# Beyond the PIA:

## The Fiscal Restructuring of Nigeria's Energy Sector

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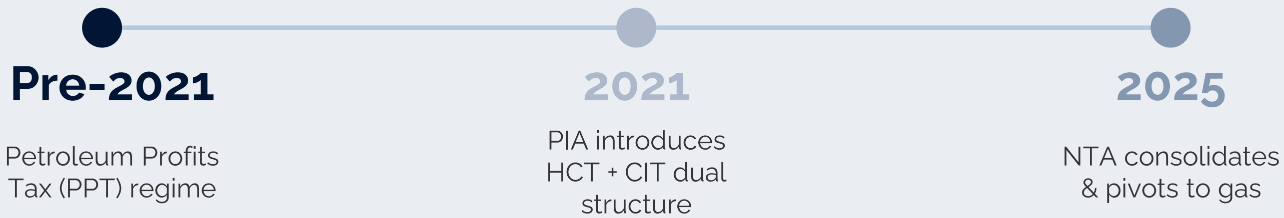
# Introduction

Nigeria's oil and gas sector has undergone significant change in recent years, particularly with the enactment of the Petroleum Industry Act 2021 (PIA), which replaced decades-old legislation and introduced a new governance and fiscal framework for petroleum operations. The PIA restructured the fiscal structure through the introduction of Hydrocarbon Tax (HCT) alongside Companies Income Tax (CIT), with the aim of modernising the sector, improving transparency, and enhancing its attractiveness to investors. Despite these reforms, the petroleum fiscal framework remained fragmented, requiring operators to navigate multiple tax statutes to ensure full compliance.[1]

Against this backdrop, the Nigerian Tax Act 2025 (NTA or Act) represents a further restructuring of the fiscal system. The Act reshapes the financial structure of the energy sector and introduces targeted incentives that signal a strategic policy shift towards gas development. In doing so, the NTA marks a new phase in Nigeria's energy taxation framework, extending beyond the foundations laid by the PIA and redefining fiscal priorities in the sector. This paper examines the extent to which the NTA restructures the fiscal framework of Nigeria's energy sector, with particular focus on its implications for upstream petroleum operations, its pro-gas stance, and the broader commercial consequences for investors.

**FISCAL EVOLUTION OF NIGERIA'S PETROLEUM SECTOR**



# The PIA Fiscal Framework

The PIA fundamentally restructured Nigeria's oil and gas sector and established the foundation of the country's modern petroleum fiscal regime. The fiscal framework of the PIA, primarily contained in its Chapter 4, sets out the statutory tax rules applicable to companies engaged in petroleum operations in Nigeria. Among its key reforms was the introduction of the HCT to replace the Petroleum Profits Tax (PPT) under the previous fiscal regime.[2] The PIA also revised applicable tax rates, royalties, and fiscal obligations across the petroleum value chain,[3] while introducing incentives for midstream and downstream gas operations and large-scale gas infrastructure projects.[4]

Despite these reforms, the complexity of petroleum taxation in Nigeria under the PIA's fiscal regime remained. Companies operating in the sector still had to navigate multiple tax legislations: dealing with obligations under the Companies Income Tax Act,[5] on one hand; and, compliance with sector-specific levies, such as contributions to the Host Communities Development Fund and the Environmental Remediation Fund, on the other hand. Also, the PIA's fiscal provisions apply primarily to holders of Petroleum Mining Leases (PMLs) and Petroleum Prospecting Licences (PPLs) issued under the Act, leaving certain legacy assets subject to transitional arrangements.[6]

**HCT**

REPLACED PPT

## The Hydrocarbon Tax

Introduced under Chapter 4 of the PIA 2021 to replace the Petroleum Profits Tax, alongside a revised royalty regime and targeted incentives for midstream and downstream gas operations.

### Multiple Tax Statutes

Operators still navigate CIT Act, HCDF and Environmental Remediation Fund obligations in parallel.

### Scope of Application

Fiscal provisions apply mainly to PMLs and PPLs issued under the Act; legacy assets remain in transition.

# A Consolidated Fiscal Structure under the NTA 2025

The introduction of the NTA sought to directly address the fragmentation and administrative complexity that characterised Nigeria's tax regime. In the energy sector particularly, the NTA consolidated multiple tax statutes into a single legislative framework, aiming to create a more unified and coherent fiscal system. The various taxes consolidated or codified under the NTA will be discussed briefly below.

## Hydrocarbon Tax

The NTA restructured the legal basis for taxing upstream petroleum operations in the energy sector. While the PIA first introduced the HCT[7], the NTA currently plays a central role in administering it. Although the provisions of the NTA concerning HCT largely replicate elements of the PIA, the consolidation of the tax laws ensures that the assessment and administration of the tax is anchored within a single statute.

It is important to note that the NTA maintained the dual-tax structure introduced by the PIA under which upstream petroleum companies remain liable to both HCT and CIT. Instructively, petroleum companies cannot deduct HCT for the purpose of computing the companies income tax.[8]

However, under the NTA, HCT extends to deep offshore operations, previously exempt under the PIA.[9] This development introduces a degree of fiscal uncertainty, particularly as several operators had structured upstream projects on the assumption that deep offshore operations were exempt from HCT under the PIA, and the NTA does not clearly specify the applicable HCT rate for such operations.[10]

Dual-Tax Structure Preserved

**HCT**

HYDROCARBON TAX

On upstream petroleum operations. Extended to deep offshore under NTA.

+

**CIT**

COMPANIES INCOME TAX

Continues to apply. HCT is not deductible in computing CIT liability.

## Value Added Tax

The NTA maintained the standard VAT rate of 7.5% introduced under Section 34 of the Finance Act 2019, while introducing targeted exemptions and zero-rated supplies relevant to the energy sector. Notably, oil and gas exports, crude oil, and feed gas used for gas processing are exempt from VAT,[11] while electricity supplied into the national grid by generation companies is treated as a zero-rated supply.[12] It may be argued that these measures are intended to support energy production and reduce fiscal barriers across the value chain.

## Codification of Energy Executive Orders

A key feature of the NTA is the codification of several energy-related executive orders, granting them statutory authority. These include the Presidential Directive 40,[13] the VAT Modification Order 2024,[14] the Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc) Order 2024,[15] as well as the Upstream Petroleum Cost Efficiency Order 2025.[16] Collectively, these instruments introduced a range of fiscal incentives, including tax benefits for non-associated gas developments, midstream gas utilisation projects, and deep offshore oil and gas operations. Incorporating these measures into the NTA provides greater regulatory certainty, reducing the risk of policy reversal associated with executive orders.

**7.5%**

STANDARD VAT RATE

**Targeted energy-sector treatment**

**Exempt:** oil and gas exports, crude oil, and feed gas for gas processing.

**Zero-rated:** electricity supplied into the national grid by generation companies.

**Standard 7.5%:** retained across all remaining supplies under the Act.

## Surcharge on Fossil Fuel Products

A notable fiscal innovation under the NTA is the introduction of a 5% surcharge on fossil fuel products,[17] designed as an additional revenue-generating mechanism within the broader tax reform. This surcharge is to commence or be implemented by an order to be issued by the Minister for Finance and published in the official gazette.[18] The surcharge is to be imposed at the point of a chargeable transaction, defined as the sale, supply, or payment for the relevant product, whichever occurs first, and is calculated based on the retail price of the product.[19] By structuring the levy in this manner, the NTA ensures that the tax crystallises early in the transaction value chain, reducing opportunities for avoidance.

Instructively, the NTA carves out exemptions from the 5% surcharge for certain categories of products, including household kerosene, cooking gas (LPG), compressed natural gas (CNG), and renewable energy products.[20] These exclusions reflect an attempt to balance revenue generation with social and environmental considerations, shielding essential household fuels while promoting cleaner energy alternatives. Accordingly, the surcharge aligns with broader policy efforts to encourage a gradual transition away from high-carbon fuels while minimising the immediate burden on consumers who rely on more affordable energy sources for daily use.

# Commercial and Investment Implications

The fiscal restructuring introduced by the NTA, when considered alongside the framework established under the PIA, carries significant commercial implications for investors in Nigeria's energy sector. On the one hand, consolidating multiple tax statutes into a single legislative framework enhances fiscal coherence and administrative efficiency. For investors, particularly multinational energy companies, this enhances certainty and simplifies compliance, and by extension reduces financial, legal and regulatory risk exposures.

## Hydrocarbon Tax

On the other hand, certain aspects of the reforms introduced by the NTA may affect investment planning and project economics. Policy shifts, such as the extension of the HCT to deep offshore operations, may require operators to reassess financial models developed under the earlier fiscal regime. In addition, the uncertainty surrounding the applicable HCT rate for deep offshore operations following the removal of the exemption under the NTA may create challenges for investment forecasting and project valuation. Given the capital-intensive nature and long development timelines of deep offshore projects, any ambiguity in the applicable fiscal terms may affect investment decisions, financing arrangements, and overall investor confidence in the stability of the regulatory framework. These developments further highlight the importance of fiscal stability in long-term petroleum investments, particularly in capital-intensive upstream projects where investment decisions are typically based on predictable tax regimes over an extended period.

At the same time, the reforms send a clear policy signal in favour of gas development. Through targeted incentives, tax credits, and favourable fiscal treatment for gas infrastructure and utilisation projects, the new framework positions natural gas as a strategic growth area within Nigeria's energy sector. This approach aligns with Nigeria's broader objectives for energy transition and its ambition to leverage its significant gas reserves for domestic industrialisation, power generation, and export. As a result, investors may increasingly prioritise gas-focused opportunities within the country, including midstream infrastructure, liquefied natural gas projects, and gas-to-power developments. For investors, the key consideration will be the new regime's effectiveness in balancing fiscal competitiveness, regulatory certainty, and long-term policy consistency.

**Pro Gas**

POLICY SIGNAL

**Natural gas as a strategic growth area**

Targeted incentives, tax credits and favourable fiscal treatment for gas infrastructure and utilisation projects position natural gas at the centre of Nigeria's energy transition — powering domestic industrialisation, generation and export.

# Conclusion

The NTA marks a significant turning point in the fiscal framework of Nigeria's energy sector. While the reforms are intended to streamline tax administration, improve revenue collection, and enhance regulatory coherence, they also carry important implications for project economics, particularly in the upstream sector. At the same time, the Act's targeted incentives and exemptions for gas-related activities reflect a clear policy preference for gas development, positioning natural gas as a key component of Nigeria's long-term energy and economic strategy.

To fully realise the objectives of the new regime, policymakers would need to prioritise clarity and consistency in the implementation of the Act, particularly in areas that may affect existing investment expectations. For operators and investors, the reforms underscore the need to reassess business models, strengthen tax compliance systems, and identify opportunities arising from the Act's pro-gas provisions. Ultimately, the success of the NTA will depend on its ability to balance revenue generation with fiscal certainty, ensuring that Nigeria remains both a competitive investment destination and a sustainable energy market.

## KEY TAKEAWAYS

01 **Consolidation Enhances Fiscal Coherence**
A single legislative framework simplifies compliance and reduces financial, legal and regulatory risk exposure.

02 **Deep Offshore Now in Scope for HCT**
Removal of the PIA exemption introduces fiscal uncertainty for long-cycle upstream projects and financing.

03 **A Clear Policy Preference for Gas**
Incentives for gas-related activities cement natural gas as a strategic component of Nigeria's energy future.

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# Endnotes

1. For taxpayers to comply with their tax obligations, they had to navigate the PIA, the Value Added Tax Act, the Companies Income Tax Act, etc. See Section 261 of the PIA, Section 9 of the Companies Income Tax Act.
2. 
3. Petroleum Industry Act 2021, s 261 (imposing hydrocarbon tax on companies engaged in upstream petroleum activities).
4. Petroleum Industry Act 2021, s 260, 267, 302.
5. Petroleum Industry Act 2021, s 39 and 302; Companies Income Tax Act LFN 2004, s 39.
6. Joshua TJ Green, 'Evaluating the Impact of Petroleum Industry Act (PIA) on Production Sharing Contract (PSC) in Nigeria' (2024) 10 African Journal of International Energy & Environmental Law 115.
7. These assets were the Oil Prospecting Licenses. Oil Mining Leases and Marginal Fields granted under the Petroleum Act of 1969.
8. Hydrocarbon Tax was introduced by the PIA as a petroleum-specific tax imposed on the profits derived from crude oil production in Nigeria's upstream sector.
9. Petroleum Industry Act 2021, s 263.
10. Nigeria Tax Act 2025, s 65; Petroleum Industry Act 2021, s 260.
11. Petroleum Industry Act 2021, s 260; Nigeria Tax Act 2025, s 65; PwC Nigeria, 'Nigerian Tax Reforms 2025: Sectoral Analysis and Insights' (2025) <nigeria-tax-reform-insight-series-sectoral-analysis.pdf> accessed May 3, 2026.
12. Nigeria Tax Act 2025, s 186.
13. Nigeria Tax Act 2025, s 187.
14. Presidential Directive on Local Content Compliance Requirements, 2024 (Directive 40); See Nigeria Tax Act, s 92.
15. Nigeria Tax Act, s 186(1)(a)(b).
16. Nigerian Tax Act 2025, s 85.
17. Ibid.
18. Nigeria Tax Act 2025, s 159.
19. Nigeria Tax Act 2025, s 161;
20. Notably, at the time of publication, the implementation order has not been issued, published or gazetted.
21. Nigeria Tax Act 2025, s 160.
22. Nigeria Tax Act 2025, s 162.

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