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IMPACT OF PETROLEUM PROFIT TAX ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

The paper aim to evaluate the relationship of petroleum profit tax and economic development of Nigeria for the enhancement of the standard of living of the citizens. The research design used in this study is descriptive research design. Secondary data were used in this study. The relevant data for the study were obtained from

Introduction

The level of economic growth and development of any economy depends on the amount of the revenue generated and channeled towards the development of the country. Conversely, the purpose of the government of every country among others is to provide basic amenities, protect the lives and property of the citizens and create the enabling environment for individual and corporate organization to strive. However, for the government to carry out this responsibility, it needs to mobilize revenue through taxation of the citizens and corporate organization. Thus, the whole essence of tax is to generate revenue which could be used to advance the welfare of the citizen and to regulate the economy (fiscal policy). While taxation plays a significant role in income redistribution, protection of weak and infant industry, the revenue generated through it plays a crucial role in promoting economic growth and development. A country's tax system is a

Central Bank of Nigeria (CBN) annual Statistical Bulletins. The data covered the period from 2000-2019. OLS Regression analysis was used to measure the relationship between the dependent variable and independent variables. Regression analysis technique was used to measure the relationship between a dependent variable and independent variables. The finding show that, petroleum profit tax (InPPT) has a positive impact on economic growth (InGDP) and this conform to the priori expectation of the theory. That is, as shown in the table 4.1, one percent level of increase in petroleum profit tax (InPPT) results in 0.268742 (i.e approximately 30%) increases in the level of economic growth (InGDP). Interestingly, the result of suchimpacts is statistically significant because the corresponding p-value (0.0301) is less than 0.05 or 5% statistical level of significance.the study recommends that: Deliberated efforts must be made in reviewing the current administration of PPTA in Nigeria to reflect the international standard on the petroleum profit tax Act as it relates to the assessment of firms in the upstream subsector of the petroleum industry, charging appropriate tax on taxable earnings of operators in the upstream subsector of the petroleum industry.

major determinant of the macroeconomic indexes for developed and developing economies. Nigeria among many countries in the world has over the years made efforts to making various tax legislations to enable the government carryout its duties and improve the living standard of the citizens.

Nigerian economy had since the discovery of oil in commercial quantity shifted from agrarian economy to an oil economy depending majorly on the oil sector. Consequently, the petroleum sector has been the major source of government earnings accounting for about 70% of its GDP annually and 95% of foreign exchange earnings for Nigeria as well as according the Nigeria the global relevance and respect as one of the key player in the production of oil and gas globally (Onaolapo, Fasina and Adegbite, 2013). In this connection, this anticipated revenue boom from activities in the petroleum sector has since inception of the exploration and production of crude oil induced the government to enacted Petroleum Profit Tax Act (PPTA) in 1959 with a view of regulating the activity of the sector and a means of boosting the government earnings for the sectoral and overall growth of the economy (Gbegi and Adebisi, 2017). Under the PPT, the tax rate was set at 67.5 percent for the first five years of operations by the oil company and 85 percent thereafter and consequently boosting the nigerian government earnings through tax revenues (Onyemaechi, 2012).

Petroleum Profit Tax Act (PPTA) of 1959 provides for the imposition of tax on the chargeable profits of companies that are engaged in petroleum (production and exploration) operations in Nigeria and one of the major objectives of the Petroleum Profit Tax is that the huge amount of profit generated from the oil industry makes it a veritable source for satisfying government objective of raising money to meet its socio-economic obligations to the citizenry.

However, despite the potential of the industry in terms of the petroleum profit tax collections, the living standard of the citizen of the country ranks low among the countries of the world. Egbogah (2009) opines that oil exploration and production activities in Nigeria in its over fifty years of operations is yet to operate at standards and foster economic growth levels expected of a twenty century oil and gas industry. Particularly, there is high concern about the poor performance of the national institutions such as power, energy, road, transportation, politics, financial systems, and investment in the country.

Therefore, the main objective of this paper is to evaluate the relationship of petroleum profit tax and economic development of Nigeria for the enhancement of the standard of living of the citizens. Specifically, the paper aims:To determine the impact of PPT on Growth Domestic Product in Nigeria,To determine the impact of CIT on Growth Domestic Product in Nigeria and to determine the impact of Accountability on Growth Domestic Product in Nigeria

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Hypotheses of the Study

Based on the objectives of the study, the following hypotheses could be made in null form:

Ho1 Petroleum Profit Tax does not have significant impact on Gross Domestic Product

Ho2 Company Income Tax does not have significant impact on Gross Domestic Product

Ho3 Accountability does not have significant impact on Gross Domestic Product

Conceptual Frameworks

Economic growth can be said to mean an increase in the quality and quantity of resources in an economy (Adofu and Alhassan, 2018; Egwu, 2018; Haller, 2016; Orugbani, 2011). Also, Udeh, Okoroafor and Ihezie (2013) conceptualized economic growth as an increasing productive capacity of the country to fulfil the needs and wants of the economy overtime.

Similarly, according to Haller (2016), economic growth is a process of increasing the size of national economies, with macroeconomic indications, especially per capita Gross Domestic Product (GDP), in an upward but not necessarily linear direction, with positive effects on the economic and social indices of the economy. Thus, economic growth is conventionally measured as the percentage rate of increase in Real Gross Domestic Product or Real GDP.

According to Odusola (2006), petroleum profit tax (PPT) is a tax applicable to upstream operations in the oil industry. It is particularly related to rents, royalties, margins and profit sharing elements associated with oil mining, prospecting and exploration leases. It is the most important tax in Nigeria in terms of its share of total revenue contributing 95 and 70 percent of foreign exchange earnings and government revenue, respectively. Petroleum profit tax, according to Attamah (2004), is a legislation which imposes tax upon profits from the mining of petroleum in Nigeria and provides for the assessment and collection thereof and for the purposes connected therewith.

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Petroleum Profit Tax according to Ibrahim, Bukar, Ali and Mamuda (2018) is an indirect system of tax levied by the government on the activities of companies that operates in the upstream subsector of the petroleum industry. This is specifically associated to the rents, royalties, margins and profit sharing elements related to oil mining, prospecting and exploration contract agreements.

Similarly, Petroleum Profit Tax (PPT) can be viewed as tax applicable to upstream operations in the oil industry (Odusola, 2006). However, Petroleum operation as defined in the Petroleum Profit Tax Act of 1959 basically involves petroleum exploration, development, production activities.

Francis, Ochuko and Ardi (2018) examined the tax revenue and economic growth: A study of Nigeria and Ghana for the year 2000 – 2016. Tax revenue is frequently considered as an alternative form of sustainable financing within a stable and predictable fiscal environment to promote growth and enable governments to finance their social and infrastructural needs. The objective of the study is to examine the effect of tax revenue on economic growth of Nigeria and Ghana. The study used multiple regressions as tools of analysis. The study finds a positive impact of tax revenue on the gross domestic product of Nigeria and Ghana confirming prior studies.

Akhor and Ekundayo (2016) examined the impact of indirect tax revenue on economic growth in Nigeria. The study uses value added tax revenue and custom and excise duty revenue as independent variables and economic growth was proxy with real gross domestic product as the dependent variable. The study employ secondary data collected from Central Bank of Nigeria statistical bulletin for the period covering 1993 to 2013 for the empirical analysis using the convenient sampling techniques. The result revealed that value added tax had a negative and significant impact on real gross domestic product. In the same vein, past custom and excise duty had a negative and weakly significant impact on real gross domestic product. The Error Correction Model (ECM (-1)) coefficient had a correct negative and statistically significant sign. This shows that short-run deviation can be quickly corrected. The Durbin-Watson positive value indicates the absence of autocorrelation in the model.

Onakoya and Afintinni (2016) investigated the co-integration relationship between tax revenue and Economic growth in Nigeria from 1980 to 2013. Various preliminary tests including descriptive statistics, trend analysis, and stationary tests using Augmented Dickey Fuller (ADF) test were conducted. The Engle-Granger Co-integration test was employed to determine whether a long run relationship existed between the variables. The Vector Error correction model was employed to confirm the long run relationship and determine the short run dynamics between the variables. The result revealed a significant positive relationship at 5% level of significance between Petroleum profit tax, Company Income tax and economic growth, but a negative relationship between economic growth and customs and Excise Duties. However, the tax components are jointly insignificant in impacting the Nigerian economic growth.

Cornelius, Ogar and Oka (2016) examined the impact of tax revenue on the Nigerian economy. The objectives of the study were; to examine the relationship between petroleum profit tax and the Nigeria economy, the impact of company income tax on the Nigerian economy and the effectiveness of non-oil revenue on the Nigerian economy. Data were sourced from Central Bank Statistical Bulletin and extracted through desk survey method. Ordinary least square of multiple regression models was used to establish the relationship between dependent and independent variables. The finding revealed that there is a significant relationship between petroleum profit tax and the growth of the Nigeria economy.

Anyaduba and Aronnwan (2015) investigated the impact of tax revenues collected by the government on infrastructural development in Nigeria. This study restricts itself to taxes collected by the federal government of Nigeria. The longitudinal research design was used. The choice of this design is based on the observation of variables over a period of time (1980 to 2014). The hypotheses raised were evaluated using the Error Correction Model. The findings show that CIT and TET have significant impact on the level of infrastructural development while PPT and VAT have non-significant impact.

This paper uses Benefits-Received Theory as a theory guiding the study. The theory was developed by Knut-Wicksell in 1896 and refined by Erik-Lindahl in 1919 which was subsequently restated by Paul-Samuelson (Richard and Peggy, 1973; Bernd, 2000). The theory maintained that, there exist an exchange or contractual relationship between taxpayers (citizenry) and the state (government), such that government make provision of essential public goods and/or services like adequate security, essential infrastructure (such as good road networks, stable power supply and portable water supply, among others), health care facilities, construction and rehabilitation of public schools and a host of others for overall wellbeing of citizenry and economy; while citizenry in turn make payment of tax on the taxable activities and assets to the government to enable the government meets up with its financially social obligations of providing essential public goods and services to the citizenry (Bernd, 2000). However, inability of either of the party (citizen or government) to discharge its obligation of either to pay tax or to provide public goods/services would affects the ability of other party to fulfil its own obligation.

Research Methodology

The research design used in this study is descriptive research design. Secondary data were used in this study. The relevant data for the study were obtained from Central Bank of Nigeria annual Statistical Bulletins. The data covered the period from 2000-2019. OLS Regression analysis was used to measure the relationship between the dependent variable and independent variables. Regression analysis technique was used to measure the relationship between a dependent variable and independent variables.

This model evaluates the impact of petroleum profit tax on economic growth in Nigeria. Petroleum profit tax , Company Income Tax and Accountability are the independent variables while Economic growth (GDP as proxy) is the dependent variables.

Consequently, the model can be expressed as thus:

GDP = f(PPT, CIT, GOV)……………………………………………….(1)

Where GDP = Gross Domestic Products which is the dependent variable;

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PPT = Petroleum Profit Tax;
CIT = Company Income Tax
ACC = Accountability
Therefore, the econometric model of the equation 1 to account for error term in the specified model is thus specified as:
GDPt = 0+ 1PPTt + 2CITt + 3ACCt + t ……………………………(2)

Table 4.1: Results of the OLS regression

Variables	Coefficients	Standard Errors	T-Stat.	Prob.
PPT	0.26874	0.11786	2.280174	0.0301
CIT	-0.14370	0.14706	-0.977094	0.3366
ACC	0.21663	0.11285	1.919643	0.0648
C	23.1243	0.31895	72.50127	0.0000
@Trend	0.05711	0.03677	1.553054	0.1313
R Squared:				0.884129
Adj. R Squared:				0.868147
Normality Test: Jarque –Bera (prob.)				1.905753 (0.385630)

Source: Generated by the Author from Central Bank Statistical Bulletin, using STATA Output.

As shown in the table 4.1, both petroleum profit tax and governance impacted positively on economic growth giving credence to the theory underpinning the study; while company income tax has negative impact on economic growth in Nigeria negating the theory underpinning the study. Taking individually:
From table 4.1, it indicates that, petroleum profit tax has a positive impact on economic growth and this conform to the priori expectation of the theory. That is, as shown in the table 4.1, one percent level of increase in petroleum profit tax results in 0.268742 (i.e approximately 30%) increases in the level of economic growth. Interestingly, the result of such impacts is statistically significant because the corresponding p-value (0.0301) is less than 0.05 or 5% statistical level of significance.

Similarly, accountability system in the administration and utilization of tax revenue from petroleum profit tax positively impact on economic growth in Nigeria and this conform to the priori expectation of the theory. That means, one percent increase in the level of entrenching good governance or accountability in the administration and utilization of tax revenue from petroleum profit tax results in corresponding increase in the level of economic growth (GDP) by 0.216632 (that is approximately by 22%), though slightly at insignificant level of statistics owing to its corresponding p-value (0.0648) greater than 0.05 or 5% level of statistical significance.
Likewise, the tax revenue from company income tax has a negative impact of economic growth in Nigeria and this negate the priori expectation of the theory underpinning the study. This is to say that, one percent increase in the level of tax revenue from non-oil activities lead the economic growth in Nigeria to fall by -0.143700 (i.e approximately 14%). Though, the result of such negative impact of non-oil tax revenue on economic growth in Nigeria is statistically insignificant because its corresponding p-value (0.3366) is greater than 0.05 or 5% level of statistical significance.

Conclusion and Recommendations

This study is designed to investigate the impact analysis of petroleum profit tax on economic growth in Nigeria built on benefit received theory of taxation upon which the estimated model is based and specified. Upon investigating the stochastic properties of the series for variables employed in the study using complementary tests of ADF and PP unit root test frameworks, the study employed Johansen Cointegration and fully modified ordinary least square regression. The study therefore reveals that, there exist long-run relationship between PPT and economic growth in Nigeria; PPT portends significant positive impact on economic growth in Nigeria; company income tax revenue holds negative impact on economic growth in Nigeria; while Accou systemntability has impact on economic growth in Nigeria. Based on this conclusion, the study recommends that: Deliberate efforts must be made in reviewing the current administration of PPTA in Nigeria to reflect the international standard on the petroleum profit tax Act as it relates to the assessment of firms in the upstream subsector of the petroleum industry, charging appropriate tax on taxable earnings of operators in the upstream subsector of the petroleum industry, Due priority must also be accorded to non-oil sector so as to improve government earnings from other non-oil sectors to significantly contributes to the growth and development of the economyand also Government should be encouraged to persistently invest tax revenues from oil sector (particularly PPT) to develop other sectors of the economy so as to bridge the gaps between revenue accrued to the government and infrastructural deficiencies.

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