



Petroleum Profit Tax and Economic Growth in Nigeria

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Abstract

This study examined the impact of petroleum profit tax on Nigeria's economic growth. To accomplish this goal, the survey research methodology was used, relevant data were obtained from the Annual Statistical Bulletin of the Central Bank of Nigeria and the Annual record from the Office of the National Bureau of Statistics for the span of twenty-two years (1994 to 2015). In analyzing the collected data, the study used the ordinary least square statistical method. The report shows that petroleum income tax, foreign direct investment has a positive and significant impact on Nigeria's economic growth. Consequently, it is recommended that incentives available to investors in the petroleum industry are not good enough to reduce the effect of the social crisis on the risk premium of investors, revenue from petroleum profit tax should be properly utilised to enhance the level of infrastructural development among others.

Keywords: Foreign Direct Investment, Petroleum Profit Tax, Total Tax Revenue, Economic Growth

JEL Classification: H25, O47

Paper Classification: Research Paper

Introduction

The term tax has not been defined in the Nigeria tax laws, but based on scholars' opinion; tax was defined as "a levy imposed by the government to collect public revenue, the term embraces all government impositions on a person, property to yield revenue" (Anyaduba, 2000; Eyia, 2012). The main reasons for tax are to generate revenue for the government to meet her expenditure, redistribution of wealth and running of the economy (Ola, 2001; Jhingan, 2004; Bhartia, 2009).

There are different types of taxes in Nigeria amongst them, include the petroleum profit tax. However, in Nigeria, as anticipated the passage of the Petroleum Industry Bill (PIB) by the country National Assembly, the prevailing law is the Petroleum Profit Tax Act, Cap 354 LFN, 1990, which consolidates further amendments to date. A glance at the provisions of the petroleum profit tax act reveals that it covers every area of petroleum operations, It is divided into eleven sections, beginning with the enforcement of tax, chargeable tax, persons subjected to tax, accounts and records, assessment, appeals, collection, recovery and refund of taxes, offences and penalties. At present, the applicable rate for petroleum profit tax is 50% for operations in the offshore while 85% is for inland basin operations in the onshore and shallow water. Petroleum operation refers to as the exploration, development and production of crude oil not including refinery activity.

More so's revenue from petroleum and petroleum products remains the Nigerian economy's key mover as the country's major source of balance of payments, exchange rate strategy, monetary and fiscal policies, and has also played and continues to play a major role in executing the various development agenda. Besides, in the era of the nation's first development plan 1962 to 1968 the multinational companies basically controlled the industry within the said period using the position of the petroleum profit tax act of 1967. The 1957 act initially introduced the principle of equal profit sharing between the oil companies and the Nigerian government while the amendment added more desirable qualities for the government in early 1967. More so, this sector has contributed greatly towards national development in the area of foreign exchange earnings, job creation, revenue generation and general improvement in other economic indicators Saheed, Abarshi & Ejide (2014), this sector's contribution to the avenue of national development can be seen. This industry accounts for nearly 35 percent of gross domestic product and more than 90 percent of total export income from petroleum exports. Nigeria is African South Sahara's largest producer and exporter of crude oil and is also a proud member of the petroleum exporting countries (OPEC) organisation. From the above, it is accepted that huge amounts are realized from domestic sales and exports of crude oil products, but its impact on Nigeria's development as a country is still of serious concern in terms of economic growth.

Objective of the Research

This research is inspired by numerous empirical findings from petroleum income tax and economic growth studies (Omojumite & Iboma, 2012; Emmanuel & Adejare, 2014; Okoh, Onyekwelu & Iyidiobi, 2016) and so on. This paper focuses specifically on the effect of revenue from petroleum profit tax on the growth of the Nigerian economy.

Review of Literature

The Concept of Tax

The failure of the Nigerian tax laws to define the term tax has left much to be desired Obaje (2012). Anyaduba (2000), described tax as compulsory levy levied on the revenue, benefit or property of a person, family, society, corporate or non-corporate body for public purposes by a public authority. Egwaikhide and Udoh (2012) defined tax as a compulsory payment to the government on the income of taxpayers to meet the expenditure of the government. Based on the foregoing, it can be deduced that taxes are mainly aimed at financing government expenditure at all levels and to meet other public needs. According to David-west (2013), the word tax and taxation have been used interchangeably to mean the same thing, this is not so. She opined that taxation could be described as all the processes involved in the contract, drafting, negotiation for the design of the fiscal system, the legal framework, administration and imposition. 'Taxation is among the oldest methods of funding the basic effective services for the general public in a given geographical area (Ibadin & Oladipupo 2015). According to Chigbu and Njoku (2015), it is understood that any nation's tax system will decide who bears the payment burden and how to use the taxes collected. Okoye and Ezejiofor (2014), opined that the Nigerian tax system is designed as an income generation mechanism and this is the legacy of the government pre-independent which focused on the British tax law of 1948. The tax system is a tripartite structure in Nigeria consisting of tax policy, tax laws and tax administration (Adejare, 2015). One of the most effective ways of economic growth is an effective tax system (Nwite, 2014)

Conceptual Classification of Economic Growth

Economic growth is driven primarily by productivity change involving the production of more goods and services with the same input of labour, capital, resources and materials (Saheed et.al, 2014). It is noted that “growing capital stock, technological advances and improving the quality and level of literacy are regarded as the main causes of economic growth” (Ibadin & Oladipupo, 2015). Worlu and Emeka (2012) have shown that economic growth reflects an increase in the number of goods and services produced in a country over a given timeframe. Economic development and economic growth are used interchangeably for the most part, but there is a big difference between them, economic growth is an aspect of economic development. Chigbu and Njoku (2015) claimed that ‘ economic development is a sustained and permanent increase in a country’s real national income, followed by progressive modification in the country’s economic, political, technical and social structure, with the result that the per capita income of societies beneath the income line does not increase and development does not decrease.

Oil industry and the Nigerian Economy

In terms of the impact of the industry on economic indicators responsible for economic growth in Nigeria, the contribution of oil and gas sector to growth and development in the Nigerian economy can be identified (Onaolapo, Fasina & Adegbite, 2013). This sector is at the core of Nigeria’s economy and requires sustainability if the country is to achieve real economic growth (Jibrin, Blessing & Ifurueze, 2012). The Nigerian petroleum industry is divided into three broad categories; upstream (exploration, development and production), midstream (transportation) and the downstream which involves activities that culminate in value addition and improvement upon products of the upstream activities such as, refining and servicing (Babajide, Arimoro & Kabir, 2015). Countries fortunate enough to have this product (crude oil) can attribute their development on these resources (Azaiki & Shagari, 2007).

The sales of crude oil and gas are the main sources of oil revenue, petroleum profit tax and royalties, and so on. Nevertheless, these revenues cause economic growth to rise or decrease depending on the type of government-adopted theory, policy and realistic implementation (Jibrin et.al, 2012). The discovery of crude oil has had a positive and adverse impact on the Nigerian economy (Odularu, 2008). The high potential of petroleum exploration and production of pollution and depletion makes it an environmental tax priority (Nwete,2004). Cases of pipeline breaks bring about oil spoilage on freshwater creatures like fishes and on land, which makes it unfertile for farming activities leaving the inhabitants of such affected geographical areas with no means of getting food crops and even water for drinking. One of the main types of tax is the petroleum profit tax, which accounts for more than 85% revenue to developing economies and 30% to developed countries (Babajide et.al, 2015).

The Concept of Petroleum Profit Tax

As specified in the 1959 Petroleum Profit Tax Act, it is a liability that occurs when a corporation disposes of chargeable oil and gas. The levy is on the company’s profit from oil activities under the Nigerian Petroleum Income Tax Act (Okoh, Onyekwelu & Iyidiobi, 2016).” Petroleum profit tax is levied, assessed and payable on the profits or income of each accounting period of any corporation engaged in petroleum operations during any such accounting period, usually one year (January to December).” (Anvanwu, 1977) According to Attamah (2004), the Petroleum Profit Tax is legislation that imposes a tax on profits from petroleum extraction in Nigeria and provides for its estimation and collection and the associated purposes. Petroleum profit tax (PAT) is a tax that refers to upstream activities in the oil and gas industry, according to Odusola (2006). Income tax applies

mainly to leases, dividends, premiums and profit-sharing clients involved with oil exploration, prospecting and leasing (Onaolapo et.al, 2013).

Compared to the taxes of other segments and businesses, petroleum tax has certain specific characteristics resulting from the special characteristics of the oil industry, the central importance of the oil and gas sectors to both developed and developing economies, the instability in the cost of oil, the high production and development charges, insecurity linked with petroleum, general features of individual oilfields and re-investment possibilities (Saheed et. al, 2014). Because of the significance that the federal government of Nigeria attaches to oil exploration and production, taxing the income of companies engaged in such activities inevitably results from a tax act other than the corporate tax act (Jibrin et. al, 2012). They also opined that export of oil to the international market commenced in 1958, this act became effective on 1 January 1959. The Petroleum Profit Act (PPTA) is the law under which petroleum profit is paid. The Federal Military Government first revised it in January 1967 by Decree No. 1 of 1967 (Emmanuel & Adejare, 2014).

Review of Empirical Literature

Onaolapo *et al*(2013) used multiple regression methods to examine the impact of petroleum profit tax on the Nigerian economy. The findings revealed that the petroleum income tax has a strong impact on inflation, exchange rates and gross domestic product. Ogbonna and Appah (2012) further examined petroleum income and the economy of Nigeria and showed that a positive association exists between per capita income and petroleum licensing fees. Etale and Bingilar (2016) analyzed the relationship between Nigeria's petroleum profit tax, personal income tax and economic growth using the ordinary least square method to analyze data for a period of fourteen (14) years. The result showed that there was a significant positive relationship between petroleum profit tax and personal income tax on economic growth. Nwosu and Okafor (2014) used a disaggregated analysis approach to examine government revenue and expenditure in Nigeria. The study's cointegration test showed the presence of a long-run equilibrium relationship between variables of government spending and revenue variables. The analysis of ANOVA also revealed that variables of capital and recurring spending had long-term unidirectional causalities from investment to revenue variables. Eyisi, Oleke and Bassey (2015) explored the impact of taxation on macroeconomic performance in Nigeria between 2002 to 2011 using the least square method of regression. The result revealed that "Government tax revenue has a positive and significant impact on Nigeria's real gross domestic product, while government tax revenue has a negative impact on Nigeria's unemployment rate". Nevertheless, the study used multiple regression methods to examine the relationship between variables in a report by Emmanuel and Adejare (2014) on the "effect of petroleum income tax, interest rate and money supply on the Nigerian economy from 1970 to 2010." The analysis revealed that the petroleum income tax's short-run impact was positive while the interest rate was negative for economic growth. A study by Okoh *et al* (2016) examined the impact of petroleum profit tax on economic growth in Nigeria. For the period from 2011 to 2015, secondary data were analyzed using the ex post facto process. The study revealed a strong and significant effect of the petroleum income tax on Nigerian gross domestic product. Ibadin and Oladipupo (2015), analyzed the impact of indirect taxes on Nigeria's economic growth, using 33-year time-series data (1981 to 2014). The data collected were analyzed and tested for unit root using the Dickey-Fuller co-integration method, they showed that VAT and Petroleum Profit Tax exercised a positive and substantial relationship with gross domestic product.

Judging from the foregoing studies it can be concluded that there exists a positive and significant relationship between petroleum profit tax and economic growth, however, the study

of the World Bank Group (2014) showed that Nigeria among others has one of the lowest tax revenues compared to its gross domestic product. The differences in the methodologies used by various researchers, the background or environment under which the studies were conducted, the consistency of data and sources in different jurisdictions and policy trusts, among others, could be attributed to these uncompromising views.

Methodology

In assessing the impact of petroleum income tax on economic growth in Nigeria, the study used a survey research design. Secondary data were collected from different sources such as the office of the National Bureau of Statistics and the Annual Statistical Bulletin of the Central Bank of Nigeria for a span of twenty-two (22) years from 1994 to 2015. These macroeconomic variables collected were analysed using the ordinary least square method and by this method, the problem of signs is precluded thereby giving positive and negative prediction errors the same importance.

Model Specification

The study employs a multi-linear regression model. To achieve this, the study adapted and modified the model of Omojumite and Iboma, (2012) on fiscal deficit and productivity of the Nigerian taxes by making GDP as a proxy for economic growth as the independent variable while PPT as the dependent variable and the model was stated as.

$$\text{Log}_{\text{ppt}} = d_0 + d_1 \text{Log GDP} \text{-----i}$$

However, using PPT as the independent variable and real GDP as the dependent variable the model is stated thus.

$$R_{\text{GDP}} = t(\text{PPT})$$

In the functional form it is.

$$\text{Log (RGDP)}_0 = \alpha_0 + \beta_0 \text{Log (PPT)}_t + t\mu \text{-----ii}$$

Where α is the intercept of the relationship

β - the regression coefficient

μ - the error term

t- the time

Table 1: Stepwise Analysis

Dependent Variable: GDP Stopping criterion: p-value forwards/backwards = 0.05/0.05				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
FDI	710.5084	116.3797	6.105087	0.0000
TTR	-116783.3	20085.02	-5.814448	0.0000
PPT	7.260304	2.356587	3.080855	0.0062
R-squared	0.701975	Mean dependent var	58285455	
Adjusted R-squared	0.670604	S.D. dependent var	1.70E+08	
S.E. of regression	97401777	Akaike info criterion	39.75271	
Sum squared resid	1.80E+17	Schwarz criterion	39.90149	
Log-likelihood	-434.2798	Hannan-Quinn criter.	39.78776	
Durbin-Watson stat	1.146655			
Selection Summary				
Added FDI				
Added TTR				
Added PPT				

*Note: p-values and subsequent tests do not account for stepwise selection.

Estimation Results and Discussion of Findings

Table 2: Descriptive Statistics

	PPT	GDP	FDI	TTR
Mean	7211959	58285455	353184.3	1965.874
Median	1220050	17087739	341432.6	1433.18
Maximum	37190000	8.10E+08	701532.4	5007.632
Minimum	42803	964005	119391.6	105.77
Std. Dev.	12353542	1.70E+08	198962.7	1719.098
Skewness	1.501065	4.221264	0.178124	0.466315
Kurtosis	3.527266	19.23137	1.44548	1.777613
Jarque-Bera	8.516564	306.8392	2.331492	2.167025
Probability	0.014147	0.000000	0.311690	0.338405
Sum	1.59E+08	1.28E+09	7770055	43249.23
Sum Sq. Dev.	3.20E+15	6.05E+17	8.31E+11	62061227
Observations	22	22	22	22

Source: Researchers Computation (2018)

The result of the descriptive statistics is presented in Table 2. The mean of petroleum profit tax (PPT) is N7211959. The maximum value is N37190000 with a minimum value of N42803. The variable of the real gross domestic product reported a mean of N58285455, a maximum of N8.10E+08 and minimum of N964005. The descriptive statistics reported a mean for foreign direct investment (FDI) of N353184.3 with a mean total tax revenue (TTR) of N1965.874. The Jarque-Bera values are relatively normal and the associated probability values are significant at the 5% level, which indicates that the variables follow the Gaussian standard distribution. The normality of the data is further attested by the result of the histogram normality test.

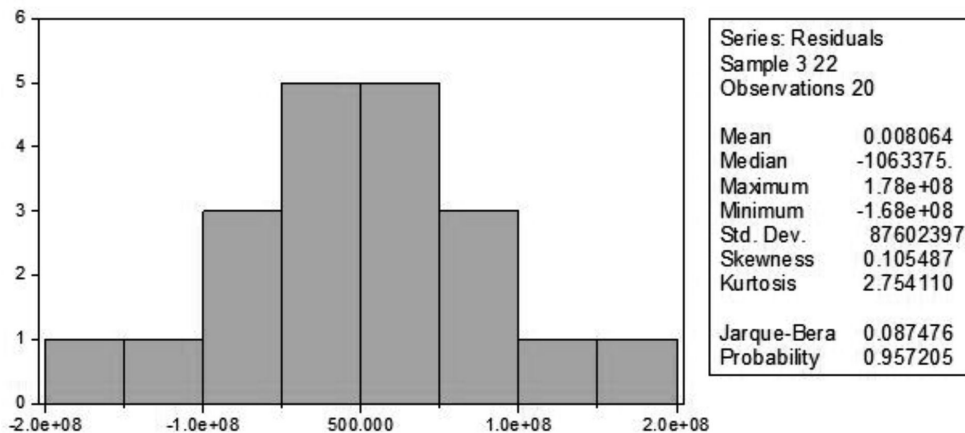


Figure 1: Result of the Histogram Normality Test

Figure 1 represents the bell-shaped histogram of the regression variables. The figure is a further test of the normality of the data which helps to strengthen the result of the descriptive statistics. The JB statistic is 0.087476 with a significant probability value of 0.957205. The mean Kurtosis of 2.754110 is below the benchmark of three and indicative of platykurtic residual. The mean Skewness of 0.105487 means the histogram is positive and rightward skewed as visible in Figure 1.

Table 3: Results of the Correlation Statistics

Correlation t-Statistic				
Probability	GDP	PPT	FDI	TTR
GDP	1.000000			

PPT	0.302619	1.000000		
	1.419934	-----		
	0.1710	-----		
FDI	0.476765	0.649639	1.000000	
	2.425580	3.821510	-----	
	0.0249	0.0011	-----	
TTR	-0.094834	0.695395	0.734316	1.000000
	-0.426031	4.327554	4.837835	-----
	0.6746	0.0003	0.0001	-----

Source: Researchers Computation (2018)

The correlation coefficient revealed a mixed finding. The variables of petroleum profit tax, foreign direct investment are positive (0.302619 and 0.476765 respectively). The variables of total tax revenue reported a negative correlation coefficient of -0.094834. The values of the coefficients are relatively low and suggest the absence of multicollinearity. The highest correlation coefficient of 0.476765, between foreign direct investment and the gross domestic product, is below the benchmark of 0.80 above which shows the presence of the problem of multicollinearity.

Table 4: Results of the Variance Inflation Factor

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
FDI	24401.90	10.15933	2.362015
PPT	5.647677	2.859984	2.107504
TTR	3.66E+08	6.265033	2.643498
C	1.91E+15	4.897219	NA

Source: Researchers Computation (2018)

The result of the variance inflation factor in Table 4 further strengthens the result of the correlation coefficient. The centred variance inflation factor of the variables are not substantially different from 1.00 and below the benchmark of 10, above which is an indication of the problem of multicollinearity

Table 5: Results of the Regression Diagnostics

Diagnostic Test	Test type	F-Value (probability)	Remarks
Serial correlation	Breusch- Godfrey	0.828032 (0.4587)	Not serially correlated
Heteroskedasticity	Breusch-Pagan-Godfrey	0.739137 (0.5432)	Homoskedasticity

Source: Researchers Computations (2018)

The results of the classical regression assumption tests are presented in Table 5. The result of the serial correlation test using the Breusch-Godfrey test reported a probability value of 0.4587 and F-statistic of 0.828032. The result is insignificant and could not sustain the null hypothesis of seriality correlated variables, and the alternate hypothesis of the absence of serial correlation was accepted. The null hypothesis of heteroskedastic residuals was rejected based on the insignificant value of the probability of 0.5432. The alternate hypothesis of homoskedastic residuals was accepted.

Multivariate Analysis

Table 6: Results of the Regression analyses

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	893.7805	166.3200	5.373859	0.0001
PPT	6.282276	2.193304	2.864298	0.0118
TTR	-114404.0	19836.88	-5.767239	0.0000
C	-79827914	42150324	-1.893886	0.0777
AR(2)	-0.288491	0.306937	-0.939904	0.3622
R-squared	0.756059	Mean dependent var	63969059	
Adjusted R-squared	0.691008	S.D. dependent var	1.77E+08	
S.E. of regression	98593245	Akaike info criterion	39.86322	
Sum squared resid	1.46E+17	Schwarz criterion	40.11215	
Log-likelihood	-393.6322	Hannan-Quinn criter.	39.91182	
F-statistic	11.62259	Durbin-Watson stat	1.640605	
Prob(F-statistic)	0.000169			

Source: Researchers Computations (2018)

The regression result is presented in Table 6. The Adjusted R-squared value of 0.691008 indicates that about 69% systematic variation in the real gross domestic product is accounted for by the independent variables of petroleum profit tax and foreign direct investment. The F-statistic of 11.62259 and the associated probability value of 0.000169 indicates a significant linear relationship between the dependent variable and the explanatory variables. The Durbin-Watson statistic of 1.6406605 is not substantially different from the 2.00 benchmark and indicative of the absence of the problem of multicollinearity.

Petroleum profit tax reported a mean value of 7211959 which indicates an average of 7211959 million nairas are represented on the sampled period (see Table 2). The variable reported a positive coefficient of 6.282276 and a robust t-value of 2.864298 which means the average petroleum profit tax representation of 7211959 million is sufficient to improve the gross domestic product of the nation for the period. Foreign direct investment reported at-value of 5.373859 which means the foreign direct investment has a positive effect on the real gross domestic product as used as a proxy for economic growth in Nigeria.

The result of the explanatory variable of total tax revenue is negative and statistically significant at the 5% level. The variable reported at-value of -5.767239 and significant probability value of 0.0000.

Conclusion and Recommendations

The study focused on exploring the effect of petroleum income tax on Nigeria's economic growth. The study showed from the research that petroleum income tax and foreign direct investment have a positive and significant impact on Nigeria's economic growth as reflected by the p-value of 0.0118 and 0.0001 respectively. The estimate showed that this impact was 5%. However, the findings revealed that TTR, as shown by the t and p-value (-5.767239 and 0.0000 respectively), has a negative and significant effect on economic growth. The findings of this study are however in tandem with Onaolapo et.al(2013), Emmanuel and Adejare (2014), Etale and Biwgilar (2016), Oladipupo and Ibadin (2015), Okoh, Onyekwelu and Iyidiobi (2016) which showed positive and a significant relationship between PPT and Economic growth. Every system has its shortcomings and if noticed, they have to be corrected to enhance its effectiveness and continued relevance. Premised on this, the study recommends that incentives available to investors in the petroleum industry are not good enough to reduce the effect of social crisis on the risk premium of investors, revenue from petroleum profit tax should be properly used for tangible and physical infrastructures, however, the incentives should be adjusted accordingly through improvement in fiscal policies and putting better infrastructure in place, especially those that will bring about the proper functioning of petroleum industry and administration of petroleum profit tax in Nigeria.

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