



Developmental Effects of Openness in Extractive Revenue Collection by FIRS

Overview

Federal Inland Revenue Service (FIRS) is the agency of government responsible for the collection of taxes and royalties from International Oil Companies (IOCs) on behalf of the Federal Government of Nigeria in the nation's extractive industry. Nigeria imposed tax rent and royalties on the profit made by the IOCs and by the method to generate revenue for development purposes. The primary purpose of taxation in the oil industry is to mobilize revenue to cover proposed expenditure of government. It should however be reiterated that the importance of taxation lies primarily in its ability to raise capital formation for public sector activities targeted toward development and growth of the economy. Taxation also assists in the regulation of the consumption pattern resulting in economic stability and effective redistribution of income, revenues and development. Royalties on the other hand are payments made by IOC's to Nigeria as compensation, for the exploitation of irreplaceable natural resources. It is paid based on a percentage of the quantity of oil produced. It is fixed as follows: on shore production – 20%; offshore up to 100m – 18.5%; offshore 100m-200m-16.6%; offshore 201m-500m – 12.00%.

However, this policy brief is only limited to Petroleum Profit Taxes and Royalties collected by FIRS from IOCs for the purpose of demanding accountability and accelerating development in Nigeria.

Perspectives on payments to FIRS by IOCs from 2015-2018

The Payments to Governments (PtG) data review and analysis carried out by PLSI – Paradigm Leadership Support Initiative is with the objective to increase transparency and enable citizens to adequately engage with policy makers and promote accountability in the management of oil and gas revenue paid to Nigerian government entities. Natural Resource Governance Institute (NRGI) provides regularly updated global payments to government data through www.resourceprojects.org with data available for countries like Nigeria, Ghana, Australia, Brazil, Turkey, Kuwait, U.A.E, Gabon, China etc.



The seven oil companies covered in this brief have disclosed payments of taxes and royalties to FIRS in their payment to Nigerian government report. The reporting international oil companies covered in this brief are Equinor ASA (formerly Statoil ASA); Seplat Petroleum Development Company; Chevron Canada Limited; Royal Dutch Shell Public Limited Company; Total S.A; ENI S.P.A and CNOOC Limited. Six of these companies are multinational oil companies (MOCs), with one indigenous oil and gas company, Seplat Petroleum, disclosing as a result of its listing on the London Stock Exchange.

The infographs below showed relevant payments by the IOCs to FIRS in taxes and royalties from 2015-2018.



Federal Inland Revenue Service (FIRS) received these payments for Royalties and Taxes from oil companies listed above. The sum of \$1.1 billion is said to have been paid in 2015; \$2.1 billion in 2016; \$2.2 billion in 2017 and \$2.1 billion in 2018. Although these payments to FIRS in the years under review formed a total of \$7.5 billion, the revenue Body is yet to publicly acknowledge receipt of any or all of these payments.

Recommendations

With every effort to limit mismanagement or diversion of extractive revenue by relevant government agencies, FIRS being a critical stakeholder in this regard should implement recommendations suggested below.

- The nation's Revenue Service should publish all records of payments received from IOCs in form of taxes and royalties in the years under review and for subsequent years for proper accountability.
- The Federal Government through the office of the Accountant-General of the Federation should ensure full compliance by FIRS with all relevant laws and statutes (e.g. Financial Regulations, Financial Reporting Act of Nigeria).
- There should be increased public awareness on the roles and objectives of FIRS in the Nigeria extractive industry which should result in massive public demand for accountability on how extractive revenues are utilized or managed. This public demand can lead to collaborations of Civil Society Organizations, the media, professional associations, investors, stakeholders, legislative arm of government and all relevant stakeholders in the extractive industry for improved governance.