



FEDERAL INLAND REVENUE SERVICE
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INFORMATION CIRCULAR

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Subject: CLARIFICATIONS ON THE FISCAL PROVISIONS OF THE PETROLEUM INDUSTRY ACT IN RESPECT OF CONVERSION, TRANSITION AND COMPLIANCE MATTERS

This information circular is issued in line with Section 8 of the Federal Inland Revenue Service (Establishment) Act, 2007 (as amended), Section 304(1) of the Petroleum Industry Act, 2021 and other relevant tax laws for the information and guidance of the general public, taxpayers, tax officials, and tax practitioners on the provisions of Petroleum Industry Act, 2021. This circular should be read and applied together with other related circulars issued by the Service pursuant to the Petroleum Industry Act.

1.0 Introduction

The Petroleum Industry Act (the Act) requires all companies in the petroleum industry to transit to the full provisions of the Act which raises conversion, transition and compliance issues. This information circular aims at providing clarification on these issues and provide direction for the smooth administration of the Act.

2.0 Scope

This circular will apply to all companies transiting from the Petroleum Profits Tax Act (PPTA) and Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSCA) to the Petroleum Industry Act, and new leases and licences granted under the Act.

2.1 Definition of Terms

Conversion date: means

- a. eighteen (18) months from the effective date of the Act (16th February, 2023); or
- b. the date of expiration of an existing Oil Mining Lease which occurs before 16th February, 2023; or

- c. the date of conversion of an existing Oil Prospecting Licence to an Oil Mining Lease which occurs after 16th February, 2023.

Effective date: means the commencement date of the Act, which is 16th August, 2021.

3.0 Categories of Companies Subject to Tax Under the Petroleum Industry Act

For the purpose of determining Hydrocarbon Tax and Companies Income Tax, the fiscal provisions as outlined in Chapter 4 of the Act applies to the following categories of companies in Upstream Petroleum Operations:

a. Transited companies

- i. Existing holders of Oil Prospecting Licences (OPLs) and Oil Mining Leases (OMLs);
 - 1. upon voluntary conversion to Petroleum Prospecting Licences (PPLs) and Petroleum Mining Leases (PMLs);
 - 2. whose licences or leases expired and were renewed under the Act.
- ii. Existing Marginal Field operators upon conversion to Petroleum Prospecting Licences or Petroleum Mining Leases pursuant to the provisions of the Act.
- iii. Reclassified frontier acreages to either PPL or PML.

b. Companies with new licences or leases granted under the Act

Companies holding Petroleum Prospecting Licences (PPLs) and Petroleum Mining Leases (PMLs) granted after the effective date of the Act which include:

- i. Petroleum Prospecting Licences and Petroleum Mining Leases granted after a licensing round conducted by the Commission; and
- ii. Petroleum Prospecting Licences granted on new acreages selected pursuant to a relinquishment exercise carried out by a lessee or licensee.
- iii. Any other category of licence or lease that may be granted under the Act.

4.0 Application of Hydrocarbon Tax and Companies Income Tax

- a. The Hydrocarbon Tax is applicable to all companies in upstream petroleum operations except companies in:

- i. Frontier acreage other than those reclassified by the Minister of Petroleum Resources.
 - ii. Deep Offshore operations.
- b. Companies Income Tax is applicable to all companies in the petroleum industry (Upstream, Midstream or Downstream).

4.1 Hydrocarbon Tax

Hydrocarbon Tax will apply as follows:

- a. Companies with Petroleum Prospecting Licences will be charged to tax at 15%
- b. Companies with Petroleum Mining Leases will be charged to tax at 30%
- c. All Marginal Fields converted to Petroleum Prospecting Licences and Petroleum Mining Leases will be charged to tax at 15%

4.2 Income Chargeable to Hydrocarbon Tax

- a. crude oil
- b. field condensates
- c. liquid natural gas liquids derived from associated gas and produced in the field upstream of the measurement points
- d. balancing charge

4.3 Exemption from Hydrocarbon Tax

Hydrocarbon Tax will not be applicable to:

- i. associated natural gas;
- ii. non-associated natural gas;
- iii. condensates and natural gas liquids produced from non-associated gas in fields or gas processing plants;
- iv. any condensates and natural gas liquids produced from associated gas at gas processing or other facilities downstream of the measurement points;
- v. deep offshore Areas;
- vi. frontier Acreages not yet reclassified by the Commission; and
- vii. Other income

NOTE: All income earned by a company will be liable to Companies Income Tax.

4.4 Applicable Tax Rates

The applicable Hydrocarbon Tax and Companies Income Tax rate is as follows:

S/N	Description	Area of Operation	Hydrocarbon Tax Rate	Companies Income Tax Rate
1	Oil Mining Lease (OML) converted to Petroleum Prospecting Licence (PPL)	Onshore and Shallow water	15%	30%
2	Oil Prospecting Licence (OPL) converted to Petroleum Prospecting Licence (PPL)	Onshore and Shallow water	15%	30%
3	Frontier acreages reclassified into Petroleum Prospecting Licence (PPL)	Onshore and Shallow water	15%	30%
4	Marginal Field converted to Petroleum Prospecting Licence (PPL) or Petroleum Mining Lease (PML)	Onshore and Shallow water	15%	30%
5	Oil Mining Lease (OML) converted to Petroleum Mining Lease (PML)	Onshore and Shallow water	30%	30%
6	Oil Prospecting Licence (OPL) converted to Petroleum Mining Lease	Onshore and Shallow water	30%	30%
7	Frontier acreages reclassified into Petroleum Mining Lease (PML)	Onshore and Shallow water	30%	30%
8	Licences or leases in the Deep Offshore	Deep offshore	Not Applicable	30%
9	Unclassified Frontier Acreages	Frontier Basins	Not Applicable	30%

5.0 Transition from Petroleum Profits Tax Act

5.1 Cessation of Petroleum Profits Tax for Transiting Companies

The provisions of Petroleum Profits Tax Act and the Deep offshore and Inland Basin Production Sharing Contract Act will cease to apply to companies upon conversion and grant of the relevant licence or lease by the Minister of Petroleum Resources.

The company is required to notify the Service of its conversion and submit a copy of the licence or lease and the model contract to the Service.

5.2 Estimated and Annual Tax Computation in the Year of Transition

5.2.1 Companies Transited at Conversion Date

For companies that transit at the conversion date of the Act, tax will be computed for 2023 accounting period as follows:

- a. 1st January to 28th February 2023, using the PPTA & DOIBPSCA rules as may be applicable.
- b. 1st March to 31st December 2023 using PIA rules.

5.2.2 Companies Transited After Conversion Date

For companies that transit after the conversion date of the Act, tax will be computed for the relevant accounting period as follows:

- a. 1st January up to the end of the month in which conversion occurs, using the PPTA & DOBPISA rules as may be applicable.
- b. The first day immediately following the month in which the conversion occurs to 31st December of that year, using PIA rules.

5.2.3 Companies Transited Before Conversion Date

The rules for companies that transited after the conversion date will also apply to companies that transited before the conversion date.

6.0 Continuation of Petroleum Profits Tax Act (PPTA) & Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSA) for Non Transited Companies

Companies in upstream petroleum operations which do not transit to the Petroleum Industry Act will continue to be subject to the provisions of the Petroleum Profits Tax Act, Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSA) and other applicable laws saved under Section 311 (9) of the Act till the expiration of the licences or leases.

6.1 Tax Computation by a Company with Converted and Non Converted Licences / Leases

Where a company has multiple licences or leases and some have been converted to the Act while others are not; the converted licences or leases will be taxed under the Act while the others will continue to be subject to the provisions of the Petroleum Profits Tax Act and other applicable laws saved under section 311 (9) of the Act till the expiration of those licences or leases.

6.1.1. Illustration 1

SAN E&P Limited has two Oil Mining Leases (OMLs) OML 01 and OML 02. OML 01 has an expiry date of June 2024 while OML 02 has expiry date of July 2025.

However, the company voluntarily converted OML 01 to PML within eighteen months from the effective date of the Act and retained OML 02 under PPTA.

Treatment:

The retained OML 02 will continue to be subject to the provisions of the Petroleum Profits Tax Act and other applicable laws saved under section 311 (9) of the Act till the expiration of the OML while OML 01 will be taxed under the Act.

Accounting period

The accounting period of SAN E&P Limited remains unchanged. The company will continue to file one estimated tax return and one annual tax return which will consist of three separate tax computations, as follows:

- a. The first tax computation will be based on the PPTA and will be for the petroleum profits tax of OML 02 which was not transited to the Act;
- b. The second tax computation will be based on the Act and will be for the Hydrocarbon Tax of OML 01; and
- c. The third tax computation will be based on the Act and will be for companies' income tax under the Act for OML 01.

7.0 Self-assessment

The annual tax returns will include a duly completed self-assessment form and the evidence of payment of the thirteenth installment for Hydrocarbon Tax and companies' income tax.

8.0 Revision of Estimated Tax Returns

Where at any time during the accounting period, there is a change in any of these variables; price, costs or volume, the company is required to submit a revised estimated tax returns containing its revised estimated tax for such period for Hydrocarbon Tax and companies' income tax. Such revised estimated tax returns will be filed on a monthly basis, not later than the last day of the month.

In carrying out the revision, operations for the prior months will be actualised to reflect the actual cost, volume and price for the prior months together with the projections for the future months. The estimated returns will be subject to review and validation by the Service.

9.0 Best of Judgement for Estimated Tax

Where a company fails to submit an estimated returns or fails to revise its estimates, the Service may determine such estimates on the best of judgment

basis using relevant available information. The Service may raise best of judgment assessment and serve same on the company.

10.0 Unabsorbed Losses Brought Forward by Transited Companies

10.1 Hydrocarbon Tax

Unabsorbed losses under Petroleum Profits Tax Act (PPTA) brought forward by transited companies under the Act, will be available for deduction in arriving at the assessable profit of Hydrocarbon Tax and companies' income tax computed in the first accounting period of the company and subsequent accounting periods where the losses are not fully relieved.

10.2 Companies Income Tax

Unabsorbed losses from gas operations under the PPTA which are chargeable to tax under Companies Income Tax Act pursuant to section 11 of PPTA, will be relieved against the companies' income tax and not Hydrocarbon Tax.

11.0 Un-recouped Capital Allowances Brought Forward by Transited Companies (Excluding Transited PSC Companies)

Un-recouped capital allowances relating to upstream petroleum operations brought forward by transited companies will be available for deduction in arriving at the chargeable profit under Hydrocarbon Tax and total profit under the companies' income tax in the first accounting period. Any balance will be relieved in subsequent accounting periods.

11.1 Un-recouped Capital Allowances Brought Forward by Transited PSC Companies

Un-recouped capital allowances relating to upstream petroleum operations brought forward by transited PSC companies with the exception of Petroleum Investment Allowance (PIA) and Investment Tax Allowance (ITA) will be available for deduction in arriving at the chargeable profit under the Hydrocarbon Tax and total profit under companies' income tax in the first accounting period. Any balance will be relieved in subsequent accounting periods.

Any unutilized Investment Tax Credit (ITC) will not be eligible as a credit against companies' income tax payable.

12.0 Tax Written Down Value of Qualifying Expenditure Under the Act

Transited companies are required to separate the tax written down values of all qualifying expenditure into oil development and gas development. However, the tax written down values of qualifying expenditure pertaining to associated gas

upstream of the measurement point pursuant to section 260(2) of the Act will be part of the qualifying oil development.

Both classes of tax written down value will be considered in the computation of the total capital allowance claimable under Hydrocarbon Tax and Companies Income Tax.

The tax written down values of qualifying expenditure pertaining to gas development for upstream gas operation downstream of the measurement point and non-associated gas will only be considered in the computation of the total capital allowances claimable under companies' income tax.

13.0 Amendment or Revision of the Circular

The Service may, at any time, withdraw or replace this Circular or publish an amended or updated version.

14.0 Enquiries

All Enquiries on any aspect of this publication should be directed to:

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