



**FEDERAL INLAND REVENUE SERVICE**  
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**INFORMATION CIRCULAR**

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**Subject: GUIDELINE ON THE APPLICABILITY OF THE MIDSTREAM CAPITAL AND GAS UTILIZATION INVESTMENT ALLOWANCE**

*This guideline is issued for the information and guidance of relevant taxpayers, tax practitioners and the general public on the implementation of the midstream capital and gas utilization investment allowance.*

**1.0 Introduction**

In a bid to unlock new investments in the midstream sector of the oil and gas industry, the President of the Federal Republic of Nigeria, signed an Executive Order No. 40, 'Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024'.

**2.0 Scope of the Guideline**

This guideline covers gas utilization investment allowance to be granted on qualifying capital expenditure incurred on plant and equipment by midstream gas companies in respect of any new and ongoing project in the midstream oil and gas industry engaged in processing and transportation of natural gas as regulated by the Nigerian Midstream Downstream Petroleum Regulatory Authority (NMDPRA).

**3.0 Legal Framework**

This guideline is issued pursuant to Part II of the Oil and Gas Companies (Tax Incentives, Exemptions, Remission, Etc) Order 2024 [S.1 No.1 Of 2024], dated 28<sup>th</sup> February 2024; Sections 23 (2) and 89 of Companies Income Tax Act (CITA) as amended.

## **4.0 Conditions for Eligibility for Gas Utilisation Investment Allowance (GUIA)**

To be eligible for the Gas Utilisation Investment Allowance (GUIA), the company must have incurred qualifying capital expenditure on plants and equipment in one or more of the following midstream gas operations:

### **4.1 Eligible Midstream Gas Operations**

- 1) Transportation of natural gas to gas conditioning, and processing plants;
- 2) Transportation of natural gas from gas conditioning and processing plants to gas-based industries, and other end-use customers, specifically not exceeding exit points connecting gas distribution pipelines and networks;
- 3) Gas processing and conditioning plants;
- 4) Gas Bulk storage infrastructures deliberately installed not for sale but holding stock of plant condensates, liquefied petroleum gas (LPG) or liquefied natural gas (LNG).

### **4.2 Basis for Eligibility**

Companies engaged in the operations listed above will be required to possess the relevant licences as may be issued by NMDPRA.

### **4.3 Implication of Section 39 of CITA on GUIA**

A company shall only be granted gas utilization investment allowance upon the expiration of the tax-free period granted under section 39(1) of the Companies Income Tax Act, provided that a company that has enjoyed the 25% GUIA will not be entitled to any other investment allowance under Section 39 of CITA.

### **4.4 Qualifying Plant and Equipment**

For the purpose of this guideline, the qualifying plant and equipment refers to tangible asset and other components that make up a plant or equipment used for gas processing and transportation in midstream gas operations of which its useful life is beyond a period of one year.

To qualify for GUIA, the following conditions are required:

- The cost of the qualifying plant and equipment must have been incurred by the company;
- The cost must have been incurred from the commencement date of this incentive order;
- Proof of ownership of qualifying plant and equipment; and
- Evidence of direct use of plant and equipment for gas processing and transportation in midstream gas operations.

## **5.0 Submission of Information by Eligible Company**

All eligible companies upon filing their returns, shall provide a certified copy of relevant information submitted to NMDPRA on all new and ongoing projects.

Thereafter, FIRS shall process claims for allowances on qualifying plants and equipment and grant GUIA to eligible applicants.

### **6.0 Rate of Gas Utilization Investment Allowance.**

The gas utilization investment allowance to be granted to eligible companies shall be 25% of the actual expenditure incurred on plant and equipment.

### **7.0 Exemptions**

The gas utilization investment allowance will not apply, where any of the following occur:

- i. The company sells or transfers the plant and equipment to another company that is not engaged in the same or related business within five years of incurring the expenditure.
- ii. Within five years of incurring the expenditure, there is an appropriation of the plant and equipment for purposes other than gas utilisation.
- iii. The cost incurred on the plant and equipment is not a bonafide business transaction or is an artificial or fictitious transaction.
- iv. The company is an end - product user of gas as feedstock, energy source and related purposes.

### **8.0 Disclosure Requirement**

A company that has claimed the GUIA on asset that is subsequently transferred or sold shall provide information on the sale, transfer or any other dealings with the asset to the FIRS within three months of the transaction.

The purchaser or transferee shall also have the duty to provide information as may be requested by the FIRS on the sale, transfer or any dealing with the asset.

### **9.0 Non-Interference with Capital Allowance**

The value of any asset on which capital allowance is claimable by a company under the Companies Income Tax Act, shall not be reduced by the gas utilization investment allowance available to be claimed by a company.

The applicable capital allowance under the Companies Income Tax Act shall continue to apply to the eligible company without prejudice to any other allowable deductions, allowances and incentives available to the company under the Companies Income Tax Act, and any other applicable legislation.

### **10.0 Illustrations**

#### **Illustration 1**

Ricardo Gas Investment Limited was licenced to engage in midstream Gas Utilization activities. The company incurred qualifying capital expenditure of US\$10,000,000.00 (inclusive of US\$6,000,000.00 for qualifying plant and equipment on gas utilization) on 1<sup>st</sup> April 2024. The Capital allowance claimable

for the year is US\$2,000,000.00 while the assessable profit for the year is US\$5,000,000.00. Compute:

- (1) Gas Utilisation Investment Allowance (GUIA) claimable.
- (2) Companies Income Tax liability for 2025 year of assessment.

### **Suggested Solution to illustration 1:**

#### **Ricardo Gas Investment Limited**

#### **(1) Computation of Gas Utilisation Investment Allowance (GUIA)**

- Total Qualifying Expenditure for the year = US\$10,000,000
- Qualifying Expenditure on plant & Equipment = US\$6,000,000
- GUIA rate = 25%

**Gas Utilisation Investment Allowance claimable** = 25% x US\$6,000,000  
= **US\$1,500,000**

#### **(2) Computation Companies Income Tax For 2025 Year of Assessment**

	US\$	US\$
Assessable Profit		5,000,000
Less: Capital Allowance	2,000,000	
Gas Utilisation Investment Allowance	<u>1,500,000</u>	
Total Allowance claimable	<u>3,500,000</u>	
		<u>3,500,000</u>
<b>Total Profit</b>		<b><u>1,500,000</u></b>

**Companies Income Tax @ 30%** **450,000**

### **Illustration 2**

Top notch Gas Processing Limited (TGPL) commenced the construction of a Gas Processing Plant in Port Harcourt in January 2021. The contract for the gas plant was awarded at a cost of US\$100,000,00 with a completion period of three (3) years. Unfortunately, the Contractor engaged to construct the plant abandoned the project after executing 70% of the job in March 2023 due to funding issues. The company however secured a loan from a consortium of banks based on the Gas Utilization Incentives introduced by the Federal Government in February, 2024 to complete the contract. `

Consequently, the Contractor returned to Site in April 2024 to complete the outstanding 30% of the plant. Assuming that the contract was eventually completed on 30<sup>th</sup> November 2024. Calculate the Gas Utilization Investment

Allowance claimable by TGPL on the project if actual payments to the Contractor were made as follows:

Payment date	Amount Paid (US\$)
1 <sup>st</sup> July 2021	30,000,000
15 <sup>th</sup> March 2023	20,000,000
12 <sup>th</sup> March 2024	20,000,000
30 <sup>th</sup> September 2024	20,000,000
1 <sup>st</sup> January, 2025	10,000,000

### **Suggested Solution to illustration 2:**

#### **Topnotch Gas Processing Limited**

#### **Computation of Gas Utilisation Investment Allowance (GUIA)**

Total Qualifying Expenditure on Plant and Equipment

US\$100,000,000

Qualifying Exp, on Plant & Equip. liable to GUIA (30% x 100m)

US\$30,000,000

GUIA Rate: 25%

GUIA claimable on the Project = 25% x US\$30,000,000

= US\$7,500,000

#### **NOTE:**

- (1) What is relevant in the determination of the Qualifying Expenditure on Plant and Machinery for the purpose of GUIA is the time the expenditure was incurred or asset purchased and not when payment was made.
- (2) All Qualifying Capital Expenditures incurred on Plant and Equipment on a Gas Utilization Project prior to the effective date of the GUIA incentive do not qualify for the Allowance.
- (3) Payments made from inception to 12<sup>th</sup> March 2024 were for expenditures incurred prior to the commencement of the incentive. The payment of 2<sup>nd</sup> January 2025 is for expenditure incurred in 2024 after the commencement date of the incentive.

### **11.0 Commencement Date**

The commencement date of this guidance is 28th of February 2024.

**Note:** An eligible company shall only claim the gas utilization investment allowance upon the expiration of the tax-free period granted under section 39(1) of the Companies Income Tax Act.

## **12.0 Definition of terms:**

### **“Midstream Gas Operations”**

Means “activities downstream of the measurement points of petroleum mining leases, whether or not related to the petroleum mining lease, with respect to the construction and operation of natural gas transport or transmission pipelines, including the related compressor stations, construction and operations of facilities to compress, transport and deliver compressed natural gas (CNG); construction and operations of gas processing facilities and central processing facilities, producing ethane, propane, butane and natural gas liquids and marketable natural gas; construction and operation of underground or above ground facilities for the storage of natural gas, ethane extraction plants, construction and operation of gas to liquids (GTL) plants, petrochemical, construction and operation of LNG plants, and related LNG terminals as well as storage and transport of LNG, acquisition, operation or chartering of LNG tankers for coastal and marine transportation, purchase and sale, trading, bartering, aggregating and marketing of natural gas transported by pipelines, compressed natural gas, LNG, methane, ethane, propane, butane, natural gas liquids and liquids from GTL plants with respect to wholesale customers and gas distributors and related administration and overhead”;

### **“New project”**

means “gas project that was initiated and executed after the commencement date of the Executive Order 40”;

### **“On-going project”**

Means “gas project currently under construction or in progress, prior to the commencement date of the Executive Order 40”.

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

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

## **14.0 Enquiries**

All Enquiries on any aspect of this guideline should be directed to:

Executive Chairman,

Federal Inland Revenue Service,

Revenue House,

15, Sokode Crescent, Wuse Zone 5, Abuja.

Or

Director, Tax Policy and Advisory Department

Federal Inland Revenue Service

26, Sokode Crescent,

Wuse Zone 5, Abuja.

Or

Email: [tpld@firs.go](mailto:tpld@firs.go)