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# EFFECT OF PETROLEUM PROFIT TAX ON ECONOMIC GROWTH IN NIGERIA

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**ABSTRACT**: *The study examines the effect of petroleum profit tax on economic growth of Nigeria. Income from petroleum taxes is the proxy for PPT while economic growth was measured using Gross Domestic Product (GDP). The research adopted expos-facto research as secondary data were used for the analysis. Data were sourced from the Central Bank of Nigeria Statistical Bulletin and the Federal Statistical Bureau. The study covered twelve year period (2004-2015). Time series data were analyzed using the simple linear regression. The results reveals that PPT had positive and significant effect on Nigerian GDP. The study recommends that the government should provide the necessary human and material infrastructures that are needed to support petroleum business so they can earn more income that will boost taxation.*

**KEYWORDS**: Petroleum Profit Tax, Economic Growth, Gross Domestic Product, Nigeria.

## INTRODUCTION

### Background of the Study

The discovery of petroleum in Nigeria also heralded petroleum taxation. The policy is both employed as a fiscal policy and as well as income generating tool is widely employed by government in both developing and developed countries. The government at varying times decides on what level of taxes that can be imposed on the profits earned by petroleum outfit. For instance and over the years in Nigeria petroleum has been regarded as the main stay of the economy. The question is now whether government has earned enough taxes from the activities surrounding petroleum activities. If it has, to what extent has that impacted the economy of Nigeria using GDP as an economic variable. It is against this background that this paper will empirically examine the effect of taxation on economic growth in Nigeria.

### Statement of Problem

Several arguments have trailed the place of petroleum profit taxes as a tool for enhancing infrastructural development in Nigeria. Some have submitted that petroleum profit tax has tremendously boosted the revenues base of the government and as such support economic growth. Others have it that the taxes have not significantly affect economic growth in Nigeria. In Nigeria the government is of lately attaching keen interests in getting its citizens (individuals and corporate to brace up to the responsibilities of paying taxes. The Federal Inland Revenue Service has also developed a slogan saying that 'it pays to pay your tax'. Some studies submit that taxation positively and significantly affect economic growth in Nigeria. However, the World Bank Group(2014) submits that Nigeria had the lowest tax



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revenue when compared to its GDP. Some have posit that PPT also had positive and significant effect on GDP.
It is in view of the seemingly un-reconciled views that this study seeks to empirically appraise the effect of petroleum profit on the economic growth of Nigeria using GDP and thus the justification for this study.

**Objective**
The objectives of the Study is to examine the effect of petroleum profit tax on the Nigeria economy growth.

**Research question for the study:**
To what extent does Petroleum Profit Tax effect Gross Domestic Product(GDP) in Nigeria?

**Research Hypothesis**
The hypothesis stated in null form guided the study.
Petroleum Profit Tax has no significant effect on Gross Domestic Product(GDP) in Nigeria.

## REVIEW OF RELATED LITERATURE

### Conceptual Review:
### Concept of Petroleum Profit Tax
According to Petroleum Profit Tax Act (1959) as amended state that petroleum profit tax is a liability to petroleum profit arising where a company disposes off chargeable oil and gas. Disposal include delivery of chargeable oil to refinery, the tax is on the profit of the company from petroleum operation under the provision of PPTA in Nigeria. The petroleum operation as defined in the act, essentially involves petroleum exploration, development, production and sales of crude oil. Section 8, of Petroleum Profit Tax Act (PPTA) states that every company engaged in petroleum operation is under an obligation to render return, together with properly annual audited account and computations, within a specified time after the end of it accounting period.

Nwezeaku (2005), affirms that PPT involves the charging of tax on the income accruing from petroleum operations. He notes that the importance of petroleum to the Nigeria economy gave rise to the enactment of different laws regulating taxation of incomes from petroleum operations. Petroleum profit tax is a tax applicable to upstream operations in the oil industry as it is related to rent, royalties, margin, oil mining prospecting and exploration leases. It is the most important tax in Nigeria in terms of it share of total revenue, contributing over 70% of government revenue and 95% of foreign exchange earnings (Odusola, 2006). Okpe (2003), have it that petroleum profit is levied on the current year basis. That is to say, the basis period for petroleum profit tax (PPT) is the actual profit of the accounting period. Put in another way, the basis period for any assessment year is the same as the accounting period of the company.

### Theoretical Framework:
This study is underpinned on the benefit theory as propounded by Erik Robert in 1919. The theory assumes that citizens tend to pay more taxes when they feel they have sufficient


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benefits from the activities of the state. It is however argued that the services which are provided by the state may not quantified and measured after all some citizens who pay taxes do not have the opportunity of enjoying them. This theory is relevant as the theory is used to evaluate the benefits of tax just as the topic measures the relevance of taxation on growth of the economy.

**Empirical Reviews:**
Several studies have examined taxation as an instrument of economic development in different countries with diverse techniques. This review was done in line with the specific objective of the study, thus:

**Effect of Petroleum Profit Tax on Economic Growth:**
Abdul-Rahamoh, Taiwo and Adejare (2013) appraised the effect of petroleum profit tax on Nigeria Economy. The study covered a forty year period from (1970 to 2010). Analyses was done using multiple regression. The study revealed that petroleum profit tax had significant impact on Nigerian economy. Regression analysis using SPSS version 17 was employed by the researchers in testing categorical statements, they discovered that taxation has a significant contribution on Gross Domestic Product (GDP).

Eyisi, Oleka and Bassey, (2015**)** did a study on the Effect of Taxation on Macroeconomic Performance in Nigeria from 2002 to 2011 using ordinary least square regression method. Result obtained show that government earnings from taxation has positive and significant effect on real gross domestic product in Nigeria, government revenue from taxation has negative significant influence on unemployment rate in Nigeria. This implies that revenue generation from taxation enhances economic growth and growth that changes in taxation, automatically will affect individuals real standard of living (GDP), employment rate and interest rate. Government should consider taxpayers and other key stakeholders interest in fiscal policy formulation and implementation in order to achieve improved tax compliance rate in the country and the current draft national policy should be passed into law by the National Assembly so as to make it a working document.

Ogbonna and Appah, (2012) in a study titled Petroleum Profit Tax and Economic Growth of Nigeria from 1970 to 2010, using co-integration test and Granger Causality test as model. Co-integration test result indicates the existence of long-run relationship between economic growth and petroleum profit tax. The granger causality test also shows that petroleum profit tax does granger causes on economic growth in Nigeria. It was also found that petroleum profit tax is a major factor for economic growth in Nigeria for the year under review.

Success, et al. (2012) investigated the impact of Petroleum Profit Tax on the economic development of Nigeria between the period 2000 to 2010. Their findings reveal that petroleum profit tax positively impacts on gross domestic product (GDP) of Nigeria, and the impact is statistically significant. They failed to report on the economic development that was the topic of consideration. However, the authors were worried that the enormous amount of money generated from Petroleum Profit Tax, and Oil Revenue do not translate into the economic development of Nigeria. They argue that the increase in the economic growth rate does not reflect in Nigeria's general economic development.


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Nakhle (2014) evaluated petroleum taxation evaluation with special application to the UK Continental Shelf (UKCS). This thesis conduct an in depth analysis on the principal fiscal package that have applied to the UKCS analysis their effect on the balance between the Government and oil companies objectives. The research is carried out in the light of an essential and timely feature, the current maturity of the UK oil province. The Thesis demonstrates that in practice, it is very difficult to develop an ideal fiscal package. Several complication are associated with petroleum taxation, resulting mainly from the difficulty in determining a suitable tax base as well as the inevitable compromises to the criteria That are required to categorize an optimal tax.

Olatunji and Adegbite, (2014), studied the effect of petroleum profit tax interest Rate and Money Supply on Nigeria Economy from 1970 to 2010; multiple regression were employed to analyze the relationship among variable. The analysis revealed that short run effect of petroleum profit tax was positive while that of interest rate was positive on economic growth. The study indicate that petroleum contribute positively to income.

## METHODOLOGY

The study adopted the ex-post facto research design as data for the study are already established data. The study area covered in this study is Nigeria. The study sample size is equivalent to its population as Nigeria is still taken as an entity. Data for this study is secondary data which were sourced from relevant documentations of the federal government namely the statistical bulletin of the Central Bank of Nigeria, the releases of the Bureau of Statistics. The data for this study covered a period of ten years (2004-2015). The researcher believes twelve(12) years is a reasonable number of years to make inferences on a study. Independent Variables: The independent variable of the study is taxation. The proxies for taxation for this study are three namely Petroleum Profit Tax(PPT). The dependent variable: The dependent variable of this study is economic growth. The proxy for economic growth is Gross Domestic Product (GDP). Simple Linear Regression was used to analyse the data. The choice of Simple Linear Regression is that it is in consonance with past studies by Ezu and Okoh(2016), Camelia, Moraru & Ioniţă 2 (2014), Ofoegbu and Akwu. among others.

**Model Specification**: The following econometric models are adopted in this study. The models adopted were adopted by similar studies in the past such as William, and Andrew (2014), Ezu and Okoh(2016), Ofoegbu, and Akwu,(2016).

**The pool effect will be tested using**

**Model for Petroleum Profit Tax**
Model 1 will be used to evaluate the effect of PPT on GDP(Hypothesis One).
Thus:
$LnGDP = B_1 + B_2LnPPT+E_t$……………………………………………………1
Where:
LnGDP = Log of Gross Domestic Product
$B_1$ = Constant
PPT = Petroleum Profit Tax


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$E_t$ = Statistical Error Level in year $t$

**Technique for Result Interpretation**

Results will be interpreted using probability(P-value,) R2(Coefficent of determination), Durbin Watson and F-Statistics.

**Decision Rule:** Accept the Null Hypothesis if the P-value is > statistical level of significance (5%), if not reject null hypothesis and accept the alternate hypothesis.

## DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation: data for this study is hereby presented in
Table 4.1 Showing Tax Generated by the Federal Govt of Nigeria

| Year | PPT (N'000) | GDP(N'000) |
|---|---|---|
| 2015 | 2,678,430,290 | 72,456,789,200 |
| 2014 | 2,453,950,000 | 68,896,987,700 |
| 2013 | 2,666,340,000 | 64,567,987,000 |
| 2012 | 234,230,000 | 32,156,787,600 |
| 2011 | 3,070,590,000 | 31,837,360,200 |
| 2010 | 1,480,360,000 | 29,108,024,400 |
| 2009 | 934,400,000 | 24,712,670,000 |
| 2008 | 2,060,700,000 | 24,296,329,000 |
| 2007 | 1,132,000,000 | 20,657,318,000 |
| 2006 | 1,352,200,000 | 18,564,594,700 |
| 2005 | 1,352,50,000 | 14,610,881,500 |
| 2004 | 939,300,000 | 11,411,066,900 |

Source: Central Bank of Nigeria

4.2 Analysis of Data: The hypotheses are tested and analysed using the Ordinary Linear Regression.

**Test of Hypothesis:**
**Hypothesis One:**

Ho: Petroleum Profit Tax has no significant effect on Gross Domestic Product (GDP) in Nigeria.
Hi: Petroleum Profit Tax has significant effect on Gross Domestic Product (GDP) in Nigeria.
Decision Rule: Accept Ho if p-value > 0.05, otherwise reject Ho

Table 4.2 Regression result showing t he effect of PPT on GDP in Nigeria

| Model 1 | R | R Square | Adjusted R Square | Coefficient | Probability |
|---|---|---|---|---|---|
| | 0.680963953 | 0.463711906 | 0.410083096 | 15.00841502 | 0.01477 |

Level of Significance at 5%
Source: Author's Computation, 2016


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Table 4.2 shows the regression result of the regression result to test the effect of Profit Profit Tax(PPT) on Gross Domestic Product(GDP). The analysis shows an Adjusted R Square of 41.01%. This means that 41% of the variations in GDP is accounted by the Profit Profit Tax(PPT). A unit increase in PPT will cause an increase of 15.0084 in GDP. Again, the result shows a P-Value of 0.01477 shows that the effect of PPT on GDP is significant.
**Decision:** To this extent of the result above, Ho is rejected while the alternate is accepted.

## FINDINGS

The following findings emanated from the study:Petroleum Profit Tax has significant effect on Gross Domestic Product (GDP) in Nigeria.

## CONCLUSION

In line with the above findings, the study concludes that PPT as defined by the proxies show positive and significant effect on the Gross Domestic Product (GDP) in Nigeria and it is important that PPT as an economic and fiscal policy tool be employed in order to grow Nigeria GDP.

## RECOMMENDATIONS

This research has made the following recommendations:
i. The petroleum sector in Nigeria should be well coordinated and encouraged to grow so that more revenue should accrue to it. It is hoped that increased income through petroleum will enhance tax payment from that sector.

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