TAX JUSTICE NETWORK AFRICA

CISLAC

Taxation as a Fossil Fuel Phase-Out Strategy

Nigeria policy brief

01 Executive Summary

Nigeria stands at a critical crossroads between maintaining its fossil fuel-dependent economic model and transitioning towards a sustainable, low-carbon future. While the country has committed to climate goals, including net-zero emissions by 2060, its fiscal framework continues to provide substantial incentives to fossil fuel industries, reinforcing long-term dependence, and undermining transition efforts.

This policy brief synthesises findings from the CISLAC–TJNA study, which evaluates the structure, costs, and impacts of tax incentives in Nigeria's fossil fuel sector. The study reveals that, rather than attracting investment as intended, these incentives have resulted in significant revenue losses, weak transparency, and misalignment with climate and development priorities. The brief also outlines short-, medium-, and long-term interventions that can set the country on a path towards a just energy transition and an equitable fossil fuel phase-out. The brief concludes that taxation must be repositioned as a policy tool to discourage fossil fuel dependence and support a just energy transition.

Key findings:

- Nigeria provides extensive tax incentives across upstream, midstream, and downstream sectors, as embedded in statute(e.g., the Petroleum Industry Act, 2021) which are a missed opportunity for reinvestment in sustainable sectors.
- No comprehensive tax expenditure reporting framework exists, limiting transparency and accountability.
- Fiscal support to fossil fuels contradicts Nigeria’s Energy Transition Plan and its climate commitments.
- Continued fiscal support for fossil fuels risks locking the country into an unsustainable development pathway.

The report points to the following urgent priorities:

- Develop and implement a national tax expenditure reporting framework.
- Undertake a full review of fossil fuel tax incentives across the value chain to rationalise and phase out harmful fossil fuel tax incentives.
- Align fiscal policy with Nigeria’s Energy Transition Plan and climate commitments.
- Redirect available fiscal space towards renewable energy investments and inclusive development.
- Improve transparency in tax incentive administration and reporting .

02 Background and context

Nigeria's economy is heavily dependent on fossil fuels, particularly oil and gas, which account for a significant share of exports and government revenue.

Oil accounts for over 80% of exports, and the sector has historically been central to economic growth. Fiscal policy has long been structured to attract foreign investment into the sector through a range of incentives such as tax holidays, capital allowances, and reduced tax rates.

However, global energy systems are shifting towards decarbonisation, and Nigeria has committed to transitioning to cleaner energy sources. Despite this, the current fiscal regime continues to prioritise fossil fuel expansion, creating a structural contradiction between economic policy and climate commitments. This contradiction is not unique to Nigeria- but is particularly acute given the country's high dependence on oil revenues; Exposure to global price volatility; Growing climate vulnerability; and Increasing fiscal pressures. As a result, fiscal policy has emerged as a critical lever for managing this transition by either reinforcing fossil fuel dependence or enabling a shift towards sustainable development.

80%

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03 The cost of tax incentives

3.1. The cost of tax incentives

Nigeria provides a wide range of tax incentives across the fossil fuel value chain which significantly reduce government revenue and lack clear cost-benefit justification. The following maps incentives across the upstream, midstream, and downstream sectors.

Upstream

In Nigeria's oil and gas sector, the government provides a range of tax concessions that significantly reduce companies' effective tax burden. For example, companies may deduct a large portion of their investment costs over time through capital allowances, at a rate of 20% per annum for the first four years and 19% in the fifth year. This reduces taxable income and lowers tax liability early in a project's lifecycle.

In addition, the Petroleum Industry Act (2021) introduced a hydrocarbon tax to replace the Petroleum Profit Tax, restructuring how profits from oil and gas production are taxed- often in ways designed to sustain investor attractiveness. Companies may also receive tax credits of up to 50% on investments of between USD 5 million and USD 20 million, facilitating faster cost recovery. Furthermore, firms are granted additional allowances to cover environmental remediation and decommissioning costs once extraction ends. While these measures are often justified as necessary to attract investment, in practice they result in substantially reduced tax payments, raising important questions about the quantum of foregone revenue and whether these incentives remain appropriate given Nigeria's broader development and energy transition objectives.

Midstream

The midstream segment of Nigeria's oil and gas industry includes activities like transporting, processing, and storing natural gas and here the government also provides tax incentives to encourage investment, particularly in gas infrastructure. One key incentive is the gas utilisation investment allowance, which allows companies to deduct up to 25% of their capital costs such as building facilities or purchasing equipment from their taxable income. This effectively reduces the amount of tax they have to pay and makes large-scale gas projects more financially attractive. In addition, investments in major infrastructure like pipelines and liquefied natural gas plants are eligible for what are known as accelerated allowances.

This means companies can recover their investment costs more quickly through the tax system, further lowering their tax burden in the early years of a project. While these incentives are intended to promote gas development which is often framed as a "transition fuel", they also represent significant fiscal support from the government, raising questions about whether public resources are being directed toward long-term sustainable energy solutions or reinforcing continued reliance on fossil fuel infrastructure.

Downstream

The downstream part of Nigeria's oil and gas industry includes refining crude oil into usable products like petrol and diesel, as well as etrochemical production. Here, the government also provides generous tax incentives to encourage investment. For instance, companies can benefit from tax holidays lasting between three to five years, meaning they are allowed to operate without paying certain taxes during that period. This is intended to reduce the financial burden on new or expanding businesses and make investments more attractive. In addition, companies importing machinery and equipment for refineries do not have to pay import duties, which significantly lowers the upfront cost of setting up or upgrading facilities.

There are also investment tax allowances available for petrochemical projects, allowing companies to further reduce their taxable income based on how much they invest.

Tax concessions

Upstream

20%

Companies can deduct most investment costs over time: 20% annually for four years, then 19% in year five.

50%

Companies can receive tax credits of up to 50% on investments between USD 5M–20M, accelerating cost recovery.

Midstream

25%

Companies can deduct most investment costs over time: 20% annually for four years, then 19% in year five.

Downstream

3–5 years

Companies can benefit from tax holidays lasting between three to five years.

3.2. Weak transparency and accountability

A further key issue is the lack of transparency and accountability in how Nigeria manages tax incentives in the fossil fuel sector. The lack of transparency and accountability in how Nigeria manages tax incentives in the fossil fuel sector. There is currently no systematic mechanism for tracking the fiscal cost of these incentives:

Nigeria does not have a routine maintain a routine tax expenditure reporting framework and therefore does not regularly publish detailed information on the value of tax concessions granted to companies. This makes it difficult to determine the quantum of foregone revenue or assess whether these incentives are delivering commensurate benefits to the country.

Access to detailed contract-level information between the government and companies remains limited, and fiscal data are often scattered across different institutions rather than being centrally. consolidated- notwithstanding legal requirements under the Petroleum Industry Act (2021) and Extractive Industries Transparency Initiative (EITI) standards. As a result, policymakers, researchers, and oversight bodies are unable to obtain a comprehensive picture of how the system operates.

These gaps have real consequences as they make it harder to monitor whether incentives are being administered appropriately, limiting the government's ability to evaluate effective, and reducing public accountability. Ultimately, these transparency deficits ultimately weaken evidence-based policymaking, with significant fiscal decisions often made without a clear understanding of their true costs and impacts.

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3.3. Economic and development trade-offs

While tax incentives are often justified as a mechanism to attract investment into Nigeria's oil and gas sector, they carry significant economic and development trade-offs.

At a fundamental level, every tax concession granted to companies represents foregone revenue. This results in substantial losses to public finances that could otherwise be directed towards critical sectors such as infrastructure, healthcare, education, and social services. According to the National Tax Expenditure Statement (2021), the government lost approximately N=6.8 trillion to tax incentives between 2019 and 2021. In a context characterised by high development needs and constrained fiscal resources, these losses directly diminish the government's capacity to deliver public services and support long-term development objectives.

Reduced revenue also limits fiscal space, weakening institutional capacity to respond to pressing challenges - including climate change, where significant investment in adaptation and resilience is required.

3.4. Climate and transition misalignment

There is a clear disconnect between Nigeria's climate commitments and the operation of its fiscal system in practice.

Nigeria has made significant pledges including the commitment to achieve net-zero emissions by 2060 and the rollout of its Energy Transition Plan, designed to guide the country towards cleaner and more sustainable energy sources- yet these commitments are not currently reflected in the government's tax policy. While Nigeria publicly commits to reducing emissions, it simultaneously encourages continued investment in oil and gas. The tax incentives make it more profitable for companies to develop long-term fossil fuel projects like pipelines, refineries, and gas processing facilities.

These are not short-term investments; they are designed to operate for decades. As a result, they effectively "lock in" fossil fuel use, making it harder and more expensive for the country to shift to renewable energy later on. Evidence shows that renewable energy does not receive the same level of structured and consistent fiscal support. While there are some initiatives promoting clean energy, they are not as comprehensive or deeply embedded in the fiscal framework as those supporting fossil fuels. For example, companies in the fossil fuel sector benefit from a 10% investment tax allowance for new investments, an additional 20% annual capital allowance under the Petroleum Profits Tax Act, and VAT exemptions on LPG equipment, while renewable energy technologies largely receive limited pioneer status incentives and inconsistent customs duty waivers with far weaker fiscal support.

This imbalance also sends a strong signal to investors about where government priorities lie in this case favouring fossil fuel expansion over clean energy development. Unless this misalignment is addressed, Nigeria risks delaying its transition, increasing future economic and environmental costs, and missing the opportunity to reposition its economy for a more sustainable and resilient future .

Fiscal Imbalance in Energy Incentives

Stronger Fossil Fuel Incentives

Fossil fuel investments receive structured and well-established fiscal support.

Generous Tax Allowances

Includes 10% investment allowance and an additional 20% annual capital allowance under petroleum laws.

Additional Cost Reliefs

VAT exemptions on key equipment (e.g. LPG) further reduce investment costs.

Weaker Renewable Support

Renewable energy relies on limited pioneer incentives and inconsistent duty waivers, offering far less fiscal backing.

04: Taxation as a tool for structural transition

Taxation serves not merely as a mechanism for raising government revenue, but as a powerful policy tool that actively shapes the direction of an economy. Nigeria's current tax system already influences investment decisions in the energy sector by making fossil fuel projects more financially attractive through a wide range of incentives embedded across the value chain.

In this sense, fiscal policy is far from neutral- it actively reinforces a fossil fuel-dependent development model. Consequently, the same tax system can be deliberately redesigned to achieve the opposite effect. By reforming or removing incentives that currently support oil and gas expansion, the government can actively discourage new fossil fuel investments, particularly those with long-term infrastructure implications such as pipelines, refineries, and gas processing facilities.

At the same time, redirecting fiscal resources towards renewable energy and green industries would send a clear signal toinvestors, shifting capital towards cleaner and more sustainable sector. Nigeria’s energy transition cannot depend on external climate finance alone; and that domestic resource mobilisation (DRM) is essential.

This imperative is particularly urgent given Nigeria's constrained fiscal base, with a tax-to-GDP ratio of below 8% and also one of the lowest in sub-Saharan Africa (OECD, 2023).

This reflects structural challenges, including a narrow tax base, inefficiencies in tax administration, and significant revenue leakage. Strengthening DRM through improved tax compliance, streamlined incentives, and an expanded tax base will be critical to generating the resources required for green investments. In this regard, revenues from instruments such as environmental levies, land use taxes, and petroleum royalties under the Petroleum Industry Act of 2021 (PIA) offer direct financing pathways for energy infrastructure and clean energy development.

Nigeria's current fiscal framework continues to favour fossil fuels, despite the country's commitment to a low-carbon transition. Reforms are therefore needed to redirect incentives towards renewable energy - through measures such as accelerated depreciation for clean energy investments, targeted tax credits, and zero-rated import duties on solar and wind technologies. While natural gas may warrant a limited short-term role, any fiscal support provided must be strictly time-bound and carefully managed to avoid entrenching long-term dependence. Without this shift, fiscal policy will continue to entrench fossil fuel expansion rather than enabling decarbonisation.

Fiscal reform must be understood within a broader process of economic transformation. Nigeria's heavy reliance on fossil fuels has constrained diversification and heightened vulnerability to global shocks.

Reforms such as removal of redundant fossil fuel incentives, introducing environmental taxes or carbon pricing, and investing in alternative sectors can contribute to building a more resilient economy.

The transition also presents economic opportunities: Nigeria’s Energy Transition Plan estimates that up to 840,000 jobs could be created by 2060, particularly in renewable energy, electric mobility, and clean cooking.

Therefore, the strategic use of fiscal tools alongside instruments such as green bonds and domestic capital market development will therefore be key to both managing the decline of fossil fuels and unlocking a more sustainable and inclusive growth pathway.

840,000

Number of jobs that could be created by 2060, driven by growth in renewable energy, electric mobility, and clean cooking.

05 Policy Recommendations

Short term: Fix transparency and stop further losses

Establish a tax expenditure reporting framework

- Develop and institutionalise a national tax expenditure reporting framework
- Mandate annual public disclosure of incentive-related revenue losses
- Consolidate data across Ministry of Finance, FIRS, and NUPRC

Improve transparency and oversight

- Strengthen parliamentary oversight (e.g. through APNIFFT engagement)
- Require disclosure of incentive agreements and contracts
- Improve coordination between fiscal and regulatory institutions

Conduct a comprehensive review of existing incentives

- Review upstream (e.g. capital allowances, tax credits), midstream (gas allowances), and downstream incentives (tax holidays, waivers)
- Assess economic benefits vs fiscal costs
- Identify redundant or low-impact incentives

Introduce immediate safeguards

- Apply moratorium on new discretionary incentives until review is complete
- Introduce basic sunset clauses or new incentives
- Standardise approval processes

Medium-term: Realign the fiscal system

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- Phase out incentives that deliver low economic value
- Prioritise removal of incentives that encourage fossil fuel expansion
- Retain only those linked to clear development outcomes

Reallocate fiscal support towards clean energy

- Redirect fiscal incentives toward renewable energy and green industries
- Provide targeted incentives for solar, wind, and energy efficiency
- Support local manufacturing in clean energy value chains

Align fiscal policy with energy transition goals

- Integrate Nigeria's Energy Transition Plan and net-zero target (2060) into fiscal policy
- Ensure tax policy does not contradict climate commitments
- Introduce fiscal rules that discourage carbon-intensive investments

Strengthen institutional capacity

- Build technical capacity for tax policy analysis and modelling
- Improve inter-agency coordination (Finance, Energy, Environment)
- Develop integrated fiscal and climate policy frameworks

Long-term: Transform the fiscal model

Reduce structural dependence on fossil Fuels

- Gradually shift revenue base away from oil and gas
- Strengthen domestic resource mobilisation from diversified sectors
- Invest in non-extractive economic drivers

Institutionalise transparency and accountability systems

- Fully embed tax expenditure reporting into national budgeting
- Link fiscal transparency to public accountability systems
- Strengthen audit and monitoring frameworks

Introduce environmental and carbon-based taxation

- Develop carbon pricing mechanisms suited to Nigeria's context
- Introduce environmental taxes to internalise climate costs
- Align with emerging global frameworks, such as carbon border adjustment mechanisms

Support a just and inclusive transition

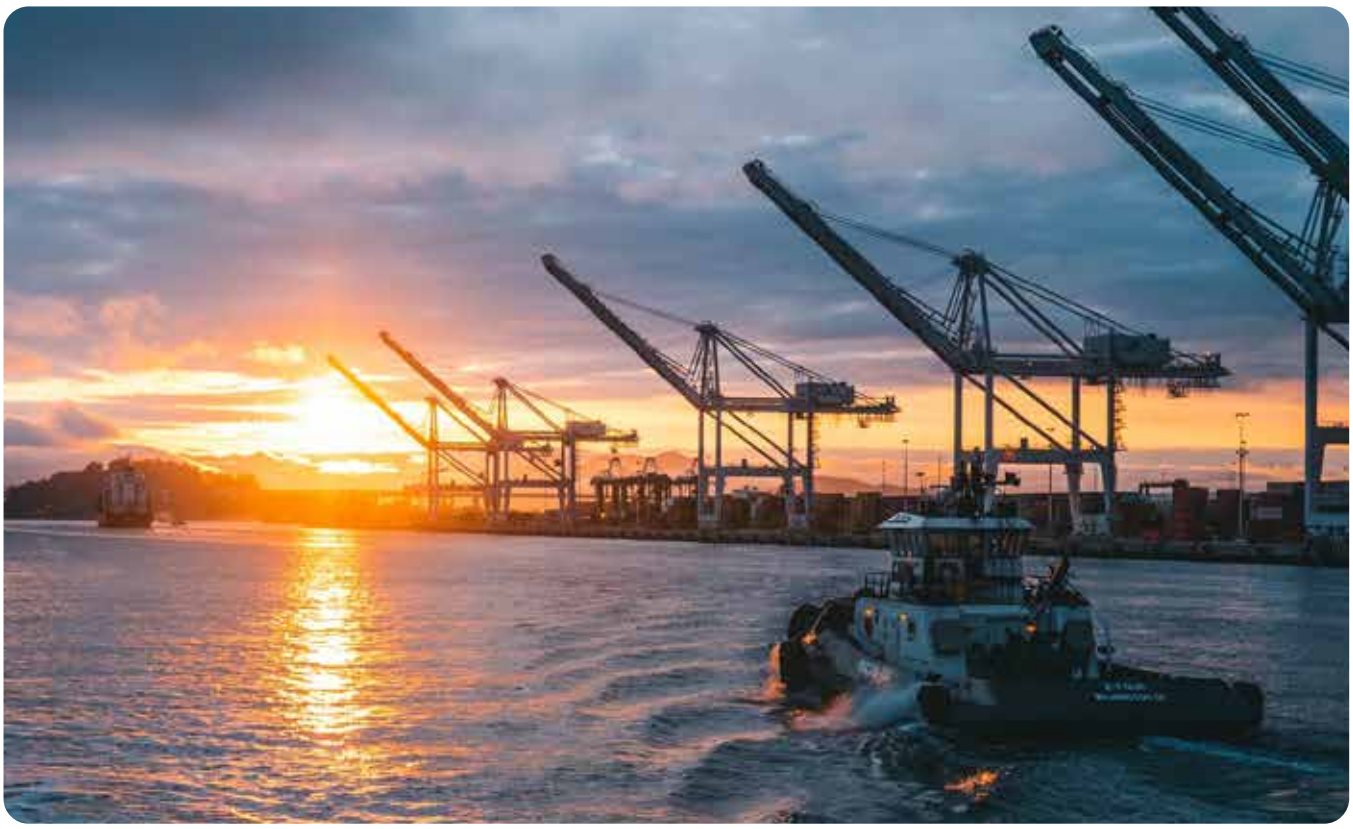
- Invest in job creation beyond fossil fuel sectors
- Support communities dependent on extractives
- Ensure equitable distribution of transition benefits

06 Conclusion

Nigeria's current fiscal regime reflects a legacy model originally designed to attract investment into fossil fuels. In the context of climate change, economic volatility, and pressing development needs, however, this model is increasingly unsustainable.

This brief has demonstrated that taxation can serve as a powerful tool for transformation to not only generate revenue, but to reshape incentives, align policy with climate commitments, and support a just energy transition.

Reforming fossil fuel tax incentives is therefore not merely a technical adjustment. It is a strategic policy decision that will determine Nigeria’s economic trajectory in the decades ahead.



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