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The Petroleum Industry Act (2021) and Nigeria's Fiscal Regime: A Desk Review of Taxation, Governance, and Revenue Mobilization

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Abstract

The Petroleum Industry Act (PIA) 2021 represents a landmark reform of Nigeria's petroleum sector, introducing a comprehensive legal, fiscal, and regulatory framework intended to improve governance, enhance transparency, strengthen revenue generation, and promote sustainable investment in the oil and gas industry. This study critically reviews the fiscal and regulatory provisions of the PIA, with particular emphasis on petroleum taxation and its implications for tax administration and revenue mobilization. The study adopts a qualitative desk research approach, relying exclusively on secondary data obtained from statutory documents, government publications, academic literature, institutional reports, and policy papers. Data were examined using content and documentary analysis to identify major reforms, implementation challenges, and emerging policy issues. The findings indicate that the PIA has significantly modernized Nigeria's petroleum fiscal regime through the introduction of a dual tax framework comprising Hydrocarbon Tax and Companies Income Tax, the establishment of specialized regulatory institutions, and improved governance mechanisms for host community development and petroleum operations. However, the implementation of the Act continues to face several challenges, including regulatory overlaps, administrative bottlenecks, oil theft, inadequate production monitoring, revenue leakages, unresolved contractual issues, and limited institutional capacity. These challenges constrain the realization of the Act's intended fiscal and economic objectives. The study concludes that although the PIA provides a robust framework for petroleum sector governance and taxation, its long-term success depends on effective implementation, institutional strengthening, enhanced inter-agency coordination, and sustained regulatory *certainty. The study recommends strengthening compliance mechanisms, deploying digital monitoring technologies, improving regulatory collaboration, and ensuring policy consistency to maximize revenue generation and enhance investors' confidence in Nigeria's petroleum industry.*

Keywords: Petroleum Industry Act (PIA) 2021, petroleum taxation, fiscal reform, revenue mobilization, institutional capacity

1.0 Introduction

1.1 Background to the Study

The petroleum industry, also known as the oil industry, includes the overall process of exploration, extraction, refining, transportation, distribution, and marketing of petroleum products (Sasu, 2025). The largest volume products from the petroleum industry are fuel oil and gasoline. The petroleum is also the raw material for various chemical products, including pharmaceuticals, solvents, fertilizers, pesticides, synthetic fragrances, and plastics. The industry is usually divided into three major divisions, comprising the upstream, midstream, and downstream. The upstream regards exploration and extraction of crude oil, the midstream encompasses transportation and storage of the crude oil, while the downstream is concerned with refining crude oil into various end products (Halliday, 2025).

Petroleum is essential to many industries and is a necessity for the maintenance of industrial civilization, as it accounts for a large percentage of the world's energy consumption, ranging from a low of 32% for Europe and Asia to a high of 53% for the Middle East. Other geographical regions' consumption patterns indicate 44% for South and Central America, 41% for Africa, and 40% for North America (CIA, 2014). The Nigerian petroleum sector is considered the largest petroleum sector in Africa, and it is a foremost contributor to the Nigerian economy as it accounts for a significant portion of the nation's gross domestic product and exports. The sector is undergoing reforms, notably through the 2021 Petroleum Industry Act (PIA), which is aimed at improving the governance process and fiscal structure and attracting both foreign and direct investment (Xu, 2025).

Taxation, particularly the petroleum industry tax, serves as the primary mechanism for governments to generate substantial revenue from the extraction of their natural resources, balance fiscal policy, and ensure a fair distribution of wealth from the oil and gas sector. The petroleum industry tax is a specific tax regime that is crucial to oil and gas revenue collection and is aligned with the government agenda of maximizing the government's share from income generated by establishments, incentivizing efficiency and investment, foreign exchange, and servicing as the cornerstone of the entire fiscal framework for the upstream oil sector, operating separately from the general corporate income tax systems that apply to both industries (Ngu, 2024).

1.2 Statement of the Problem

Despite the premeditated relevance of the petroleum sector to the stability of the Nigerian's economy and fiscal policy, the administration of petroleum taxation faces challenges, both structural and operational. Under the Petroleum Income Tax Act (PITA), several gaps have been noticed in the aspects of regulatory clarity, enforcement capacity, and fiscal monitoring, thus creating a loophole in inefficiencies and tax revenue losses. These weaknesses became more evident during the transition to the Petroleum Industry Act (PIA) 2021, as both regulatory frameworks overlapped and generated vagueness in tax administration (Taiwo, 2025).

A major concern is the frequency of revenue leakages, driven by inadequate metering, a weak monitoring system, and limited inter-agency coordination. These gaps have significantly reduced the ability of the government to accurately assess and collect petroleum taxes. In addition to these, there is also the case of oil theft, pipeline vandalism, and illegal bunkering, all of which alter production figures and undermine the reliability of tax assessment. Collectively, these issues create a pressing need to assess the effectiveness of petroleum tax administration in Nigeria, understand the extent of inefficiencies during the shift from petroleum income tax act to petroleum industry act and also propose solutions to enhance revenue assurance in the sector (Okparaibea, 2024).

1.3 Objectives of the Study

The general objective of this study is to review the Petroleum Industry Act (PIA) 2021, with emphasis on its fiscal and regulatory framework relating to petroleum taxation. To achieve the above objective, the study specifically seeks to:

i. examine the fiscal and regulatory framework of the Petroleum Industry Act (PIA) 2021, particularly as it relates to petroleum income and hydrocarbon taxation;
ii. identify the key challenges, implementation issues, and administrative bottlenecks associated with the Petroleum Industry Act (PIA) of 2021; and
iii. assess the various reforms introduced by the Petroleum Industry Act (PIA) 2021, including their implications for transparency, revenue generation, and tax administration in the petroleum sector.

1.4 Significance of the study

This study is important because it provides crucial insights into the fiscal and regulatory implications of the Petroleum Industry Act (PIA) 2021. For policymakers, it offers evidence-based guidance for evaluating the effectiveness of the current petroleum taxation framework and identifying areas where further reforms are needed to strengthen transparency and efficiency. The study is also valuable to government agencies such as FIRS, NUPRC, and NMDPRA, as it highlights issues affecting revenue generation, compliance enforcement, and cost-recovery management, thereby supporting efforts to curtail leakages and improve culpability.

For investors and industry operators, the research clarifies how the PIA 2021 shapes the investment climate, cost structures, and long-term project viability, helping to reduce uncertainty and support informed decision-making. In addition, the study contributes to academic literature by providing a useful foundation for future research on petroleum taxation, fiscal reforms, and regulatory transitions in Nigeria's oil and gas sector.

1.5 Scope of the Study

This study focuses on reviewing the Petroleum Industry Act (PIA) 2021 with particular emphasis on its fiscal and regulatory provisions relating to petroleum taxation. It examines the structure of the PIA framework, the challenges encountered in its implementation, and the reforms introduced to replace the former petroleum tax laws. The study covers upstream, midstream, and downstream regulatory elements only to the extent that they affect taxation, revenue generation, compliance, and cost-recovery processes. Geographically, the study is limited to Nigeria, and the analysis relies primarily on secondary data, including statutory documents, scholarly articles, policy papers, official reports, and previous empirical studies. The scope does not extend to operational, engineering, or geological aspects of the petroleum industry except where they directly influence tax administration.

1.6 Operational Definition of Key Terms

i. **Petroleum operation:** Petroleum operations are the activities involved in the exploration, production, transportation, and sale of petroleum (oil and gas). These operations span multiple stages, from seismic surveys to identify potential reservoirs to drilling, extraction, processing, and finally, transport to delivery points or sale. Key aspects include complex technical processes, adherence to strict health, safety, and environmental regulations, and economic management throughout the lifecycle of a petroleum project (Fajemirokun, 2024).

ii. **Petroleum Industry Act (PIA):** A 2021 Nigerian law providing the legal, governance, and fiscal framework for the country's petroleum industry.

iii. **FIRS:** Federal Inland Revenue Service
iv. **NUPRC:** Nigerian Upstream Petroleum Regulatory Commission
v. **NMDPRA:** Nigerian Midstream and Downstream Petroleum Regulatory Authority

2.0 Literature Review / Conceptual Framework

2.1 Literature Review

This section of the study is divided into three major parts: the conceptual review, the theoretical review, and the empirical review.

2.1.1 Conceptual Framework

The Nigerian Petroleum Industry Act (2021) is a comprehensive law that provides the legal, governance, and fiscal framework for the country's oil and gas sector, from upstream operations to midstream and downstream operations. The Petroleum Industry Act was signed into law by President Muhammadu Buhari on the 16th of August, 2021, after a series of amendments and discussions that spanned about 20 years from the time of its first introduction. It is pertinent to note that the Act is established to provide a legal, governance, regulatory/administrative, and fiscal framework for the Nigerian petroleum industry as well as the sustainability and development of host communities (CITN, 2025).

Key features in the Petroleum Industry Act include the creation of new institutions like the Nigerian Upstream Petroleum Regulations Commission (NUPRC) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), the establishment of the Host Community Development Trust to benefit local communities, and the establishment of a commercially oriented NNPC Limited. The Act also established an updated fiscal framework, provisions to curtail the flaring of gas, and market-based pricing for petroleum products (PIA, 2021). Being a piece of legislation that embodies 5 chapters, 319 sections, and 8 schedules, the Act comes with an array of provisions and innovations that affect the private sector, public sector, and stakeholders in the oil and gas industry, as it is expected to usher in a new dawn for the Nigerian oil and gas industry and open a new page for industrial and environmental sustainability.

The petroleum industry is of utmost relevance to the Nigerian economy due to the high reliance of the government on the oil and gas sector; as such, the Petroleum Industry Act was established to provide a specific comprehensive legal and fiscal framework for the Nigerian petroleum industry, which includes a new tax called the hydrocarbon tax. Under the Petroleum Industry Act (2021), companies engaged in upstream petroleum operations, exploration, and production are subject to both the hydrocarbon tax and the standard company income tax, rather than the previous single petroleum profit tax (KMPG, 2025). In essence, the Petroleum Industry

Act provides a specific modern tax structure for the petroleum sector by acknowledging its unique operational and fiscal requirements (Aondover, 2025).

2.1.2 Evolution of Petroleum Taxation in Nigeria

The evolution of Nigerian petroleum taxation has been a gradual process starting from the lenient regime in the 1950s and progressing towards a higher tax rate to capture more national revenue, with the Petroleum Profit Tax Act of 1958 as a cornerstone. Progressively, the system evolved to accommodate royalties, petroleum profit tax, signature bonuses, and other levies, with the petroleum profit tax rate increasing significantly from 18.9% in 1970 to a current peak of 85%. The evolution of petroleum taxation in Nigeria is complex, as it involves multiple laws and contractual agreements, as well as recent tax reforms that are tailored to modernize the framework and attract investment while optimizing revenue (Okoko, 2024).

2.1.3 Development of PIA 2021

Being signed into law on the 16th of August, 2021, the Petroleum Industry Act marked a historical overhaul in the Nigerian oil and gas sector, thus replacing a patchwork of outdated laws with a unified legal, governance, and regulatory framework for petroleum operations (Oyebode, 2021). Some of the legislation that the Petroleum Industry Act has repealed are;

i. Associated Gas Reinjection Act, 1979 CAP A25, Laws of the Federation of Nigeria, 2004, and its amendments;
ii. Hydrocarbon Oil Refineries Act No. 17 of 1965, CAP H5, Laws of the Federation of Nigeria, 2004;
iii. Motor Spirits (Returns) Act, CAP M20, Laws of the Federation of Nigeria, 2004;
iv. Nigerian National Petroleum Corporation (Projects) Act No. 94 of 1993, CAP 124, Laws of the Federation of Nigeria, 2004;
v. Nigerian National Petroleum Corporation Act (NNPC) 1977 No. 33, CAP N123, Laws of the Federation of Nigeria, as amended;
vi. Petroleum Products Pricing Regulatory Agency (Establishment) Act No. 8, 2003

The Petroleum Industry Act of 2021 created two main regulatory bodies for the petroleum industry for the upstream operations and the midstream/downstream operations. These bodies are the Nigerian Upstream Petroleum Regulator Commission and the Nigerian Midstream and Downstream Petroleum Regulatory Authorities, respectively (Etuwewe, 2025). The Petroleum Industry Act replaced the former system with a dual tax system; upstream crude oil operations under certain licenses or leases are taxed under the new tax regime, while all operators remain subject to standard corporate taxation under the general tax law.

Equally, the Petroleum Industry Act makes provision for a formal trust structure for host communities; under the law, holders of upstream petroleum licenses or leases are required to contribute 3% of their actual annual operating expenditure to the host community's development trust, and this is dedicated to development projects in the communities affected by petroleum operations (CITN, 2025). By instituting this framework, clearly defined regulations, unified fiscal rules, and community levies, the Petroleum Industry Act aims to promote transparency, accountability, good governance practices, and sustainable operations in the Nigerian petroleum sector.

Since the enactment of the Petroleum Industry Act, a number of amendments and revisions have been proposed and debated, and this reflects the implementation realities as well as concerns by stakeholders. A significant proposed change was reported in 2025 to transfer the government concessioner role under production sharing contracts and other oil deals from the former NNPC Limited to NURPC. Under the draft amendment, the NUPRC would take control of existing oil contracts. This change is justified by concerns that certain structural provisions of the Petroleum Industry Act had allowed leakages and revenue diversion away from the federation accounts (Anyaogu, 2025). Other proposals include raising the Host Community Development Trust (HCDT) from 3% to potentially as high as 10% of operating expenditure and revising the legislative provisions governing integrated upstream-midstream operations to achieve a clearer regulatory oversight for both NUPRC and NMDPRA in order to curtail conflict and overlapping of interest (Alokolaro, 2025). Below is a table showing the previous petroleum regulation as under the Petroleum Profit Tax Act and the provisions of the Petroleum Industry Act 2021 as well as proposed amendments.

Table 2.1: Pre and Post Petroleum Tax Regulation in Nigeria.

Category	PPTA (Pre 2021)	PIA 2021 Provision	Proposed Amendments/ Issues
Structure of taxing	Petroleum Profits Tax (upstream) only, flat rates: 65% on onshore, 50% offshore shallow, 85% deep offshore; Royalties separate	Dual tax system: Hydrocarbon Tax (HT) + Company Income Tax (CIT). HT: 15% PPL, 30% PML. CIT applies to all operators.	calls to adjust HT and CIT to reduce combined tax burden for competitiveness, especially offshore.
Capital Allowances	Capital allowances allowed, but often limited; minimal incentives for gas or midstream.	Clear annual allowances: 20% per year on petroleum rights acquisition; accelerated allowances for midstream, gas, and downstream.	Proposal to expand incentives for domestic gas utilization and midstream investments
Host Community Contribution	No statutory requirement; voluntary corporate social responsibility only.	Mandatory 3% of prior-year operating expenditure to Host Communities Development Trust (HCDT)	Pressure to increase contribution to 5–10% for fairer community benefits.
Contract Administration	Government/NNPC acted as concessionaire; Production Sharing Contracts (PSCs) in place.	NNPC remains concessionaire for upstream contracts; regulator (NUPRC) oversees compliance.	Proposed transfer of concessionaire role to NUPRC for transparency and tighter revenue control.
Revenue Collection & Remittance	FIRS collects taxes; royalties remitted separately to	Unified system: all taxes, royalties, and fees remitted via FIRS	Proposals to strengthen oversight to prevent

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	government; sometimes delayed or diverted.	into the Federation petroleum account.	revenue diversion and leakages.
Investment Incentives	Limited; mainly tax holidays for marginal fields; few incentives for gas or downstream	Tax-free period 3 years + accelerated capital allowances for midstream, gas pipelines, downstream gas utilization.	Calls for more targeted incentives, particularly for gas-based projects and energy transition.

Source: Researcher's Compilation (2025).

2.1.4 Legal and Regulatory Framework

The Petroleum Industry Act 2021 vests ownership of all petroleum operations in the federal government as it establishes a modern governance structure for the petroleum industry with clear institutional definitions, licensing regimes, and operational categorization into the upstream, midstream, and downstream sectors. The regulatory roles under the Petroleum Industry Act are divided among three key authorities: the Federal Inland Revenue Service, the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRC).

i. Federal Inland Revenue Service (FIRS)

First, the Federal Inland Revenue Service (FIRS) is charged with the responsibility of tax administration for petroleum-related operations. Under the Petroleum Industry Act fiscal regime, upstream producers pay a new hydrocarbon tax (HCT) in addition to the already existing companies' income tax where applicable. The FIRS is responsible for the assessment, collection, and remittance of these taxes into the federal government's petroleum account and ensuring the integrity and forecast of government petroleum revenues (Ola, 2023).

ii. Nigerian Upstream Petroleum Regulatory Commission (NUPRC)

Second, the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) serves as the principal regulator for all upstream petroleum operations. Its core responsibility includes issuing and managing upstream licenses and leases; monitoring exploration, drilling, production, and development activities; and ensuring compliance with technical, safety, and health as well as environmental and commercial laws and standards. The commission is also mandated to cover environmental insights, including regulation of gas flaring, enforcement of environmental impact assessment, and ensuring operators meet environmental and safety obligations before, during, and after production (Chukuemeka, 2025). Aside from compliance with technical regulations, the NUPRC also administers upstream loyalty and other statutory payments due to the government, ensuring that production data is accurately metered and reported so as to ensure that royalties and other revenues can be calculated correctly (Divine, 2025). The commission also plays a strategic role in data governance by maintaining a national repository of geographical and production data, making such relevant information available to investors, policymakers, and stakeholders to support transparency and informed decision-making. This increases investors' confidence and reduces risk associated with exploration (NUPRC, 2025).

iii. Nigerian Midstream and Downstream Petroleum Regulatory Authority

Also, the NMDPRA is responsible for the regulation of the midstream and the downstream sectors of the petroleum industry; its mandate covers technical and commercial regulations of pipelines, gas processing plants, storage facilities, refineries, distribution networks, and other infrastructures used for the transportation, refining, storage, distribution, and sales of petroleum products. The Authority issues and regulates licenses for midstream/downstream operations, monitors compliance with safety, quality, and environmental standards, and oversees market-related functions such as product quality control, fair competition, tariff regulation, and consumer protection (CITN, 2025).

It is pertinent to note that both the NUPRC and the NMDPRA share responsibility for enforcing provisions related to the decommissioning and abandonment of old fields or facilities when there is a cessation of petroleum operation. Under the Petroleum Industry Act, license and lease holders are expected to submit a decommissioning and abandonment plan, and the existing regulatory framework assigns oversight to the NUPRC (for upstream) and NMDPRA (for midstream and downstream), preventing the need for a separate decommissioning agency (Chukuemeka, 2025).

2.1.5 Components of the Petroleum Industry Act 2021

Under the Petroleum Industry Act of 2021, the fiscal framework of the upstream petroleum sector was changed; the old petroleum profit tax act regime, which allowed the computation of assessable profit and chargeable profit, was replaced by a dual tax regime regarded as the hydrocarbon tax and the standard company income tax.

i. Assessable Profit

In the context of the Petroleum Industry Act, assessable profit represents the starting point for upstream operators' tax computation. Here, crude oil revenue is first determined at the point of measurement, and from that gross revenue, allowable and disallowable costs are adjusted to reflect the assessable profit. Expenses not qualifying under the statutory criteria of being wholly, reasonable, exclusive, and necessarily incurred for petroleum operations are excluded from deductions. It is the gross revenue minus non-disallowed cost, from which the statutory allowances such as capital allowance and deductions are applied before determining taxable profit (Ademola, 2025).

ii. Chargeable profits

Under the tax reform, chargeable profit is the amount of assessable profit remaining after deducting all permissible allowances and deductions according to the Act's schedule. This comprises a capital allowance under the fifth schedule and a cost price ratio limitation under the sixth schedule. Mathematically, it is represented as:

Chargeable Profit = Assessable Profit – (capital allowance + other statutory deductions).

This chargeable profit is the net profit on which hydrocarbon tax is calculated. With this structure, only legitimate and recognized expenditures under the reform are deducted from revenue, thereby strengthening transparency and curtailing ambiguity as compared to the older Petroleum Profit Tax Act, which had many subjective deductions (Oluwatomisin, 2024).

iii. Cost Recovery Rules

The Petroleum Industry Act cost recovery regime is more defined and restrictive when compared to the Petroleum Profit Tax Act. Only expenditures that meet statutory standards of being wholly, reasonable, necessary, and exclusively incurred for petroleum operations are deemed to satisfy statutory standards. Qualifying capital expenditures such as the cost of plants, pipelines, storage tanks, drilling expenditures, and other petroleum-specific infrastructures are eligible for capital allowance. These allowances are spread across a period of five years as 20% in years 1-4 and 19% in the fifth year. The Petroleum Industry Act introduces the cost price ratio limit where total deductible cost excluding certain categories like rent, royalties, and contribution to host communities cannot exceed 65% of the gross revenue for upstream operations. Also, certain expenditures that were deductible under the Petroleum Profit Tax Act, such as interest on borrowing, general head office overhead, and uncollectible debt write-offs, are now disallowed under the reform. These adjustments are to tighten cost recovery and prevent excessive cost claims, improve transparency, and ensure a fairer basis for computing taxable profit (Oshin, 2021).

iv. Tax rates

The reform mandates that upstream operators under new or converted leases now pay a hydrocarbon tax rather than a petroleum profit tax (David, 2025). For onshore and shallow water fields operating under the converted petroleum mining license, the hydrocarbon tax is 30% of chargeable profit, while for fields under a converted petroleum prospecting license, which often includes marginal fields, the hydrocarbon tax rate is 15% (David, 2025). In addition, such companies remain liable for company income tax under the ordinary corporate tax regime.

2.1.6 Allowable and Non-Allowable Deductions

The Petroleum Industry Act introduced a more transparent rule-based framework for determining allowable and non-allowable deductions in upstream petroleum taxation. The major theme is the requirement that deductible expenses must meet the wholly, reasonably, necessarily, and exclusively (WREN) principle or test to ensure that only operational expenses that are directly related to petroleum activities are reduced from taxable profit. Also, the reform made provision for the centralization of capital recovery through capital allowance instead of the previous multiple incentive mechanisms, such as the petroleum investment allowance and the investment tax credit, which now applies only to legacy non-converted contracts (Wyze, 2021). Below is a table that shows some allowable and non-allowable deductions in line with the Petroleum Industry Act.

Table 2.2: Allowable and Non-allowable Deductions

Category	**Description**	**Under the PIA 2021**
Capital Allowances (Allowable)	Deduction for qualifying capital expenditure (plants, pipelines, drilling, buildings)	Allowed – amortized over 5 years (20% yearly for 4 years, 19% in the 5th year)
investment Tax Credit (ITC) (Allowable only for legacy contracts)	Credit on qualifying investment in PSCs	Allowed ONLY for non-converted (PPTA) legacy PSCs
Petroleum Investment Allowance (PIA/PITA)	Additional allowance based on field location	Disallowed under PIA (Only applies under PPTA)
Disallowed Expenses	Expenses not meeting WREN criteria; interest restrictions; head-office charges; penalties	Not allowed
Cost Deduction Limit (65% Rule)	Cap on maximum deductible costs in a period	Enforced under PIA
Thin Capitalization Rules	Restrict excessive interest deductions	Applied through Finance Act rules and PIA framework
Transfer Pricing Rules	Ensures related-party transactions follow arm's-length principle	Strictly enforced
Production Allowances (New Incentive)	Allowance per barrel depending on terrain	Allowed under PIA

Source: (Oshin M. , 2021)

2.1.7 Challenges Identified in Literature

Although the Petroleum Industry Act 2021 was enacted to modernize Nigeria's petroleum regulatory and fiscal framework, academic and legal policy studies point out that the mere existence of a law does not guarantee effective implementation. Many of the lapses that existed in the previous reform still exist and have even metamorphosed (Olujobi, 2023). Some of these challenges include but are not limited to the following:

i. Administrative Bottleneck

The transition under the Petroleum Industry Act required restructuring of regulatory agencies; creating new agencies such as the Nigerian Upstream Petroleum Regulatory Commission and the Nigerian Midstream and Downstream Petroleum Regulatory Commission replaced old ones, but the implementation has been slow and marred by overlapping mandates, delays in issuing guidelines, slow licensing, and bottlenecks. This in turn slows down investment, creates uncertainty for oil firms, delays projects, and reduces the attractiveness of the oil and gas sector to investors (Oshin M., 2021).

ii. Oil Theft, Loss of Revenue, and Vandalism

The theft of crude oil and oil and gas pipeline vandalism as well as illegal refining remains rampant in Nigeria. According to Joshua, over 150,000 barrels per day of oil have been lost, and this severely depletes what would have contributed to the nation's revenue (Joshua, 2023). Many of these losses are caused by the incompetence of the security, poor enforcement, and insufficient deterrent laws tailored for the post-reform context. Also, the loss of revenue for government and companies, reduction in actual yield from fields, undermining of royalty and tax base, increased fiscal leakages, environmental damage from sabotage/spillages, and worsened socio-economic conditions in oil regions are all results from the cases of oil theft and oil and gas pipeline vandalism.

iii. PIA Transition Challenges (legacy contracts, overlapping mandates, uncertainty for investors and operators)

The shift from the old regime (previous laws and the Petroleum Profit Tax Act) to the Petroleum Industry Act involves conversion of old leases, renegotiation of terms, redefinition of contract types, and adaptation to new fiscal and regulatory rules. Many legacy contracts/arrangements remain unresolved; the timeline for full transition remains unclear; legal uncertainty persists for operators; and conflicting provisions overlap between old and new laws. This creates doubts among investors and results in delays in project execution as well as inconsistency in tax royalty assessment (Oni, 2021).

iv. Under-Assessment of Costs / Revenue Leakage via Inappropriate Deductions or Misreporting

Some studies suggest that oil companies sometimes report less production than they actually achieve or claim higher costs than they truly incur. They may also take advantage of gaps in the system, especially because auditing is weak, measurement tools are outdated, and monitoring under the PIA is still not strong enough. Poor metering, unclear measurement standards, and limited transparency when crude oil is lifted or exported make these problems worse. When this happens, the government and host communities lose revenue that should rightfully belong to them. It also creates confusion about Nigeria's true production levels, weakens public trust in the fiscal system, and opens the door to corruption and mismanagement. For researchers, it becomes difficult to get accurate data, which can affect studies on firm performance, sustainability, and the real impact of the petroleum industry act (Oyebode, 2021).

2.2. Theoretical Framework

Two theories are discussed as it relates to the subject matter of the petroleum industry act and overall fiscal reforms: the ability-to-pay theory and the benefit theory.

a. The Ability-to-Pay Theory

The ability to pay theory is a cornerstone of modern taxation and is often traced to Adam Smith (1776) in *The Wealth of Nations*, with further elaboration by John Stuart Mill (1848). The theory postulates that taxpayers should contribute to public revenue in proportion to their financial capacity (Joshua, 2023). In the context of Nigeria's petroleum sector, this principle underpins the Petroleum Industry Act (PIA) 2021 by justifying profit-based taxes such as the Hydrocarbon Tax and Companies Income Tax. High-margin oil and gas companies are expected to pay taxes proportionate with their earnings, while provisions like the 65% cost-recovery cap ensure that deductions are limited to legitimate expenditures. However, challenges arise in practically assessing corporate capacity due to profit shifting, transfer pricing, and under-reporting of revenue. Loopholes in the system allow some operators to minimize apparent taxable capacity, potentially undermining the fairness envisaged by the theory (Oshin M., 2021).

b. The Benefit Theory

The Benefit Theory, associated with Adolph Wagner (1835–1917) and further discussed by Böhm-Bawerk (1884), asserts that taxes should correspond to the benefits received from public goods and services (Raczkowski, 2023). In the petroleum industry, this theory justifies royalties, production fees, and regulatory levies under PIA, as companies directly benefit from the government's provided infrastructure, security, and access to state-owned resources. The theory ensures that firms contribute in proportion to the services and protections they enjoy. Nonetheless, quantifying these benefits is difficult, leading to potential inequities. Companies may also underutilize services while still benefiting indirectly, creating free-rider problems. Additionally, disputes may arise regarding the valuation of services and benefits, which can limit the theory's practical effectiveness.

Though both theories relate to the subject matter of taxation, the theoretical framework chosen to support this study is the ability to pay theory, as it postulates that taxpayers should contribute to public revenue in proportion to their financial capacity, and this is an essential ideology behind the Petroleum Industry Act 2021.

Table 2.3: Summary of Reviewed Literature

Author/ year	Topic	Objective	Methodology	Findings and Conclusion
(Aondover T. , 2025)	Hydrocarbon Tax and Profitability of Listed Oil & Gas Firms in Nigeria (post-PIA)	To examine how petroleum taxation (after transition to dual CIT + HT under Petroleum Industry Act 2021) affects profitability of listed oil and gas firms.	Secondary data from listed firms; descriptive analysis.	Taxation remains a constraint on profitability — high effective tax burden can compress margins and discourage investment; but the new fiscal regime has potential for transparency and investor-friendliness.
(Umar, 2024)	Effects of Royalty Payment on Petroleum Profit Tax Evasion in Nigeria	To investigate how royalty payments, tax rates, detection probability, and penalties influence evasion of petroleum profit tax.	Survey questionnaire of 312 oil & gas firms; analyzed with SPSS and PLS-SEM.	Higher tax rate, detection probability, and penalty significantly correlate with tax evasion; royalty payment has a significant negative relationship with evasion — i.e. more royalty payment reduces evasion. The study recommends reconsidering royalty/tax structure to reduce evasion.
(Onwubiko, 2025)	Effect of Petroleum Profit Tax (PPT) on Profitability of Oil & Gas Firms in Nigeria (2011–2024)	To assess impact of PPT on Profit After Tax (PAT), Return on Assets (ROA), and Return on Equity (ROE) of selected oil & gas firms	Ex post facto design, using financial statements of five listed oil & gas firms; applied unit root test, cointegration and multiple linear regression.	PPT has a negative but statistically insignificant impact on PAT, ROA and ROE of firms in the sample. The authors concluded that PPT under given rates does not significantly hamper profitability.
(Kumai, 2021)	Petroleum Profit Tax and Performance of Listed Oil & Gas Firms in Nigeria (2012–2018)	To examine effect of PPT on Return on Assets (ROA) and Earnings per Share (EPS) of listed oil & gas firms.	Ex-post facto design, secondary data of six listed upstream firms; simple linear regression (EViews)	PPT has a significant positive effect on EPS but an insignificant positive effect on ROA. The study recommends tax rates be adjusted to reduce negative effects on profitability and to discourage avoidance.
(Theresa, 2022)	Contribution of Petroleum Tax Income to	To determine how petroleum income tax	Secondary data (1985–2015), regression analysis.	Petroleum income tax shows a significant relationship with national revenue generation,

	National Revenue (1985–2015)	(and other taxes) have impacted overall revenue generation in Nigeria.		whereas some other taxes did not. The study recommends improved tax administration and proper assessment of taxable companies.
(Adegbie, 2020)	PPT Volatility and Macroeconomic Growth (1981–2017)	To examine how volatility in petroleum profit tax affects economic growth in Nigeria, considering inflation and exchange rate as moderators.	Ex post facto design; time-series data (1981Q1–2017Q4), tested for stationarity, serial correlation, heteroskedasticity etc.; descriptive and inferential statistics.	PT volatility has a positive and significant effect on economic growth ($R^2 = 0.56$). The study recommends stable tax policies to ensure more consistent revenue flows for growth. (
(Felix, 2024)	Effect of Green Taxation (including PPT) on Financial Performance of Selected Oil & Gas Firms in Nigeria (2017–2022)	To assess how green taxes (e.g., carbon emissions tax, pollution tax) and petroleum profit tax affect firm financial performance.	Ex post facto design; time-series data from firms' annual reports and FIRS records (2017–2022	The study offers empirical evidence on how newer taxation regimes (green taxes + petroleum taxes) influence operational performance, though specific results vary across firms depending on tax mix and asset structure.
(Obiora, 2023)	Tax Gap Assessment between Oil-Tax and Non-Oil-Tax Revenue in Nigeria	To measure the "tax gap" (difference between potential and actual revenue) for oil-tax vs non-oil-tax revenue (including PPT, CIT) using FIRS data.	Ex post facto research using FIRS data, regression analysis (SPSS)	Non-oil tax revenue recorded stronger correlation but significantly wider tax gap (~40% higher than oil-tax). The study recommends stronger enforcement, and diversification away from over-reliance on oil-tax.
(Oghogho, 2023)	Impact of Petroleum Profit Tax on Economic Growth and National Income in Nigeria	To evaluate PPT's effects on GDP, national income and capital income over period under review.	Ex post facto design; linear regression, descriptive and correlation analysis.	The study found PPT had negative and insignificant effects on GDP, national income and capital income, calling into question the effectiveness of PPT as a driver of macroeconomic growth.
(Broadrick, 2025)	Corporate Tax Planning and	To examine how tax	Quantitative analysis, regression models	Cash effective tax rate shows significant relationship with

	Financial Performance of Listed Oil & Gas Firms in Nigeria	planning measures (debt tax shield, tax savings, cash effective tax rate, profit effective tax rate) affect firm financial performance	using firm financial data and tax data.	financial performance; other tax planning metrics (debt shield, tax savings, profit effective tax rate) showed insignificant or mixed results. The paper argues companies should focus more on cash flow and long-term stability than aggressive tax planning.
(Arinze, 2025)	PPT effect on profitability (2011–2024)	Aims to update older studies with more recent data.	Ex post facto design, multiple regressions.	PPT had negative but insignificant effect on profitability metrics (PAT, ROA, ROE). Reinforces the idea that high PPT under certain conditions may not drastically harm profitability, but raises concerns about investment incentives
(Salaudeen, 2023)	Tax Incentives (investment allowance, interest allowance, loss relief) and Business Growth in Nigerian Oil & Gas Firms	To assess how tax incentives influence business growth among listed oil & gas firms.	Ex post facto, panel data for 10 firms over 7 years; panel regression/GGLS (Generalized Least Squares)	Investment allowance, loss relief, and allowable interest had significant positive effects on business growth; capital allowance had no significant effect. The study recommends the government focus on granting effective tax incentives to promote growth
(Kwaji, 2017)	Tax Revenue Collection: Oil vs Non-Oil Taxes (2011–2015)	To analyze contributions of PPT, CIT, and other taxes to total federal revenue collected.	Quantitative design; secondary data from FIRS, oil and non-oil tax revenue; statistical analysis.	PPT was positively and significantly associated with overall tax revenue; CIT and VAT were not significant contributors in the sampled period. This underscores the centrality of oil-tax in national revenue.
(Obajimi, 2025)	Early assessment of PIA’s fiscal framework and revenue outcomes	To provide preliminary evidence on how the new fiscal framework (post-PIA) is translating into actual tax collection and revenue for government	Mixed methods: analysis of FIRS data, fiscal reports, tax collection statistics (first half of 2025)	Reports that petroleum-related taxes generated ₦3.69 trillion in first half of 2025 — a 41.7% increase over previous period — suggesting that PIA could significantly enhance revenue, especially if compliance and enforcement improve

(Helen, 2020)	Tax Administration and Its Challenges in the Nigerian Petroleum Industry	To evaluate the effectiveness of tax administration (assessment, compliance, enforcement) in Nigeria's petroleum industry	Qualitative doctrinal analysis, review of laws and practices, interviews/observations on administrative practices	Found that ambiguity in tax laws, weak enforcement, tax evasion, corruption, and lack of skilled personnel impede effective petroleum tax assessment. Recommends reform of tax laws, capacity building, and stronger enforcement mechanisms.

3.0 Research Methodology

3.1 Research Design

This study uses a descriptive and qualitative research design, supported by content analysis. The descriptive approach presents the legal, fiscal, and regulatory issues around taxation in the petroleum industry in a clear and structured way, especially within the context of the Petroleum Industry Act (PIA) 2021. The qualitative design permits the exploration of statutory provisions, regulatory guidelines, and scholarly views in greater depth. In addition, content analysis makes it possible to identify key themes, patterns, and policy implications across the various documents reviewed.

3.2 Nature of Research

The study relies solely on a desk-based research approach, as no fieldwork, interviews, or surveys were conducted. Instead, the methodology depends on a comprehensive review of existing secondary materials, including scholarly works, industry reports, government publications, and statutory documents. This approach is appropriate for reviewing and analyzing legal and policy or framework as it allows for the examination of existing knowledge, interpretation of legal frameworks, and evaluation of past and current reforms without engaging in primary data collection.

3.3 Sources of Data

Data for the study is derived from both primary and secondary documentary sources. Primary sources include statutory materials such as the Petroleum Income Tax Act (PITA), the Petroleum Industry Act (PIA) 2021, and relevant Federal Inland Revenue Service (FIRS) guidelines and regulations. Secondary sources consist of academic journal articles, textbooks, policy briefs, institutional reports, NNPC publications, OECD papers, and other reputable materials on petroleum taxation and fiscal governance.

3.4 Method of Data Analysis

The study employs content analysis and documentary analysis to interpret the legal, fiscal, and institutional documents under review. Content analysis enables the identification of recurring themes, policy objectives, regulatory shifts, and compliance implications embedded within the statutory and scholarly materials. Documentary analysis facilitates the evaluation of legal provisions and policy instruments in a systematic and comparative manner.

Despite its strengths, desk research has certain limitations. The study depends primarily on publicly available documents, which may not fully capture internal policy deliberations or unpublished regulatory practices. Some materials consulted may also be outdated or incomplete, especially given the evolving nature of Nigeria's petroleum fiscal regime and the ongoing implementation of the PIA 2021. These limitations do not invalidate the study but highlight the need for cautious interpretation of findings and reliance on the most recent and authoritative sources available.

3.5 Ethical Issues

In conducting this study, the researcher ensured that information was obtained from publicly available publications from the government and reviews from internationally recognized journals. All materials and journals cited and used for the research work are properly referenced to avoid plagiarism.

4.0 Presentation and Discussion of Findings

4.1. Summary of the Section

This section presents and discusses the major findings derived from the review of literature and relevant documents. It outlined the current state of the petroleum tax system, highlights key strengths and weaknesses, examines the implications of the PIA reforms, and analyses how these issues relate to theoretical and global standards.

4.2. Overview of Findings from Literature and Documents

The review of existing literature, statutory provisions, and institutional reports reveals several important trends in Nigeria's petroleum tax system and framework. This study points to the fact that petroleum taxation has historically been shaped by shifting fiscal objectives, regulatory reforms, and industry challenges. Overall, the study reflects on the undergoing transition, particularly with the introduction of the Petroleum Industry Act (PIA) 2021, which seeks to revolutionize the fiscal framework, enhance transparency, and improve revenue mobilization. Despite these efforts, the reviewed materials highlight persistent issues such as fluctuating tax revenues, compliance difficulties, and ambiguities in operational guidelines. These observations provide the foundation for the detailed findings discussed in the subsequent sections.

4.3. Key Findings

The review reveals a number of key strengths within the Petroleum Industry Act, including its structured assessment procedures, clear basis for allowable deductions, and the PIA's attempt to streamline fiscal terms for upstream operations. However, the findings also showed notable weaknesses, especially in the area of implementation.

Compliance enforcement remains uneven, cost recovery processes are often subject to disputes, and regulatory overlaps continue to complicate administration. The introduction of the PIA has brought significant changes to the fiscal system, including revised tax rates, the adoption of the Hydrocarbon Tax, and clearer rules on production allowances. Nevertheless, challenges persist, particularly in cost recovery, transfer pricing, and audit efficiency. These issues directly influence the level of tax compliance and the accuracy of remittances.

4.4. Discussion of Findings

When compared with the theoretical perspectives outlined in Section Two, the findings reflect both the strengths and limitations of the system. For instance, the benefit theory underscores the need for a fair relationship between revenue generated and public services provided, yet the literature shows that this balance is often distorted by weak enforcement and governance gaps. In aligning the findings with global best practices, it becomes evident that Nigeria's fiscal system still lags behind jurisdictions that emphasize stability, transparency, and predictable cost recovery frameworks.

The identified challenges, especially those relating to compliance, administration, and regulatory coordination, have significant implications for revenue performance. Delays in audits, disputes over deductible costs, and ambiguity in fiscal rules all reduce government earnings and undermine investor confidence.

4.5. Implications of the Findings

The findings of this study carry several important implications. From a policy standpoint, they highlight the need for clearer guidelines, streamlined regulatory functions, and more consistent enforcement mechanisms under the PIA framework. Economically, the issues identified suggest potential revenue losses, inefficient tax administration, and reduced fiscal stability, and these are factors that can affect national budgeting and long-term planning.

Also, the findings point to capacity gaps within regulatory agencies and suggest a need for better inter-agency coordination and the importance of stronger audit processes. For petroleum investors, these findings imply a fiscal environment that is improving but still characterized by uncertainties in cost recovery, compliance expectations, and regulatory interpretation. Addressing these implications is critical for enhancing transparency, boosting investor confidence, and improving revenue outcomes.

4.6. Conclusion

The enactment of the Petroleum Industry Act (PIA) 2021 marks a significant milestone in the evolution of Nigeria's petroleum fiscal and regulatory framework. By replacing the fragmented legal structure that previously governed the industry, the Act establishes a more coherent system designed to improve fiscal transparency, strengthen institutional accountability, enhance regulatory efficiency, and create a more competitive investment environment. The introduction of the Hydrocarbon Tax alongside the Companies Income Tax, the restructuring of petroleum regulatory institutions, and the establishment of governance mechanisms for host communities collectively demonstrate the government's commitment to repositioning the petroleum sector for sustainable growth.

Notwithstanding these reforms, the findings of this study reveal that the successful implementation of the PIA remains constrained by several institutional and operational challenges. Persistent incidences of crude oil theft, pipeline vandalism, weak compliance monitoring, revenue leakages, overlapping regulatory responsibilities, delays in implementing subsidiary regulations, and uncertainties surrounding the transition of legacy petroleum contracts continue to undermine the effectiveness of the Act. These challenges have implications for tax administration, government revenue, investor confidence, and the overall efficiency of petroleum sector governance.

Furthermore, while the PIA aligns Nigeria's petroleum fiscal regime more closely with international best practices, the realization of its intended objectives requires more than legislative reform. Effective implementation will depend on strengthening institutional capacity, improving inter-agency coordination, embracing technological innovations for production monitoring and tax administration, and ensuring consistency in fiscal policy. Consequently, the Petroleum Industry Act should be viewed not as the peak of petroleum sector reform but as the foundation for continuous institutional improvement capable of responding to the dynamic nature of the global energy landscape.

4.7. Recommendations

In view of the findings of this study, the following recommendations are proposed:

i. **Strengthen institutional coordination among regulatory agencies.** The Federal Inland Revenue Service (FIRS), Nigerian Upstream Petroleum Regulatory Commission (NUPRC), and Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) should establish integrated operational frameworks to eliminate overlapping responsibilities, improve information sharing, and enhance the efficiency of petroleum tax administration.

ii. **Enhance digital monitoring and revenue assurance systems.** Government should invest in advanced metering infrastructure, digital production monitoring systems, surveillance technologies, and integrated data management platforms to improve production accountability, reduce crude oil theft, and minimize revenue leakages.

iii. **Improve tax administration and compliance enforcement.** Regulatory authorities should strengthen audit procedures, adopt risk-based compliance strategies, conduct regular petroleum tax assessments, and enforce appropriate sanctions against tax evasion, under-reporting, and other forms of fiscal non-compliance.

iv. **Provide greater regulatory clarity and policy consistency.** Clear implementation guidelines should be developed for unresolved provisions of the PIA, particularly regarding legacy petroleum contracts, cost recovery mechanisms, fiscal obligations, and the transition of existing licenses and leases. Consistent fiscal policies will reduce regulatory uncertainty and improve investor confidence.

v. **Promote transparency and public accountability.** Regulatory agencies should publish periodic reports on petroleum production volumes, tax collections, royalty remittances, compliance performance, and revenue distribution. Increased transparency will strengthen public confidence and improve accountability within the petroleum sector.

vi. **Undertake periodic review of the Petroleum Industry Act.** Given the evolving dynamics of the global energy industry and emerging fiscal challenges, periodic legislative reviews should be undertaken to ensure that the PIA remains responsive to industry developments, supports energy transition objectives, and maintains Nigeria's competitiveness in attracting petroleum investment. Collectively, these recommendations provide practical policy measures for strengthening petroleum tax administration, enhancing fiscal governance, improving regulatory effectiveness, and ensuring that the Petroleum Industry Act achieves its overarching objective of maximizing national revenue while fostering a transparent, efficient, and internationally competitive petroleum sector.

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