Effect of Petroleum Profit Tax on the Nigerian Economy

ADEYEYE, Janet

Department of Accounting
Bingham University
Karu, Nasarawa State
E-Mail: adematic@gmail.com, Phone No: +234 8027433088

Abstract

The study empirically examines the effect of petroleum profit tax (PPT) on the Nigeria economy. Income from petroleum taxes is the proxy for PPT while economic growth was measured using Gross Domestic Product (GDP). The research adopted expost-facto research, as secondary data were used for the analysis. Data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, as well as records of the Federal Statistical Bureau. The study covered fifteen year period (2004-2018). Time series data were analysed using the simple linear regression. The result 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.

Key words: Petroleum profit Tax, Gross Domestic Product, Nigerian Economy

1. INTRODUCTION

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 and 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 companies. For instance, 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 Petroleum taxation on Nigeria economy.. 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 on petroleum profit have not significantly affected the Nigeria economy. Some studies submit that taxation has positively and significantly affected economic growth in Nigeria. However, the World Bank Group (2014) submits that Nigeria had the lowest taxrevenue when compared to its 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 Nigeriaeconomy growth using GDP and thus the justification for this study. From the foregoing therefore, the objective of this study is to examine the effect of petroleum profit tax on the Nigeria economy.

2. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 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 its 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 Jan.- Dec of the year.

2.2 Empirical Review

Several studies have examined taxation as an instrument of economic development in different countries with diverse techniques. Abdul-Rahamoh, Taiwo andAdejare (2013) appraised the effect of petroleum profit tax on Nigeria Economy. The study covered a forty year period from 1970 to 2010 and analysis 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. Cointegration 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 (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. Nakhle (2014) evaluated petroleum taxation evaluation with special application to the UK Continental Shelf (UKCS). This study 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 research 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 MoneySupply on Nigeria Economy from 1970 to 2010; multiple regression were employed to analyse 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.

2.3 Theoretical Framework

2.3.1 Benefit Theory

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 sufficientbenefits from the activities of the state. It is however argued that, the services which are provided by the state may not be quantified and measured; afterall 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.

3. 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 fifteen years (2004-2018). The researcher believes fifteen (15) years is a reasonable number of years to make inferences on a study. Independent Variables: The independent variable of the study isTaxation, while the proxy is Petroleum Profit Tax (PPT). The dependent variable: The dependent variable of this study is Nigeria economy growth. The proxy for Nigeria economy 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), among others.

3.1 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).

Model 1 will be used to evaluate the effect of PPT on GDP (Hypothesis One).

Thus:

LnGDP = B1 + B2LnPPT+Et……………………………………………………1
Where:
LnGDP = Log of Gross Domestic Product
B1 = Constant PPT = Petroleum Profit Tax
Et = Statistical Error Level in year t

Results will be interpreted using probability (P-value,) R2 (Coefficent of determination), Durbin Watson and F-Statistics. Thus, the decision rule is to accept the Null Hypothesis if the P-value is > statistical level of significance (5%), if not reject null hypothesis and accept the alternate hypothesis.

4. RESULT AND DISCUSSION

Table 4.1: Showing Tax Generated by the Federal Govt of Nigeria

Year	PPT (N000)	GDP(000)
2018	1,100,010,231	31,856,925,500
2017	1,012,230,000	29,890,534,300
2016	1,208,360,000	32,547,687,000

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	2,660,700,000	24,296,329,000
2007	1,132,000,000	20,657,318,000
2006	1,352,200,000	18,564,594,700
2005	1,352,500,000	14,610,881,500
2004	939,300,000	11,411,066,900

Source: Central Bank of Nigeria

The hypotheses are tested and analysed using the Ordinary Linear Regression.

Hypothesis One: Petroleum Profit Tax has no significant effect on Gross Domestic Product (GDP) in Nigeria.

Decision Rule: Accept Ho if p-value > 0.05

Table 4.2: Regression result showing the 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

Table 4.2 shows 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 Petroleum 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, which 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.

5. CONCLUSION AND RECOMMENDATIONS

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 the Nigeria Economy. 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.
ii. The revenue generated from the Petroleum Profit Tax, Should be used to develop human capacity and to provide infrastructural facilities which in turn, will encourage voluntary compliance from oil companies to filling returns and willingness from other sector of the economy to pay their taxes

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