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**NIGERIA**

INFORMATION CIRCULAR

NO:2024/01

PUBLICATION DATE: 19<sup>th</sup>APRIL, 2024

**Subject: GUIDELINE ON THE APPLICABILITY OF THE GAS TAX CREDITS AND ALLOWANCES FOR NON-ASSOCIATED GAS GREENFIELD DEVELOPMENT**

*This guideline is issued for the information and guidance of relevant taxpayers, tax practitioners and the general public on the implementation of the Gas Tax Credits and Allowances for Non-Associated Gas (NAG) Greenfield Development in onshore and shallow water locations.*

**1.0 Scope of the Guidelines**

This guideline applies to companies holding licences or leases for greenfield development of Non-Associated Gas (NAG) in onshore and shallow water locations.

**2.0 Introduction**

In a bid to attract new investments for Non-Associated Gas Greenfield Development in onshore and shallow waters, the President of the Federal Republic of Nigeria signed an Executive Order No.40, titled "Oil and Gas Companies (Tax incentives, Exemption, Remission, etc.) Order, 2024".

**3.0 Legal Framework**

This guideline is issued in order to clarify the implementation of the incentive regime pursuant to the provisions of:

- a. Executive Order No 40 on Oil and Gas Companies (Tax incentives, Exemption, Remission, etc.) Order, 2024 (Order 40); and
- b. Sections 23 (2) and 89 of Companies Income Tax Act (CITA), Cap C21, LFN 2004, as amended.

**4.0 Definition of terms:**

**In this guideline:**

**"Associated Gas Framework Agreement"** is as defined by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC).

**“First Gas Production Date”** is the date certified by the NUPRC as the first gas production date.

**“Fiscal Gas Price”** means the “price used for royalty as determined by the NUPRC”.

**“Gas Tax Credit(GTC)”** means “the amount of tax credit granted to an eligible company pursuant to paragraph 1(2), of part 1 of Order 40”.

**“Gas Tax Credit Surplus(GTCS)”** means “the sum by which the Gas Tax Credit granted to an eligible company exceeds the amount of Companies Income Tax due from that company in an accounting period”.

**“Gas Tax Allowance(GTA)”** means “the amount of allowance granted to an eligible company pursuant to paragraph 3 of part 1 of Order 40”.

**“Greenfield Development”** refers to “all undeveloped NAG fields in existing licenses or leases granted pursuant to licensing bid-rounds conducted by NUPRC with first gas production from the commencement date of this incentive”.

**“Hydrocarbon Liquids (HCL)”** is as defined by the NUPRC.

**“Onshore and Shallow Waters”** is as defined under Section 318 of the Petroleum Industry Act (PIA).

## **5.0 Eligibility for Gas Tax Credit (GTC) and Gas Tax Allowance (GTA)**

Only a company granted licences or leases for greenfield development of non-associated gas in onshore and shallow water locations is eligible for the GTC or GTA.

### **Note that:**

- a. a company is entitled to only Gas Tax Credits (GTC) if it achieved first gas production on or before 1<sup>st</sup> January, 2029;
- b. a company that achieved first gas production after 1<sup>st</sup> January, 2029 is entitled to only Gas Tax Allowance (GTA).

## **6.0 Period of Carryover**

A Gas Tax Credit Surplus arising in a year can be carried forward for a maximum period of three (3) years. Thereafter, any unutilised Gas Tax Credit Surplus (i.e. after three (3) years) shall lapse.

## 7.0 Computation of Gas Tax Credit and Gas Tax Allowance.

TABLE 1 - DETERMINATION OF GAS TAX CREDIT AND GAS TAX ALLOWANCE						
S/N	Description			Hydrocarbon Liquids Content per MMSCF		
				0 - 30 MMSCF	Above 30 - 100 MMSCF	Above 100 MMSCF
1	Gas Tax Credit	Subject to maximum of 10 years	Lower of: (a)	US\$1 per MSCF	US\$0.5 per MSCF	Revert to existing legislations (PPTA, PIA, etc)
			(b)	30% of Fiscal Gas Price	30% of Fiscal Gas Price	Revert to existing legislations (PPTA, PIA, etc)
2	Gas Tax Allowance		Lower of: (a)	US\$0.5 per MSCF	US\$0.5 per MSCF	Revert to existing legislations (PPTA, PIA, etc)
			(b)	30% of Fiscal Gas Price	30% of Fiscal Gas Price	Revert to existing legislations (PPTA, PIA, etc)

**Note: MMSCF = Million Standard Cubic Feet**  
**MSCF = Thousand Standard Cubic Feet**

## 8.0 Illustrations: Illustration A

ABC Energies Limited operates a NAG field and commenced its first Gas production on 1<sup>st</sup> April 2024. The NAG field contains Hydrocarbon liquids (HCL) of 25 barrels per MMSCF of gas.

Assuming the Company produced a total of 100,000,000 MSCF for the year, with a fiscal gas price of \$3.00 per MSCF, the Gas Tax Credit claimable for 2024 accounting period is computed as follows:

### Suggested Solution to illustration A:

ABC Energies Limited:  
 Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF  
 Price per MSCF = US\$3.00

### **Gas Tax Credit (GTC) Rate:**

Lower of:

- (a) US\$1.00 and;
- (b) 30% of US\$3.00 = US\$0.9

**Applicable GTC rate = US\$0.9**

$$\begin{aligned}
\text{Gas Tax Credit Claimable Rate} &= \text{Production per MSCF} \times \text{Gas Tax Credit Rate} \\
&= (100,000,000/1000) \times \text{US\$0.9} \\
&= 100,000 \times \text{US\$0.9} \\
&= \mathbf{\text{US\$90,000}}
\end{aligned}$$

### **Illustration B**

As in illustration (A) above, but the Hydrocarbon Liquid Content is 70 barrels per million SCF. The Gas Tax Credit claimable is computed thus:

### **Suggested Solution to Illustration B:**

ABC Energies Limited:

Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF

Price per MSCF = US\$3.00

**Gas Tax Credit (GTC) Rate:**

Lower of:

(a) US\$0.5 and;

(b) 30% of US\$3.00 = US\$0.9

**Applicable GTC rate = US\$0.5**

$$\begin{aligned}
\text{Gas Tax Credit Claimable Rate} &= \text{Production per MSCF} \times \text{Gas Tax Credit Rate} \\
&= (100,000,000/1000) \times \text{US\$0.5} \\
&= 100,000 \times \text{US\$0.5} \\
&= \mathbf{\text{US\$50,000}}
\end{aligned}$$

### **Illustration C**

As in illustration (A) above, but the Hydrocarbon Liquid Content is 110 barrels per million SCF. The Gas Tax Credit claimable is computed as follows:

### **Suggested Solution to Illustration C:**

ABC Energies Limited:

Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000 MSCF

Price per MSCF = US\$3.00

**Gas Tax Credit (GTC) Rate: Not applicable**

Company to revert to existing legislation

### **Illustration D**

As in illustration (A) above, but the company is in its 11<sup>th</sup> year of production.  
The Gas Tax Allowance claimable is computed as follows:

### **Suggested Solution to illustration D:**

ABC Energies Limited:

Computation of Gas Tax Credit claimable in 20X4 accounting period.

Volume of gas produced = 100,000,000 MSCF

Price per MSCF = US\$3.00

**Gas Tax Allowance (GTA) Rate:**

Lower of:

(a) US\$0.5 and;

(b) 30% of US\$3.00 = US\$0.9

**Applicable GTA rate = US\$0.5**

**Gas Tax Allowance Claimable** = Production per MSCF x Gas Tax Allowance Rate

= (100,000,000/1000) x US\$0.5

= 100,000 X US\$0.5

= **US\$50,000**

### **Illustration E**

XYZ Energies Limited operates a NAG field and commences its first Gas production on 1<sup>st</sup> March 2035 (11 years after Order 40 came into force). The NAG field contains HCL of 28 barrels per MMSCF of gas. Assuming the Company produces a total of 200,000,000 MSCF in its first year of production and the fiscal gas price is \$5.00 per MSCF.

Compute the Gas Tax Credit or Gas Tax Allowance as may be applicable, for the relevant accounting period.

### **Suggested Solution to illustration E:**

XYZ Energies Limited:

Computation of Gas Tax Allowance claimable in the relevant accounting period.

Volume of gas produced = 200,000,000 MSCF

Price per MSCF = US\$5.00

**Gas Tax Allowance (GTA) Rate:**

Lower of:

- (a) US\$0.5 and;
- (b) 30% of US\$5.00 = US\$1.5

**Applicable GTA rate = US\$0.5**

**Gas Tax Allowance Claimable** = Production per MSCF x Gas Tax Allowance Rate

$$\begin{aligned}
 &= (200,000,000/1000) \times \text{US\$}0.5 \\
 &= 200,000 \times \text{US\$}0.5 \\
 &= \text{US\$}100,000
 \end{aligned}$$

### **Illustration F**

ABC Energies Limited operates a NAG field and commenced its first Gas production on 1<sup>st</sup> April 2024. The NAG field contains HCL of 25 barrels per million SCF of gas. Assuming the Company produced a total of 100,000,000MSCF for the year, with a fiscal gas price of \$3.00 per MSCF.

Compute tax due after giving effect to the Gas Tax Credit claimable for 2024 accounting period assuming total profit of the company is US\$500,000

### **Suggested Solution to illustration F:**

ABC Energies Limited:

Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000MSCF

Price per MSCF = US\$3.00

#### **Gas Tax Credit (GTC) Rate:**

Lower of:

- (a) US\$1.00 and;
- (b) 30% of US\$3.00 = US\$0.9

**Applicable GTC rate = US\$0.9**

**Gas Tax Credit Claimable** = Production per MSCF x Gas Tax Credit Rate

$$\begin{aligned}
 &= (100,000,000/1000) \times \text{US\$}0.9 \\
 &= 100,000 \times \text{US\$}0.9 \\
 &= \text{US\$}90,000
 \end{aligned}$$

### **Computation of Companies Income Tax due to FIRS**

Total profit	=	US\$ <u>500,000</u>
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CIT @ 30%	=	150,000
Less: Gas Tax Credit claimable		<u>90,000</u>
<b>CIT due</b>	=	<b><u>60,000</u></b>

### **Illustration G**

As in illustration F above but total profit is US\$200,000

### **Suggested Solution to illustration G:**

ABC Energies Limited:

Computation of Gas Tax Credit claimable in 2024 accounting period.

Volume of gas produced = 100,000,000MSCF

Price per MSCF = US\$3.00

**Gas Tax Credit (GTC) Rate:**

Lower of:

(a) US\$1.00 and;

(b) 30% of US\$3.00 = US\$0.9

**Applicable GTC rate = US\$0.9**

**Gas Tax Credit Claimable** = Production per MSCF x Gas Tax Credit Rate  
 = (100,000,000/1000) x US\$0.9  
 = 100,000 X US\$0.9  
 = **US\$90,000**

### **Computation of Companies Income Tax due to FIRS**

		US\$
Total profit	=	<u>200,000</u>
CIT @ 30%	=	60,000
Less: Gas Tax Credit claimable	90,000	
Gas Tax Credit claimed	<u>60,000</u>	<u>60,000</u>
Gas Tax Credit surplus c/f	<u>30,000</u>	
<b>CIT due</b>	=	<b><u>Nil</u></b>
<b>(Subject to minimum tax rules)</b>		

### **Illustration H**

ABC Energies Limited operates a NAG field and commenced its first Gas production on 1<sup>st</sup> April 2024. The NAG field contains HCL of 25 barrels per million SCF of gas and the Company produced a total of 100,000,000MSCF for the year, with a fiscal gas price of \$3.00 per MSCF. Compute tax due if total profit for 2028 accounting period is USD\$200,000 and the Gas Tax Credit claimable is US\$90,000 (out of which US\$50,000 has exceeded three years)

### **Suggested Solution to illustration H:**

ABC Energies Limited:

Computation of Gas Tax Credit claimable in 2028 accounting period.

**Gas Tax Credit Claimable** = US\$90,000

Note: The US\$90,000 Gas Tax Credit (GTC) claimable is inclusive of US\$50,000, unutilised GTC, which has been carried forward for more than three years.

### **Computation of Companies Income Tax due to FIRS**

		US\$
Total profit	=	<u>200,000</u>
CIT @ 30%	=	60,000
Gas Tax Credit claimable	90,000	
Less lapsed Gas Tax Credit	<u>50,000</u>	
Gas Tax Credit claimable	<u>40,000</u>	<u>40,000</u>
<b>CIT due</b>	<b>=</b>	<b><u>20,000</u></b>

### **Illustration I**

PYT Energies Limited operates a NAG field and commences its first Gas production 11 years after the commencement date of 28<sup>th</sup> February, 2024. The company's Gas Tax Allowance claimable and the Assessable profit are US\$80,000 and US\$200,000 respectively. Compute the Companies Income Tax due.

### **Suggested Solution to illustration I:**

### **Computation of Companies Income Tax due to FIRS**

		US\$
Assessable profit	=	200,000
Less: Gas Tax Allowance	=	<u>80,000</u>
Total Profit	=	<u>120,000</u>
<b>CIT @ 30%</b>	<b>=</b>	<b><u>36,000</u></b>

### **9.0 Filing of Separate Tax Computation**

Companies who are eligible for this incentive are not entitled to claim the Associated Gas Framework Agreement (AGFA) incentive for the same greenfield NAG project, hence, such company is required to file separate tax computations for the greenfield NAG project.



## **10.0 Restriction**

Gas Tax Credit (GTC) can only be claimed by a company that achieved first gas production on or before 1<sup>st</sup> January 2029 and for a maximum period of 10 years, provided that the hydrocarbon liquid content does not exceed 100 barrels per Million SCF.

Similarly, the Gas Tax Allowance (GTA) can only be claimed by a company that achieved first commercial gas production after 1<sup>st</sup> January 2029, provided that the hydrocarbon liquid content does not exceed 100 barrels per Million SCF.

## **11.0 Transition from Gas Tax Credit (GTC) to Gas Tax Allowance (GTA):**

Companies granted Gas Tax Credit in Greenfield development may be eligible to Gas Tax Allowance after the expiration of 10 years, subject to the restriction provided in **paragraph 10.0** above.

## **12.0 Commencement Date:**

The commencement date of this Guideline is 28th day of February, 2024

## **13.0 Amendment or Revision of the Guidance**

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

## **14.0 Enquiries**

Any request for further information or clarifications on this Guidance should be directed to the:

Executive Chairman,  
Federal Inland Revenue Service,  
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Wuse Zone 5, Abuja.

Or

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Zone 5, Abuja.

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