

EFFECT OF PETROLEUM PROFIT TAX ON ECONOMIC DEVELOPMENT IN NIGERIA (2009 -2019)

KALAGBOR G. KINGSLEY PhD.

Department of Accounting,
Ignatius Ajuru University of Education,
Port Harcourt

And

AMAH CLETUS

Department of Accounting,
Ignatius Ajuru University of Education,
Port Harcourt

Abstract

The paper empirically scrutinizes the effect of petroleum profit tax (PPT) on Nigeria economy, in agreement with the purposes of this study, the researcher collected secondary data from central bank of Nigeria data base within the period of 2009 to 2019. In summarizing the data analysis, multiple regressions were used to analyze data on Inflation rate (GDP), petroleum profit tax, inflation, and exchange rate were all realized to have significant effects on the Economics Development with the Adjusted R² of 86.3%. In line with the findings of this study, it therefore believes that the abundance of petroleum and its associated income has been beneficial to the Nigerian economy for the period 2009 to 2019. Revenue from a countries' natural resource has an optimistic impact on economic development and development. It is suggested that Government should clearly and cautiously account for the proceeds realized from PPT by capitalizing in the establishment of substructure and general goods and services. It is anticipated that the more successfully and competently income is used by Government to generate development, service chances and prosperity in the economy, the more eager taxpayers would be to do their responsibilities to the Government and eject their duties in the superseding of reaching National Development.

Key words: Petroleum profit tax (PPT); Inflation rate; Exchange rate; Nigerian Economy.

Introduction

The tax structure is a prospect for government to accumulate extra income required in doing its unrelenting responsibilities. A tax structure bids itself as one of the utmost real ways of marshaling a country's core resources and it advances itself to generating an atmosphere conducive to the preferment of economic development. Oil is the central source of government revenue, accounting for about 90 percent of total exports, and this approximates to 80% of total government revenues. Since the oil discoveries in the early 1970s, oil has become the central issue in Nigeria's economy. The delinquent of truncated economic performance of Nigeria cannot be credited exclusively to unpredictability of incomes from the oil segment, but as an outcome of failure by government to exploit effectively the financial handout from the spread of crude oil from the mid - 1970s to settled other subdivisions of the economy.

The Nigerian petroleum industry has been labeled as the major amongst all industries in the republic. This is possibly owing to the credence that petroleum is one of the main sources of liveliness worldwide. The scope, global characteristic, and role expected by the petroleum manufacturing were noted to have created from the idea that petroleum is multipurpose as it presently contains an extensive variability of vigor and associated needs.

Petroleum is the maximum vigorous source of energy, constituting over 50 percent of all marketable vigor consumption in the world. The proceeds gotten from crude oil in Nigeria are of complete benefit to expenses promises on numerous projects at the local, state, and federal levels. The Nigerian economy depend heavily on the revenue resulting from petroleum products, as they provide 70 percent of government revenue and about 95 percent of foreign exchange earnings. Apart from this, the influence of petroleum to national development is many and diverse; job creation, foreign exchange earnings, revenue cohort, development, and enhancements in other fiscal variables. While the main investors in the petroleum manufacturing are the global oil companies (IOCs), the major legislation governing petroleum processes in Nigeria is the Petroleum Profit Tax Act (PPTA) of 2007. Its main economic tool is the Petroleum Profit Tax (PPT). Under the PPT, the tax rate was set at 67.5 percent for the first five years of processes by the oil company and 85 percent thereafter (Onyemaechi, 2012). The Petroleum Manufacturing is the major and chief producer of GDP in Nigeria which is the most packed in African states. Since the British found oil in the Niger Delta in the late 1950s; the oil industry has become the main stay of the Nigerian economy. The issue with Nigerian economy has been drawn to letdown of succeeding administrations to use oil income and additional crude oil revenue in the expansion of other subdivisions of the cheap efficiently and professionally. Over all, there has been meagre performance of nationwide institutions such as influence, vigor, road, conveyance, policies, financial systems, and investment environment have been deteriorating and inefficient Nafziger, (2003). Therefore, at this stage, it is significant to scrutinize the effect of petroleum profit tax (PPT) on economic development in Nigeria.

Objective

The foremost objective of this is to examine the influence of petroleum profit tax (PPT) on economic development (proxy by GDP) in Nigeria. Other specific objectives are:

- To scrutinize the outcome of PPT on exchange rate in Nigeria
- To examine the effect of PPT on inflation rate in Nigeria

Conceptual Review

Petroleum profit tax

Petroleum Profit Tax in Nigeria in the word of Odusola (2006), petroleum profit tax (PPT) is a tax pertinent to upstream processes in the oil manufacturing. It is predominantly connected to rents, royals, margins and profit-sharing fundamentals related with oil mining, searching and exploration leases. It is the most significant tax in Nigeria in terms of its share of whole income causative 95 and 70 percent of foreign exchange earnings and government income, correspondingly. Petroleum process as distinct in the PPTA fundamentally includes petroleum examination, expansion, creation and sale of crude oil. The Petroleum Profit Tax is controlled by the Petroleum Profit Tax Act of 1959 as modified by the Petroleum Profit Tax Act of 2007. Though the preliminary law was approved in 1959 to gain the first oil export made in that year (Nwadighoha, 2007). Section 8 of Petroleum Profit Tax Act (PPTA) recommended that every corporation involved in petroleum procedures is under a responsibility to condense reappearance, composed with correct annual audited accounts and_t multiplications, within a quantified time after the end of its accounting period. Petroleum profit tax includes the accusing of tax on the proceeds accumulating from petroleum operations (Nwezeaku, 2005). He stated that the position of petroleum to the Nigerian economy gave rise to the performing of a dissimilar law modifiable the taxation of proceeds from petroleum operations. The petroleum profit tax is charged, evaluated and owed upon the profits of each accounting period of any corporation involved in petroleum processes during any such accounting period,

frequently one year (January to December) (Anyanwu, 1993). The profits of a company in line to the accounting period is the total of

- a) the incomes of sale of all crude oil throughout that period;
- b) the worth of all chargeable oil sold off in that period;
- c) the worth of all chargeable normal gas in that period; and
- d) all income of the corporation of that period related to and ascending from any one or more of its petroleum processes (i.e. captivating or procurement and conveyance of petroleum or crude oil in Nigeria by or on behalf of a company, for its own explanation by any boring, removal, removing or other like operations or procedure, not including sanitizing at a refinery, in course of a occupational carried on by the corporation betrothed in such operations, and all other processes, related to and any sale of or disposal of chargeable oil by or on behalf of the company.

The work of Oremade (2006) showed that for petroleum profit tax purposes, crude oil sales valued at the amounts that are appreciated by the oil manufacturing corporation in the world oil market. On the other hand, this worth has to be associated with the worth at the dispatched price and if the dispatched price is higher, tax is then founded on the dispatched price. Selling of crude oil for local refining and sales of gas are appreciated for petroleum profit tax drives at the definite amount realized on sale. According Ofe, Onyemachi and Caroline (2008), the management of PPTA is under the attention and administration of the Federal Board of Inland Revenue. The tax laws bestowing to Adekanola (2007) have bestowed the power to assess, manage and gather all taxes from company units on the Federal Inland Revenue Services. Taxes run at the Federal level comprise of Petroleum Profits Tax, Companies Income Tax, and the Value Added Tax as well as the Capital Gain Tax, when such capital gains are produced by company entities. The management of taxes in Nigeria has also been absorbed on revenue generation to the disadvantage of inspiring economic development. Ofe et al (2008) brought out additional that the Board may do all acts as may be considered essential and convenient for the valuation and gathering of the tax and shall account for all amounts so composed in a manner to be agreed to the Federal Minister of Finance.

Whenever the Board shall deliberate it essential with respect to any tax due, it may obtain, hold and dispose of any tax or of any decision debt due in respect of any tax and shall account for any such property and the incomes of sale thereof in a method to be given by the Minister. The Board may sue and send be sued in its official name. In the exercise of the controls and responsibilities conversed upon it, the Board shall be subject to the consultant, course and regulator of the Minister of Finance. Any written course, order or training given by the Minister after consultation with the chairman of the Board shall be approved out by the Board. Though, the Minister shall not give any such way in respect of any specific corporation which would have the consequence of necessitating the Board to increase or decrease any valuation made or to be compulsory upon or any respite given tax, consequence or decision debt due by such company or which would have the consequence of changing the normal course of any incomes, whether civil or criminal, concerning either to the retrieval of any tax or forfeit or to any crime connecting to the tax. Any Act, substance or thing complete by or with the expert of the Board in enactment of the necessities of PPTA shall not be subject to trial on the ground that such was not or was not period to be in agreement with any direction, order or instruction given by the Minister (Ofe et al 2008). Oil corporations that only market petroleum products including corporations involved in purifying of crude oil such as petrol do not fall into the grouping of companies engaging in petroleum processes and they are therefore chargeable under CITA.

Where a company is intricate in both petroleum process and marketing of petroleum product, the exchange results from the petroleum processes would be subject to Petroleum Profits Tax while the consequences from the advertising doings will be taxed under the Companies Income Tax Act. All orientation to companies in this unit narrates to companies involved in petroleum process except where then stated. Contributions of Petroleum Industry to Development of the Nigerian Economy can be numbered in terms of the industry's influences on the economic variables accountable for economic development in Nigeria. The contributions of petroleum manufacturing can also be analyzed in relations of its portion of revenue generation in the Nigerian cheap. The petroleum industry has donated vastly in both foreign exchange reserves and government revenues (Onyemaechi, 2012). It has been pragmatic that the government part of crude oil income as a result of numerous dual scheme arrangements with the international oil manufacturing firms is coarsely 70 percent of proceeds growing from crude oil contacts. He added that the petroleum industry can also donates significantly to advancement and expansion of the Nigerian economy by the means of foreign direct investment (FDI). Foreign direct investment (FDI) has been termed as actual investment connections of the rest of the world with a certain domestic economy. Whether these connections inspire or depress economic development hinge on on the extent of strength of the economy worried and purpose of the speculation. The drive of taxation is to raise money for actions which cannot be followed without government action. These comprise the civic influence to economic speculation, as well as permitting people to encounter their basic wants and appreciate broader prospects.

Economic Development

Ayres and Warr (2006) describe economic development as 'an increase in the total output (goods or services) molded by a country'. It symbolizes an expansion in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic development denotes only to the quantity of goods and services produced. Economic development can be measured in nominal terms including inflation, or in real terms, which are adjusted for inflation like by the percent rate of increase in the inflation rate (GDP). Economic development measures development in monetary standings and appearances at no other aspects of development (Illyas and Siddiqi, 2010). Economic development can be moreover positive or undesirable. Economic under development can be referred by saying that the economy- is decrease. Negative development is associated with economic recession and economic depression (King and Levine, 1993).

Methodology

The approach for this paper was a cross - sectional survey plan. The population of this work is Nigerian Economy which Inflation rate and exchange rate are used as measures. Tax Revenue was measured using petroleum profit tax (PPT) within a period often years (2009-2019). The data analytical method was used for hypothesis testing regression analysis it was done with the help of SPSS package version 20.

Results and Discussions

Bivariate Analysis

The secondary data was analyzed and the results of the hypotheses were shown with test directed, using regression analysis at 99% assurance level which incorporate the likelihood for either accepting or refusing the null premises expressed ($p > 0.001$) or rejecting the hypotheses formulated when ($p < 0.001$). The test covers the two hypotheses postulated for the study (ie $H_{01} - H_{02}$).

Test of-Research-Hypothesis one

H₀₁: There is no noteworthy affiliation amid petroleum profit tax and inflation rate.

H₀₂: There is no noteworthy association between petroleum profit tax and exchange rate.

Descriptive Statistics Inflation rate, exchange rate, Petroleum Profit tax

	N Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic	Std. Error
Petroleum profit tax	31	517.00	1578121.00	359873.4632	514632.36960	1.298	.383
Inflation rate	31	94325.02	89043615.26	16180598.9547	26361992.12393	1.831	.383
Exchange rate	31	.42	.53	.4885	.03252	-.398	.536
Valid N (listwise)	31						

The stand directly above displayed the vivid data of the variables under review. From the table above Inflation rate which quantify economic development has a mean score of 16180598.95 and a normal deviation of 26361992.12, while Exchange rate has a mean of 0.4885 and a standard deviation of 0,03252. Petroleum profit tax has a mean score of 359873.46 and a standard deviation of 514632.37. This displays a noteworthy association. This represents a high relationship. What this suggests is that Petroleum profit tax meaningfully stimulates inflation rate and exchange rate.

Decision: H₀₁ and H₀₂ were rejected.

Summary and Conclusions

This work has studied the role of PPT on Nigerian economy. The associations amid PPT and economy development were evaluated. PPT has an encouraging power on development after a substantial interval. All the measure was statistically weighty. Results also showed that PPT revenue contributed positively to the development of the respective sector. The vast income received by the government from the PPT assists government to carry out public outlay that arouses the national economy and advance economic development. Growing oil revenue aids the Nigerian economy in the sense that when oil income is on the upsurge, prices of goods and facilities decrease. The schoolwork also showed that there is an undesirable connection between PPT and inflation returns in the long run as subsiding economic theory proposition that taxes are good privet contrary to inflation. A rise in petroleum revenue aids to slow down inflationary tendencies in Nigeria as designated by our results, and consequently set the economy in the part of development and expansion. This schoolwork fetched out that petroleum proceeds have an encouraging consequence on the economy of the manufacturing country, and this come to an agreement that per capita income in Nigeria bred over the period under evaluation.

Policy Recommendations

In line with the results reviewed in the progression of this study, the subsequent commendations are hereby recommended:

1. It is optional that Government should clearly and sensibly account for the income it produces through PPT by participating in the establishment of social amenities and public goods and services. It is predictable that the more successfully and professionally revenue is applied by Government to generate development, employ occasions and

wealth in the economy, the more eager taxpayers would be to meet their responsibilities to the Government and eject their duties in the superseding goal of attaining National Development.

2. Government should minimize or find conducts of eradicating totally the extensive dishonesty and escapes in the petroleum profit tax management in order for the PPT policy to have a more significant impact on the revenue and economic development of Nigeria.

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