



IMPACT OF PETROLEUM PROFIT TAX ON ECONOMIC DEVELOPMENT OF NIGERIA FROM 2015 TO 2021.

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Cite this article:

Ezeibe, A. E., Okwor, I., Okwor, E. E., Anichebe, N. A., Akpeh, C. O., Agu, E. (2025), Impact of Petroleum Profit Tax on Economic Development of Nigeria From 2015 to 2021. African Journal of Economics and Sustainable Development 8(4), 107-116. DOI: 10.52589/AJESD-QWHTWX8T

Manuscript History

Received: 20 Nov 2022

Accepted: 20 Jan 2023

Published: 30 Oct 2025

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ABSTRACT: *This study seeks to evaluate the impact of petroleum profit tax on growth rate of the national income in Nigeria from 2015 to 2021. Expost-facto research design was employed in carrying out the research. The national income served as the dependent variable, petroleum profit tax was used as the independent variable, while the inflation is the control variable. Secondary data was made applicable as the study carried out unit root test, homoscedastic test, Parameter stability test and multiple regression model. The result of the regression function indicated that petroleum profit tax had no significant impact on gross national income in Nigeria from 2015 to 2021. The study therefore, recommends that revenue from petroleum profit tax should be invested in other sectors of the economy like agriculture, construction and manufacturing areas in order for government to achieve economic development.*

KEYWORDS: Economic growth, Petroleum Profit Tax, Gross National Income Growth Rate.



INTRODUCTION

The Petroleum Profit Tax (PPT) was implemented in Nigeria in 1959 under the Petroleum Profits Tax Acts of 1959, as amended, following the commercial oil discovery at Oloibiri in 1956. This was done in an effort to redistribute money between the rich, industrialized economies, represented by the multinational corporations, and the developing, emerging, and developing economies, from whom the petroleum resources are extracted. Due to the high potential for environmental pollution and degradation resulting from industry activities, the oil industry is a target for taxation as a means of regulating its activity and promoting government efforts to create a cleaner and healthier environment. The high profit profile of successful investments in the oil industry makes it a veritable source for satisfying government objectives to raise money to meet its socio-political and economic obligations to the citizenry. By taxing output for environmental and pollution offenses, cleaner production may be attained (Ogbonna, 2009). As Africa's most populous country, Nigeria boasts of the continent's second largest oil reserves and has a very promising growth outlook. Poised to eclipse as Africa's largest economy by 2016, Nigeria is becoming a rather worthy recipient of foreign capital, receiving anywhere from \$10-\$12 billion per year. However, in order to take full advantage of what foreign investment has to offer, Nigeria has been trying to improve its economic and political climate.

Taxation remains a veritable instrument for national development. Apart from being a major source of revenue for the government, taxation provides goods and services needed by citizens. Taxation policies can stimulate economic growth and job creation through its impact on investment and capital formulation in the economy. In this respect reforms in the administration of petroleum tax system that ensure effectiveness, equity and efficiency are conditions for healthy public 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, (2003), the oil glut of the 80's that greatly impacted on global oil prices and the low OPEC quota, foisted on the country's various fiscal regime for petroleum especially the petroleum profit tax of 85% and 20% royalty regime, all in a bid to get more revenue to develop the nation's economy. Since then Nigeria has had lofty aims for its oil industry, including the desire to increase reserve from 34 billion barrels to 40 billion 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 Money 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.



Statement of the Problem

Despite all these incentives available for the oil exploration companies, the industry still encounters the following identified problems: on provision of corporate social responsibilities in the communities of oil extraction where their land has been depredated and unsuitable for agricultural produce, and the people are living below United Nations standard of living. This has resulted in destruction of production installations and cut down in production level.

Objectives of The Study is to evaluate the impact of petroleum profit tax on growth rate of the national income.

Research Questions

- i. What is the impact of petroleum profit tax on growth rate of the national income?

Scope of the Study

The focus of this paper is to evaluate the impact of petroleum profit tax on the development of Nigerian economy from 2015 to 2019. The choice of the base year was premised on the transition era of Buhari's administration from Dr Goodluck Jonathan as at 2015.

REVIEW OF RELATED LITERATURE

Conceptual Review

Petroleum Profit Tax

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% of the export revenue, over 90% of foreign exchange earnings and about 80% of government revenue.

Meaning of Economic Development and Economic Growth

Economic development is a policy-intervention effort targeted at the economic and social well-being of people (Salmon Valley Business Innovation Centre, 2014). Its concern is on improvement in the quality of life of people, introduction of new goods and services using modern technological, mitigation of risk and dynamics of innovation and entrepreneurship (Hadjimichael et al., 2014). The objective of economic development is to create an enabling environment for local communities and regions to develop new ways of production of goods in such quantities that may lead to exportation to other countries. Availability of financial resources from exportation leads to more investment in infrastructure for the benefit of the society and improvement in living conditions of the people, in education, transportation



networks, health conditions, water supply, sewage and sanitation conditions (SVBIC, 2014). The changes create the conditions for long-run economic growth by positioning the economy on a higher growth trajectory (Hadji Michael et al., 2014)

Growth Rate of the National Income

The three broad sectors of the Nigerian economy are primary/agriculture/natural resources, secondary processing and manufacturing, and tertiary/services sectors. Two sectors dominated the Nigerian economy namely, agriculture and crude oil petroleum. In the 1960s and early 1970s, the primary revenue earner was agriculture and from the late 1970s to date, it has been the oil sector. Agriculture was the core driving force of economic activities then, followed by manufacturing and mining activities at very low levels of development (Apata et al., 2011). From the early 1970s, the Federal Government of Nigeria started experiencing an immense increase in revenue derived from crude oil. This sudden wealth from crude oil was invested in socio-economic infrastructure across the country especially in the urban cities, resulting in the growth of the country's service sector at a very high rate.

Gross Domestic Product (GDP)

GDP is an income calculation included within GNI. In fact, GNI can be represented as GDP + net foreign factor income. By comparing a country's GDP and GNI, we can determine how much foreign aid or foreign labor a country receives. Most countries have very little difference between their GDP and GNI—for instance; in 2016 the United States had a GNI only about 1.5 percent higher than its GDP. But in other cases, there is a large difference—if a country's GNI is much higher than their GDP, it means they receive a lot of foreign aid, whereas if their GDP is much higher than their GNI, it means that non-citizens make up a large portion of the country's production.

Theoretical Review

Classical Growth Theory

The Classical Growth Theory associated with 19th century Economists, Adam Smith and David Ricardo postulates that a country's economic growth will decrease with an increasing population and limited resources. Such a postulation is an implication of the belief of classical growth theory economists who think that a temporary increase in real GDP per person inevitably leads to a population explosion, which would limit a nation's resources, consequently lowering real GDP. As a result, the country's economic growth will start to slow.

Neoclassical Growth Model

The Neoclassical Growth Theory linked with Two British Philosophers, Robert Solow and Trevor Swan in 1956, is an economic model of growth that outlines how a steady economic growth rate results when three economic forces come into play: labor, capital, and technology. The simplest and most popular version of the Neoclassical Growth Model is the solow-swan model. The theory postulates that short-term economic equilibrium is a result of varying amounts of labor and capital that play a vital role in the production process. The theory argues that technological change significantly influences the overall functioning of an economy. Neoclassical growth theory outlines the three factors necessary for a growing



economy. However, the theory puts emphasis on its claim that temporary, or short-term equilibrium, is different from long-term equilibrium and does not require any of the three factors.

Endogenous Growth Theory

The Endogenous Growth Theory developed by Paul Romer in 1960s, states that economic growth is generated internally in the economy, i.e., through endogenous forces, and not through exogenous ones. The theory contrasts with the neoclassical growth model, which claims that external factors such as technological progress, etc. are the main sources of economic growth.

However, in spite of the theories mentioned above, this study is anchored on Neoclassical growth Model. This because the theory assumes that steady economic growth and equilibrium can only be achieved by interaction of three factors of production i.e. labor, capital and technology.

Empirical Review

Jibrin, Ejura and Ifurueze, (2012) analyze the impact of Petroleum Profits tax on economic development in Nigeria using time series data from 2000 to 2010. Simple regression was used to estimate the time series data. Among other results, the study found a statistically significant relationship between Petroleum Profits tax and economic development in Nigeria

Worlu and Emeka (2012) examine the impact of Tax Revenue on the economic growth of Nigeria between 1980 and 2007 using its effect on infrastructural development. They reported that tax revenue has direct and indirect relationships with the infrastructural development and the gross domestic product respectively (GDP). The authors argue that the channels through which tax revenue affects economic growth in Nigeria are infrastructural development, foreign direct investment, and GDP. They stressed that availability of infrastructure stirs up an investment that in turn brings about economic growth.

Bukie and Adejumo (2013) examine the effect of tax revenue on economic growth of Nigeria for the period 1970 to 2011, regressing indicators of economic growth (domestic investment, labour force and foreign direct investment) on tax revenue. The result shows that the indicators all have a positive and significant relationship with economic growth in Nigeria.

Owolabi and Okwu (2011) examine the contribution of only Value Added Tax (VAT) to Development of Lagos State Economy from 2001 to 2005. The study regressed each development indicator (infrastructural, environmental management, education sector, youth and social welfare, agricultural, healthcare, and transportation) on VAT revenue proceeds generated by Lagos State during the study period. Their finding was that revenue generated from VAT positively contributed to the development of the respective sectors of Lagos State economy during the period studied. Adereti et al. (2011) extended the study by examining the impact of VAT revenue on economic growth of Nigeria during the period 1994 to 2008 using time series data on the GDP, VAT Revenue, Total Tax Revenue and the total revenue of the federal government. The literature on the growth implications of Petroleum Profits tax is surprisingly scarce given that petroleum accounts for the highest percentage of government revenue in oil producing countries of the world. While there is robust empirical literature on



oil-led development, few researchers have addressed the relationship between Petroleum Profits tax and economic growth.

Ogbonna and Ebimobowei (2012), using macroeconomic data from 1970 to 2010 in Nigeria, investigated the effect of Petroleum Profits tax on economic growth. The study adopted the Johansen co-integration approach and the Granger causality tests to estimate the data for the study. The study found a statically significant long-run relationship between Petroleum Profits tax and economic growth in Nigeria. Specifically, the study concluded that Petroleum Profits tax was one of the most important direct taxes in Nigeria.

In a similar study, Ilaboya, (2012), examined tax composition and economic growth in Nigeria within the endogenous growth framework, using time series data from 1980 to 2011. The study adopted co-integration and error correction mechanism in addressing the direction of the relationship. The study found a statistically significant relationship between Petroleum Profits tax and economic growth. Specifically, the subcomponents of Petroleum Profits tax reported a robust coefficient of (1.5495) and a positive t-value of (7.6586) at the 1% level of significance.

Omojumite and Iboma, (2012) examined the productivity of the Nigerian tax system between 1970 and 2010. They formulated ten models (including a model which tested the relationship between Petroleum Profits tax and economic growth) for the study and used Ordinary Least Square method to estimate the data. To be able to capture changes in the Nigerian macroeconomic environment, the data set was disaggregated into three periods. The result of the analysis revealed that overall, the elasticity of all the tax system including the Petroleum Profits tax were less than one even though they displayed positive elasticity coefficients. In summary, the result revealed that the Nigerian tax system is less productive irrespective of the level of data aggregation.

Iyoha and Oriakhi, (2010) examined revenue generation enhancement strategies with emphasis on the government institutional development. Among others, they tested the relationship between Petroleum Profits tax and economic growth in Nigeria. The study covered the period from 1991 to 2006. The Ordinary Least Square estimation technique was employed. Surprisingly, the study found an insignificant impact of Petroleum Profits tax on Gross Domestic Product having reported a buoyancy coefficient of (1.1). According to them, the poor performance of the variable may be as a result of youth restiveness in the Niger Delta region of Nigeria.

Gap In Literature: The study deemed it relevant to critically use the scope to close an existing gap by evaluating the impact of petroleum profit tax on the gross national income of a country's particular administration in Africa unlike the conventional cross-country studies over a long period of time, not considering the administrative tenure of a leader.



METHODOLOGY

The study used *expost-factor* and analytical research design. The data is historical in nature where the researcher can-not manipulate the variables. The use of secondary data was made applicable. The data was sourced from CBN statistical bulletin, and world bank development indicator.

Description of variables:

Petroleum profit tax: This comprises the income emanating from the petroleum businesses carried out in the country by licensed foreigners and citizens in a particular year.

Gross national income: is defined as gross domestic product, plus net receipts from abroad of compensation of employees from various areas, property income and net taxes less subsidies on production.

Inflation: Inflation is generally thought and known as an inordinate rise in the general level of prices.

DATA ANALYSIS

Unit Root Test

Statement of Hypothesis,

H₀: Series has a Unit root,

H₁: Series has no Unit root:

Decision criteria: Reject the null hypothesis if the value of augmented dick-fuller test is more negative than the critical value at 5% level of significance, otherwise accept the null.

Table 1: UNIT ROOT TEST TABLE

Variables	ADF statistic@ 5%	T-stat	P-Value	Order of Diff	Decision
PPT	-2.0823	-2.3968	0.0321	1(1)	Reject null
INFL	-2.0823	-6.3573	0.0006	1(I)	Reject null
GNIGR	-2.0212	-4.4539	0.0014	1(0)	Reject null

Source: Researchers computation.

PPT = Petroleum Profit Tax, INFL= Inflation, GNIGR= Gross National Income Growth Rate.

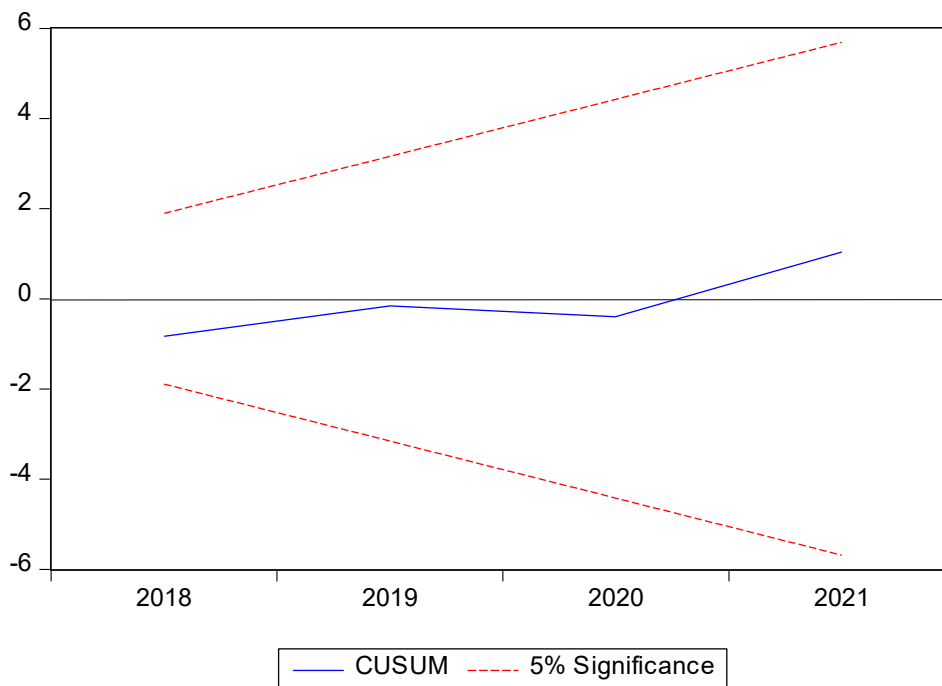
PPT and INFL are stationary at difference order one ,1(1) where their respective T-statistics (-2.3968 and -6.3573) are recorded to be more negative than their critical values at 5% (-2.0823 and -2.0823). Their corresponding P-values (0.0321 and 0.0006) are less than 5% level of significance. GNIGR is stationary at difference order zero 1(0), with corresponding P-value less than 5%. Since the value of T-statistic is more negative than ADF statistic at 5%. There exist absence of unit root among the variables.

**Table 2: Heteroskedasticity Test: Breusch-Pagan-Godfrey**

F-statistic	5.412081	Prob. F(2,4)	0.0728
Obs*R-squared	5.111192	Prob. Chi-Square(2)	0.0776
Scaled explained SS	1.037145	Prob. Chi-Square(2)	0.5954

Source: *Researchers computation*

Table 2 indicates that P-values of (F- statistic, Observed R- squared and Scaled explained SS) are all greater than 5% level of significance (0.072/,0.0776 and 0.5354) which implied that the variance of error terms are constant (Homoscedastic).

Table 3: Parameter Stability Table

Source: *Researchers computation*

From the table 3, it is observed that the parameter blue line is in between the two 5% significant red lines and could be inferred that the parameters are stable over the period under study. There is no evidence of deviation from point of origin to the year ended 2021.



Test of Hypothesis

Statement of Hypothesis in Null Form

H₀: Petroleum Profit Tax Have no significant impact on the gross national income of the Nigerian economy from 2015 to 2021.

Decision Criteria: Accept the null hypothesis if the P-value of T-statistic is greater than 5% level of significance, otherwise reject the null.

Table 4: Multiple Regression Table

Variable	Coefficients	P- Values	R- Sqared	Durbin-Wat
GNIGR	GNIGR			
INFLATION	-0.0834	0.7510	0.66	1.52
LNPTT	1.843735	0.1111		

Source: *Researchers computation*

GNIGR = Gross National Income Growth Rate, LNPTT= Natural Log of Petroleum profit Tax.

Table 4 shows the result of multiple regressions carried out with GNIGR as the dependent variable, LNPTT as the independent variable and Inflation as the control variable. The coefficient of the explanatory variable is positively signed (1.843735). The corresponding P-value of PPT is (0.1111) not less than 5% level of significance. There is evidence of 66% variation explained as caused by LNPTT on GNIGR and balance of 34% unexplained as a result of variables not included in the model. Evidence of positive serial autocorrelation on Durbin-Watson statistics of 1.52.

RESULT

Since table 4 disclosed the outcome of the regression result, the study implied that petroleum profit tax had a positive and non-significant impact on the gross national income of Nigerian economy over the years under study. The study therefore, accepts the null hypothesis and state that PPT had no significant impact on GNIGR.

CONCLUSION

It is reasonable to generally conclude that Petroleum Profit Tax have no significant impact on the development of Nigerian economy. This finding is the prudent management of petroleum profit tax is very crucial to the development of the economy. Petroleum profit tax plays a key role in government's funding of developmental projects such as provision of social and capital goods and carrying out major environmental protection activities most especially in the wet-lands of Niger Delta. Revenue from petroleum profit tax should be invested in these areas in order for government to achieve economic development, the study recommends to diversify the sectoral contribution of national income, industrial sector of the country should be developed to a considerable extent. Accordingly, the small, medium and large-scale



industries should be developed simultaneously which will pave the way for attaining higher level of income and employment.

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