FEDERAL INLAND REVENUE SERVICE
15, SOKODE CRESCENT, WUSE ZONE 5, P.M.B 33, GARKI, ABUJA, NIGERIA

INFORMATION CIRCULAR

NO:2022/22 Publication Date: 12th August,2022

Subject: APPORTIONMENT AND CONSOLIDATION OF COSTS AND REVENUE UNDER THE PETROLEUM INDUSTRY ACT

This information circular is issued in line with Section 8 of the Federal Inland Revenue Service (Establishment) Act, 2007 (as amended), Section 304(1) of the Petroleum Industry Act, 2021 and other relevant tax laws for the information and guidance of the general public, taxpayers, tax officials, and tax practitioners on the provisions of Petroleum Industry Act, 2021. This circular should be read and applied together with other related circulars issued by the Service pursuant to the Petroleum Industry Act.

1.0 Introduction

The Petroleum Industry Act (the Act) requires that all companies in the petroleum industry to transit to the full provisions of the Act. This requirement raises conversion, transition, compliance, apportionment and consolidation of cost and revenue and other issues which need to be clarified for the smooth administration of the Act. This information circular aims at providing clarification on issues relating to apportionment and consolidation of costs and revenue under the Petroleum Industry Act and other related matters.

2.0 Scope

This circular will apply to all companies transiting from the Petroleum Profits Tax Act (PPTA) and Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSCA) to the Petroleum Industry Act, and new leases and licences granted under the Act.

3.0 Consolidation of Operations for the Determination of Hydrocarbon Tax

3.1 Two categories of Hydrocarbon Tax rates

Any Company, engaged in upstream petroleum operations, granted Petroleum Prospecting Licences (PPLs) and Petroleum Mining Leases (PMLs) is required to consolidate revenue and costs based on the two categories of chargeable tax. Therefore, revenue earned and costs incurred from its PPLs on which the profits are chargeable to tax at 15% will be consolidated separately from its PMLs which are chargeable to tax at 30%.

3.1.1. Illustration 1: Company with producing PMLs and non-producing PMLs

ABC E&P Ltd, incurred the following costs on its acquired PMLs and PPLs in the year 20xx:

a. PMLs costs…$100m, volume of crude oil lifted=2million barrels @ $90/bbls,

b. Non producing PMLs Costs …$50m

c. Inseparable Costs…$25m

Required:
Determine the Hydrocarbon Tax payable

ABC E&P LTD
Computation of Hydrocarbon Tax for the year ended 20xx for PMLs and PPL

	$M
Revenue (2milion barrels *$90)	180.00
Less: Costs (PMLs+PMLs+Inseparable Costs)	175.00
Chargeable profits	5.00
(aa) **Hydrocarbon Tax payable @ 30%**	**1.5**

3.2 Different Hydrocarbon Tax Rates

Where two different Hydrocarbon Tax rates are applicable, a company in onshore and shallow water operational areas will consolidate the revenue and identified costs from all its licences and leases separately under each category of tax rate. The company shall keep the record of the costs directly identifiable to each asset in its books.

All inseparable costs incurred by a company on its licences and leases in the onshore and shallow water operational areas will be apportioned, for the purpose of determining Hydrocarbon Tax, in accordance with the basis stated in **paragraph 4.0.**

3.3 Companies Income Tax

All the costs and revenue of a company in an accounting period will be consolidated for the purpose of determining the Companies Income Tax payable under the Act for the year of assessment.

4.0 Basis of Cost Apportionment

The basis used for apportionment of inseparable direct production costs must be logical, verifiable and bear a reasonable proportion to the expected benefit receivable. The acceptable basis will include:

a. Direct labour/machine hours
b. Number of workers
c. Volume of production
d. Total separable Cost Ratio
e. Any other Globally acceptable ratio

The company shall

a. Notify the Service not later than 90 days before the commencement of the accounting year in which the company intends to use a proposed cost apportionment methodology.
b. The Service shall convey approval and where there is no such communication of approval by the end of the accounting year, in which the notification was sent, the taxpayer will apply the proposed methodology for its costs' apportionment.
c. Where the company fails to notify as stated above, the Service will apply the most appropriate costs apportionment method as it deems fit.
d. The company will consistently apply the approved cost apportionment methodology for a period not less than 5 years.
e. Where the company intends to change the approved costs apportionment methodology, the company must notify the Service not later than 90 days before the beginning of the accounting period in which the method will be used and justify the reasons for the change of the earlier approved cost methodology.
f. Disclose the basis of the apportionment in the annual tax returns as prescribed by the Service.

The Service reserves the right to assess the suitability of the apportionment basis.

4.1. Illustration 2: Company with OML converted to PML subject to 30% and newly acquired PPLs under the Act subject to 15% HT Rate

ABC E&P Ltd, incurred the following costs on its acquired PMLs in the year 20xx:

a. Transited PMLs costs…$100m, volume of crude oil lifted=2million barrels @ $90/bbls,
b. Newly acquired PPLs Costs …$50m, volume of crude oil lifted=1million barrels @ $90/bbls,
c. Inseparable Costs….$25m

Assume that volume produced is volume lifted

Note that the Hydrocarbon Tax rates for the PMLs is 30% for onshore and shallow water area of operations and 15% for PPLs.

Required:

i. Determine the total costs of converted PMLs and newly acquired PPLs.
ii. Determine the Hydrocarbon Tax payable on the converted PMLs and newly acquired PPLs

Treatment:

Basis of Apportionment: Production Volume
A = Volume produced under PMLs
B = Volume produced under PPLs
C = Total inseparable cost

Total Volumes Produced = A + B = 2m(bbls) + 1m(bbls) = 3m(bbls)

C = $25m

i. Determination of costs for PMLs and PPLs

a. Total costs of PMLs allowable for Hydrocarbon Tax
Share of inseparable costs attributable to PPLs = A/A+B * C

i.e 2/3 *$25m= $16.67m

Total costs of PMLs allowable for Hydrocarbon Tax
= $100m + $16.67m = **$116.67m.**

b. Total costs of PPLs allowable for Hydrocarbon Tax
Share of inseparable costs attributable to PPLs = B/A+B * C

i.e 1/3 *$25m= $8.33m

Total costs of PPLs allowable for Hydrocarbon Tax
= $50m + $8.33m = **$58.33m.**

ii. Determination of Hydrocarbon Tax payable by ABC E&P LTD

ABC E&P LTD
Computation of Hydrocarbon Tax for the year ended 20xx for PMLs

	$m
Revenue (2milion barrels *$90)	180.00
Less: PMLs total costs	116.67
Chargeable profits	63.33
(aa) **Hydrocarbon Tax payable @ 30%**	**18.99**

ABC E&P LTD
Computation of Hydrocarbon Tax for the year ended 20xx for PPLs

	$m
Revenue (1million barrels *$90)	90.00
Less: PPLs total costs	58.33
Chargeable profits	31.67
(bb) **Hydrocarbon Tax payable @ 15%**	**4.75**

Total Hydrocarbon Tax payable by ABC E&P LTD (i.e aa+bb)=**$23.74m**

4.2. Illustration 3: Company holding OMLs subject to PPTA @85%, PMLs subject to 30% & newly acquired PPLs subject to 15%

XYZ E&P Ltd, an existing company holding several OMLs, converted some of the OMLs to PMLs, and incurred the following costs on its assets:

a. OMLs costs…$200m, volume of crude oil lifted=3million barrels @ $100/bbls,
b. PMLs Costs …$100m, volume of crude oil lifted=2million barrels @ $100/bbls,
c. PPLs Costs…$50m, volume of crude oil lifted=1million barrels @ $100/bbls,
d. Inseparable Cost (Labour) $45m
e. The labour hours spent on the OMLs, converted PMLs and newly acquired PPLs are 100hours, 50hours and 25hours respectively.

Note
Hydrocarbon Tax rate for the converted OMLs to PML is 30% for onshore and shallow water area of operations and 15% for newly acquired PPLs, in onshore and shallow water area of operations, under the Act.

Required:

i. Determine the total costs of OMLs, PMLs and newly acquired PPLs.
ii. Determine the Petroleum Profits Tax and Hydrocarbon Tax payable under the converted OMLs, PMLs and newly acquired PPLs.

Treatment:
Basis for apportionment of Inseparable Costs: Labour Hours
Where:
A = Labour hours under OMLs
B = Labour hours under PMLs
C = Labour hours under PPLs
D =Total inseparable cost

Total Labour hours = A + B + C= 100hrs + 50hrs + 25hrs = 175hrs

D = $45m

i. Determination of costs for PMLs and PPLs

1. **Total costs of OMLs chargeable to Petroleum Profits Tax**

Share of inseparable costs attributable to OMLs = A/A+B+C * D

i.e. 100hrs/175hrs*$45= $25.71m

Total costs of OMLs allowable for Petroleum Profits Tax
= $200m + $25.71m = **$225.71m.**

2. **Total costs of PMLs chargeable to Hydrocarbon Tax**

Share of inseparable costs attributable to PMLs = B/A+B+C * D

i.e. 50hrs/175hrs * $45m= $12.86.m

Total costs of PMLs allowable for Hydrocarbon Tax
= $100m + $12.86m = **$112.86m.**

3. **Total costs of newly acquired PPLs deductible to Hydrocarbon Tax**

Share of inseparable costs attributable to PPLs = C/A+B+C * D i.e. 25hrs/175hrs * $45m= $6.43m

Total costs of newly acquired PPLs allowable for Hydrocarbon Tax
= $50m + $6.43m = **$56.43m.**

ii. Determination of tax payable for XYZ E&P LTD

XYZ E&P LTD
Computation of Petroleum Profits Tax for the year ended 20xx for OMLs

	$m
Revenue (3million barrels *$100)	300
Less: OMLs total costs	225.71
Chargeable profits	74.29
(aa) **Petroleum Profit Tax payable @ 85%**	**63.15**

XYZ E&P LTD
Computation of Hydrocarbon Tax for the year ended 20xx for converted PMLs

	$m
Revenue (2million barrels *$100)	200
Less: PMLs total costs	112.86
Chargeable profits	87.14
(bb) **Hydrocarbon Tax payable @ 30%**	**26.14**

XYZ E&P LTD
Computation of Hydrocarbon Tax for the year ended 20xx for newly acquired PPLs

	$m
Revenue (1million barrels *$100)	100
Less: PPLs total costs	56.43
Chargeable profits	43.57
(cc) **Hydrocarbon Tax payable @ 15%**	**6.54**

Total Hydrocarbon Tax payable by XYZ E&P LTD (i.e bb+cc) =**$32.69m**

Total tax payable by XYZ E&P LTD (i.e. aa+bb+cc) =$95.84.

4.3. Illustration 4: Company holding OMLs, converted PMLs & newly acquired PPLs

XYZ E&P Ltd, an existing company holding several OMLs, converted some of the OMLs to PMLs and newly acquired PMLs, and incurred the following costs on its assets:

a. OMLs costs…$200m, volume of crude oil lifted=3million barrels @ $100/bbls,

b. Converted PMLs Costs …$100m, volume of crude oil lifted=2million barrels @ $100/bbls,

c. Newly acquired PPLs Costs …$50m, volume of crude oil lifted=1million barrels @ $100/bbls

d. Inseparable Costs….$45m

<u>Note</u>
Hydrocarbon Tax rate for the converted OMLs to PML is 30% for onshore and shallow water area of operations and 15% for newly acquired PPLs, in onshore and shallow water area of operations, under the Act.

Required:

i. Determine the total costs of OMLs, converted PMLs and acquired PMLs.

ii. Determine the petroleum profits tax and Hydrocarbon Tax payable under the OMLs, converted PMLs and acquired PMLs.

Treatment:
Apportionment of inseparable costs using the percentage of separable cost of each category of asset with similar tax rate to the total separable costs of all asset, multiplied by the inseparable cost.

i. Costs determination for OMLs, PMLs & PPLs
Where:
A = separable cost under OMLs
B = separable cost under PMLs
C = separable cost under PPLs
D = total inseparable cost

Total separable costs = A + B + C= $200 + $100m + $50m = $350m

D = $45m

1. **Total costs of OMLs chargeable to Petroleum Profits Tax**

Share of inseparable costs attributable to OMLs = A/A+B+C * D

i.e $200m/$350m *$45m= $25.71m

Total costs of OMLs allowable for Petroleum Profits Tax
= $200m + $25.71m = **<u>$225.71m.</u>**

2. **Total costs of PMLs chargeable to Hydrocarbon Tax**

Share of inseparable costs attributable to PMLs = B/A+B+C * D

i.e $100m/$350m * $45m= $12.86.m

Total costs of PMLs allowable for Hydrocarbon Tax
= $100m + $12.86m = **$112.86m.**

3. **Total costs of PPLs deductible to Hydrocarbon Tax**

Share of inseparable costs attributable to PMLs = C/A+B+C * D

i.e $50m/$350m * $45m= $6.43m

Total costs of PMLs allowable for Hydrocarbon Tax
= $50m + $6.43m = **$56.43m.**

ii. Determination of Petroleum Profits tax and Hydrocarbon Tax payable for XYZ E&P LTD

XYZ E&P LTD
Computation of Petroleum Profits Tax for the year ended 20xx for OMLs

	$m
Revenue (3million barrels *$100)	300.00
Less: OMLs total costs	225.71
Chargeable profits	74.29
(aa) **Petroleum Profit Tax payable @ 85%**	**63.15**

XYZ E&P LTD
Computation of Hydrocarbon Tax for the year ended 20xx for converted PMLs

	$m
Revenue (2million barrels *$100)	200
Less: PMLs total costs	112.86
Chargeable profits	87.14
(bb) **Hydrocarbon Tax payable @ 30%**	**26.14**

XYZ E&P LTD
Computation of Hydrocarbon Tax for the year ended 20xx for converted PPLs

	$m
Revenue (1million barrels *$100)	100
Less: PPLs total costs	56.43
Chargeable profits	43.57
(cc) **Hydrocarbon Tax payable @ 15%**	**6.54**

Total Hydrocarbon Tax payable by XYZ E&P LTD (i.e bb+cc) =**$32.69m**

Hydrocarbon Tax and Petroleum Profits Tax payable by XYZ E&P LTD (i.e. aa+bb+cc)=$95.84

5.0 Consolidation of Operations for Companies Income Tax for Transited Companies Across Terrains

Where a transited company has operations in all the terrains, (i.e. Onshore, Shallow Water and Deep Offshore area) and across commercial arrangements, it shall consolidate its revenue, losses and costs for the purpose of determining Companies Income Tax.

5.1. Illustration 5:

Consider LMN E&P Ltd, a transited company, having PMLs and PPLs, with the following costs on its assets:

a. PMLs Costs …$100m, volume of crude oil lifted=2million barrels @ $90/bbls,
b. PPLs Costs …$50m, volume of crude oil lifted=1million barrels @ $90/bbls
c. Inseparable Costs $25m

LMN E&P Ltd is also a PSC contractor in the deep offshore terrain, with total revenue and costs of $150m and $80m respectively.

Additionally, the company earned revenue from sale of condensates from non-associated gas from its PML and interest income amounting to $120m, and incurred finance costs and head office costs of $60m.

Required:

i. Determine the Companies Income Tax payable for LMN E&P Ltd.

Treatment

Assume that the total costs for PMLs and PPLs are as computed in the solution to illustration 1 above, i.e. $116.67 and $58.33 respectively.

Determination of CIT payable
LMN E&P LTD

	$’m
Total Revenue	
PMLs	180
PPLs	90

PSC revenue		150
Sale of condensates and interest income		120
		540
Less Total Costs ($'m):		
PMLs	116.67	
PPLs	58.33	
PSC cost	80.00	
Finance costs and head office costs	60.00	
		315
Total Profits		225
Companies Income Tax @ 30%		**67.5**

6.0. Consolidation for Transited Companies Under the Act With Other Selected Licences/Leases Taxable Under PPTA

A transited company that holds some Oil Prospecting Licences (OPLs) and Oil Mining Leases (OMLs) subject to tax under PPTA, shall:

a. Treat the converted licences and leases in line with paragraph 3 for the purpose of determining Hydrocarbon Tax and Companies Income Tax payable; and

b. Separately consolidate its operations on the OML that is taxable under PPTA for the purpose of determining Petroleum Profits Tax payable including a separate computation of Companies Income Tax liability for its gas operations.

6.1. Illustration 6

Consider HSQ E&P Ltd, a transited company, having OMLs, converted OMLs and newly acquired PPLs, with the following costs on its assets:

a. OMLs costs…$200m, volume of crude oil lifted=3million barrels @ $100/bbl.,

b. Company also has gas sales- revenue of $100m with separable cost of $50m from its operations in an OML that is yet to be converted.

c. Converted PMLs Costs …$100m, volume of crude oil lifted=2million barrels @ $100/bbls,

d. Newly acquired PPLs Costs …$50m, volume of crude oil lifted=1million barrels @ $100/bbl,

e. The company earned revenue from sale of condensates from non-associated gas from its PML and interest income amounting to $100m and $20M respectively, and incurred finance costs and head office costs of $60m, and

f. Recently, HSQ obtained participating interest in a transited PSC in the deep offshore terrain, with total revenue and costs of $150m and $80m respectively

Assume labour hours and inseparable cost as in illustration 3 above.

Required:
Determine

i. Total costs of OMLs, converted PMLs and newly acquired PPLs,
ii. Petroleum Profit Tax,
iii. Hydrocarbon Tax,
iv. Companies Income Tax (under PIA),
v. Companies Income Tax on OML Gas Income, and
vi. Total Income Tax Payable.

Treatment:
Apportionment of cost using labour hours.
Where:
A = Labour hours under OMLs
B = Labour hours under converted PMLs
C = Labour hours under newly acquired PPLs
D = total inseparable cost

Total separable costs = A + B + C= 100hrs + 50hrs + 25hrs = 175hrs

D = $45m

i. Determination of total costs of OMLs, converted PMLs and newly acquired PPLs

1. **Total costs of OMLs chargeable to PPT**

Share of inseparable costs attributable to OMLs = A/A+B+C * D

i.e. 100hrs/175hrs *$45m= $25.71m

Total costs of OMLs allowable for PPT
= $200m + $25.71m = **<u>$225.71m.</u>**

2. **Total costs of converted PMLs chargeable to Hydrocarbon Tax**

Share of inseparable costs attributable to PMLs = B/A+B+C * D i.e. 50hrs/175hrs * $45m= $12.86.m

Total costs of PMLs allowable for Hydrocarbon Tax
= $100m + $12.86m = **$112.86m.**

3. **Total Costs of newly acquired PPLs deductible under Hydrocarbon Tax**

Share of inseparable costs attributable to PPLs = C/A+B+C * D

i.e 25hrs/175hrs * $45m= $6.43m

Total costs of newly acquired PPLs allowable for Hydrocarbon Tax
= $50m + $6.43m = **$56.43m.**

Determination of Tax Payable for HSQ E&P Ltd

ii. Computation of Petroleum Profits Tax for the year ended 20xx

	$m
Revenue (3million barrels *$100)	300
Less: OMLs total costs	225.71
Chargeable profits	74.29
(aa) **Petroleum Profit Tax payable @ 85%**	**63.15**

iii. Computation of Hydrocarbon Tax under S267(a) for the year ended 20xx

	$m
Revenue (2million barrels *$100)	200
Less: converted PMLs total costs	112.86
Chargeable profits	87.14
(bb) **Hydrocarbon Tax payable @ 30%**	**26.14**

iv. Computation of Hydrocarbon Tax under S267(b) for the year ended 20xx

	$m
Revenue (1million barrels *$100)	100
Less: Newly acquired PPL total costs	56.43
Chargeable profits	43.57
(cc) **Hydrocarbon Tax payable @ 15%**	**6.54**

Total Hydrocarbon Tax payable by HSQ E&P LTD (i.e bb+cc) =**$32.68m**

v. Computation of Companies Income Tax for the year ended 20xx Under the PIA

		$
Total Revenue		
Converted PMLs		200
Newly acquired PPLs		100
PSC revenue		150
Sale of condensates and		100
interest income		20
		570
Less Total Costs:		
Converted PMLs	112.86	
Newly acquired PPLs	56.43	
PSC cost	80	
Finance costs and OPEX (condensate)	60	
		309.29
Total Profits		**260.71**
(dd) **Companies Income Tax @ 30%**		**78.21**

vi. Computation of Companies Income Tax for the year ended 20xx for OML Gas

	$
Gas Revenue	100
Less Costs:	
Separable OPEX	50
Total Profits	**50**
(ee) **Companies Income Tax @ 30%**	**15**

TOTAL TAX PAYABLE	**$**
Total tax payable under PIA (i.e. bb+cc+dd)	110.89
Total tax payable under PPTA (i.e. aa+ee)	78.15
TOTAL TAX PAYABLE	**189.04**

7.0 Cost Consolidation for Companies with Licences/Leases Taxable under different categories of HT Rates

A company, with licences/leases taxable under different categories of HT rates, will consolidate costs relating to the assets under each category separately.

In the determination of Companies Income Tax, all costs shall be consolidated.

8.0 Apportionment of Unabsorbed Losses Brought Forward by Transited Companies with Different Tax Rates

Unabsorbed losses brought forward from Petroleum Profits Tax (PPT) by transited companies that hold selected OMLs not converted, shall be apportioned. The basis of apportionment shall be as follows:

Where losses occur

a. only in the preceding year, the operating costs of the preceding year
b. In two preceding years, then the average of two years operating expenses will be adopted.
c. Three years and beyond, then the average of three years operating expenses will be adopted.

9.0 Apportionment of Unrecouped Capital Allowance Brought Forward by Transited Companies with Licences or Leases Chargeable Under Different Tax Rates

The basis of apportionment will be:

a. where the unrecouped capital allowance relates to the preceding year of assessment, the ratio of capital allowances on asset category to the total capital allowances multiplied by the unrecouped capital allowances of the preceding accounting period.
b. where the unrecouped capital allowance relates to two or more years of assessment prior to the accounting period, the ratio of the aggregate of the capital allowances for the number of years to the aggregate capital allowances for the number of years multiplied by the unrecouped capital allowances.

9.1 Exclusion of Investment Tax Allowance (ITA) from Unrecouped Capital Allowance Brought forward by Transited Deep Offshore PSC Companies.

The basis of exclusion will be:

a. where the unrecouped capital allowance relates to the preceding year of assessment, the ratio of Investment Tax Allowance or Petroleum Investment Allowance to the total capital allowances multiplied by the unrecouped capital allowances of the preceding accounting period.
b. where the unrecouped capital allowance relates to two or more years of assessment prior to the accounting period, the ratio of the aggregate of the Investment Tax Allowance or Petroleum Investment Allowance for the number of years to the aggregate capital allowances for the number of years multiplied by the unrecouped capital allowances.

10.0 Amendment or Revision of the Circular

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

11.0 Enquiries

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

The 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,
No 12 Sokode Crescent, Wuse Zone 5, Abuja.

Or

Director
Large Tax Department (Oil & Gas)
Federal Inland Revenue Service
11th Floor, 17B Awolowo Road,
Ikoyi, Lagos.

Or

Visit our website: www.firs.gov.ng
Email: Email: *tpld@firs.gov.ng; LTD-Oil&Gas@firs.gov.ng*