Impact of Petroleum Profit Tax on Economic Development of Nigeria

Success Musa Jibrin
Department of Accounting, Faculty of Management Science, Kogi State University, Anyigba, Kogi State, Nigeria
E-mail: musasuccess@ymail.com; Mobile: +234-803-973-8770

Success Ejura Blessing
Department of Banking and Finance, Faculty of Management Science, Kogi State University, Anyigba, Kogi State, Nigeria
E-mail: blessingsonoja@yahoo.com; Mobile: +234-806-825-9713

Dr. M.S.K Ifurueze
Department of Accountancy, Faculty of Management Science, Anambra State University, Igbariam Campus, Anambra State, Nigeria
E-mail: mifurueze@yahoo.com; Mobil: +234-083-324-8797

Abstract
This thesis is on the Impact of Petroleum Profit Tax on the economic development of Nigeria. Its primary objective is to ascertain the Impact of Petroleum Profit Tax on the growth of Nigerian economy for the period 2000-2010. The method of analysis used was ordinary least square method, after the analysis the research findings includes: Petroleum profit tax impact positively on Gross Domestic Product of Nigeria and it is statistically significant. Also total oil revenue impact positively on Gross Domestic Product of Nigeria and it is statistically significant. It is therefore recommended that concerted efforts should be made to improve on the effectiveness and efficiency of the administration and collection of taxes by government and overhaul of the government agency responsible for the overseeing Oil Operations to allow for correct data capture be carried out.

Keywords: Petroleum Profit Tax, Total Oil Revenue, Economic Development

Introduction
The Petroleum Industry is the largest and main generator of GDP in Nigeria which is the most populous in African nations. Since the British discovered oil in the Niger Delta in the late 1950s; the oil industry has become the main stay of the Nigerian economy.

This was however not the case prior to the 1950s. Available literature on the Nigeria’s Economy has it that Nigeria was primarily an agrarian economy, whose revenue generation was based on agriculture. Statistics from the Federal Bureau of Statistics indicate that between 1958-1969, the contribution of agriculture to Gross Domestic Product (GDP) at current factor cost was 52 percent while that of oil was just 0.007 percent. Agriculture formed the main stay of the country’s economy accounting for higher percentage of Gross Domestic Product (GDP).

According to Statistics from the Central Bank of Nigeria, as of 2000, oil and gas exports accounted for more than 98 percent of export earnings and about 83 percent of federal government revenue, as well as generating more than 40 percent of its GDP. It also provides 95 percent foreign exchange earnings and about 65 percent of government budgetary revenues.

The Petroleum Profit Tax Act 1959(PPTA) provides for the imposition of tax on the chargeable profits of companies that are engaged in petroleum operations in Nigeria. Petroleum operations is defined under the...
PPTA as “the winning or obtaining oil in Nigeria by or on behalf of a company for its account by any drilling, mining, extracting or other like operations or process, not including refining at a refinery, in the course of a business carried on by the company engaged in such operations, and all operations incidental thereto and any sale of or any disposal of chargeable oil by or on behalf of the company” Nigeria economy is dependent on oil, as it cannot finance social and economic growth in the absence of a large oil revenue base. Oil accounts for about 90-95 percent of the export revenue, over 90 percent of foreign exchange earnings and about 80 percent of government revenue. The oil industry is thus the hub of the Nigerian economy, and needs to be sustained if the country is to achieve real economic growth. According to Nwete (2004), the oil glut of the 80’s that greatly impacted on global oil prices and the low OPEC quota, foisted on the country various fiscal regime for petroleum especially the petroleum profit tax of 85 percent and 20 percent royalty regime, all in a bid to get more revenue to oil the nation’s economy. Since then Nigeria has had lofty aims for its oil industry, including the desire to increase reserve from 34billion barrels to 40billion barrels by 2010 and subsequently its OPEC quota, optimization of oil revenue, increase in the industry’s local content, and continuous attraction of foreign investment as a way of promoting and sustaining investment in the oil industry. If we compare it with other economic activities, the petroleum industry has wider attraction because of its special nature, which stems from the fact that till date, it remains the largest and most important industry in the world. It has continuously provided the world’s energy and industrial needs, from transportation to agriculture. It has also been a Monetary spinner just for the oil production companies, providing them with the opportunity of economic and social development and second for the multinational oil companies engaged in its extraction, and by extension the industrialized market to which the earnings of the multinational oil companies. From exploration to eventual production, the cost of developing and operating an oil field is very high and probably higher than any other industry.

The objectives of petroleum taxation according to Nwete (2004) are numerous among which are: taxing in the petroleum industry is a way of achieving government’s objective of exercising right and control over the public asset, Government imposes very high tax as a way of regulating the number of participants in the industry and discouraging its rapid depletion in other to conserve some of it for future generation. This in effect will achieve government aim of controlling the petroleum sector development. The second objective is that the high profit profile of a successful investment in the oil industry makes it a veritable source for satisfying government objective of raising money to meet its socio-political and economic obligations to the citizenry. The third objective is to make petroleum taxation an instrument for wealth re-distribution between the wealthy and industrialized economics represented by the multinational organizations, who own the technology, expertise and capital needed to develop the industry and the poor and emerging economies from where the petroleum resources are extracted. Environmental factor is another objective of petroleum taxing. The high potential for environmental pollution and degradation stemming from industry activities makes it a target for environmental taxation, as a way of regulating its activity and promoting government quest for a cleaner and healthy environment. Cleaner production may be achieved by imposing tax on it for pollution and environmental offences. Under the petroleum Profits Tax Acts of 1959 an oil company, in computing its taxable profits from petroleum operations, is entitled to deduct all outgoings and expenses which are wholly, exclusively and necessarily incurred by such company for the purpose of such petroleum operations.

Due to the importance attached to oil exploration and production by the federal government of Nigeria, the taxation of profit of companies engaging in such operation became inevitable under a tax act different from the companies income tax act. This act became effective 1st January, 1959 since export of oil to the international market started in 1958. This ordinance under which petroleum profit is taxed is referred to as
the petroleum profit tax act (PPTA). It was first amended in January 1967 by the Federal Military Government through decree No 1 of 1967.

There have been further amendments since the last amendment in 1967. The principal act governing the taxation of profits from petroleum in Nigeria is the Petroleum Profits Tax Act 2007. Section 2 of the PPTA defines petroleum operations as “the winning or obtaining and transportation of petroleum chargeable oil in Nigeria by or on behalf of a company for its own account by any drilling, mining, extracting or other like operations or process, not including refining at a refinery, in the course of a business carried on by the company engaged in such operations and all operations incidental thereto and any sale of or any disposal of chargeable oil by or on behalf of the company”. The purpose of this legislation is to regulate and control the procedure of taxation of petroleum companies.

This study enables policy makers to evaluate which components of revenue regenerated from oil activities have more significant influence on economic growth.

Second objective of this study by disaggregating, the revenue function, is to estimate the functional relationship between economic growth proxied by GDP and petroleum profit tax as well as total oil revenue.

Section 2 reviews some theoretical and empirical evidence on the impact of petroleum profit tax and total oil revenue on economic growth. The study adopted a Egbogah (2006) model of government revenue and economic growth. Section 3, present the empirical result and discussion of findings and section 5 provides the conclusion.

**Literature Review and Theoretical Framework**

According to Attamah (2004) the petroleum profit tax 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.

Available literature on the subject matter in Nigeria will be based on taxation, as the canons governing every form of taxes in Nigeria are same. Over the years the amount and kind of tax to be imposed by government has always met with challenges from people. Its distribution across society is equally not being left unchallenged. Unpopular taxes have caused public protest, riots and even revolutions. There are quite a number of authors on taxation. Attamah (2004), Posits that tax is a compulsory contribution imposed upon person and firms by a public authority to cover government expenses. He opines that tax is a good source of revenue to government, as it is regularly imposed annually or as government thinks fit. To him, taxes on peoples and firms incomes play critical roles in any nation’s economic growth and developments. Tax administration and collection is a major problem facing taxation in the world. Bad administration and collection of tax has led to tax evasion. Udahab (2002), sees tax as an evil necessary to meet the cost of those services a society wishes its government to provide. Tax to him is an obligatory transfer from tax payers to the public authority. Primarily, he argued that taxation was originally simply formulated to raise revenue so as to cover the state expenditure. Today however it has been assumed to play a more far reaching role which includes curtailing the consumption of harmful commodities, to regulate the production of certain commodities. It is used as an instrument of economic policy, to control monopoly, curb inflation, to protect infant industries etc. He classified tax with respect to the burden on income earned. To this effect tax may be described as proportional, progressive or regressive. He also believes that the problem of collection and administration are the major issue facing taxation.

Available evidence shows that the country has proven oil reserves of 36 billion barrels, condensate of 4 billion barrels, proven gas reserves of 187 trillion cubic feet and the present average daily production of oil is 2.6 million bbl/b Agbogun, (2004), Egbogah, (2006).
The major sources of petroleum income are sale of crude oil and gas (oil revenue), Petroleum profits tax and royalties, licensing fees and other incidentals as shown in CBN Statistical Bulletin (2002 and 2009). The main focus of Petroleum Profits Tax (PPT) is the upstream sector of the Petroleum industry, which deals with oil Exploration, Prospecting, Development and Production (EPDP). In 2009, Petroleum Profits Tax attracted 85 percent tax rate on export and 65.75 percent on domestic sale of oil and gas. Previous studies on the Nigeria economy in the last decade show that the petroleum industry has been playing a dominant role and occupies a strategic position in the economic development of Nigeria Azaiki and Shagari (2007). This is evidenced by the total oil revenue generated into the Federation Account from 2000 to 2009 which amounted to N34.2 trillion while non-oil was N7.3 trillion, representing 82.36 percent and 17.64 percent respectively. The mean value of oil revenue for the 10 year period is N3.42 trillion compared to non-oil revenue at N732.2 billion CBN Statistical Bulletin,( 2009). Further evidence was ten year’s average crude oil and condensates production of 832,866,752.1 barrels from 2000 to 2009. The importance of crude oil to the economic development of Nigeria cannot be over emphasized, as the evidence presented in the work of Azaiki and Shagari (2007). which states that Nigeria gained an extra $390 billion in oil-related fiscal revenue between 1971 and 2005, or 4.5 times 2005 gross domestic product (GDP).

Unfortunately, the economy has been bedeviled by sustained underdevelopment evidenced by poor human developmental and economic indices including poor income distribution, militancy and oil violence in the Niger Delta, endemic corruption, unemployment, relative poverty Nwezeaku,( 2010). Irrespective of Nigeria’s huge oil wealth, the country has remained one of the poorest in the world. In particular, the Niger Delta which produces the oil wealth that accounts for the bulk of Nigeria’s earnings has also emerged as one of the most environmentally degraded regions in the world evidenced from the World Wildlife Fund report released in 2006 Ekaette, (2009). The problems with Nigerian economy have been traced to failure of successive governments to use oil revenue and excess crude oil income effectively in the development of other sectors of the economy. Over all, there has been poor performance of national institutions such as power, energy, road, transportation, politics, financial systems, and investment environment have been deteriorating and inefficient Nafziger, (2003).

According to Odularu (2008), outside of the energy sector, Nigeria’s economy is highly inefficient. Moreover, human capital is underdeveloped. Nigeria ranked 151 out of 177 countries in the United Nations Development Index in 2004 and non-energy-related infrastructure is inadequate. Nigeria’s economy is struggling to leverage the country’s vast wealth in fossil fuels in order to displace the devastating lack that affects about 57 percent of its population. In 2009, persistent inflation and environmental degradation led to deprivation of means of livelihood and other socio-economic factors to the people of Niger Delta which is the major oil producing state in Nigeria. Despite the fact that crude oil has been the source of Nigerian economy, the economy is faced with high rate of unemployment, wide spread oil spillage, increasing poor standard of living as a result of decreasing gross domestic product, per capita income and high rate of inflation which has led to the effect of the economic development .Nwezeaku, (2010).

Bawa and Mohammed (2007) assert that “Nigeria with all its oil wealth has performed poorly, with GDP, per capita today not higher than at independence in 1960”. This means that an average Nigerian was better off before independence in 1960.Bawa and Mohammed acknowledged poor performance of Nigeria’s economy but did not provide any empirical evidence or percentage figures by way of hypotheses testing and thereby confirming the fact that some of their works must have been based on assumptions that cannot be statistically verified and generalized Baridam, (2008), and Eromosele, (2004).
Oil revenue which is supposed to be a source of finance for economic development has turned out to be a bone of contention between many interest groups, precisely the government and oil and gas companies. Dominant theories of economic growth have suggested that significant relationship exist between national income and economic growth. That is, when income is invested in an economy, it results in the growth of that economy. For example, Harrod and Domar models state that growth is directly related to savings (unspent income). Similarly Azaiki and Shagari (2007), suggests that income from a nation’s natural resources (e.g. petroleum) has a positive influence on economic growth and development. Contrary to this opinion expressed above, other studies on this subject matter, found that natural resources income influences growth negatively. That is, an increase in Income from natural resources does not necessarily result in an increase in economic growth. For example, using a sample of 95 developing countries that included Indonesia, Venezuela, Malaysia, Ivory Coast and Nigeria, found that countries that have a high ratio of natural resource exports to GDP which appears to have shown slower economic growth than countries with low ratio of natural resource export to GDP. Similarly, Collier and Hoeffler (2002), is of the opinion that increase in natural resources income does not result in increase in economic growth. This is so because they found that 23.0 per cent of countries that are dependent on oil exports are likely to experience civil war in any five-year period compared to 0.6 percent for countries without natural resources. During each of these periods, there was no economic growth. Bawa and Mohammed (2007) also supports the argument that increase natural resources income does not result in increases in economic growth but result in vicious development cycle (i.e. violent and adverse development).

According to him, increase in natural resources income encourages rent-seeking in the economy whereby all economic units, whether public and private, domestic and foreign have overwhelming incentives to seek links with the state in order to share in the resource pie. This incentive for rent-seeking penalizes productive activities, distorts the entire economy and hinders economic growth.

In theory, proponent of oil-led development for example Azaiki and Shagari (2007), believes that countries lucky enough to have petroleum, can base their development on this resource. They point to the potential benefits of enhanced economic growth and the creation of jobs, increased government revenues to finance poverty alleviation, the transfer of technology, the improvement of infrastructure and the encouragement of related industries. But the experience of almost all oil-exporting countries to date, especially Nigeria illustrates few of these benefits. To say the least, Nafziger (2003) says that Nigeria’s case is increasingly degenerating to a state of chaos as petroleum income is brazenly mismanaged while the basic national institutions such as electricity, energy, road, transportation, political, financial systems, and investment environment have been decreasing and inefficient in Nigeria, the infrastructure is still poor; talent is scarce. Poverty, famine, and disease afflict many nations, including Nigeria Chironga, et al, (2011).

It is evident from the opinions expressed in the foregoing theories that petroleum income be it revenue from the sale of crude oil, petroleum profit tax, royalties e. t.c can cause an increase or a decrease in economic growth and development of a nation, depending on the type of theory, policy and practical implementation the government in power adopts. The focus of Petroleum Profits Tax in Nigeria is the upstream sector of the petroleum industry which deals with oil prospecting, mining and production. Crude Oil production is taxed at the rate of 85% on export and 65.75% on domestic sale of oil within the periods under review. Kiable and Nwikpasi, (2009). The tax laws according to them have vested the authority to assess, administer and collect all taxes from corporate entities on the Federal Inland Revenue Services. Taxes administered at the Federal level include the Petroleum Profits Tax, Companies Income Tax, and the Value Added Tax as well as the Capital Gain Tax, when such capital gains are generated by corporate entities. The administration of taxes in Nigeria has also been focused on revenue generation to the detriment of stimulating economic development.
Azubuike (2009) however posits that tax payers or revenue public payers are well disposed to perform their civic duties willingly when they see evidence of public expenditure which they can identify with or benefit directly from. Unfortunately, this has not been the case in Nigeria. Macdonald (1980) opines the fact that the retention of a corporation tax under an expenditure tax regime is justified in the Meade Report of 1978 on Tax Reform on the ground that it can raise revenue while not distorting the rate of return to saving. Ogbonna (2009) expressed the view that the administration of Petroleum Profits Tax in Nigeria has mainly been focused on revenue generation to the detriment of stimulating economic growth and development.

From the work of Odularu (2008) which focused mainly on Labor, Capital, Real gross domestic product, domestic crude oil consumption and crude oil export in Nigeria, petroleum profit tax; the period of his study like some other previous ones were different from this study. That is, Odularu’s period of study was 1970 to 2005 while this present study covers 2000 to 2010, which is different from the previous works. This proves that so far, there has not been any empirical research to find out the effects of petroleum profit tax and total oil revenue on the Nigerian economy from 2000 to 2010. Hence, this study becomes imperative in order to provide empirical solution to some of the numerous problems besetting Nigerian economy.

Research Methodology
The theoretical and empirical literature analyzed the impact of petroleum profit tax and other petroleum revenues on the economic development of Nigeria. The variables for the study shall be selected based on the various petroleum income generated by the government to finance developmental projects over this research period as explored in the literature reviewed in this work.

Specification of Empirical Model
This study is carried using econometric model of linear regression and the employment of the ordinary least square (OLS) technique. Linearity, efficiency, sufficiency, least variances, unbiasness and least mean errors which are the optimal properties of this method won the researcher’s choice of this method. Nevertheless, the desirable properties of estimators may be obtained from many econometric techniques. This smallest variance is taken as the reason for the popularity of the OLS method as advocated by Koutsoyiannis (1977). This study is carried using econometric model of linear regression and the employment of the ordinary least square (OLS) technique. Linearity, efficiency, sufficiency, least variances, unbiasness and least mean errors which are the optimal properties of this method won the researcher’s choice of this method. Nevertheless, the desirable properties of estimators may be obtained from many econometric techniques. This smallest variance is taken as the reason for the popularity of the OLS method as advocated by Koutsoyiannis (1977). In order to hold firm the influence of the stochastic or random variable equations are explicitly transformed as follow:

\[ \text{GDP} = \beta_0 + \beta_1 \text{PPT} + \mu_1 \]  
\[ \text{GDP} = \alpha_0 + \alpha_1 \text{TOR} + \mu_2 \]

Where: GDP = Gross domestic product at current basic price, PPT = Petroleum profit tax and OR = Total Oil Revenue. \( \beta_0 \) and \( \alpha_0 \) = Constants of equation (I) and (II)
\( \beta_1 \) and \( \alpha_1 \) are the regression co-efficient of equation (I) and (II)
\( \mu_1 \) and \( \mu_2 \) = the error term. It is the surrogate of all other variables that influence the dependent variable which are not included in these regression equations.

Consequent upon the above discussions, the researcher narrowed his analysis to the use of secondary data, and annual time series data on overall Gross Domestic Product (GDP) at current basic price as the
dependent variable and data on Petroleum Profit Tax and Oil Revenue as the explanatory variables. The data use for Petroleum Profit included royalty to it. The data were from 2000-2010. The researcher’s data sources were from the Central Bank of Nigeria (CBN) Annual Report and Financial Statement of year 2000 to 2010 and National Bureau of Statistics (NBS).

The Empirical Results and the Analysis
Annual time series data covering the period of year 2000 to 2010 is used and the under listed results were gotten with ordinary least square of simply regression analysis for each explanatory variable selected for this research work.

GDP=1619738+9679.046PPT-------4.1.1 GDP = 968532.7+3979.660TOR-------4.1.2

\[ \text{SE} = (3178600) \ (1998.247) \ \text{SE} = (3667468) \ (919.410) \]

\[ t^* = (0.509576) \ (4.843769) \ t^* = (0.264088) \ (4.328492) \]

\[ R = 0.722754 \ R = 0.675510 \]

\[ R^2 = 0.691948 \ R^2 = 0.639456 \]

\[ F^* = 23.46210 \ F^* = 18.73584 \]

Durbin Watson (D.W) = 1.402683 Durbin Watson (D.W) = 1.185029

Numbers in parentheses represents the standard errors, \( t^* \) represents the observed t-ratios for individual regression coefficient respectively “R” is the coefficient of multiple regressions. Jointly taken and the regress curds, \( R^2 \) represents the coefficient of determinations that indicates the goodness of fit. \( F^* \) represents the variance ratio. The Durbian Watson (DW) is used to test the presence of auto correlation in the model.

### 4.1.1 Statistical Test Of Significance

#### The T and F test

<table>
<thead>
<tr>
<th>Equation</th>
<th>t statistic</th>
<th>t*</th>
<th>T critical</th>
<th>Test result</th>
<th>f –stat f*</th>
<th>F0.05</th>
<th>Test result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PPT= 4.843769</td>
<td>1.717</td>
<td>1.717</td>
<td>SS</td>
<td>&gt;23.46210</td>
<td>3.49</td>
<td>SS</td>
</tr>
<tr>
<td></td>
<td>TOR= 4.328492</td>
<td>1.717</td>
<td></td>
<td>SS</td>
<td>&gt;18.73584</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 1

Note: SS = statistically significant (reject \( H_0 \))

SIS = statistically insignificant (Accept \( H_0 \))

We notice from figure 1, that Petroleum profit tax and total oil revenue of Nigeria with positive signs are statistically significant meaning that; they are determinant of growth of gross domestic product of Nigerian economy, which will subsequently leads economic development via multiplier effect. Therefore with all these aforementioned explanations and analysis, the null hypothesis is nullified and we accept the alternative hypothesis which says Petroleum profit tax and oil revenue have significant impact on economic development of Nigeria. The coefficient of determinations from the results presented from the result indicates that Petroleum Profit Income Tax contributed 0.72 to Gross Domestic Product (GDP) over the research period and total oil revenue is 0.68 contribution to GDP which affect economic development of Nigeria via multiplier effect. With the significant level of .001 which is less than 0.05, Petroleum Profit Tax and oil revenue are making a unique contribution to the economic development of Nigeria and the composition of GDP. This result is in concomitant or in line with the work of Adegbie and Fakile (2011). From the test above, the results as indicated in the table shows that petroleum profit tax has significant impact on gross domestic product of Nigeria and hence economic growth therefore bring development because it act as forerunner of development. Oil revenue with a positive outcome as indicated in figure I indicate a significant impact of oil revenue on the gross domestic product of Nigeria which will
subsequently lead to economic Development. The relationship that exist between petroleum profit tax and gross domestic product for the period covered is significantly positive as indicated in figure 1 above. Jointly both variables have significant positive impact on gross domestic product; as the explanatory variables in the two models are the major source of government finance for our major developmental projects in the country.

From the results obtained, there is no doubt that petroleum profit tax is a key indicator to consider when discussing the economic development of Nigeria. It is a major source of revenue for the Federal Government to meet their statutory obligations for the well being of the citizens. However, non-provision of corporate social responsibilities in the oil producing region has met with stiff opposition from the various oil-rich communities. With the extraction of crude from these regions, their means of livelihood have been degraded and land depleted. The restive youths and members of the communities disrupt production installations and in effect this has been affecting the level of production of oil, the quantum of revenue generated and the amount realized from petroleum profit tax. This mean that during the period under review (2000 – 2010) petroleum profit tax as a source of government revenue in Nigeria did contribute significantly to the growth of domestic product and government revenue.

On the other hand oil revenue is also very significant to the growth of Nigeria’s gross domestic product for the period under review (2000 – 2010). This may be attributed to Nigeria’s dependence on oil revenue. This revenue has been largely from oil exports. It’s clear however that treated jointly petroleum profit tax as part of oil revenue has significant impact on the gross domestic product of Nigeria. This therefore, indicates that it remains a good source of revenue to government and should be sustained. Efforts should however be put in place to improve on the administration and collection of petroleum profit tax in Nigeria.

There is the urgent need to implement tax reforms in the system, because there is a significant relationship between petroleum profit tax and economic development of Nigerian economy.

**Policy Implications and Conclusion**

This study had as its importance to find out the impact of Petroleum Profit Tax (PPT) on the growth of Nigeria Economy with particular reference to oil revenue for a review period of 2000 through 2010. To achieve this objective, the study focused on the analysis of impact of Petroleum Profit Tax and oil revenue on Gross Domestic Product (GDP) of Nigeria. This was carried out using relevant secondary time-series data obtained from suitable sources.

In this data analysis, linear functional form of the simple regressions was employed. This method was adopted because of its good attributes as a good econometric model as affirmed by Maddala (1992) and Gujarati (1995).

With regard to the empirical results, research findings emphasized on the following findings.

a. That petroleum profit tax has significant impact on gross domestic product of Nigeria and hence economic growth which bring development.

b. That oil revenue has a significant positive impact on the growth of Gross Domestic Product of Nigeria

c. That jointly with oil revenue and Petroleum Profit tax they have very significant positive impact on the growth of Gross Domestic Product of Nigeria.

d. That Administration and collection of taxes in Nigeria is ineffective

e. That oil revenue with petroleum profit tax inclusive accounts for 80 percent growth of the Gross Domestic Product of Nigeria.

The benefit which oil revenue has to the economy growth in Nigeria cannot be overemphasized. Nigeria currently derives about 95 percent of her foreign exchange earnings from this source of revenue.
Petroleum profit tax as a potential major contributor to this revenue needs urgent attention. The benefit which the effective administration and collection of this tax (PPT) has to the contribution of the growth of Nigeria Economy is enormous.

Following the empirical results, Nigeria has been relying very much on these funds generated from oil revenue including petroleum profit tax to run her economy. Despite the huge amount of money generated from petroleum profit tax and oil revenue, the growth rate of the economy is very is on the increase, but it does not translate to general economic development, because the country is characterized with low standard of living due corruption which does not allow the multiplier effect of these variables to take their full impact on the people of Nigeria. Effective tax Administration, collection and prudent use of revenue from Petroleum Profit Tax and oil revenue should be the focal drive of the government.

In order to fully realize and harness the potential that is inherent in the payment of Petroleum Profit Tax, it is important that new and efficient measures be implemented to improve on tax administration and collection. The current effort by the re-branded federal Inland Revenue Service is commended, it however require more government support in ensuring that the enabling laws governing petroleum exploration is fully enforced in Nigeria.

In the light of the above findings, it is very important that concerted efforts should be made to improve on the effectiveness and efficiency of the administration and collection of taxes by government. This calls for the adoption of good economic policies and streamlining of the institutional frameworks for approval of federal government revenue.

To be commended is the current effort of the Federal Inland Revenue Services at educating the public on taxes and modes for ease of payments. To achieve the economic goals and objectives of the development of Nigerian nation, to continue to become relevant in the global economy and enhance the welfare of Nigerian population the following additional recommendations become imperative.

1. Provision of corporate social responsibilities by the oil exploring and extraction companies in their areas of operations to cater for the wellbeing of the citizens. Corporate social responsibility can also be called corporate social investment, because it is an investment to encourage more investment. Corporate social investment is a concept whereby organizations consider the interest of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. This obligation is seen to extend beyond the statutory obligations to comply with legislation and sees organization voluntarily taking further steps to improve the quality of life for employee and their families as well as for the local community and society at large. Corporate social investment can be employed by an organization as a competitive strategy over its competitors. Corporate social investment if properly managed will yield profits like every other investment, either in the long-run or in the short-run. Like other kinds of investment organizations must know which social investment activity they are to invest in at a point in time.

2. Professional training for the tax inspectors and officials to improve the tax administration system. Many tax officials are corrupt, ineffective and inefficient because of poor professional training. There is the for off-shore training for the tax officials and inspectors in countries where there tax structures are perfect and effective like United Kingdom, United States of America; Canada; Japan etc. Lack or inadequate of professional training gives room to poor assessment of tax payers; inability to carry out back-duty audit effectively makes the system to lose income tax generation; the attitude to help the tax payers reduce their tax liability has given room to corruption. Good professional training and good remuneration will encourage good and effective tax administration which will enhance tax income generation.
3. Review of tax laws and regulations for effectiveness and effectiveness. The present tax laws have loopholes which the review will block and discourage tax avoidance. There should be review of the law to give special treatment to the problem of tax evasion, as this is an evil that had been negating the income tax generated. Stiffer penalty should be introduced in the law to discourage tax evasion. Economic and Financial Crime Commission should be incorporated into tax recovery mechanism that will discourage tax avoidance and evasion. Eradication of tax avoidance and evasion will enhance the revenue generated through petroleum profit tax.

4. With the integration of technology in the global economy, the assessment and payment of tax liability should be fully computerized. All the petroleum exploring companies should be link to wide area network of Federal Board of Inland Revenue and Federal Inland Revenue Service for assessment, tax payment monitoring and back-duty audit. This will bring efficiency to our tax system, improve tax administration and eradicate tax evasion and reduce tax avoidance.

5. The Federal government should set up a commission whose sole responsibility will to carryout tax audits on oil operations checking expected taxes against actual payments by Companies in the oil operation sector. They should be mandated to make quarterly reports to the National Assembly and the Nigerian public.

6. More enabling laws should be made to empower the Independent and Corrupt Practice Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC) to arrest and prosecute Companies in the oil sector that default in payment of their Petroleum Profit Tax to government. The implementation of all these recommendations and commitment of the operation companies and Federal Government tax agencies will improve and enhance the contribution of petroleum tax to Nigerian economic development.

References


Success Musa Jibrin
Department of Accounting, Faculty of Management Science, Kogi State University, Anyigba, Kogi State, Nigeria
E-mail: musasuccess@ymail.com; Mobile: +234-803-973-8770

Success Ejura Blessing
Department of Banking and Finance, Faculty of Management Science, Kogi State University, Anyigba, Kogi State, Nigeria
E-mail: blessingsonoja@yahoo.com; Mobile: +234-806-825-9713

Dr. M.S.K Ifurueze
Department of Accountancy, Faculty of management Science, Anambra State University, Igbariam Campus, Anambra State, Nigeria
E-mail: mifurueze@yahoo.com; Mobil: +234-083-324-8797