ASCERTAINMENT OF CHARGEABLE PROFIT IN THE ADMINISTRATION OF PETROLEUM PROFIT TAX IN NIGERIA

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ABSTRACT

The primary goal of the petroleum profit tax is to ensure that Nigeria's government gains the maximum possible advantage from its natural resources. This study focuses on looking into the rules and regulations for figuring out taxable profits and taxes in managing the petroleum profit tax as outlined in the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act, 2025. It seeks to identify key structural, legal, and practical problems and propose adjustments that can enhance efficiency, fairness, and transparency. This paper explores the functions of taxes, the process of filing returns to the tax authority, the data required for tax purposes, the calculation of taxable profits related to the petroleum profit tax, and how the petroleum profit tax is managed in Nigeria using a method based on doctrinal research. The study finds out that in reality, there are still difficulties in calculating and determining the petroleum profit tax. These complications frequently result in disagreements between tax authorities and petroleum operators, which can lead to litigation, revenue leaks, and a lack of confidence among players. Therefore, in order to guarantee that oil corporations pay their fair share of taxes, the paper suggests that chargeable profits be accurately calculated and determined. It is also advised that the Act be re-examined further to provide institutional support for taxation and chargeable profit calculation. By doing this, the Nigeria Revenue Service will have access to data on the cost-related operations of every company involved in petroleum operations.

Keywords – Chargeable, Petroleum, Administration, Profit, Ascertainment

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1. Introduction

More than 90% of the money Nigeria makes from exports and a large portion of government income come from the oil industry, which remains the foundation of the country's economy.[3]The Petroleum Profit Tax was restructured and re-administered by the Nigeria Tax Act of 2025 and the Nigeria Tax Administration Act of 2025, within a long lineage of (Petroleum Profit Tax Act of 1959, subsequent amendment and the Petroleum Industry Act Framework) and it is a key financial tool used to manage and gain revenue from the oil sector. This tax applies to the profits made by any company involved in the petroleum sector for each financial period. It must be calculated, evaluated, and paid according to the rules set by the Acts.

Nigeria's financial stability relies on the complex processes of evaluating income, figuring out taxable earnings, and ensuring adherence to regulations related to the management of the tax on petroleum profits.[4] While ensuring that oil companies pay their fair share of taxes and that government maximize petroleum revenue without discovering investment depends on accurate determination of taxable income, there remains insufficient doctrinal clarity on how specific technical and administrative challenges – particularly in the interpretation allowable deductions, transfer pricing practices, ring-fencing rules, capital allowance calculations, cost recovery mechanism, and administrative discretion – undermine accurate earning assessment in petroleum taxation system.[5]

Existing literature acknowledges revenue leakage risk in extractive industries: however, there is limited integrated analysis on how this interconnected tax design and enforcement weaknesses operate in practice to distort taxable income calculation. Specification of the practical difficulties in the interpretation of allowable deductions include: ambiguity in defining "wholly and exclusively incurred" expenses; classifications of disputes capital and revenue expenditure; deductibility of financial cost; treatment of exploration and development cost and deduction of

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[3] Central Bank of Nigeria Statistical Bulleting (2022) <http://www.cbn.gov.ng/documents/statbulletin.asp> (accessed 20 July, 2025).
[4] Nigeria Revenue Service (Establishment) Act, 2025.
[5] G. E. Akpan and I. A Udo. "Taxation and Revenue Generation in Nigeria's Oil Sector: An Empirical Assessment": *Journal of Energy Economic,* (2014) 45(2). 145 – 161.

headquarters overhead and management fees. Broad or vague statutory language allows aggressive tax planning, leading to inflated deductions and erosion of tax base. Limited comparative evidence on how interpretative ambiguity affects revenue outcomes across jurisdictions with respect to capital allowance and depreciation. There are difficulties in accelerated depreciation schedules, immediate expensing of exploration cost, valuation of petroleum assets, timing mismatches between production and deduction claim. Front-loaded deduction significantly delay taxable profits, particularly under profit-based tax system. Therefore, insufficient analysis of how capital allowance design, affect revenue timing and long term government take.

Difficulties with transfer pricing abuse include sale of crude oil to related parties at below – market prices, manipulation of benchmark pricing, overpricing of intra-group services and equipment, use of marketing hubs in low tax jurisdiction. Artificial profit shifting reduces taxable income in resource-rich country. Therefore, sector-specific transfer pricing studies tailored to upstream oil operations in developing economies. Difficulties of ring-fencing limitations include: absence of project-level ring-fencing; ability to offset losses from new field against profitable ones and consolidation across licenses companies can differ tax by cross-deducting exploration losses from profitable production sites. Limited doctrinal and economic assessment of optimal ring-fencing design balancing revenue protection and investment incentives.

Administrative discretion and enforcement capacity difficulties include: negotiated tax settlement; discretionary approval of cost recovery; weak audit capacity; political interference; information asymmetry between multinational oil companies and tax authorities. Administrative discretion can create inconsistent enforcement and opportunities for regulatory capture. Therefore, scarcity of governance-focused research linking administrative discretion to petroleum tax revenue performance. Given this, this essay will examine how chargeable profit is determined in Nigeria's petroleum profit tax administration. Following this introduction, which is its first section, the article is separated into six (6) sections.

2. Purpose of the Tax System

Giving the current administration a mechanism to raise money so it can carry out its responsibilities to the people is one of the main objectives of a tax system. Another is to give the required economic incentives or anything else in certain economic sectors. Thirdly, in a society where the wealthiest pay more than the poor, the tax system serves as a means of establishing a socially just balance between the rich and the poor. Without a doubt, the main objective of every taxing law is to raise money.[6]Making money for the government is the main objective of taxation. This is the primary defence used by the government of any state to impose taxes on its citizens. When the current government is in power, the money raised by the various tax laws will be utilised to finance essential infrastructure upgrades, such as steps to guarantee the safety of the nation and its citizens.

Moreover, the money gathered from taxes will enhance people's well-being by creating more job openings, which can help the state's economy if spent wisely and directed to the sectors that require it the most. This happens because a healthy economy with a reliable power supply, along with areas designed for specific economic activities like Free Trade Zones, industrial parks, and export processing zones, can lead to more job opportunities and improve the overall living standards of the community. It is noteworthy that when developing countries increase taxes to spur economic progress and development, they might opt to focus on particular objectives that match their tax strategies. Because the intents must be made clear, clarity rather than assumptions is ensured in tax transactions. It's interesting to note that when emerging economies raise taxes to encourage economic growth and development within their borders, they may choose to prioritise specific goals that align with their tax policies. Because the intents must be made clear, clarity rather than assumptions is ensured in tax transactions.

Therefore, there must be a mutually beneficial connection between those who make decisions about tax administration and policy and those who pay taxes. Each side of the split must complement the other in order for there to be no friction on either side. For instance, those in charge of the policy need to make sure that the tax regulations are carried out without issues, making them simple to understand and apply. This is also important to eliminate any confusion or disagreements a taxpayer might experience when submitting their tax returns. The taxpayer will eventually comply with tax rules. As is widely known, those in positions of authority who

[6] *Halliburton West Africa Ltd v. FBIR,* (2006) CLRN 159, line 16.

engage in poor management, embezzlement, and other vices may also disregard the law and neglect to pay taxes and other obligations imposed by the government.

According to McKerchar and Evans, the primary aim of any tax organization is to gather taxes and fees that are legally required. Nonetheless, taxpayers do not always follow the law when it comes to their legal obligations. A taxpayer who follows all tax rules is known as a compliant taxpayer. This means they properly register with the tax authority as needed, submit the required forms on time, correctly declare their tax obligations in those forms according to the relevant laws, court rulings, and instructions, pay any overdue taxes when they are due, and maintain all essential documents. If a taxpayer ignores any of these guidelines and hinders the ability to collect taxes, they are deemed non-compliant. Redistributing funds among a country's citizens is the aim of taxation. The underprivileged are supposed to pay lesser taxes based on their capacity to generate revenue, while the rich pay more taxes relative to their income. This indicates that when rich people pay their taxes on time, they are indirectly contributing to society because higher taxation translates into higher support for the nation's infrastructure development. This is particularly noticeable when tax money is utilised to build essential infrastructure in other parts of the nation.[7]

3. Submission of Returns to the Service and the Information Necessary in Order to Calculate Taxes

Section 16 of the Nigeria tax Administration Act[8] provides for Estimated returns for upstream petroleum operations are provided. For hydrocarbon gas, petroleum profit tax, and income tax. When relevant, a firm that conducts petroleum activities is required to submit to the Nigeria Revenue Service an estimated report of its earnings or losses for that financial period not later than two months after the beginning of each financial period. The financial period will apply to any company involved in upstream petroleum activities that is responsible for hydrocarbon tax or petroleum profit tax. In addition to the data needed to determine the estimated tax owed under *Sections I and II of Chapter 3 of the Nigeria Tax Act 2025.* The estimated tax submissions must also contain:

[7] O.U. Okoye, and A. Nwadukwe. "Tax Laws: Synergy for Infrastructural Development in Emerging Economies" (2021) 3(2), *International Review of Law and Jurisprudence,* 77 – 28.
[8] 2025.

a. an estimation of its likely taxable earnings for that timeframe, along with its projected income, modified gain, or deficit;
b. a calculation of the overall income generated from various sources, such as field condensates, liquefied natural gas, and crude oil, along with both related and unrelated gas obtained before the measurement records;
c. a statement describing the estimated sums that need to be returned, refunded, forgiven, or freed up to it as mentioned in Sections 68(2) and 91(2) of the Nigeria Tax Act;[9]
d. Regarding Parts II and III of the Nigeria Tax Act, 2025's first schedule, the following schedule is provided:
i. The expected residence's assets at the end of the time frame;
ii. All of its expected qualified petroleum expenses during that time;
iii. The estimated values of its assets that will be sold during that time frame, as determined by the conditions of that schedule; and
iv. The following allowances are payable to it during that time period under that schedule;
e. Concerning the sixth schedule of the Nigeria Tax Act, this section reveals the anticipated overall production allowance and the restrictions on the cost-price ratio for all its upstream petroleum activities linked to crude oil, in relation to the two kinds of taxable income;
f. An assessment of its expected taxable earnings for that period, as outlined by the Nigeria Tax Act of 2025;
g. A calculation of the expected tax due for that time frame; and
h. a statement stating that the estimate was created as accurately as possible by the signer.

In the event that price, cost, or volume changes during the accounting period, the business must file additional returns each month with the updated estimated tax for that time frame.

The service will review and confirm every return provided by a company engaged in oil and gas activities related to gasoline and crude oil to meet the standards of this section. If a company does not provide the required estimates outlined in parts (1), (2), and (3), the service has the right to create the estimates based on its best judgment and enforce that decision on the company.

Despite this, only the hydrocarbon tax specified in Part I of Chapter 3 of the Nigeria Tax Act of 2025 will qualify for production allowances according to the sixth schedule of the Act.

Section 16 of the Nigeria Tax Administration Act requires companies engaged in upstream petroleum operation to: submit estimated tax returns of profit or losses for the accounting period within two months of the period's start (for hydrocarbon tax, petroleum profit tax and income tax) to the Nigeria Revenue Service; apply accounting period specific to petroleum operations as set out in the Act; and include detailed computation of estimated revenue, adjusted profit/loss, and

[9] 2025.

assessable profits in the returns, *Section 16* seeks to improve revenue forecasting and cash flow for the government by requiring timely estimated returns from upstream petroleum operators. It also seeks to enhance compliance and administrative efficiency by standardizing estimated tax returns obligation for a major revenue-generating sector, and align petroleum tax obligation within the brother unified tax regime introduced by the 2025 tax reforms. The upstream oil and gas sector has historically been a cornerstone of Nigeria's government revenue, so timely taxation data is critical for fiscal planning. The section promotes timeliness and predictability, administrative harmonization and encourages compliance discipline. Despite the intent, Section 16 also raises several practical and legal concerns thus: administrative body of companies; risk-over or under-estimation, drafting and interpretative gaps; alignment with constitutional and procedural standard and capacity constraints of the tax authority.

Section 17 of the Nigeria Tax Administration Act[10]further permits actual returns to be filed for petroleum operations upstream. That all businesses involved in upstream petroleum operations, including those that have not yet started selling chargeable oil in bulk or disposing of it, must submit their audited financial statements and returns to the service within:

a. 18 months after the company's incorporation date, if it was just incorporated; and

b. If it is another business, five months after any timeframe that concludes on December 31.

As stated in Subsection (1), every company needs to record its earnings, profits, and losses for every accounting timeframe. It also has to gather the necessary details to determine its income tax, petroleum profit tax, and hydrocarbon tax as outlined in Parts I and II of Chapter Three of the Nigeria Tax Act, 2025:

a. An analysis of its income from various sources, which includes details about the extraction of field condensates, crude oil, and liquid natural gas that is generated upstream of the measurement location and originates from associated gas.
b. Determining its true assessable earnings for that specific time frame and its real profit or loss after adjusting for revenue;
c. a list of the sums paid back, reimbursed, waived, or released to it during that time frame as specified in Sections 68(2) and 91(2) of the Nigeria Tax Act, 2025;

[10] Ibid; D. K. Mensah, "Journal Entries and Documentation Requirement for Submission of Tax Returns and Tax Computation": *International Journal of Accounting Finance and Taxation,* (2024), 3(2), 145 – 162; T. O. Adeyemi, "Accounting Treatment of Tax Liability and Compliance Procedures in Emerging Economies": *Journal of Taxation and Fiscal Policy,* (2023), 18(2), 77 – 94.

d. Regarding Parts II and III of the Nigeria Tax Act, 2025's First Schedule, a schedule that displays:
i. The remainder of its assets at the conclusion of the time frame;
ii. All of its eligible petroleum expenses during that time;
iii. The amounts of any assets it sold at that time; and
iv. The allowance that was owed to it during that time period under that schedule.
Concerning the sixth schedule of the Nigeria Tax Act, 2025, this schedule outlines the overall production allowance and the limit on the cost-price ratio for all its crude oil upstream petroleum activities related to the two types of taxable income, as applicable;
e. The Nigeria Tax Act of 2025 was used to determine its real taxable earnings for the two chargeable profit classes, if any;
f. A computation of the tax owed for that duration;
g. Finished self-evaluation forms that have been authorized by the company's CEO; and
h. Proof that the last installment was paid.

Following the end of that time frame, all businesses involved in crude oil upstream petroleum operations are required to provide the service with:
a. A copy of its audited financial statement for that time frame, as required by Subsection (1);
b. Copies of the delivered firm accounts along with the details mentioned in Subsection (2) pertaining to that time period; and
c. A statement that has been signed by a company representative, the liquidator, the receiver, or the agent involved in the liquidation or receiving process, confirming that the information given is accurate and complete.

Section 17 of the Nigeria Tax Administration Act imposes an obligation on taxpayer to disclose to the tax authority certain tax planning arrangements – define broadly to include transactions, schemes or series of transactions that create a tax advantage (e.g., deferral, reduction or avoidance of tax) – even if they are lawful. Failure to disclose relevant arrangement attracts administrative penalties under the Act. The section promotes transparency and compliance, it also captures a wide range of planning structures, helping curb sophisticated avoidance strategies that escape traditional assessment. Its practical application could pose challenges due to vagueness, compliance cost, and enforcement risk for it to function effectively without unfairly penalizes taxpayer, clearance guidance and proportionate relief mechanisms are essential.

The Nigeria Tax Administration Act's Sections 18 and 19 also require monthly and yearly petroleum royalty returns to be filed.[11]As soon as this law takes effect or when production begins, whichever happens sooner, every permit holder and renter involved in oil operations needs to submit a self-assessment report for royalties in the required format. The monthly royalty reports

[11] Ibid; L. W. Okafor and R. T. Smith, "Financial Reporting and Tax Returns Preparation: An Integrated Approach Journal": *Global Review of Accounting and Finance,* (2022), 9(4), 201 – 219.

must be submitted by the fourteenth day of the month after, no matter if any production has occurred. They need to be joined by:

a. The locations where various kinds of oil are created, along with the total amounts of natural gas, liquid natural gas, crude oil, and condensates generated for each specific area;

b. Pricing for natural gas, condensates, crude oil, and natural gas liquids that are produced separately;

c. royalties calculated according to production;

d. Pricing-based royalties;

e. Royalty self-evaluation form, appropriately completed;

f. Confirmation that the necessary royalties have been paid; and

g. Any further information the service might require.

The returns mentioned in Subsection (2) need to have the signature of an authorized company officer, who confirms that the returns, schedules, statements, and additional documents are accurate and thorough to the best of their understanding.

When sellable natural gas is produced and used within the nation, the renter or permit holder must give the information listed below in addition to what is mentioned in Subsection (2):

a. The quantity of domestically delivered gas;

b. The quantity of gas destined for exportation;

c. Certifications of the location where the lessee supplies a wholesaler or supplier with natural gas;

d. Destination certifications derived from relevant data, such as sales and purchase agreements.

Within 30 days of receiving the notice of assessment for the increased payment, any further royalties must be paid. After reviewing the royalty filed, the Nigeria Revenue Service may make any necessary adjustments to the royalty payable.

Any evaluation or additional evaluation conducted under this part will need to follow the rules of the Act concerning notifications of assessment, additional evaluations, appeals, and other procedures.

Note: Within five months after the conclusion of the accounting period, the yearly reports of actual oil royalties paid during that time have to be submitted using the form provided by the Nigeria Revenue Service.

To gather complete details, the Nigeria Revenue Service, as permitted by the Nigeria Tax Act 2025, can ask upstream petroleum companies to submit returns. This must be done within the timeline given in the previous section, and the company has at least seven days from when they receive the request to fill out and send the needed information back to the Nigeria Revenue Service. Alternatively, the notice might state that someone authorized by the company, such as a liquidator, receiver, or their representative, should show up before the Nigeria Revenue Service or their authorized agent on the dates mentioned in the notice and provide any requested information for review.

Section 57 of the Nigeria Tax Administration Act[12]allows for requests for information, papers, and books to be returned. That any taxable person may receive notice or supplemental notice from the appropriate tax authority in order to collect information regarding the taxable person's tax liability or to perform any other function authorised by this Act or any other tax law.

a. No matter the person's tax responsibilities and whether they have previously submitted a return for a given assessment year under this law, complete and send to the tax office any return mentioned in that notice or any later notification.

b. Appear in person for an examination before a tax authority officer about a matter covered by such notice or additional notice;

c. Make available or organize the creation of books, documents, records, or details related to any assets for review at the place and time indicated in the notice or any further notice; this duration can be on a daily basis or for as long as the tax agency considers suitable;

[12] Ibid; M. Y. Chen, "Tax Documentation Requirement and their Impact on Corporate Compliance": *International Journal of Financial Regulation and Compliance,* (2021), 15(1), 33 – 50.

d. Give any information mentioned in this notice or any subsequent notice, either verbally or in writing; and

e. Allow the tax department to view all records, information, or data that a person, company, or organization has, operates, oversees, or possesses, which are stored on computers or other electronic devices, as well as any data on magnetic storage or through cloud services.

The announcement or any additional announcement stated in Subsection (1) should be delivered at least seven days after it has been served. Despite what this Act says, the tax office can check any issues related to a tax return or records in a book, document, or accounts. This includes information kept on a computer, in the cloud, or in any digital, magnetic, optical, or electronic format, following the rules set by the relevant tax authority. A person can ask in writing for more time to meet the rules of this section and other related parts of this Act, as long as they:

a. Submits the application prior to the deadline specified in the notice or additional notice; and

b. Demonstrates a valid reason for not being able to follow this rule.

The relevant tax organization will grant more time or establish a deadline in writing if it agrees with the reasoning given in the request under Subsection (4)(b). Any tax return or information sent under this section must come with a statement or confirmation verifying the correctness and honesty of the provided information.[13]

Section 57 empowers staff authorities to compare taxable persons to provide: tax reforms; books and records; and other relevant information necessary to determine tax liability or perform statutory functions. Although the full list of powers continues in Sections 58 to 61, Section 57 is effectively the gateway provision that triggers tax authority information gathering and enforcement actions. Section 57 is part of a broader enforcement framework designed to modernize tax administration and improve voluntary compliance – a long standing weakness in Nigeria's tax system. By legally obligating taxpayers to furnish documents and returns, it reduces reliance on estimated or blind assessment, improving revenue accuracy. Section 57

[13] D. A. Oloronleke, "Taxation and the Nigeria Petroleum Industry" in M.A. Ajomo, *Tax Law and Tax Administration* (Lagos: Nigeria Institute of Advanced Legal Studies, 1999), 246.

consolidates and standardizes the process for information request – a procedural improvement. The section has been criticized for overbroad and intrusive powers, risk of disproportional enforcement, implementation challenges and overlaps with other provisions.

Section 119 of the Nigeria Tax Act[14]defines petroleum to mean: For Section I of Chapter Three of this legislation, hydrocarbons and related materials found in their natural form in geological layers are included. This encompasses crude oil, natural gas, and mixtures of any of those substances, but it does not cover bitumen or coal. In Section II of Chapter Three of this legislation, any mineral oil, related hydrocarbon, and natural gas that exists naturally in Nigeria is included, but it does not account for coal, bituminous shales, liquefied natural gas, or other layered deposits from which oil can be obtained through destructive distillation.

In Part I of Chapter Three of this law, the term "upstream petroleum operation" means activities related to finding, assessing, developing, and acquiring oil in Nigeria by or for a company for its own profit. This includes drilling to explore for oil and gas, running pipelines and systems for crude oil, gas, and water, building and operating separators that manage pressure, and creating facilities to process crude oil and natural gas. It also involves burning off natural gas, compressing and reinjecting gas into underground reservoirs, and establishing facilities to generate electricity or heat using natural gas or other fuels to help extract oil. Additionally, it covers assessing and injecting water back into the reservoir, building and managing pipelines and other water discharge systems, constructing and using platforms or vessels necessary for oil extraction, setting up crude oil storage in the licensing region, and transporting individuals, goods, and equipment to and from this area. It further includes measuring fluid streams from wells, checking the amount of oil at the measurement site before transporting it, selling natural gas, crude oil, or condensates, or any combination thereof, at the measurement site, as well as any other activities defined by regulations as upstream petroleum operations, including related management and administrative tasks.

4. Determining the Chargeable profit in the Administration of Petroleum Profit Tax

[14] 2025; S. A. Ibrahim, "Journal Entries for VAT, Payroll Taxes and Corporate Income Tax: A Practical Framework": *African Journal of Accounting and Tax Studies,* (2024), 11(2), 118 – 136; P. L. Williams and S. Kaur, "Tax Returns Filing Systems and Information Requirement for Accurate Tax Computation": *Journal of Public Finance and Accounting,* (2020), 22(3), 89 – 107.

Section 37 of the Nigeria Tax Administration Act[15]establishes the way taxes will be calculated in upstream oil activities, indicating that the tax evaluation in these operations must follow a format and method set by the Nigeria Revenue Service and must include the:

a. Name and address of the business that has been taxed or of the individual whose business has been taxed, as long as the represented business's name is included; and

b. For each business, the exact timeframe for accounting and the total profits that can be taxed along with the tax owed for that timeframe are presented.

If a review has to be modified, a document indicating the updated or altered figures for the taxable income and tax must be prepared just like the first evaluation described in Subsection (1). There must be a list of all self-assessments and all assessments that have been changed or fixed. This list is the assessment list for this tax.

Section 37 requires that: tax assessment for upstream petroleum operation be made in a prescribed form and manner. Amended or revised assessment be similarly documented. Copies of self-assessment and revised assessment be linked in an assessment list. The provision promotes consistency and formalization, which can reduce ambiguity in how upstream petroleum taxes are assessed and recorded. Requiring documentation of both original and reversed assessment can improve the audit trail and administrative transparency of assessment. In essence, Section 37's formalization of petroleum tax assessment is a pragmatic step towards procedural structure, but its lack of built-in taxpayer's protection and reliance on administrative capacity may limit its effectiveness and fairness or less supported by clear regulation and strong institutional enforcement.

Section 40 of the Nigeria Tax Administration Act explains the process for delivering an assessment notice. The assessment should be definite and binding, and a notice must be issued to every taxpayer or to the individual responsible for a taxpayer. This notice should contain details about the tax amount, payment locations, and the rights of the individual as described in Sections 42 and 43 of this Act.

[15] Ibid; M. O. Omorogie an d O. A. Ikpefon, "Petroleum Profit Tax and Revenue Generations in Nigeria": *International Journal of Advance Academic Research in Social and Management Science,* (2017), 3(8), 36 – 51.

Section 90 of the Nigeria Tax Act indicates that tax on profits from petroleum must be paid for petroleum activities according to the guidelines set in this Act.

As stated in Section 91 of the Nigeria Tax Act, a company's income during a financial time frame includes its total profits, modified profits, profits subject to assessment, and profits that can be taxed.

a. The money the business made from selling everything it sold during that time;
b. The total amount of charged oil that the company got rid of during that time;
c. All of the money the business made at that time that originated from or was connected to any of its oil-related activities; and
d. According to the rules in Part VIII of Chapter Two of this Act, gains from selling assets that the company got during any particular accounting period shall be taxed at the rate in Section 56 of this Act.

According to the applicable laws, the worth of any oil that has been disposed of will be seen as its value for Subsection (1) (b). The earnings for a specific accounting period. The adjusted earnings for that period are what is left after applying the deductions permitted by Section 92(1) of this Act, along with any necessary adjustments in accordance with Section 92(2) and Section 96 of this Act.

The earnings for an accounting period, after applying the deductions allowed by Section 97 of this Act, are the profits that can be assessed for that period. The profit for an accounting period, after accounting for the deductions permitted by Section 98 of this Act, is the profit that can be charged.

As of Section 91(2) of the Nigeria Tax Act, the cost of getting the oil out, moving it, and storing it has not yet been taken into account. Profits from business activities that don't satisfy the definition of petroleum operations are also not included. For example, an oil company makes money when oceangoing tankers transport oil from Nigeria to another country. Any profit or loss related to this transportation must be left out when calculating an adjusted profit or loss. But the company's income tax could take a cut of these gains.

The Nigeria Tax Act lets a company that sells oil and gas take costs out of its profits. Section 92 of the Nigeria Tax Act says that to figure out the company's adjusted profit from its petroleum business for the accounting period, all expenses and costs that the company had to pay for its operations during that time must be subtracted.

a. The company covered the cost of renting a structure or a plot of land that was being used under an oil extraction agreement or an oil exploration permit to interfere with surface usage or for any other unpleasant disruption.
b. All of the company's non-productive rents for that time frame;
c. Any payments made by the company during that period for natural gas that was sold and provided to the Nigeria National Petroleum Company Limited, sold to another customer, or otherwise handled in a commercial manner;
d. Any payments made by the company for crude oil or casing head petroleum spirit that it obtained in Nigeria during that period;
e. Duties, taxes, or other similar charges that the company paid to the Federal Government of Nigeria during that period for machinery, tools, and items used in its oil-related activities;
f. Any costs related to fixing buildings, machines, or fixtures used for carrying out oil activities, or for replacing, maintaining, or altering any tools, devices, or supplies utilized;
g. Payments made as interest on money taken on loan by each company when the service provider believes that interest was required for the money utilized in running its oil business, according to the Transfer Pricing Regulation and the third schedule of this Act;
h. Any expenses (both tangible and intangible) related to drilling an exploration well and the following two appraisal wells in the same area, regardless of whether these wells yield results; however, if this section permits a deduction for such expenses, those expenses will not be regarded as eligible drilling expenses according to Part III of the first schedule of this Act;
i. Any expense directly related to drilling and evaluating a development well that is deemed an intangible drilling cost;
j. Any payments made to a retirement, savings, or other similar organization, plan, or fund that are allowed by the Pension Act, with the agreement that, for Subsection (1) (c) of Section 90 of this Act, the income of the company for that financial period will be the sum it gets or the worth of any advantages it gains from any recognized retirement, savings, or other similar organization, plan, or fund during that financial period;
k. Besides income taxes, the company also paid stamp fees, import and export taxes, or any other charges, fees, or similar costs to the federal, state, or local authorities throughout that time;
l. Any donation to a fund, scheme, or setup for closing down and abandoning operations that received approval from the commission, provided that the Account Statement for this fund is submitted; additionally, any extra or leftover money from the fund intended for decommissioning and abandoning the area will be taxed according to this section;

m. Although these debts were supposed to be paid before the start of the accounting time for calculating the adjusted earnings, debts that the company took on and that the service deemed uncollectible or questionable during this time, as long as:

   i. The borrowed money was counted as earnings from oil activities or loans that were made as part of normal oil operations, which were not loans connected to anything mentioned in Section 97 of this law;

ii. The sum taken away according to this section, as well as the deduction related to an uncertain debt, will not be greater than the part of the debt that has been shown to be uncertain during that specific accounting time; and

iii. Any funds that the company retrieves during that accounting time, which were earlier deducted because of poor or uncertain debts, will be seen as the income of the business for that time frame.

n. Development levy paid in accordance with this Act's Section 59;

o. Any further deductions that may be required by any regulations established under this section.

Section 92 of the Nigeria Tax Act is an important, relatively comprehensive provision for determining the deductible expenses of petroleum companies. It aligns with international practices by acknowledging a wide range of operational cost and by tying deductions (in the case of interest) to fair market standard. It captures a wide range of legitimate operational expenses that petroleum companies incur – from exploration through production. By allowing deductions for exploration and appraisal cost, the section recognizes the risky nature of upstream operation. However, ambiguities in language, the potentials for tax base erosion, and compliance complexities pose significant challenges that must be managed through clear regulations, robust documentation requirement, and judicial interpretation.

Section 93 of this Act will govern how liability that has been waived, released, or recovered is handled under this section.

The instances provided in *Section 93 of the Nigeria Tax Act*[16]are not exhaustive. The provision of the section came up for interpretation before the Supreme Court in *Shell Petroleum Development Company Ltd v FBIR*[17] the respondent received the appellant's petroleum profit tax return. The amended tax assessment, which the appellant believed was due from it, was included in the returns. Four items were not included in the returns by the respondent since they couldn't be deducted when calculating the taxable amount. The four items were:

a. Exchange losses for petroleum profit tax payments;

b. Petroleum Profit Tax payment is handled by the Central Bank Commission.

c. Costs associated with scholarships; and

[16] Ibid; O. M. Vadiale and T. Fagbemi, "Corporate Socio Responsibility and Financial Performance in Developing Economies: The Nigeria Experience": *Journal of Economics and Sustainable Development,* (2012), 3(4), 44 – 54.

[17] 1 NRLR, pt. 1, 1.

d. Donations and gifts.

Shell disagreed with the decision to get rid of the items and took the matter to the Body of Appeal Commissioners (BAC). The BAC refused to accept Shell's case and upheld the updated assessment by the FBIR in its decision. Shell then went to the Federal High Court, which agreed with Shell on losses from exchange rates and charges from the CBN but turned down the issue related to scholarship spending. Both the FBIR and Shell did not agree with the ruling of the Federal High Court. They decided to appeal to the Court of Appeal. The Court of Appeal turned down Shell's appeal but accepted the FBIR's appeal. After an appeal, the Supreme Court overturned the decision of the Court of Appeal, stating that losses from exchanges, CBN fees, and costs for scholarships could all be deducted. The court found that these three costs were related to petroleum operations, indicating that they were completely, solely, and necessary for that purpose. Consequently, these expenses were subtracted from Shell's adjusted profit for that particular year.

The Supreme Court in *Shell Petroleum Development v FBIR,* entrench a strict, literal interpretation of tax deductions – insisting that only expenses clearly proven to be wholly and exclusively incurred for business operation qualified. This strict approach continues to shape how similar test are applied under the 2025 Nigeria Tax Act (even where the wordings of the statutory test have be simplified), by reinforcing the requirement that deductions must be legally cleared and factually substantiated.

Section 95 of the Nigeria Tax Act prohibits the subtraction of specific costs and expenses when determining a company's modified earnings from its oil activities during any specific accounting time frame. These include:

a. Any cash withdrawn or any funds spent or planned to be spent as investment;
b. Any funds allocated to upgrades as opposed to repairs;
c. Any sum that can be recouped under an insurance or indemnity agreement;
d. Payment or the expense of fixing any property or part of it that is not needed for business reasons;
e. Any sum given for income taxes, profit taxes, or other like taxes that are enforced in Nigeria or in other places;
f. The decline of any asset, construction, framework, lasting job, tools, industrial facility, devices, furniture, or installations;

g. Pensions, provident funds, savings accounts, funds for widows and orphans, or any other social program or fund, except where specifically permitted by Subsection (1)(j) of Section 91 of this law;

h. Customs tax on items imported by the business, whether they are articles or something else;

1. For the company's employees' personal use or sales;
2. When products made in Nigeria that have the same standard as imported items are sold to everyone for a price that is the same as or lower than the cost of the imported goods at the time the company ordered them;

i. Any cost related to gathering information about the quantity and presence of petroleum resources;

j. Any expense or deduction related to a liability incurred that is deductible under any other provision of this Act, as well as any qualifying expenditure for the purposes of Part III of the first schedule to this Act;

k. Any tax or fine paid on behalf of another person; and

l. Any cost that is subject to Value Added Tax under this Act but has not been charged, or any cost that, in the case of imported goods, has not been subject to the applicable import duty or levy.

Notwithstanding the provisions of Section 92(1) of this Act, a deduction for any amount paid to a related party that does not comply with the Transfer Pricing Regulations will not be permitted for calculating the adjusted profit of any firm for any given accounting period.[18]

Section 97 of the Nigeria Tax Act[19]stipulates that, pursuant to the rules in this section, a company's assessable profits for any given accounting period are equal to the adjusted profit for that period less the following deductions:

a. The total amount of all losses that business suffered in any prior accounting quarter; and

b. The amount of any loss that the newly formed firm may deduct from its trade or business during its first accounting period under Section 190 of this Act in the event of a business restructuring.[20]

Until the loss specified in Subsection (1) is fully recovered, the amount of adjusted profits of the accounting period that immediately follows the accounting period in which the loss was incurred, as well as in subsequent accounting periods, will be deducted as much as is practical from the loss.

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[18] Section 95(2), Ibid.

[19] Ibid; A. Ariyo and D. O. Gbegi, "Tax Incentives and the Growth of Oil and Gas Sector in Nigeria": *Research Journal of Finance and Accounting,* (2013), 4(3), 10 – 20.

[20] Section 97(1) (a) (b), Ibid.

Within five months of the end of an accounting period, or at any other time the Nigeria Revenue Service permits, a company may, with the approval of the Nigeria Revenue Service, decide in writing to postpone a deduction under a section or a portion of a deduction to a later accounting period.

According to Section 97(3) of the Nigeria Tax Act, a petroleum firm may choose to carry forward its losses to the following accounting period even though the profits from the current accounting period could offset those losses. The Nigeria Tax Act's Section 98 permits chargeable profit and capital allowances. Consequently, the chargeable profit of any business for an accounting period is the total of the assessable profits for that period, after statutory deductions of any amount made in accordance with the guidelines of this section. In accordance with Part III of the first schedule to this Act, the sum of all allowances due to the business for the accounting period will be determined. The amount of the deduction that is permitted under this section for an accounting period will be determined by applying the limits imposed by Subsection (4). In the case that no deduction is taken under this section, this will guarantee that the tax owed by the business for that time period is at least 15% of the total tax owed for that time period.

The lesser of the following amounts will be the amount that can be deducted under this section:

a. The total sum determined by Subsection (2);

b. 85% of the accounting period's assessable profits less 170% of the entire amount of the petroleum investment allowance deduction, as determined under Part III of the Act's first schedule for the period.[21]

Due to limitations imposed by Subsection (4) of the total amount or the portion that has not been deducted, the entire amount of allowances calculated under Subsection (2) cannot be deducted under Subsection (1) because there are insufficient or no assessable profits for the accounting period.

a. Added to the total amount that will be determined for the company's subsequent accounting period under Subsection (2);

[21] Section 98(4) (a) (b), Ibid.

b. According to the terms of Part III of the first schedule to this Act, it is deemed to constitute an allowance owed to the corporation for the subsequent accounting period.[22]

According to Part III of the First Schedule to this Act, the relevant expenditure will not be eligible as a qualifying capital expenditure if Value Added Tax is due under this Act but has not been charged on an asset, or if the applicable import duty or levy has not been paid in the case of an imported item. According to the Nigeria Tax Act's First Schedule, Part II, Paragraph 1(1)(c), Capital expenditures made for hydrocarbon tax purposes within an accounting period are referred to as "qualifying expenditures" and include the following:

i. For petroleum mining leases or petroleum prospecting licenses, "qualifying plant expenditure" refers to the costs directly related to plant, machinery, and fixtures for upstream petroleum operations involving crude oil;

ii. "Qualifying pipeline and storage expenditure" includes gathering pipelines for upstream petroleum operations relevant to crude oil for petroleum mining leases or petroleum prospecting licenses, as well as floating production systems that are directly incurred;

iii. "Qualifying building expenditure" refers to any costs directly related to the construction of buildings, structures, or works of a permanent nature for upstream petroleum operations applicable to crude oil for petroleum mining leases or petroleum prospecting licenses, excluding costs covered by Sub-paragraphs (c) (1), (ii), or (iv); or

iv. "Qualifying drilling expenditure" refers to both tangible and intangible costs, excluding those covered by Sub-paragraph (1) (c), (i), or (ii) that are directly or indirectly related to upstream petroleum operations for petroleum mining leases or petroleum prospecting licenses. These costs may be incurred in order to acquire access, find and test petroleum deposits, or construct buildings or other structures that are likely to be of little or no value once the upstream petroleum operations for which they were built cease.

Amounts which can be written off under Section 68 of this Act, get a capital allowance under any other provisions of this Act, or be paid before the asset was acquired by another party are not considered eligible expenses.

[22] Section 98(5) (a) (b), Ibid; C. O. Olaoye and A. T. Ekundayo, "Effects of Petroleum Profit Tax on Economic Growth in Nigeria": *Journal of Accounting and Taxation,* (2018), 10(6), 67 – 73.

Any losses incurred during the sale will not be allowed at the beginning of the accounting period, and any profits made during the sale will be subject to income tax in the first accounting period, if the company has already sold the asset listed in Sub-paragraph (d) prior to the start of its accounting period.

The Nigeria Tax Act's First Schedule, Part II, Paragraph 1(2)(a)(b), states that, for the purposes of this section, where:

a. If an expense was incurred prior to the first accounting period and would have been classified as a qualifying expense under any of the qualifying expense classifications listed in Sub-paragraph (1) (c), it will be so; and

b. Expenses incurred before to the first accounting date should have been considered admissible deductions in an accounting period; they will be permitted, but they will be fully amortised over a five-year period.

Paragraph 4(1) states that an enterprise that incurs qualifying expenditures in any given accounting period for the sole and exclusive objective of upstream petroleum activities that pertain to crude oil that the company conducts is entitled to an allowance at the appropriate rate specified in the table to this part as of the accounting period in which the expenditure was incurred. The company must first meet certain requirements outlined in Part II Paragraphs 4 and 5 of the First Schedule to the Nigeria Tax Act before it can be granted a capital allowance. For statistical purposes, 1% of the qualifying capital expenditure—a national sum—must be documented in the capital allowance computation schedule until the asset is sold, regardless of the terms of Sub-paragraph (1). According to paragraph 4(3), this will not raise or lower the amount of capital allowance that can be claimed under this part. Without a certificate of disposal from the commission, no asset or part of an asset for which capital allowance has been granted may be sold.

Second, a company is eligible for a capital allowance under paragraph J, subject to paragraph 15 of this part, for qualifying expenditures incurred on an asset if it owned the asset at the end of the accounting period and it was being used for upstream petroleum operations applicable to crude oil carried on by the company.

Rates for capital allowance are set down in Part II, Paragraphs 14(1) and (2) of the First Schedule to the Nigeria Tax Act. The following rules must be followed by qualifying costs.

Qualifying capital Expenditure		*1st*	*2nd*	*3rd*	*4th*	*5th.*
1.	*Qualifying Plant Expenditure*	*20%*	*20%*	*20%*	*20%*	*20%*
2.	*Qualifying Pipeline Expenditure*	*20%*	*20%*	*20%*	*20%*	*20%*
3.	*Qualifying Building Expenditure*	*20%*	*20%*	*20%*	*20%*	*20%*
4.	*Qualifying Drilling Expenditure*	*20%*	*20%*	*20%*	*20%*	*20%*

At the beginning of the accounting period, additional pre-production-related exploration and appraisal expenses in the same field must be amortized and subtracted at a capital allowance of 20% per year. In the year of incurrence, exploration expenses and the first two assessment wells in the same field are deductible at a rate of 600%.

Petroleum profits tax can be assessed under Section 99 of the Nigeria Tax Act. For a specific accounting period, 85% of a company's chargeable profits are its assessable tax. If a corporation has not begun a sale or bulk disposal of chargeable oil under a program of continuous production, its assessable tax for an accounting period in which it has not fully amortized all of its preliminary production capitalised expenses is 65.75% of the chargeable profits for that period.

Provided that

a. Regardless of any additional incentives the company may receive, the tax rate period under this paragraph cannot exceed five years, starting with the company's first accounting period; and

b. A business will be liable for taxes under paragraph (1) from its first accounting period if it receives a licence, lease, or an interest in an oil and gas asset that has benefited from this paragraph.

In certain circumstances, such as when a company's chargeable oil is sold or otherwise disposed of between connected or unconnected parties during an accounting period and the payable tax amount for the time frame, as determined by the provisions of this part other than this section, is less than the amount specified in Subsection (2), chargeable tax for that period, divided by the difference between those two amounts, Section 100 of the Nigeria Tax Act permits additional chargeable tax to be paid.

The amount referred to in Subsection (1) is the amount that the chargeable tax for that period, as determined by the provisions of this part, shall be if the reference in Section 91(1)(a) and (b) of this Act to the proceeds of sale were a reference to the amount obtained by multiplying the number of barrels of that crude oil determined at the measurement point by the fiscal oil price per barrel.

For the purposes of this section, the total value of the chargeable oil for a company is equal to the sum of the volume and fiscal oil price times the commission at the measurement location. The complete amount of any additional crude oil tax that a company may be obliged to pay under this section must be paid concurrently with the final installment of the chargeable tax that is due for a specific accounting period.

The commission will establish a fiscal oil price per barrel based on a fair and reasonable relationship if there isn't one already set for a crude oil stream:

a. to Nigeria's fixed fiscal oil price for crude oil streams with similar specific gravities and quality;[23] or

b. It will have a fair and reasonable relationship to the official selling price at major international trading centres for crude oil of comparable quality and gravity in the absence of such Nigerian crude oil streams with comparable quality and specific gravity, taking into account freight differentials and other pertinent factors in either scenario.[24]

Regardless of any other clauses in this section, a company's chargeable oil will be deemed to have been sold by that company or exported from Nigeria for the purposes of this section if it is exported from Nigeria or sold locally by another company.

The "posted price" is the total profit an oil company makes from the sale of crude oil because the price of crude oil is fixed in US dollars. According to Section 100 of the Nigeria Tax Act, if the amount of chargeable tax collected under Section 91 of the Nigeria Tax Act is less than the

[23] Section 100(5) (a), Ibid; J. F. Adebisi and D. O. Gbegi, "Effects of Multiple Taxation on the Performane of Small and Medium Scale Business Enterprises": *Mediterrenean Journal of Social Sience,* (2013), 4(6), 323 – 334.

[24] Section 100(5) (b), Ibid; E. I. Okoye and U. J. Nwoye, "An Appraisal of Tax Administration and Revenue Generation in Nigeria": *International Journal of Business and Social Science,* (2014), 5(8), 165 – 172.

amount that results from multiplying the price of a barrel of oil by the number of barrels produced, the difference is deemed an additional amount of chargeable tax that the corporation must pay.

5. How the Petroleum Profit Tax is Administered?

The Nigeria Revenue Service is responsible for administering the petroleum profit tax and managing associated matters. It has the power to determine, collect, and account for revenues owed to the Federal Government. A legal, institutional, and regulatory framework for the administration of taxes and money owing to the Nigerian government is established by the Nigeria Revenue Service (Establishment) Act. The Nigeria Revenue Service was created by Section 3 of the Nigeria Revenue Service (Establishment) Act, which also contains the service's constitution, broad powers, and functions. The Nigeria Revenue Service is responsible for ensuring that the Nigeria Tax Act and Nigeria Tax Administration Act are followed, and it may take any action deemed necessary and practical for the assessment and collection of petroleum profit tax under the Act. The Nigeria Revenue Service is therefore empowered to assess, levy, and collect petroleum profits. It can then notify the oil companies of relevant notices if necessary. Ensuring that companies that have committed crimes are appropriately punished is another duty of the Nigeria Revenue Service.

In order to perform any of its duties under this Act, the Nigeria Revenue Service, a body corporate with perpetual succession and a common seal, is permitted to own or dispose of any property, whether it be immovable or moveable. In its name, it is also able to sue and be sued. It has the authority to order the submission of documents or information by publishing a notice in the Federal Gazette. The Nigeria Revenue Service may also appoint an authorized agent to work on its behalf.

6. Conclusion

The financial impacts of Nigeria's petroleum industry are the main focus of the Nigeria Tax Act and the Nigeria Tax Administration Act. The responsibility for making sure the Act is correctly implemented rests with the Nigeria Revenue Service. It has the power to assess and collect taxes from oil-producing companies throughout Nigeria by taking any required and practical actions.

It is clear that extensive procedures for assessments, returns, and the computation of chargeable profit owing by oil-producing firms have been established under the Act. However, there are uncertainties in a number of the Act's clauses that really make calculating petroleum profit tax challenging. Conflicts between tax authorities and petroleum operators are often the consequence of these issues, and they can result in litigation, revenue leakage, and a lack of confidence among participants. Therefore, the research recommends that chargeable profits be precisely calculated to ensure that oil companies pay their due share of taxes. In order to offer institutional support for taxation and chargeable profit calculation, it is also recommended that the Act be reexamined further. This will give the Nigeria Revenue Service access to information about the cost-related activities of all businesses involved in petroleum operations.