18 months from the effective date.
- Field development plan
- Environmental management plan: Within 1 year from effective date or 6 months after the grant of license.
- Natural gas flare elimination and monetization plan: Within 12 months from effective date.
- Transfer of rights in a license or permit is disallowed except prior approval

Royalties

Per production

- onshore areas 15%
- shallow water 12.5%
- frontier basins and deep offshore (above 200m water depth) 7.5%

Per price

- Below USD50 per barrel 0%
- At USD100 per barrel 5%
- Above USD150 per barrel 10%
- Between USD 50-100 or USD 100-150 per barrel, the price is on a linear interpolation

Frontier Exploration Fund (FEF)



Promote the
exploration of the
frontier basins in
Nigeria

30% of NNPC
Limited's profit oil
and profit gas.
Further transfer to
FEF escrow account

Host Communities Development (HCD)

HCD Trust will finance and execute projects for the host communities.

Payment is 3% of the actual operating expenditure in the preceding calendar year.

The fund is exempt from taxation. Payment made by the settlor is deductible for hydrocarbon tax and companies income tax purposes.

Host community needs assessment
Host community development plan

Midstream and Downstream (M&D) Petroleum Operations

M&D gas operations

License for

1. Gas processing
2. Bulk gas storage
3. Gas transportation pipeline
4. Wholesale gas supply
5. Retail gas supply
6. Gas distribution
7. Domestic gas aggregation

Public service levy on customers for complying with public service obligations

M&D petroleum liquids

License for

1. Crude oil refining
2. Bulk petroleum liquids storage
3. Petroleum liquids transportation pipeline
4. Wholesale petroleum liquids supply

M&D Gas Infrastructure Fund (MDGIF)

Purpose:

For equity investments of Government owned participating or shareholder interests in infrastructure of midstream and downstream gas operations.

Sources of fund

- A. 0.5% of wholesale price of petroleum products and natural gas sold locally; in addition to the 0.5% payable to the Authority Fund.
- B. Funds and grants
- C. Interest
- D. Income from gas flaring penalties
- E. Donations

Due date for MDGIF levy: 21 days of sale

All streams

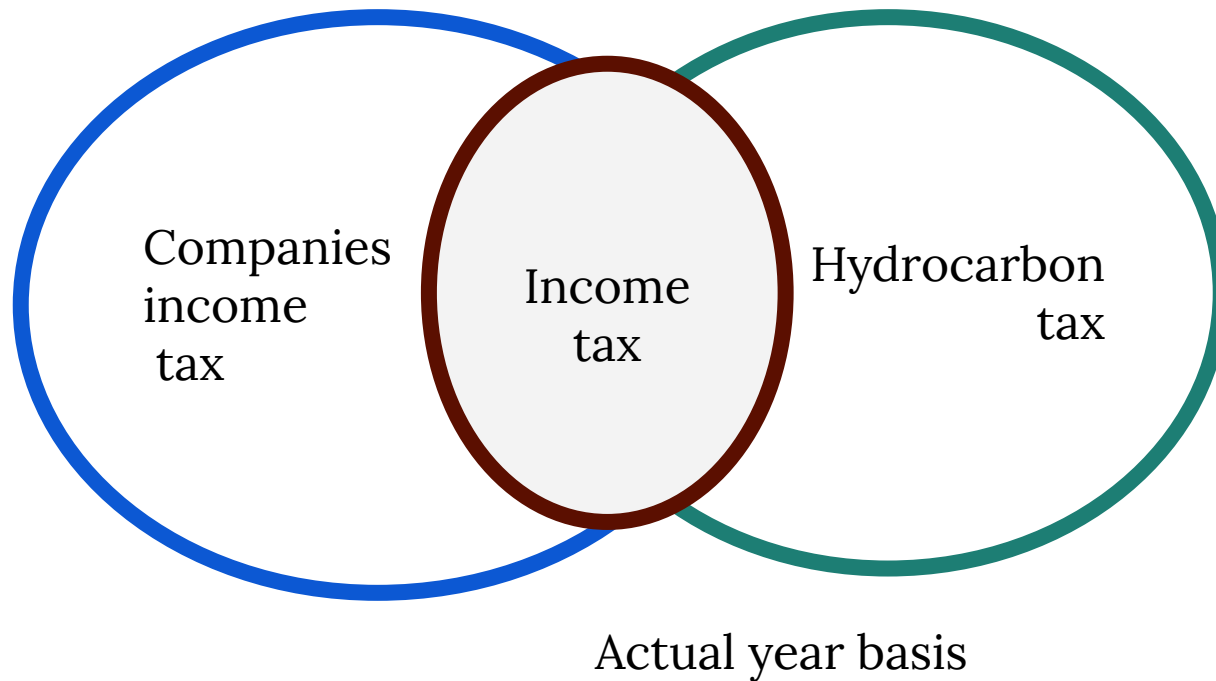
Registration of every person engaged in petroleum operations.
Response is based on the guideline or within 90 days.

Decommissioning and abandonment fund

- Requires a written approval from the Authority or Commission.
- Each lessee and licensee will open a decommissioning and abandonment fund with an independent financial institution.
- Escrow account accessible to the Authority or Commission.

Tax

Income Tax for Upstream Petroleum Operations



Hydrocarbon tax (HT)

Apply to crude oil, field condensates, natural gas liquids from associated gas and produced in the field upstream of the measurement points.

Not apply to associated natural gas, condensates and natural gas liquids produced from non-associated gas and associated gas.

Chargeable oil is the value determined for royalties for all fields.

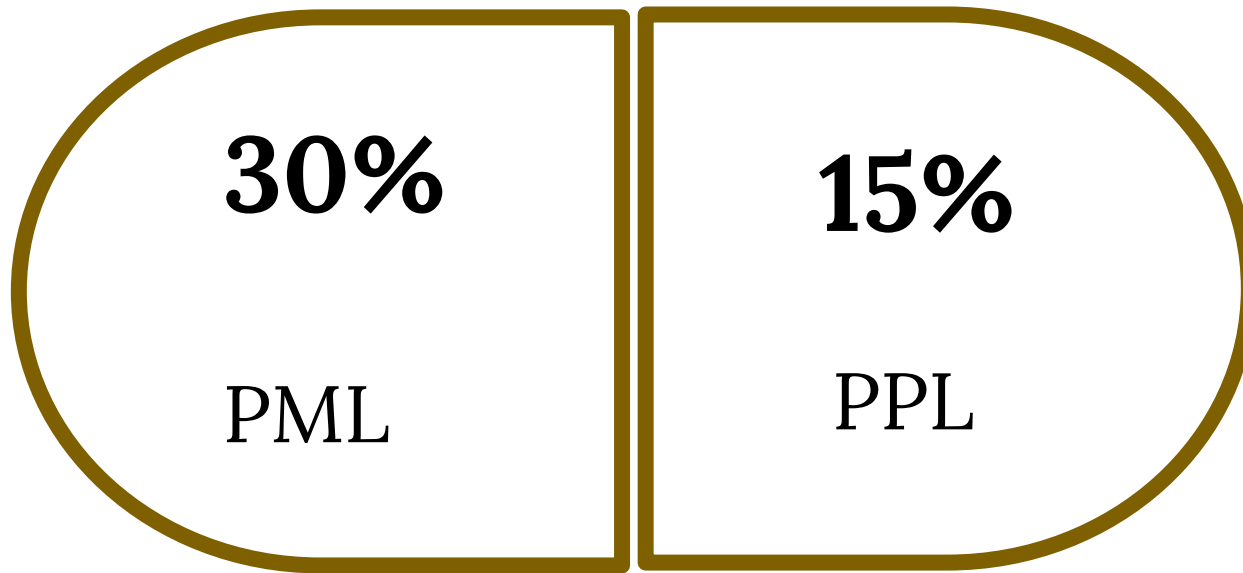
Deductions (HT)

Deductible expense: wholly, reasonably, exclusively and necessarily (WREN) incurred including contribution to HCD trusts and related contributions.

Non-deductible expense: non-WREN items including financial charges, litigation, and interest on borrowing, head office or affiliate costs, shared costs, tax, research and development costs.

Assessable profit and chargeable profits to be determined after tax adjustment.

Chargeable Tax (HT)



Profit from crude oil for onshore and shallow waters

Companies Income Tax (CIT)

Assessed on chargeable oil or gas adjusted to the measurement points and amount disposed. Transfer or disposal of natural gas and natural gas liquids.

Capital investment in midstream operations and upstream operations can be consolidated at arm's-length price. However, the consolidated amount cannot be represented for capital allowances when computing the income from midstream petroleum operations.

Acquisition costs of petroleum rights: Annual allowance of 20%, retention value of 1% in the last year until disposed.

Deductions (CIT)

Deductible expense: wholly, reasonably, exclusively and necessarily (WREN) incurred including contribution to HCD trusts and related contributions.

Non-deductible expense: non-WREN items including financial charges, litigation, and interest on borrowing, head office or affiliate costs, shared costs, tax, research and development costs.

Assessable profit and chargeable profits to be determined after tax adjustment.

Cost consolidation

Consolidation of costs and taxes for hydrocarbon tax is allowed only across assets in which it holds licenses and leases.

Consolidation of costs for companies income tax is allowed.

General

General

Conversion to new licenses

Regulations for fees, returns, rates - Minister of Finance

Integrated Strategic Project (ISP): Companies in the upstream petroleum industry willing to produce and refine oil or gas separates operations.

No stamp duties and capital gains tax when a company involved in more than one stream separates its operations; subject to conditions

Local content

Taking a bow....

1. Associated Gas Reinjection Act, 1979 CAP A25 Laws of the Federation of Nigeria (LFN) 2004, as amended
2. Hydrocarbon Oil Refineries Act No. 17 of 1965, CAP H5 LFN 2004;
3. Motor Spirits (Returns) Act, CAP M20 LFN 2004
4. Nigerian National Petroleum Corporation (Projects) Act No. 94 1993, CAP N124 LFN 2004
5. Nigerian National Petroleum Corporation Act (NNPC) 1977 No. 33 CAP N123 LFN as amended
6. Petroleum Products Pricing Regulatory Agency (Establishment) Act No. 8 2003
7. Upon the successful conversion process, Petroleum Profit Tax Act, Cap. P13, LFN, 2004 and Deep Offshore and Inland Basin Production Sharing Contract Act 2019, as amended

Conclusion



Thank you!

For further discussion, please contact

Maureen Omodiagbe

maureen@bomesresourcesconsulting.com

www.bomesresourcesconsulting.com

Stay in touch with us

[@bomesresourcesconsulting](#)





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