

Hydrocarbon Tax and Profitability of Listed Oil and Gas Firms in Nigeria

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Abstract:

For more than five decades, Nigeria's fiscal framework and macroeconomic stability have been shaped by the oil and gas industry, with petroleum revenues providing nearly 80% of government income and 90% of foreign exchange earnings. Central to this fiscal system is taxation, particularly the Petroleum Profits Tax (PPT), which has historically imposed one of the highest corporate tax burdens globally, reaching up to 85% of chargeable profits. While such taxes are indispensable for public revenue mobilization, they also raise concerns about profitability, investment incentives, and long-term sustainability of oil and gas firms. This study investigates the relationship between petroleum taxation and the profitability of Nigerian listed oil and gas companies, with a focus on the transition from the long-standing PPT regime to the dual Companies Income Tax (CIT) and Hydrocarbon Tax (HT) introduced by the Petroleum Industry Act (PIA) of 2021. Using secondary data and descriptive analysis, the study evaluates how tax policy, compliance requirements, and fiscal reforms influence firm-level financial performance. The findings highlight the dual role of taxation as both a revenue driver for government and a profitability constraint for firms, showing that high effective tax rates may discourage investment, compress margins, and intensify compliance costs. However, the restructured tax system under the PIA has potential to foster a more transparent and investor-friendly fiscal environment. By bridging the gap between fiscal policy and firm performance, this research contributes to ongoing debates on balancing government revenue needs with corporate sustainability in Nigeria's oil and gas sector.

Keywords:

Petroleum, Hydrocarbon Tax, Industry Act, Income Tax, Profitability, Oil and Gas Firms.

I. Introduction

For over 50 years, Nigeria's macroeconomic stability and fiscal structure have been centered on the oil and gas industry. Government revenue, foreign exchange profits, and public investment have all been supported by petroleum resources, which have influenced economic instability and development paths. Yet the relationship between hydrocarbon taxation and firm-level performance remains contested: taxes on petroleum extraction and sales are indispensable for revenue mobilisation, but they also affect profitability, investment incentives and corporate behaviour across upstream and downstream firms. This study investigates that relationship for Nigerian listed oil and gas companies, concentrating on how the modern fiscal framework shapes firms' financial responses and measured profitability, particularly the transition from the Petroleum Profits Tax (PPT) regime to the new hydrocarbon-focused regime under the Petroleum Industry Act (PIA) and its implementing guidance (Aondover, 2025).

Policy attention to petroleum taxation in Nigeria increased sharply after the passage of the Petroleum Industry Act (PIA) in 2021, which reorganized the industry's fiscal architecture and introduced new tax instruments, including the hydrocarbon tax (HT). The PIA explicitly reassigns administration and collection roles between the Federal Inland Revenue Service (FIRS) and the National Petroleum Company structures and replaces or supplements older statutory regimes. Under the PIA the long-standing Petroleum Profits Tax is re-cast in a broader fiscal framework: holders of certain petroleum licences are subject to both Companies Income Tax (CIT) and a hydrocarbon tax whose incidence and specified rate bands differ by licence type, field location and depth. These statutory changes matter for empirical work on profitability because they alter the statutory tax base, deductible allowances, capital-allowance regimes, and the effective marginal tax rate faced by producers mechanisms that directly influence reported profits, investment timing, and observable accounting outcomes.

While the costs of development are capitalized and written off at the falling balance rate, the costs of exploration are expensed. Although taxes provide the government with a significant amount of money to help it meet its urgent financial obligations, the tax system is also one of the best ways to mobilize a country's internal resources and helps to foster an atmosphere that supports the growth of Nigerian oil and gas companies (Attama 2004). With oil making up almost 90% of all exports and 80% of all government revenue, it is the main source of funding for the government. Oil has taken center stage in Nigeria's economy since its discovery in the early 1970s. The government's inability to effectively use the financial windfall from the export of crude oil starting in the mid-1970s to develop other sectors of the economy is the real cause of Nigeria's poor economic performance, not just the volatility of oil sector earnings.

The Nigerian tax environment has also been subject to frequent procedural and policy updates that influence firm behavior. Beyond the PIA's reconfiguration of the tax instruments, recent government actions have included targeted incentives and reliefs aimed at enhancing cost efficiency and reactivating investment in upstream operations. Such policy moves announced in executive orders, guidance notes and fiscal proclamations can alter expected after-tax profits and the timing of investments and disposals, and they may confound empirical estimates that ignore contemporaneous policy changes. Researchers therefore need to carefully map firm accounting periods to the precise legal and administrative status of tax instruments during those periods. The dynamic policy landscape further stresses the importance of using up-to-date statutory sources and official guidance when modelling tax liabilities and constructing effective tax rate measures.

Odusola (2006) observed that the Nigerian petroleum industry has been described as the largest among all industries in the country. This is probably due to the belief that petroleum is one of the major sources of energy worldwide. The size, international characteristic, and role assumed by the petroleum industry were noted to have originated from the notion that petroleum is versatile as it currently satisfies a wide variety of energy and related needs. Petroleum is the most vital source of energy, providing over 50 percent of all commercial energy consumption in the world (Adekanola, 2007). The revenues obtained from crude oil in Nigeria are of absolute advantage to expenditure commitments on various projects at the local, state, and federal levels. The Profitability of oil and gas firms in Nigeria relies heavily on the revenue derived from petroleum products and lower tax rate, as they provide 70 percent of government revenue and about 95 percent of foreign exchange earnings.

Apart from this, Azaiki and Shagari (2007) opines that the contribution of petroleum to national development is many and varied; employment generation, foreign exchange earnings, income generation, industrialization, and improvements in other economic variables. While the major investors in the petroleum industry are the international oil companies (IOCs), the principal legislation governing petroleum operations in Nigeria is the Petroleum Profit Tax Act (PPTA) of 2007. Its main fiscal instrument is the Petroleum Profit Tax (PPT). Under the PPT, the tax rate was set at 67.5 percent for the first five years of operations by the oil industries and 85 percent thereafter (Onyemaechi 2012).

Statement of the Problem

Business owners, academics, and investors began to worry about the impact on corporate organizations, even though taxes may have been a significant source of non-oil revenue to lower the fiscal deficit and debt load. Studies on the relationship between taxes and company profitability indicate that taxes may lower the amount of money that businesses can make. However, since several taxes have been enacted in Nigeria under the pretense of Value Added Tax (VAT) and Stamp Duty, the problem of multiple taxation has become extremely concerning. This thereby supplements the existing taxes, education tax, personal income tax, capital gain tax, corporate income tax, petroleum profit tax, etc. Some oil and gas companies avoid or evade taxation, even though the petroleum profit tax has earned a significant amount of revenue over the years and taxes are considered a legitimate source of income in Nigeria.

Because of the high tax rate on assessable profit, these tax-evading enterprises claim that the petroleum profit tax significantly affects their profitability. At 85%, Nigeria is said to have the highest petroleum profit tax rate. The requirement to collect the resource rent tax on the oil companies' operations serves as justification for this high rate. Other nations, including South Africa, Uganda, and Malaysia, lower the petroleum profit tax rate by levying resource rent taxes independently. Therefore, in order to reach a rational conclusion on this ongoing controversy, it is now essential to determine if petroleum profit tax has a detrimental effect on the profitability of Nigerian oil and gas businesses (Aondover, 2025).

Taxes have an impact on corporate profitability even though they are an essential part of raising government revenue. Taxes can have an impact on long-term sustainability, financial performance, and strategic choices for oil and gas companies in particular. This paper's primary research topic is: What effects do CIT and PPT have on the profitability of Nigerian listed oil and gas companies?

II. Review of Literature

2.1 Empirical Review

Several studies have examined the relationship between taxation and corporate profitability. For instance According to Olaoye (2024) delved into the influence of government-imposed taxes on the profitability of firms, focusing on Nigerian Oil and Gas Companies. The research revealed that the coefficient of petroleum profit tax (PPT) exhibited a positive (11.28640) and statistically significant impact ($P=0.0129<0.05$). Similarly, the beta value of customs and excise duty (CED) displayed a positive (96.41566) and statistically significant impact ($P=0.0013<0.05$). On the other hand, the beta value of value-added tax (VAT) showed a negative effect (-706.1630) that was statistically significant ($P=0.3117>0.05$). In conclusion, this study demonstrated varying effects of government-imposed taxes on firms' profitability, particularly within Nigeria's oil and gas sector. While petroleum profit tax and customs and excise duty exerted positive and significant effects, value-added tax had a

negative impact. Consequently, the study recommends a reduction in the value-added tax rate by the Nigerian government to facilitate the enhanced profitability of select oil and gas companies. Additionally, government should intensify its efforts in improving public infrastructural facilities like good access road, adequate electricity supply and security to assist private companies improve their profitability while reducing their expenses which will serve as an incentive and encouragement to enable them pay their taxes promptly and regularly.

Ya'u, Umar and Saad (2024) investigated the effects of royalty payments on petroleum profit tax evasion in Nigeria's non-renewable energy sector. A survey, in the form of a questionnaire, was used to collect data from 312 oil and gas companies; while SPSS and PLS software were used to analyze the data. The results indicate that there is positive and significant relationship between tax rate, detection probability, and penalty, and petroleum profit tax evasion. Additionally, the result shows that there is a significantly negative relationship between royalty payment and petroleum profit tax evasion. The findings have significant policy implications for the non-renewable energy sector across the globe. The findings confirm the fact that higher tax rate, detection probability, and penalty, have a direct impact on petroleum tax evasion. The findings also call on policymakers to reconsider the level of royalty rates to a more reasonable level so as to reduce the extent of petroleum tax evasion among the oil and gas companies.

Dike and Okparaibea (2023) examined the operational fiscal laws of oil and gas industry in Nigeria towards determining their effectiveness, limitations, international lawdimesnsion the author also examined the legalframeworks in jurisdictions of Canada and Norway for the purpose of drawing relevant lessons to improve the Nigerian operational system. The authors found that there is a new principal legislation on the oil and gas industry which is the Petroleum Industry Act (PIA) 2021. The PIA 2021 is a comprehensive piece of legislation that attempts to cover almost all aspects of the petroleum industry in Nigeria and it revolutionaries the yearnings for improvement of over twenty years, increases in tax accruable to the Nigerian government from the industry; providing for 3 percent host communities fund from the annual operating expenditure of the preceding financial year in the upstream operations among other far- reaching provisions affecting the host communities a pride of place to the realisation of their demands from the Federal Government among other innovations in the Act .

Duru and Nnodim (2023) examined effect of corporate tax on performance of listed oil and gas companies in Nigeria. Secondary data were sourced from Conoil, Oando, Ukoroimi and Sons Limited and Empire Energy Group Limited. Corporate tax was proxied by company income tax, education tax and petroleum profit tax as the independent variable while performance was proxied by return on equity and return on asset as dependent variable. Data were analysed using ordinary least square (OLS) using SPSS statistical package. Findings showthat company income tax had negative and insignificant effect of on ROA and ROE of oil and gas companies in Nigeria. Education tax (EDT) had negative and insignificant effect on ROA of oil and gas companies in Nigeria. Education tax (EDT) had positive and insignificant effect on ROE of oil and gas companies in Nigeria. Petroleum profit tax (PPT) had positive and insignificant effect on ROA and ROE of oil and gas companies in Nigeria. The researcher, therefore, concluded that corporate tax had a positive and insignificant relationship with performance of oil and gas companies in Nigeria. The study, therefore, recommended among others that Government should consider revising its corporate tax policy to provide greater incentives for investment in the oil and gas industry by reducing the

overall tax burden for companies that demonstrate strong financial performance and contribute to the development of the industry.

Salaudeen, Akano and Oladosu (2023) examined the effects of tax incentives on business growth of the listed Oil and gas companies in Nigeria. The ex-post facto research design was adopted for this study. The population of this study consists of the 12 listed Oil and gas Companies on the Nigerian Stock Exchange from which samples size of ten (10) firms was considered due to availability of data. The panel secondary data were collected from annual reports of the sampled companies for a 7 year period. In analyzing the data, Generalized Least Squares (GLS) was used. The results revealed that capital allowance has no significant relationship with business growth of the sampled listed oil and gas firms in Nigeria. The results also showed that there is positive significant relationship between investment allowance and business growth of listed oil and gas firms in Nigeria. While the findings of the study showed that loss relief has a positive significant relationship with business growth of listed oil and gas firms in Nigeria, it also disclosed that there is significant relationship between allowable interest and business growth of listed oil and gas companies in Nigeria during the period under review. The study therefore recommended that the Government should lay more emphasis on the role of tax incentives and help firms to understand tax law so as to utilize all the available tax incentives which in turn contribute to the growth of oil and gas businesses in Nigeria.

Odusola (2006), petroleum profit tax (PPT) is a tax applicable to upstream operations in the oil industry. It is particularly related to rents, royalties, margins and profit-sharing elements associated with oil mining, prospecting and exploration leases. It is the most important tax in Nigeria in terms of its share of total revenue contributing 95 and 70 percent of foreign exchange earnings and government revenue, respectively. Petroleum operation as defined in the PPTA essentially involves petroleum exploration, development, production and sale of crude oil. The Petroleum Profit Tax is regulated by the Petroleum Profit Tax Act of 1959 as amended by the Petroleum Profit Tax Act of 2007. Although the initial law was passed in 1959 to capture the first oil export made in that year (Nwadihoha, 2007).

Ezeani (2016) found that the tax burden, including CIT and PPT, has a significant negative relationship with the profitability of Nigerian oil and gas firms. Similarly, research by Olanrewaju (2018) indicated that increased tax rates in the oil sector reduce capital investments and profitability in the long run. These findings align with the notion that high tax rates can discourage investment and reduce operational profitability.

Gbegi, Adebisi and Bodunde (2017) examined the effect of petroleum profit tax (PPT) on Profitability of oil and gas firms in Nigeria, in line with the objectives of this study, secondary data were obtained from financial statement of ten (10) selected oil and gas firm covering the period of 2011 to 2015. Panel data was deployed and both descriptive statistics and multiple regressions technique employed to establish the effect of PPT rate on Profitability oil and gas firms. Petroleum profit tax was found to have significant effects on the Profitability of oil and gas firms. The study revealed that taxes paid by oil and gas industries have a downward effect on profitability of oil and gas industries. It concluded that higher tax rate cause reduction in Profitability of oil and gas firms in Nigeria and recommended that Government should reduce the tax rate to enable oil and gas firms strive especially during this economic recession.

Orsaa, Adebisi and Bodunde (2017) examined the effect of petroleum profit tax (PPT) on Profitability of oil and gas firms in Nigeria. Secondary data were obtained from financial statement of ten (10) selected oil and gas firm covering the period of 2011 to 2015. Panel data was deployed and both descriptive statistics and multiple regressions technique employed to establish the effect of PPT rate on Profitability oil and gas firms. Petroleum profit tax was found to have significant effects on the Profitability of oil and gas firms. The study revealed that taxes paid by oil and gas industries have a downward effect on profitability of oil and gas industries. Following the outcome, the study concluded that higher tax rate cause reduction in Profitability of oil and gas firms in Nigeria for the period 2011 to 2015. It recommended that Government should reduce the tax rate to enable oil and gas firms thrive especially during this economic recession.

Yahaya and Bakare (2018) evaluated the effect of petroleum profit tax and company income tax on Nigerian economy growth. Fully Modified Least Square (FMOLS) Regression Technique was used to estimate the model over a 34 years period (1981-2014) while Augmented Dickey Fuller Unit Root Test and Single Equation Co-integration Test were carried out. It found that petroleum profit tax (PPT) and company income tax (CIT) have positive significant impact on gross domestic product (GDP) in Nigeria which directly enhanced growth in Nigeria. The study then concluded that PPT and CIT serves as the major source of revenue to the Nigeria economy, and contribute to the growth of Nigeria economy. It recommended that revenue accrue to government through PPT and CIT should be judiciously used to develop the economy.

Kyari (2020) investigated whether the Nigerian petroleum tax incentives package is appropriate in attracting foreign direct investments. Data was collected via a five point Likert questionnaire and analysed using descriptive statistics and Kruskal-Wallis technique. The study revealed, among others, that Nigeria's petroleum tax incentive package is sufficient in number and appropriate in mix in attracting foreign direct investment. This study concluded that Nigeria's petroleum tax incentive package is suitable in attracting foreign direct investments. Equally, the study concludes that the tax incentives is sufficient in number and appropriate in mix in attracting foreign direct investments in into the nation's oil and gas industry Finally, the study recommended further study on other possible ways of attracting inflow of FDI into the Nigerian oil and gas industry.

Lawal, Suleiman and Abdulkarim (2020) examined the effect of earnings management on the relationship between tax avoidance and financial performance of listed oil marketing companies in Nigeria. The study employed correlation research design in a sample of nine (9) companies for a period of eight years (2012-2019). Secondary data from the financial statement of the sample companies was used. General Least Squares (GLS) regression technique of data analysis was used in the analysis, after controlling for firm size. The study revealed that tax avoidance has negative insignificant effect on financial performance of listed oil marketing companies in Nigeria. The study further revealed that earnings management positively and significantly moderates the relationship between tax avoidance and financial performance of listed oil marketing companies in Nigeria. In line with the findings, the study recommended that government policy should be directed towards strengthening these factors in order to stir up company financial performance.

Ngu (2021) examined the effect of petroleum profit tax on the performance of listed oil and gas firms in Nigeria. In achieving this objective, the ex-post facto research design was employed and secondary data were collected from the annual reports of 6 listed oil and gas

firms involved in the upstream sector in Nigeria covering 2012-2018. Simple linear regression technique was used to analyze the data using Eviews to determine the effect of the independent variable (Petroleum Profit Tax) on the dependent variables (Return on Assets and Earnings per Share). Findings indicate that petroleum profit tax has a significant positive effect on earnings per share of listed oil and gas firms in Nigeria. However, petroleum profit tax has insignificant positive effect on return on assets of listed oil and gas firms in Nigeria. Based on the findings from this study, it was recommended that the Government should ensure that the tax system and rate in Nigeria are convenient for tax payers. This will reduce the incidences of tax avoidance, reduce the impact on profitability, thereby increasing shareholders' wealth. Furthermore, the Government should ensure that the revenue generated from petroleum profit tax is well utilized for the development of the economy and the general wellbeing of the citizenry.

Akpokhio and Ekperiware (2022) examined the impact of company income tax, petroleum profits tax, and value-added tax in Nigeria, over the study period (1981 to 2021). The study adopted descriptive and inferential statistics using tables and econometric models to achieve the result. Petroleum profit Tax (PPT), Value Added Tax (VAT) and Companies Income Tax (CIT), Gross Domestic Product (GDP) are the major variables used in the study. Secondary data was used and sourced from CBN Statistical Bulletin and Federal Inland Revenue Service. The results of the unit root test obtained showed that the variables were both at levels and at first difference, as such portend the need for ARDL long run relationship among the variables. While in the bounds testing approach, there was a long run relationship between government financing, economic growth and infrastructural development. Furthermore, in the relationship of government financing and infrastructural development the result revealed that there is long run relationship between disaggregated variables of government financing on economic growth and infrastructural development in Nigeria. The coefficient of the error correction model is the speed of the adjustment of infrastructural development to shocks in exogenous variables in the model. The study therefore concluded that companies' income tax, petroleum profits tax, and value added tax have a significant effect on economic growth and development in Nigeria. Therefore, the study recommends that government should engage in a complete re-organization of the tax administrative machineries in order to reduce to tolerable levels the problem of tax evasion and avoidance, and to enhance the tax base of government; employment opportunities should be created; and a good environment for entrepreneurship and innovation to thrive should be made available, using tax proceeds.

Section 8 of Petroleum Profit Tax Act (PPTA) states that every industry engaged in petroleum operations is under an obligation to render return, together with properly annual audited accounts and computations, within a specified time after the end of its accounting period. Petroleum profit tax involves the charging of tax on the incomes accruing from petroleum operations (Nwezeaku 2005). He noted that the importance of petroleum to the Profitability of oil and gas firms in Nigeria gave rise to the enactment of a different law regulating the taxation of incomes from petroleum operations. The petroleum profit tax is charged, assessed and payable upon the profits of each accounting period of any industries engaged in petroleum operations during any such accounting period, usually one year (January to December) (Anyanwu (1993).

2.2 Theoretical Framework

The effect of taxes on company profitability can be explained by a number of economic and financial theories, especially when considering the oil and gas sector. The

following theories are relevant to this paper: According to this idea, tax laws have a direct impact on business decisions about investments, profitability, and operational effectiveness. High taxes can limit the amount of money available for expansion and investments in oil and gas companies, which lowers profitability (Auerbach, 2010).

According to Success, Success and Ifurueze (2012), due to the importance attached to oil exploration and production by the federal government of Nigeria, the taxation of petroleum profit became necessary under a tax Act different from the companies' income tax Act. This Act became effective on 1st January 1959 since the export of oil to the international market started in 1958. This ordinance under which petroleum profit is taxed is referred to as the petroleum profit tax Act. It was first amended in January 1967 by the federal military government through decree No 1 of 1967. The Act governing the taxation of petroleum profit in Nigeria in the period under review is the Petroleum Profit Tax Act 2007.

Modigliani and Miller (1958) proposition are that the theory of capital structure posits that corporate profitability and value are not significantly impacted by taxes in a perfect market. However, in the real world, taxes create frictions that affect capital structure, investment decisions, and profitability. Oil companies may face significant tax liabilities due to high tax rates, which can reduce after-tax profits (Modigliani & Miller, 1958).

Efficient Taxation Theory: This theory focuses on the need for taxes to be designed in a way that minimizes distortion to business operations. High taxes can lead to inefficiencies in the operational processes of oil companies, thereby affecting their profitability (Zodrow & Mieszkowski, 1986).

Resource Dependence Theory: According to this theory, firms that are dependent on external resources (such as oil reserves) are vulnerable to fluctuations in taxation and regulation, which can impact profitability (Pfeffer & Salancik, 1978). The oil and gas industry is highly dependent on government policies, and changes in tax regimes, such as an increase in CIT or PPT, can significantly influence the bottom line of firms in the sector.

III. Research Methods

Since this is an exploratory paper, a descriptive research method was employed, which involved consulting and evaluating secondary sources, including literature, media reports, official documents, the internet, and other documents pertinent to the effect of petroleum profit tax and company income tax on the profitability of Nigerian listed oil and gas companies.

IV. Results and Discussion

4.1 Company Income Tax (CIT) in Nigeria

Company Income Tax (CIT) in Nigeria is a form of direct tax levied on the profits of incorporated companies and other corporate entities operating in the country, excluding those engaged in petroleum exploration and production, which are subject to a different tax regime under the Petroleum Profits Tax Act. The administration and collection of CIT is the responsibility of the Federal Inland Revenue Service (FIRS), pursuant to the provisions of the Companies Income Tax Act (CITA), Cap C21, Laws of the Federation of Nigeria (LFN) 2004, as amended. The objective of CIT is to ensure that corporate entities contribute a fair share of their profits to national revenue. This tax serves as a major source of non-oil revenue for the

federal government, playing a significant role in financing public infrastructure, social services, and developmental projects. All companies, whether resident or non-resident, that derive income from Nigeria are subject to the CIT, provided such income is not specifically exempted under the law (Ariyo & Bekoe, 2022).

The CIT rate in Nigeria is generally 30% of the taxable profit for most companies. However, the Finance Act 2019 introduced a progressive tax structure aimed at reducing the burden on small and medium enterprises (SMEs) and enhancing compliance. According to the Finance Act, companies with an annual gross turnover of ₦25 million or less are classified as small companies and are exempt from CIT. Medium-sized companies, with turnover between ₦25 million and ₦100 million, are liable to a CIT rate of 20%. Large companies with turnover exceeding ₦100 million remain subject to the standard rate of 30% (Federal Inland Revenue Service, 2020). Taxable profit is calculated by deducting allowable expenses, capital allowances, and other permitted deductions from the gross profit of a company. Companies are required to file their CIT returns annually, which must include audited financial statements, capital allowance computations, evidence of tax payments, and other relevant documentation. The returns must be filed within six months after the end of the company's financial year or within eighteen months of incorporation for newly registered companies, whichever comes later.

Non-compliance with CIT obligations, including late filing or non-filing of tax returns, attracts various penalties and interest charges. These sanctions are enforced by the FIRS to promote voluntary compliance and maintain the integrity of the tax system. In addition, companies operating in specific sectors, such as telecommunications and financial services, may be subject to sector-specific tax requirements in addition to the CIT. CIT has faced several challenges in Nigeria, including issues of tax evasion, limited tax education, weak enforcement, and the prevalence of informal business activities that fall outside the tax net. However, recent reforms, including digitalization of the tax administration process and the amendment of tax laws through the annual Finance Acts, have contributed to improving tax collection efficiency and expanding the tax base.

Overall, the Company Income Tax remains a vital component of Nigeria's fiscal policy and economic development strategy. It not only provides revenue for the government but also serves as a tool for economic regulation, income redistribution, and the promotion of sustainable business practices. Thus, company Income Tax (CIT) is a tax levied on the profits of companies in Nigeria, including oil and gas firms. The rate of CIT for non-petroleum companies is set at 30%, though there are certain exemptions and tax reliefs for qualifying companies (FIRS, 2023). For oil companies, the CIT rate is lower, but they are subject to additional taxes, including Petroleum Profit Tax (PPT) (PwC Nigeria, 2021).

4.2 Impact of Petroleum Profit Tax (PPT) on Profitability in Nigeria

Nigerian oil and gas businesses' profitability is significantly impacted by the Petroleum Profit Tax (PPT) because of its high tax rates and stringent compliance requirements. PPT has a direct impact on how much of a company's earnings can be kept as profit after tax obligations are paid because it is one of the highest corporate tax systems in the world.

The most immediate impact of PPT on profitability arises from its high tax rates, which can reach up to 85% of chargeable profits for companies in joint venture arrangements. Even newer companies or those under production sharing contracts face a tax rate of 65.75%, significantly reducing the net income available to shareholders and reinvestment. In practical

terms, this means that for every dollar of profit earned by a petroleum company, a substantial portion goes to the federal government in the form of taxes. This tax burden can discourage foreign direct investment and reduce the internal capital available for operational expansion and infrastructure development (PwC Nigeria, 2022).

Moreover, PPT allows for deductions of certain expenses incurred in petroleum operations, which theoretically should ease the tax burden. However, the strict definition of allowable expenses, which excludes general overheads, depreciation, and other non-core expenditures, limits the deductions that can be claimed. This often results in a higher effective tax rate than anticipated and compresses margins further (Deloitte Nigeria, 2021). Companies that fail to maintain comprehensive and defensible financial records may also suffer from disputed tax assessments, leading to additional penalties and interests that negatively affect profitability.

The unpredictability of crude oil prices also compounds the impact of PPT on profitability. Since PPT is based on profits, any drop in international oil prices reduces revenue, but the fixed and operational costs of production remain high. When prices fall, the tax burden may consume a larger portion of profits or even lead to losses, especially for marginal fields and smaller operators. This volatility makes it difficult for companies to plan financially, further affecting their bottom line (Hassett & Hubbard, 2002). Additionally, PPT compliance involves extensive reporting and administrative costs, including the preparation of detailed tax returns, audits, and negotiation with tax authorities. These compliance costs, both in terms of finance and time, reduce the operational efficiency and profitability of affected firms. Delays in resolving disputes with the Federal Inland Revenue Service (FIRS) or uncertainty around tax interpretations can tie up resources and create an unpredictable business environment.

The cumulative fiscal obligations imposed on petroleum companies comprising PPT, royalties, the Nigerian Content Development levy, the Niger Delta Development Commission (NDDC) levy, education tax, and other sector-specific charges, create a heavy tax burden. This has prompted many operators to lobby for fiscal reforms or seek more favorable terms in their agreements with the government. The Petroleum Industry Act (PIA) 2021 was introduced in part to address these issues by restructuring the petroleum taxation system to improve clarity and reduce the disincentive to invest. By replacing PPT with Hydrocarbon Tax and Companies Income Tax under the new framework, the government aims to create a more investor-friendly environment that can stimulate long-term profitability and sustainability in the sector. However, the transition period may still carry uncertainties and costs that could temporarily affect profitability until the new system is fully operational and understood by stakeholders.

The Petroleum Profit Tax significantly affects the profitability of oil companies in Nigeria through high tax rates, limited allowable deductions, compliance costs, and exposure to market volatility. While recent reforms under the PIA aim to improve this landscape, the legacy of PPT continues to influence operational and investment decisions in the Nigerian petroleum sector (Brennan, 2012).

The CIT reduces the amount of taxable income available for firms to reinvest in their operations or distribute as dividends. As taxes increase, firms face higher costs, which can lower profitability, especially for firms in capital-intensive sectors like oil and gas (Brealey & Myers, 2011). The imposition of high CIT can discourage investment, as firms may prioritize

tax avoidance or tax planning strategies over long-term strategic projects. Reduced investments in exploration and development could lead to lower future profitability (Brennan, 2012). CIT can also impact the operational efficiency of oil and gas companies. Firms may opt for tax-efficient measures that do not necessarily align with optimal business operations, resulting in inefficiencies that affect profitability (Hassett & Hubbard, 2002).

4.3 Petroleum Profit Tax (PPT) in Nigeria

The Petroleum Profit Tax (PPT) is a tax imposed on the profits of companies involved in the extraction of petroleum resources in Nigeria. The rate for PPT is typically higher than the CIT rate and ranges from 50% to 85%, depending on the specific conditions and agreements between the government and oil companies (FIRS, 2023). Petroleum Profit Tax (PPT) in Nigeria is a specialized form of corporate taxation applied exclusively to companies engaged in petroleum operations, which include the exploration, drilling, production, and sale of crude oil and natural gas. This tax is governed by the Petroleum Profits Tax Act (PPTA), Cap P13, Laws of the Federation of Nigeria 2004, and administered by the Federal Inland Revenue Service (FIRS). PPT is one of the most significant sources of government revenue in Nigeria due to the country's heavy reliance on crude oil exports as a primary economic driver.

Unlike Company Income Tax, which applies to all companies outside the petroleum sector, PPT is specifically tailored to the unique characteristics of the oil and gas industry. The Act defines petroleum operations as activities carried out under a license or lease for the purpose of winning, extracting, and disposing of crude oil. The tax applies only to upstream operations and does not cover downstream activities such as refining or distribution (Deloitte Nigeria, 2021). The tax rate under the PPTA varies depending on the nature of the company's agreement with the government and the date of commencement of operations. For companies operating under Joint Venture (JV) arrangements, the applicable tax rate is 85% of chargeable profits. However, for companies in production sharing contracts (PSCs) and those in their first five years of operation under JV arrangements, a reduced tax rate of 65.75% is applicable. These rates are considered among the highest in the global petroleum industry and are justified by the high profitability of oil exploration in Nigeria.

Allowable expenses are subtracted from the overall revenue from petroleum operations to determine chargeable earnings for PPT purposes. Expenses that are entirely, completely, and unavoidably incurred in the course of petroleum operations are included in these permitted deductions. Drilling, exploration, transportation, salaries, and payments to government-approved pension plans are examples of common deductible expenses. Nevertheless, some costs are not permitted for PPT purposes, including depreciation, penalties, and expenses that are not directly associated with petroleum operations.

In addition to PPT, Ola (2020) noted that companies involved in petroleum operations are also subject to other levies and contributions, including royalty payments to the government based on volume of crude oil extracted, the Niger Delta Development Commission (NDDC) levy, education tax, and Nigerian Content Development levies. These cumulative fiscal obligations significantly increase the total tax burden on oil companies operating in Nigeria. The administration of PPT requires companies to file returns with the FIRS, which include detailed computations of assessable tax, chargeable profits, and evidence of payments. These returns must be filed within five months after the end of the accounting period, usually the calendar year, and must be accompanied by audited financial statements.

Failure to comply with the filing and payment requirements attracts penalties, interest charges, and in some cases, prosecution.

Over the years, the PPT regime has encountered many difficulties despite its financial significance. These include concerns with tax avoidance and transfer pricing, protracted legal fights between tax authorities and multinational oil firms, and legal inconsistencies in the tax code. PPT administration has become much more challenging because to the intricacy of petroleum contracts and the discretionary nature of cost recovery in PSCs. Furthermore, the stability and predictability of petroleum tax collections are frequently impacted by the fluctuations in world oil prices. To address some of these challenges and modernize the petroleum taxation framework, PwC Nigeria (2022) established that the Nigerian government enacted the Petroleum Industry Act (PIA) in 2021. The PIA introduces a new fiscal regime that gradually phases out PPT and replaces it with two new taxes: the Hydrocarbon Tax (HT) and the Companies Income Tax (CIT) under a unified fiscal framework. The Hydrocarbon Tax applies only to crude oil production and excludes natural gas, while CIT applies to all petroleum-related companies in line with the general tax structure. The new regime aims to create a more transparent, competitive, and investor-friendly environment in Nigeria's oil and gas sector.

In this context, Petroleum Profit Tax has historically played a central role in Nigeria's revenue generation and remains a key fiscal tool for regulating the oil and gas industry. However, with the enactment of the Petroleum Industry Act, the structure of petroleum taxation in Nigeria is undergoing significant reform to ensure long-term sustainability, improved compliance, and greater alignment with international best practices (Federal Inland Revenue Service, 2020).

Oil companies in Nigeria face a higher tax burden due to the PPT. This tax significantly reduces the profits of firms, especially those that are not making significant revenues or are facing declining oil prices. As a result, profitability can be severely constrained by this higher tax liability (Adenikinju, 2018). The PPT creates a situation where oil firms must adjust their cost structures to offset the impact of high tax liabilities. This can result in reduced profit margins, which may affect overall profitability (Alao & Olaniyan, 2019).

The high rate of PPT can also discourage investment in the sector, as firms may prefer to divert capital to markets with more favorable tax regimes. This, in turn, impacts the long-term growth prospects and profitability of these firms (Ally, 2017).

4.4 Profitability of Listed Oil and Gas Firms in Nigeria

The profitability of listed oil and gas companies in Nigeria reflects the complex interplay of global oil market dynamics, domestic fiscal policies, operational efficiency, and regulatory frameworks. These firms, which are typically listed on the Nigerian Exchange Group (NGX), include major players such as Seplat Energy Plc, TotalEnergies Marketing Nigeria Plc, Conoil Plc, and Ardova Plc. Over the years, their financial performance has been subject to fluctuation due to changes in crude oil prices, the fiscal regime (notably the Petroleum Profit Tax), foreign exchange volatility, and domestic operational challenges (Nigerian Exchange Group, 2023).

a. Global Oil Prices and Revenue Generation

Global oil prices have a significant impact on Nigerian oil and gas businesses' ability to generate revenue since oil is priced in US dollars on the worldwide market. For upstream

businesses like Seplat, which conducts exploration and production, high oil prices often translate into higher revenue and gross profits. However, downstream companies such as TotalEnergies and Ardova, which focus on refining, marketing, and distribution, often face slimmer margins due to regulated pricing, subsidy regimes, and logistics inefficiencies.

b. Fiscal Pressure and Tax Burden

The Petroleum Profit Tax (PPT), alongside other sector-specific levies and royalties, significantly affects the bottom line of these firms. High effective tax rates reduce the net profit margins of upstream companies. For instance, Seplat Energy has reported that fiscal terms under previous regimes have affected reinvestment decisions and long-term project financing.

c. Petroleum Industry Act (PIA) 2021

Petroleum Industry Act (PIA) 2021 which, by establishing a more competitive tax and regulatory framework, is anticipated to alleviate some of these pressures and possibly increase profitability in the medium to long run.

d. Exchange Rate Volatility and Operating Costs

Nigerian oil and gas companies frequently report profits in naira, yet they spend a large amount of operating expenses in U.S. dollars, particularly in the upstream sector. Continued naira devaluation and volatility in the foreign exchange market put businesses under more financial strain, which reduces their profit margins (Seplat Energy, 2022). Delays in obtaining foreign exchange via authorized methods can also cause financial planning and operational disruptions.

e. Operational Efficiency and Cost Management

The effectiveness of these businesses' operational management also affects profitability. For instance, Seplat Energy has continuously made investments in infrastructure and technology to increase production efficiency, lower gas flaring, and improve cost control. These investments have had a favorable effect on the company's EBITDA and profit after taxes. However, some downstream companies, such as Ardova Plc, have seen recurring drops in profitability because to high operational costs, limited infrastructure, and fierce market rivalry (TotalEnergies Marketing Nigeria, 2022).

f. Regulatory Environment and Market Liberalization

The expected elimination of gasoline subsidies and other recent initiatives to deregulate the downstream oil industry may increase marketing and distribution companies' chances of making money. Deregulation, if completely enacted, would enable these businesses to modify retail pricing to reflect the state of the market, boosting potential revenue. However, the shift can also expose businesses to short-term market instability and public outrage.

g. Financial Performance Trends

A review of audited financial reports from 2020 to 2023 indicates mixed profitability performance among listed oil and gas companies. Seplat Energy Plc consistently posted profits, with profit after tax figures exceeding ₦40 billion in 2022, supported by strong oil prices and improved production volumes. In contrast, firms like Ardova and Conoil have seen profit fluctuations due to cost inefficiencies, FX losses, and tighter margins. TotalEnergies Marketing Nigeria Plc, leveraging its strong distribution network and diversified product line,

has managed to remain consistently profitable, though with modest profit margins (Nigerian Exchange Group, 2023).

According to this argument, both internal and external factors influence the profitability of Nigerian listed oil and gas companies. Even if the PIA's reforms and high global oil prices present growth prospects, obstacles like financial strains, exchange rate instability, and inefficient infrastructure nevertheless limit performance. In Nigeria's changing oil and gas environment, companies who can utilize innovation, increase operational efficiency, and adjust to regulatory changes have a better chance of achieving long-term success.

V. Conclusion

There are several ways that the Company Income Tax (CIT) and Petroleum Profit Tax (PPT) affect the bottom line of Nigerian listed oil and gas companies. Taxes are necessary for government funding and revenue generation, but they can also negatively impact the profitability of businesses in the oil industry. Excessive tax rates raise operating expenses, limit the amount of capital available for investment, and may skew judgment. Thus, a more efficient and balanced tax system is required, one that ensures businesses continue to be successful and sustainable while also taking into consideration the economic realities of the oil and gas industry.

Recommendations

1. The Nigerian government ought to think about offering tax breaks or reduced rates to oil companies that invest in new exploration projects or sustainable technologies.
2. The government ought to examine the petroleum profit tax system to make sure it is competitive and supports business expansion without jeopardizing the country's revenue base.
3. Policies that incentivize oil companies to reinvest their profits in exploration, development, and innovation could lessen the detrimental effects of taxes on profitability.

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