# PETROLEUM PROFIT TAX AND NIGERIA ECONOMIC DEVELOPMENT

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## ABSTRACT

*Petroleum Profit Tax is a major source of revenue for the Federal Government of Nigeria to meet its statutory obligations of ensuring the economic development of Nigeria. It assists the government to achieve the country's macroeconomic objective in the areas of fiscal and monetary policies.However,it has been observed that non-provision of corporate social responsibilities in the communities where there is extraction of crude oil result into constant destruction of production installations, and hindrance to production; tax avoidance and evasion d poor tax administration, and weak fiscal policy have been negating the increase in tax income generated. The main objective of this paper is to assess the relationship between petroleum profit tax and economic development of Nigeria for the enhancement of the welfare of the citizens. Primary and secondary data were used to collect the research data, while chi-square and multiple regression statistical models were used to analyze the results of the field work. The findings reveal that there is a very strong relationship between petroleum profit tax and economic development of Nigeria, tax avoidance and evasion are major hindrance to income growth in this sector, poor tax administration is a problem to effectiveness and efficiency of this source of income, and lack of corporate social responsibilities is causing unrest in the crude oil production zone. The paper recommends the need for the government to make judicious use income generated for the benefits of Nigerians, and among others the need for tax reforms to address the issue of tax evasion and avoidance.*

## KEYWORDS

Avoidance, Corporate, Evasion, Economy, Responsibility.

## INTRODUCTION

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. 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 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 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 monet 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.

Gelb (1981) averred that oil and gas production had been reveiving favorable tax treatment for many years, although one special provision dealing with percentage depletion was repeated for most oil and gas produces in 1975.The whole of the industry from exploration to production is filled with risks. From the high possibility that a hole in the ground will not yield reserves, the risks that the reserves if discovered will not be in commercial quantity to justify the investment, the technology risk in oil field development, to the failure of operations and vagaries of international oil prices. Thus upstream investment remains very risky and unpredictable. Most times development of new fields involve the sinking of capital before actual production reveals the reservoir characteristics, unlike most other economic activities. 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.Envirommental 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.

**FOCUS**

The focus of this paper is to evaluate the economic contribution of petroleum profit tax to the growth of Nigerian economy, and the enhancement of the economic well being of its citizens. Petroleum profit tax is a major source of the income being generated by the Federal Government of Nigeria. The industry remains the largest and most important industry in Nigerian economy. In view of the high rate of taxing the petroleum operatives, tax allowances are given to the companies as incentives. Tax allowance is a form of incentive used to ameliorate the difficulties and high tax burden inherent in a fiscal regime in order to include, promote and sustain investment in that fiscal regime. Tax allowances may not ameliorate the political risks of an investment; but will go a long way in addressing the imbalances especially between the government and the investor arising from a very tax burden. Tax allowance give a picture of how much of the investment risks the government is willing to share with the investor,and therefore affect the investor's decision based on his analysis of the after tax return of the investment in the prevailing circumstances. Tax allowances also make a fiscal regime more conducive and attractive for investment by taking cognizance of investment costs and losses, thus encouraging the investor to take more risks especially in less explored regions and for marginal fields. For the ascertainment of the profit of the company in involved in petroleum operations, the following is the aggregate of the income assessable to tax: proceeds of sale of all chargeable oil in the period, value of chargeable oil disposed in the period under review, value of chargeable natural gas in the period and all income in the period that is incidental to and arising from petroleum operations. In determining the chargeable profits, the Petroleum Profit Act of 1959 as amended in 1990 provides for some incentives or tax benefits, which involve the following:

Value of Natural Gas sold: The value of the gas contract may not be fully subjected to tax because discount is granted for possible losses arising from spillage and evaporation. The amount of discount to be granted is determined by the quality of the gas while the quality of the gas itself is defined by the load factor. The stated load factor has a corresponding gas factor as shown below. The gas factor or G-factor means the gas production cost adjustment factor.Where the actual load factor for a gas contract differs from the stated standard ,the corresponding gas factor will be determined by extrapolation.

| LOAF FACTOR | GAS FACTOR |
|---|---|
| $50^{O}$ | 16.9% |
| $60^{O}$ | 15.5% |
| $70^{O}$ | 14.3% |
| $80^{O}$ | 13.6% |

Capital Allowance: Capital allowances are granted to companies engaged in petroleum operations in lieu of depreciation in accordance with Petroleum Profit Tax Act (PPTA) 1990 broken into two types:

**a**. **INVESTMENT TAX CREDIT**: This is one of the tax offsets granted companies engaged in petroleum operations under section 17 of PPTA 1990 as stated thus:

| QUALIFYING EXPENDITURE | RATE |
|---|---|
| On-shore operations (Land operations) | 5% |
| Operations in territorial waters and continental shelf up to and including 100 meters of water depth (off-shore operations) | 10% |
| Operations in territorial waters and continental shelf areas in water depth between 100 meters and 200 meters (off-shore operations) | 15% |
| Operations in territorial waters and continental shelf areas beyond meters of water depth | 20% |

**b**.**ANNUAL ALLOWANCE**: An annual allowance is granted in respect of qualifying capital expenditure incurred wholly, exclusively and necessarily by any company on any asset for a given period. Annual allowances are granted on a straight-line basis, over a five year period, while 1% of the initial cost of each asset is to be retained in the books, and may only be disposed off on the authority of a certificate of disposal issued by the federal minister of mines and power. The 1% balance must be retained for as long as the asset has not been sold. According to PPTA 1990, table II of the second schedule stipulated the following rates as incentives:

| | |
|---|---|
| Year 1 | 20% |
| Year 2 | 20% |
| Year 3 | 20% |
| Year 4 | 20% |
| Year 5 | 19% |

## RESEARCH PROBLEM

Despite all these incentives available for the oil exploration companies, the industry still encounter the following identified problems: on-provision of corporate social responsibilities in the communities of oil extraction where their land has been degradated 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; there is recorded poor tax administration and weak fiscal policies; there is pronounced tax avoidance and tax evasion which have negated the quantum of income expectation from this important sector of the economy. According to Chartered Institute of Taxation of Nigerian CITN (2005), in a bid to increase the accruing revenue to the government, the Federal Inland Revenue Service early in 2005 initiated a recovery drive which yielded a recovery of about N12billion from five major oil companies in Nigeria viz:

| | | |
|---|---|---|
| Agip oil | \$57.79million | (N8.09billion) |
| Philips oil | \$13.0million | (N1.8billion) |

| | | |
|---|---|---|
| Halliburton | $6.686million | (N939million) |
| Halliburton | | N139, 970million |
| Technit | $464,204 | (N64, 988million). |

## OBJECTIVES OF STUDY

The main objective of this paper is to evaluate the relationship of petroleum profit tax and economic development of Nigeria for the enhancement of the standard of living of the citizens. Other objectives are to assess the petroleum profit administration with a view to putting in place a good policy of administering the tax system for increase in the amount of revenue generated; to assess the negative effect of tax evasion and tax avoidance on income generation with a view to installing a good control system in Nigerian economy.

## THE CONCEPT OF TAX EVASION AND AVOIDANCE

Tax evasion and its sister tax avoidance are key fundamental problems of tax administration in a developing country like Nigeria. All forms of taxes in Nigeria are to some extent avoided or evaded because the administrative machinery to ensure effectiveness is weak. As a result of the diversities and complexity in human nature and activities, no tax, law can capture everything hence; loophole will exist and can only be reduced or eliminated through policy reforms. Tax evasion and avoidance lead to loss of revenue for the government. A high degree of tax evasion has unpleasant repercussions on resources; it affects wealth redistribution and economic growth; it creates artificial bias in macroeconomic indicators. No matter how fair a tax system appears to be on paper, it will lack the standards of equity if there is high incidence of tax evasion or artificial tax avoidance. The border line of tax evasion and avoidance is very thin. Excess tax avoidance leads to tax evasion. According to Nzotta (2007:40), tax avoidance and evasion in Nigeria is a serious limitation to the revenue mobilization efforts of the public sector in the country. The different tiers of government in Nigeria rely on taxes as a major source of revenue for the implementation of their programmes.Thus,a high level of tax avoidance and evasion sustains a number of distortions in the resource profile of the government. Tax evasion and avoidance have generated considerable interest and concern to the government and finance experts in most recent time. This is because of their socio-economic implications and the effects on government's revenues and fiscal viability in the long run. Canadian Department of National Revenue gave a comprehensive definition of tax evasion: "Tax evasion is the commission or, the omission of an act knowing with intent to deceive so that the tax reported by the taxpayer is less than the tax payable under the law, or a conspiracy to commit such an offence. This may be accomplished by the deliberate omission of revenue, the fraudulent claiming of expenses or allowances, and the deliberate misrepresentation, concealment, or withholding of materials facts"

## CONCEPT OF ECONOMIC DEVELOPENT

Economic development is the development of economic wealth of countries or regions for the well-being of their inhabitants. From a policy perspective, economic development can be defined vices as efforts that seek to improve the economic well-being and quality of life for a community by creating jobs and supporting or growing incomes and the tax base. Economic development implies improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates.GDP is a specific measure of economic welfare. Economic development encompasses policies that governments undertake to meet broad economic objectives such as price stability, high employment, expanded tax base, and sustainable growth

## RESEARCH QUESTIONS

The following questions are pertinent to work: a. what is the relationship between petroleum profit tax and economic development? b. What is the effect of the weak and poor administration of petroleum profit tax on Federal Government revenue generation in Nigerian economy?
c.What are the effects of tax evasion and tax avoidance of petroleum profit tax on the development of Nigerian economy?

## HYPOTHESES

Four hypotheses stated in null forms were formulated to carry out this work.

1. There is no significant relationship between petroleum profit tax and economic development of Nigeria.
2. Tax evasion and avoidance and tax avoidance has no negative impact on revenue generation through petroleum profit tax.
3. Tax administration in Nigeria is not effective and efficient and allows for tax evasion and tax avoidance in petroleum profit tax generation in Nigerian economy.
4. Non-provision of Corporate Social responsibilities in oil producing region has no negative impact on the level of production and petroleum profit tax generation in Nigerian economy

## LITERATURE REVIEW

Nwete (2004:1-23) said Nigeria cannot finance social and economic growth in the absence of a large oil revenue base. Oil in Nigeria accounts for about 90-95per cent of its export revenues, over 90percent of foreign exchange earnings and about 80% of government revenue. The oil industry is the main hub of the Nigerian economy, and needs to be sustained if the country is to achieve real economy growth. He centered his study on how tax allowances can promote investment in Nigerian petroleum industry. He said Nigeria has the aim to optimize its oil revenue, and achieve increase in the local content so as to attract foreign investment as a way of promoting and sustaining investment in the oil industry. However the bane of the industry has been the failure of the allowances and incentives to attract more investment and more wealth capable of sustaining the future growth of the economy even when the oil wells have dried up. He averred that there is the need to have in place a fiscal regime that will, through tax allowances and other incentives become investor friendly by balancing government needs with those of investors through its stability, efficiency and flexibility. He explained the risks inherent in the industry like high possibility that a hole in the ground will not yield reserves, the risks that the reserves if discovered will not be in commercial quantity to justify the investment, the technology risk in oil field development, the failure of operations and vagaries of international oil prices. That upstream investment remains very risky and unpredictable-most times development of new fields involves the sinking of capital before actual production reveals the reservoir characteristics, unlike most other economic activities. He therefore explained that tax allowance is a form of incentive used to ameliorate the difficulties and high tax burden inherent in a fiscal regime in order to induce, promote and sustain investment in that fiscal regime. Nwete said further that the allowances and incentives have been unable to promote and sustain investment to the level desired by government because the fiscal regime and the allowances and incentives neither encourage marginal investment nor adequately enhance the present value terms of the investors post tax return due to inherent constraints and limitations. That the petroleum profit tax of 85percent even without other levies and taxes is among the highest in the world. The 50percent rate under Production Sharing Contract (PSC) is also on the high side. The 15percent minimum tax liability is a big burden to a company that is yet to breakeven especially after paying bonuses, royalties and other charges. The 20percent royalty for onshore fields is also not in line with global trends. He recommended an improvement on the present models like adopting a flat rate of 40percent and an additional profit tax based on the company's internal rate of return that will promote and sustain investment, and provide an incentive to pay more tax that can be used to develop other sectors of the economy. That the tax regime should be flexible to accommodate any change affecting the global industry especially in the face of foreign tax credit system.

Gelb (1981:1-35) analyzed the removal of controls on the prices of domestically produced crude oil in the United States, that oil companies would be expected to derive substantially higher revenue and profits from the new price levels. Much of the additional profit would be an unearned windfall that should be recovered through a tax, which would be used to assist the financing of other energy objectives and related energy programs, and for equity and income distribution reasons. Windfall Profit Tax (WPT) proposals are in theory, mechanism for the redistribution of income and reallocation of resources-the shifting of anticipated industry revenue to the general public or low-income groups or for use in energy conservation and alternate energy development. He analyzed the federal controls on oil which covered virtually all phases of production, refining, and distribution of crude oil and petroleum products. That oil and gas production had been receiving favorable tax treatment for many years. A lower tax rate leads to a greater allocation of capital to the production of oil and gas than would occur under a normal tax rate.

Egbogah (2009:1-5) stated that oil exploration and production activities in Nigeria in its over fifty years of operations is yet to operate at standards and levels of efficiency expected of a twenty century oil and gas industry. The operating landscape, business and competitive environments, both locally in Nigeria and internationally have continued to change rapidly in the last few years in such a manner that the Nigeria's oil and gas industry as it is currently set up ,can no longer operate in a sustainable manner. Despite the evolution, reforms and internal restructuring, the public sector of the industry has yet to fully meet the aspiration of the Federal Government and key stakeholders. He stated further that the existing structure of the industry and enabling legislation were no longer consistent with global standards. The private sector of the upstream sector of the industry dominated and operated by the international oil and gas companies in joint venture with Nigeria National Petroleum Corporation equally continued to face new challenges mainly with funding and cash call problems, as well as challenges in the Niger Delta region. That the oil and gas sector accounts for about 30-40percent of Gross Domestic Product (GDP), 80percent of government revenues and 95percent of foreign exchange earnings, as is also the backbone of Nigeria's national development plan. Efficient management of the industry will have a significant impact not only on the well being and future prospects of the Nigerian economy, but also on the security and stability of global energy supply and the growth of the economy. He discussed about current reforms in the industry first that the reform clearly defines three different sectors of the industry to facilitate the governance processes and regulatory functions.

1. Upstream sector: covering oil and gas exploration and development.
2. Midstream sector: covering oil transportation, gas transmission, gas processing; derivative processes/production, and oil refining.
3. Downstream sector: covering gas distribution and sale, petroleum product distribution and storage and petroleum product retail.

The petroleum industry bill, he continued will promote transparency in the oil and gas industry in Nigeria. It is the expectation of government that the new law will transform the industry from the most opaque to one of the most open and transparent in the world. The second key feature of the reforms is separation of policy, regulatory and commercial roles of the public sector entities. The separated role will be assigned to appropriate agencies to ensure clear delineation of responsibilities. The three regulatory bodies are:

1. National Petroleum Inspectorate, which is autonomous and to ensure the efficient safe, effective and sustainable infrastructural development of upstream petroleum operations.
2. Petroleum Products Regulatory Authority, which will regulate the downstream sector of the industry, and promote implementation of national technical and commercial policies for the downstream operations.
3. National Midstream Regulatory Agency, which will regulate the midstream petroleum operations, and promote the implementation of national technical and commercial policies of the midstream sector of petroleum operations in Nigeria.

He mentioned some of the challenges facing the industry among which are funding, joint venture funding is a big challenge which a long-term solution had to be sought. All companies engaged in upstream petroleum operation including the national oil company will be required to pay company income tax as well as introduction of Nigeria Hydrocarbon Tax (NHT), which is a simplified version of petroleum profit tax. He concluded that Nigeria oil and gas industry reform programme is about harness opportunities and addressing the challenges. It is a very comprehensive and radical transformation aimed at ensuring that Nigeria gets the maximum benefits, directly and indirectly, across oil and gas values chains. Benefits will accrue to Nigerian economy in the areas enhanced revenue in crude oil and gas sale, and increase in petroleum profit tax. It opens up horizons for wider participation of stakeholders.

UNDP/World Bank (2004:13-113) stated that oil and gas are critical to Nigeria's economic and social performance. Oil alone accounts for 40percents of the country's GDP, 70percent of budget revenue and 95percent of foreign exchange earnings .Nigeria's dependence on petroleum is much greater than that of many other major producing countries. Broadly speaking, they continued that both versions of the tax/royalty/memorandum of understanding (MOU) system (the 1991 MOU and the proposed new MOU) and the current model production sharing controls (PSCs) meet most oil taxation objectives, including the provision of adequate incentives to invest, transfer of a major share of project rents to the government, a modestly progressive government take, and international competitiveness. A major revision of the existing levels of structure of oil taxation is not recommended, especially given the present need to retain and increase investor confidence in Nigeria. However, they recommend the following areas for review of terms for mutual benefits of the government and investor:

Small fields, is not commercially viable under existing terms, which should be revised to make the projects interesting to investors for a win-win opportunity.

Deep offshore should involve not only a reassessment of the appropriate level of government take, but also improvements in the applicable PSC structure to increase its efficiency and its sensitivity to underlying project profitability.

Cost containment. Many of the provisions of the existing tax system while satisfying other objectives counter the objective of cost containment.

They averred that the investment allowance, accelerated depreciation and consolidation, should be reviewed to see whether there is room for improvement in their design( the tax invasion clause in the new MOU is an interesting innovation in this respect),but probably the greater implication of this finding is the need for institutional capacity to monitor costs effectively. They explained further that Nigeria has given an intended and successful boost to gas development by offering very favorable fiscal incentives. In certain circumstances, however, the incentive can produce disturbing results. In particular, provisions which allow gas development cost to be consolidated with oil income which is taxed at an 85percent rate, while gas revenues are taxed at only a 30percent rate can provide an investor with a pot-tax rate of return which is greater than the project's pretax of return. They stated that the institutional capacity to administer petroleum taxes effective lie woefully lacking in Nigeria petroleum tax system. A comparison of relative petroleum dependence in some developing and oil producing countries was analyzed thus:

**TABLE 1: RELATIVE PETROLEUM DEPENDENCE**

| PETROLEUN ACCOUNT FOR | %GDP | %GOV. REV. | %EXPORT |
|---|---|---|---|
| Nigeria | 40 | 70 | 95 |
| Norway | 10 | 15 | 50 |
| Indonesia | 10 | 25 | 15 |
| Algeria | 30 | 65 | 80 |
| Venezuela | 28 | 55 | 70 |
| Mexico | 2 | 30 | 6 |

Source: UNDP: 2004

From the table 1 above, it is evident that Nigeria records the highest ration of performance than other countries. The impact of petroleum on GDP is 40percent above others, the percentage of petroleum to government revenue is 70percent which is the highest, while the percentage to export is 95percent which shows the significance of petroleum industry towards the economic development of Nigeria unlike other countries in analysis whose economy are diversified.

## RESEARCH METHODOLOGY

The work is empirical, exploratory and descriptive. The population chosen is the oil and gas industry, Federal Board of Inland Revenue (FBIR), Federal Inland Revenue Service (FRIS) and Central Bank of Nigeria. Using stratified sampling method, the sample representatives are African Petroleum plc, Beco plc, MRS Oil Nigeria plc, Eternal Oil and Gas plc, Conoil plc, Total plc, and Oando plc, Tax official from FBIR and FRIS. Sixty questionnaires were administered to the Accountants and Finance Managers of the oil companies while forty questionnaires were administered to the tax official in FBIR and FIRS.Both primary data and secondary data were used for the analysis of the work. For the primary data, closed ended questionnaires with five variables of Strongly Agree (SA), Agree (A), Strongly Disagree (SD), Disagree (D) and Indifferent (ID) were adopted with linker scales of 5,4,3,2 and 1 respectively for the variables. Gross Domestic Products (GDP), and federal collected tax revenues from 1981-2007 were obtained from Central Bank of Nigeria for the computation of secondary data (Appendix 1). The statistical method used for the primary data computation is Analysis of Variance (ANOVA) while the method for the secondary data is Multiple Linear Regression (MLR).Statistical Package for Social Sciences (SPSS) was used for the computation of both primary and secondary data.

## ANALYSIS OF RESULTS

The results of the analysis are analyzed according to the findings of each hypothesis.

**Hypothesis 1**: There is no significant relationship between Petroleum Profit Tax and Economic Development.

The secondary data was used to analyze hypothesis 1 with the use of Multiple Linear Regression.

**TABLE 2: RESULTS OF THE MULTIPLE REGRESSION**

| VARIABLE | PEARSON CORRELATION | STANDARD COEFFICIENT | STANDARD ERROR | T-STATISTICS | PROBABILITY |
|---|---|---|---|---|---|
| GDP | 1 | - | 238302.32 | 2.350 | 0.28 |
| PPT | 0.955 | 0 .276 | 0.726 | 3.857 | 0.001 |
| CIT | 0.981 | 0.218 | 19.590 | -0.895 | 0.008 |
| CUS&EXCISE | 0.879 | 0.383 | 8.330 | -3.358 | 0.003 |
| VAT | 0.982 | 1.287 | 25.219 | -3.973 | 0.001 |
| R.Squared | 0.986 | | GDP=GROSS DOMESTIC PRODUCT | | |
| Adjusted R, Squared | 0.984 | | PPT=PETROLEUM PROFIT TAX | | |
| ANOVA:F.Statistics | 391.258 | | CIT=COMPANY INCOME TAX | | |
| Degree of Freedom 1 | 4 | | CUS & EXCISE=CUSTOMS &EXCISE DUTIES | | |
| Degree of Freedom 2 | 22 | | VAT=VALUE ADDED TAX | | |

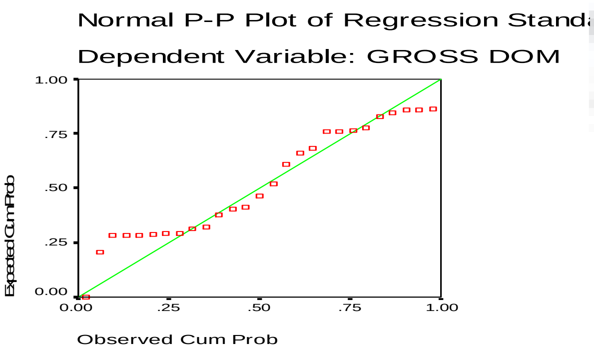

**FIGURE 1: NORMALITY PLOT OF THE MULTIPLE REHRESSION**

From the results analyzed in table 2 above, the Independent variables are highly correlated and hence there is multicollinearity in the results. With the dependent variable (GDP) constant with 1,the Petroleum Profit Tax is .955,Company Income Tax is .981,Customs and Excise Duty is .879 and Value Added Tax is .982.From figure 1 above, the normal probability plot lie in a reasonably straight diagonal line from bottom left to top right. There is no deviation from normality. The scatterplot of the standardized residuals is rectangularly distributed with most scores concentrated in the centre along the zero point. In evaluating the model, the R-Squared of .986 means that 98.6 percent of the variables are explained in the Gross Domestic Product (GDP) which is high and impressive. With the adjusted R-Squared of .984, it means 98.4 percent is the true value of tax and the variables that constitute the GDP which is high and impressive. In computing the Analysis of Variance (ANOVA) in the regression model, the F statistics test computed show a figure of 391.258 at the degree of freedom 4 and 22 and level of significance .05,which is higher than the tabulated value of 2.82.Therefore with all these aforementioned explanations and analysis, the null hypothesis is nullified and accept the alternate which says Petroleum Profit Income Tax has a Significant and positive impact on the economic development of Nigeria .The standardized coefficient from table 1 shows that Petroleum Profit Income Tax with .276 is third to value added tax (VAT) in contribution made to Gross Domestic Product (GDP) and economic development of Nigeria .With the significant level of .001 which is less than 0.05,Petroleum Profit Tax is making a unique contribution to the economic development of Nigeria and the composition of GDP.

**Hypothesis 2:** Tax evasion and Tax avoidance have no negative impact on revenue generation through petroleum profit tax.

Out of one hundred questionnaires administered only seventy six were valid for analysis, and the result of the SPSS used is analyzed thus:

**TABLE 3: FREQUENCY AND RESULT ANALYSIS**

| VARIABLE | FREQUENCY | PERCENT | VALID PERCENT | CUMULATIVE PERCENT |
|---|---|---|---|---|
| Agree | - | - | - | - |
| Strongly Agree | - | - | - | - |
| Disagree | 8 | 8 | 10.5 | 10.5 |
| Strongly Disagree | 68 | 68 | 89.5 | 100 |
| Total | 76 | 76 | 100 | |
| Missing System | 24 | 24 | | |
| Total | 100 | 100 | | |

Source: Field survey 2010

**SPSS COMPUTATION RESULT**

| | SUM OF SQUARE | DF | MEAN SQUARE | F.STATISTIC | SIG. |
|---|---|---|---|---|---|
| Between Groups | 2.358 | 2 | 1.179 | 17.930 | .000 |
| Within Groups | 4.800 | 74 | .066 | | |
| Total | 7.158 | 76 | | | |

At the level of significance .05,degree of freedom 2 and 74,the calculated value of the ANOVA F-statistics is 17.930 while the computed is 3.13.With the calculated greater than the tabulated, it means we have to reject the null hypothesis and accept the alternate. The implication of the result is that tax evasion and tax avoidance have significant negative impact on revenue generated through petroleum profit tax.

**Hypothesis 3:** Tax administration in Nigeria is not effective and efficient and allows for tax evasion and tax avoidance in petroleum profit tax generation in Nigerian economy

The results of our findings are tabulated and analyzed thus:

**TABLE 3: FREQUENCY AND RESULT ANALYSIS**

| VARIABLES | FREQUENCY | PERCENT | VALID PERCENT | CUMULATIVE PERCENT |
|---|---|---|---|---|
| Agree | 34 | 34 | 45.3 | 45.3 |
| Strongly Agree | 20 | 20 | 26.7 | 72.0 |
| Strongly Disagree | 6 | 6 | 8.0 | 80.0 |
| Disagree | 4 | 4 | 5.3 | 85.3 |
| Indifferent | 11 | 11 | 14. | 100 |
| Total | 75 | 75 | 100 | |
| Missing system | 25 | 25 | | |
| Total | 100 | 100 | | |

Source: Field survey 2010

**SPSS COMPUTATION RESULT**

| | Sum of Square | DF | Mean Square | F-Statistic | Sig. |
|---|---|---|---|---|---|
| Between Groups | 6.170 | 3 | 2.057 | 1.748 | .165 |
| Within Groups | 85.510 | 71 | 1.176 | | |
| Total | 89.680 | | | | |

At the level of significance .05, degree of freedom 3 and 71, the ANOVA F-Statistics is 1.748 while the tabulated is 2.74.With this result where the computed is lower than the tabulated, we have to accept the null hypothesis and reject the alternate. The implication of the result is that tax administration in Nigeria tax system is not effective and efficient and these have given encourage ment to tax avoidance and tax evasion in petroleum tax income generation.

**Hypothesis 4:**Non-provision of corporate social responsibilities in oil producing region has no negative impact on the level of production and petroleum tax generation in Nigerian economy

The result of the field survey and findings are analyzed thus:

**TABLE 4 FREQUENCY AND RESULT ANALYSIS**

| VARIABLES | FREQUENCY | PERCENT | VALID PERCENT | CUMULATIVE PERCENT |
|---|---|---|---|---|
| Agree | 7 | 7 | 9.46 | 9.46 |
| Strongly Agree | 3 | 3 | 4.05 | 13.51 |
| Disagree | 23 | 23 | 31.08 | 44.59 |
| Strongly Disagree | 40 | 40 | 54.05 | 98.64 |

| | | | |
|---|---|---|---|
| Indifferent | 1 | 1 | 100.00 |
| Total | 74 | 74 | |
| Missing system | 26 | 26 | |
| Total | 100 | 100 | |

Source: Field survey 2010

**SPSS COMPUTATION RESULT**

| | SUM OF SQUARE | DF | MEAN SQUARE | F.STATISTIC | SIG. |
|---|---|---|---|---|---|
| Between Groups | 14.127 | 2 | 7.063 | 4.686 | .012 |
| Within Groups | 108.540 | 72 | 1.507 | | |
| Total | 122.667 | 74 | | | |

At the level of significance of 0.05, degree of freedom 2 and 72, the ANOVA F-Statistics is 4.686 while the tabulated is 3.13.From the result, the calculated is higher than the tabulated. The implication is that we have to accept the alternate hypothesis and the null. This means that Non-provision of social responsibilities by the petroleum exploring companies in the communities of oil exploration has significant negative impact on the level of production and petroleum tax generation.

## CONCLUSION

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. There is poor tax administration in the entire system which has given encouragement to tax evasion and avoidance. The effect of this is reduced revenue for the Federal Government, and their inability to meet their budgetary level. Tax evasion and tax avoidance are unnecessary evils being practiced by the oil exploring and extraction companies. They do these to their own benefits, but to the detriment of the development of the economy of 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.

## RECOMMENDATIONS

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 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 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.

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.

## APPENDIX

**GDP AND FEDERAL GOVERNMENT COLLECTED TAX REVENUE**

| YEAR | GDP | PTI | CIT | CUSTOMS & EXISE DUTY | VAT |
|---|---|---|---|---|---|
| | N'000000 | N'000000 | N'000000 | N'000000 | N'000000 |
| 1981 | 50,456 | 6,326 | 403 | 2,326 | - |
| 1982 | 51,654 | 4,847 | 550 | 2,336 | - |
| 1983 | 56,313 | 3,747 | 562 | 1,984 | - |
| 1984 | 62,474 | 4,762 | 787 | 1,616 | - |
| 1985 | 70,633 | 6,711 | 1,004 | 2,184 | - |
| 1986 | 71,859 | 4,811 | 1,103 | 1,728 | - |
| 1987 | 108,183 | 12,504 | 1,235 | 3,541 | - |
| 1988 | 142,618 | 6,815 | 1,551 | 5,672 | - |
| 1989 | 220,200 | 10,598 | 1,914 | 5,816 | - |
| 1990 | 271,908 | 26,909 | 2,997 | 8,641 | - |
| 1991 | 316,670 | 38,616 | 3,828 | 11,457 | - |
| 1992 | 536,305 | 51,477 | 5,417 | 16,055 | - |
| 1993 | 688,137 | 59,208 | 9,554 | 15,485 | - |
| 1994 | 964,005 | 42,803 | 12,275 | 18,295 | 7,261 |
| 1995 | 1,934,831 | 42,858 | 21,878 | 37,364 | 20,761 |
| 1996 | 2,703,809 | 76,667 | 22,000 | 55,000 | 31,000 |
| 1997 | 2,801,973 | 68,574 | 26,000 | 63,000 | 34,000 |
| 1998 | 2,721,179 | 68,000 | 33,300 | 57,700 | 36,000 |
| 1999 | 3,313,563 | 164,300 | 46,200 | 87,900 | 47,100 |
| 2000 | 4,727,522 | 525,100 | 51,100 | 101,500 | 58,500 |
| 2001 | 5,374,339 | 639,200 | 68,700 | 170,600 | 91,800 |
| 2002 | 6,232,244 | 392,20 | 89,100 | 181,400 | 108,600 |
| 2003 | 6,061,700 | 683,500 | 114,800 | 195,500 | 136,400 |
| 2004 | 11,411,067 | 1,183,600 | 113,000 | 217,200 | 159,500 |
| 2005 | 15,610,882 | 1,904,900 | 140,300 | 232,800 | 178,100 |
| 2006 | 18,564,595 | 2,038,300 | 244,900 | 177,700 | 221,600 |
| 2007 | 23,280,715 | 1,600,600 | 275,300 | 241,400 | 289,600 |

Source: Central Bank of Nigeria Annual Statistical Bulletin (2007)

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