



PETROLEUM PROFIT TAX AND ECONOMIC GROWTH OF NIGERIA (2011-2023)

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ABSTRACT	KEY WORDS
<p>Nigeria is amongst few countries that are endowed with natural resources like crude oil and liquified natural gas. Both resources have brought about high level of oil and gas industrial activities in the country, which have led to huge increase in tax revenue (PPT inclusive). But the poor conditions of public utilities in Nigeria has led to so many questions about the usefulness of taxation in Nigeria. This study therefore investigated the impact of Petroleum Profit Tax on the economic growth of Nigeria, from 2011 – 2023. Petroleum Profit Tax revenues were employed as the independent variable, while Gross Domestic Product (GDP) which was used as a proxy for economic growth served as the dependent variable. Data were sourced from the Central Bank of Nigeria (CBN) statistical bulletin and Federal Inland Revenue Service (FIRS) tax and statistics report. The data were analyzed using the regression analysis. The result showed that Petroleum Profit Tax has positive but non-significant effect on Gross Domestic Product (GDP). The study recommended that government should diversify Nigeria's revenue base by strengthening other sectors of the economy in order to reduce dependency on Petroleum Profit Tax, thereby mitigating the risks associated with fluctuating oil prices. The study also recommended that the government should use reasonable portion of funds generated through Petroleum Profit Tax to provide social amenities for the benefit of the citizens.</p>	<p>Taxation. Petroleum Profit Tax. Gross Domestic Product. Nigerian Economy. Oil Industry.</p>

Introduction

According to Agwu (2025), governments all over the world to a large extent rely on taxation to generate revenue that is used to finance its affairs and also provide social amenities like roads, schools, hospitals, electricity etc to its citizens. There are many types of taxes such as Value Added Tax (VAT), Petroleum Profit Tax (PPT), Company Income Tax (CIT), Payroll Tax etc. This work focuses on Petroleum Profit Tax. The petroleum profit tax is a tax that is charged on the income of companies engaged in upstream petroleum operations. In Nigeria, the petroleum profit tax is a major revenue earner to the federal government. Kabir Yusuf (2023) reported that petroleum profit tax is Nigerian number one key revenue

driver by tax category. Kabir also noted that Nigeria raked in a total sum of N4.2 trillion from petroleum profit tax in 2022.

Many researches and other scholarly work have been done on the effect of petroleum profit tax on the economic growth of Nigeria. For instance, Ilaboya and Ofiafor (2014) examined the effect of petroleum profit tax and economic growth of Nigeria. The study found that petroleum profit tax has positive and significant impact on Nigeria's economic growth. For the fact Nigeria is an oil producing country, it is expected that petroleum profit tax will have a huge influence on the economic growth of Nigeria. It is therefore necessary to investigate the relevance of petroleum profit tax on the economic growth of Nigeria.

Statement of Research Problem

All over the world, most of the countries endowed with crude oil often make huge chunk of their revenue from crude oil related revenue including petroleum profit tax. Alexandra (2014) reported that Nigeria is ranked 9th position in the world's 10 biggest oil exporters, with total export of \$52.1 billion worth of oil or 3.59% of the global total export. In the Nigerian economy, revenue from petroleum profit tax is ranked first amongst the various taxes by which government generates income, Kabir (2023). Petroleum profit tax being Nigeria number income earner explains the reason why the federal government of Nigeria relies heavily on revenue from the oil and gas sector to run its affairs and also develop the economy, stabilise the exchange rate, provide basic amenities like – schools, roads, hospitals etc. According Nairametrics (2024), the federal government of Nigeria realised a whopping sum of N3.17 trillion from petroleum profit tax in 2023. Considering the huge amount of money being realised by the Nigerian government on a daily or monthly basis, one will expect a better social amenities and good economy in Nigeria. But the reverse is the case – high inflation, depreciated exchange rate, infrastructural decay etc. These backward trend in the state of affairs in Nigeria often make pundits and non-pundits to ask whether the huge amount of money being realised from petroleum profit tax is relatively beneficial to economic to the economic growth of Nigeria. This study therefore becomes necessary to empirically examine the effect of petroleum profit tax on Nigeria economy growth.

Objective of The Study

The main objective of the study is to establish the effect petroleum profit tax has on the economic growth of Nigeria. While the specific objective is to ascertain the effect of Petroleum Profit Tax (PPT) on the Gross Domestic Product (GDP) of Nigeria.

Literature Review

Conceptual Review

Taxation

Obaja (as cited in Osasu & Henry, 2019) opined that the failure of the Nigerian tax law to define the term tax has left so much to be desired. Aguolu (2014) defined taxation as a compulsory levy by the government (through its agency) on the income, consumption and capital of its subjects. Ojo (2008) argued that taxation is a concept and the science of imposing tax on citizens. In Ojo's view, tax is a

compulsory levy which is required to be paid by the citizens. He also noted that tax is generally considered to be a civic duty or obligation.

Taxation is a tool of fiscal policy used by government all over the world to influence economic activities so as to achieve desired economic objectives. Agwu (2024) reported that the main economic objective of most developing countries is to accelerate the per capita income which is a gateway to high standard of living. David-west (2013) opined that “the word tax and taxation is been used interchangeably to mean the same thing; this is not correct.” David-West argued that taxation can be described as all the processes involved in the contract, drafting, negotiation for design of the fiscal system, the legal framework, administration and imposition.

Okoye and Ezejiofor (2014) pointed that the tax system of Nigeria is designed as an income generation mechanism; and that it is the legacy of the colonial government because the Nigerian tax system is based on the British tax law of 1948. Tax can either be direct or indirect. The indirect taxes include – value added tax, excise duty etc, While direct taxes include – petroleum profit tax, company income tax, capital gain tax etc.

Petroleum Profit Tax

As stated in the Petroleum profit tax Act of 1959 as amended, petroleum profit tax is a liability that occurs when a company disposes of chargeable oil and gas. In other words, petroleum profit tax is a tax that is levied by the government specifically on companies involved in the upstream petroleum operations. The upstream operation includes exploration, production and initial transportation / sale of crude oil and natural gas within Nigeria territory. The petroleum profit tax rate is 85% for companies in joint venture with NNPC, and 50% for production sharing contracts. The principal legislation applicable to petroleum operation in Nigeria is the Petroleum Profit Tax Act (PPTA 1959 as amended).

Economic Growth

According to Potters (2024), Economic growth is an increase in the production of goods and services in a particular period compared with a previous period. It can be measured in nominal terms or in real terms. The real term entails an adjustment to remove inflation. The Gross Domestic Product (GDP) is a typical or traditional measure of economic growth. In the words of Saheed, et al (2014) “economic growth is driven primarily by productivity change involving the production of better goods and services with the same input of labour, capital, resources and materials.” Ibadin and Oladipupo (2015) stressed that “growing capital stock, technology advances and improving the quality and level of literacy are regarded as the main causes of economic growth”

Gross Domestic Product (GDP):

According Jason (2023), The Gross Domestic Product (GDP) is the total monetary value of all goods and services produced in a country over specified period. The Gross Domestic Product (GDP) is a reliable yardstick to measure a country's economic healthiness. In calculating GDP, we employ public and private consumption, investment, government spending, private inventories, cost of construction paid and foreign balance of trade. Amongst all the components used in calculating GDP, the foreign balance of trade is very important. Usually the GDP of a country tends to increase when total value of export is more than total value of import. When that is the case, a country is said to have a "trade surplus" but if the opposite is the case, (that is, if the total amount of import exceeds the total amount

of export), the country is said to have “trade deficit”. The Gross domestic product (GDP) can either be computed on a real basis or on a nominal basis. The real basis approach accounts for inflation, while the nominal basis does not take inflation into consideration. Jason (2023), stated that a real GDP is a better method for measuring long-term national economic performance, since it uses constant money value.

The Nigerian Economy and The Oil Industry

The government of Nigeria, both at the federal and state levels depends on oil and gas revenue to provide public goods, service national debt and manage the exchange rate amongst other duties. The World Bank (2014) wrote that Oil alone accounts for 40% of Nigerian GDP, 70% of its budget revenue and 95% of foreign exchange earning. The above figures clearly show that Nigeria relies so much on oil related revenue – that includes petroleum profit tax. In the words of Nasiru (2012) as cited in Worlu and Okereke (2017) “oil exploration in Nigeria dates back to 1908 when the British mineral survey company began mineralogical study of the country. In 1938, The Shell D’ Archy Petroleum (now Shell Petroleum Development company of Nigeria) from its base in Owerri obtained from the colonial government a concession for oil exploration licence (OEL) and made the first successful investment in the Nigeria oil industry.

Oil was first discovered in Nigeria in 1956 at Oloibiri in the Niger Delta (now Bayelsa state). The discovery was made by Shell D’ Arch petroleum. Nigeria joined the league of oil producing countries in 1958 when its first oil field came into stream, producing 5,100 barrels per day. After 1960 when Nigeria got independence from Britain, the oil exploration licence was extended to other foreign companies. Nigeria joined the OPEC in 1971, and in 1977 NNPC was established. The NNPC is a state owned and controlled company. It is a major player in both the upstream and downstream sectors of the oil industry in Nigeria.

Theoretical Review

Socio Political Theory: The socio-political theory states that social and political objectives should be the major factors in selecting taxes. The theory posit that a tax system should not be designed to serve few individuals, rather it should be used to cure all ills of the society as a whole. In advocating for this theory, Adolph Wagner argued that each economic problem should be looked at in its social and political dimension and that a relevant solution should be found as a matter of necessity. This theory best aligns we this work because funds received from petroleum profit tax should be used to provide social amenities like roads, hospitals, schools, government administrative expenses etc.

Empirical Review

Ilaboya and Ofiafor (2014) examined the effect of petroleum profit tax on the economic growth of Nigeria 1980 – 2011. Data collected form FIRS website and CBN statistical bulletin were analysed using the combination of co-integration and error correction estimation techniques. The result show that PPT has a significant positive relationship with real GDP. The study recommended that all companies in the petroleum upstream sector should be listed on the Nigeria stock exchange for transparency of transactions and accountability, which will translate into increased revenue thereby leading to an increase in PPT revenue.

Inimino. Etal (2020) studied the impact of PPT on economic growth in Nigeria within the period 1980 – 2017. Secondary data on gross domestic product (GDP) and petroleum profit tax were sourced from CBN statistical bulletin and FIRS website respectively. The economic method of generalized method of moments (GMM) and Granger causality test were used to analyse the data. The GMM test showed that PPT and economic growth have positive and significant relationship. While the Granger causality test showed bidirectional causality between PPT and economic growth, The study concluded that PPT has impacted on the economic growth in Nigeria. It therefore recommended that the government should boost PPT revenue by establishing an efficient and effective tax administration to reduce the level of tax evasion. The study also recommended that all tax administrative loopholes should be blocked in order ensure accountability and transparency from government officials who administer the tax.

Khadijat and Taophic (2018) studied the effect of PPT and CIT on economic growth of Nigeria 1981 – 2014. The fully modified least square (FMOLS) regression technique was used to estimate the model. Also Augmented Dickey Fuller unit root test and single equation co – integration test was also carried out. The study found that PPT have positive significant impact on the GDP of Nigeria. It concluded that PPT should serve as the major source of revenue to the Nigeria government. Based on the finding, the study recommended that government should be transparent in tax administration and also make judicious use the funds generated through PPT. Adegbe and Fakile (2011) examined the relationship between PPT and economic development of Nigeria. The Chi square and multiple regression statistical models were used to analyse the data. The findings showed that there is a very strong relationship between petroleum profit tax and economic development of Nigeria. It recommended that there is need for the government to be prudent and efficient in the management of funds generated through petroleum profit tax. It also recommended that the government needs to initiate tax reforms in order to address the issue of tax evasion and avoidance.

Musa and Ifurueze (2012) studied the impact of PPT on the economic development of Nigeria 2000 – 2010. The method of data analysis was ordinary least square. The study found that PPT has a positive and significant impact on the GDP of Nigeria. It recommended that concerted effort should be made in order to improve the effectiveness and efficiency of administration and collection of taxes by the government agency responsible for tax administration in Nigeria. Wonders and Mohamed (2021) examined the impact of PPT on economic growth in Nigeria (1981 – 2020). The study adopted an ex-post facto research design with two objectives and one theory to underpin the empirical study. Data was obtained from CBN, National Bureau of Statistics, OECD Statistics and world bank group. The study adopted both univariate and bivariate data analysis approach, with MS excel 2019 and SPSS statistics 26. The study found that PPT has no significant relationship with economic growth. It concluded that given the level oil price stability and production boom, PPT might not significantly contribute to per capita income and the employment rate for economic growth. The study therefore recommended that government should reduce tax incentives granted to petroleum companies in Nigeria, and increase the tax rate of non – petroleum companies, thereby resulting into increase in government revenue from PPT during time of oil price volatility and production cut.

Solanke, et al (2021), investigated the effect of petroleum profit tax on economic growth of Nigeria. The data used for analysis was gotten from the central bank of Nigeria CBN website and National Bureau of Statistics respectively. The findings revealed that there is a relationship between PPT and GDP. It there recommended that that PPT should be remitted via an e - payment system or direct payment to government account.

Methodology

The study adopted the ex – post facto research design for the analysis of secondary data collected from the central bank of Nigeria bulletin and federal inland revenue service (FIRS) portal for the relevant years. In order to ascertain if there is any relationship between the variables, we applied a linear equation model to ascertain the level of economic relationship that exist between the independent variable and the dependent variable. Base on perceived functional relationship between petroleum profit tax and Gross Domestic Product (GDP), a tie is contrived between the two variables. Thus, with the functional relationship and the resultant model using the ordinary least square regression method we have:

Functional Relationship:

$$GDP = F(PPT) \dots\dots\dots(1)$$

Converting this to a Linear or Stochastic model we have:

$$GDP = b_0 + b_1PPT + e \dots\dots\dots (2)$$

Where GDP = Gross Domestic Product

PPT = Petroleum Profit Tax

b₀ = The Intersect

b₁ = Coefficient of the Independent Variable

e = Standard Error

Data Presentation and Result Discussion

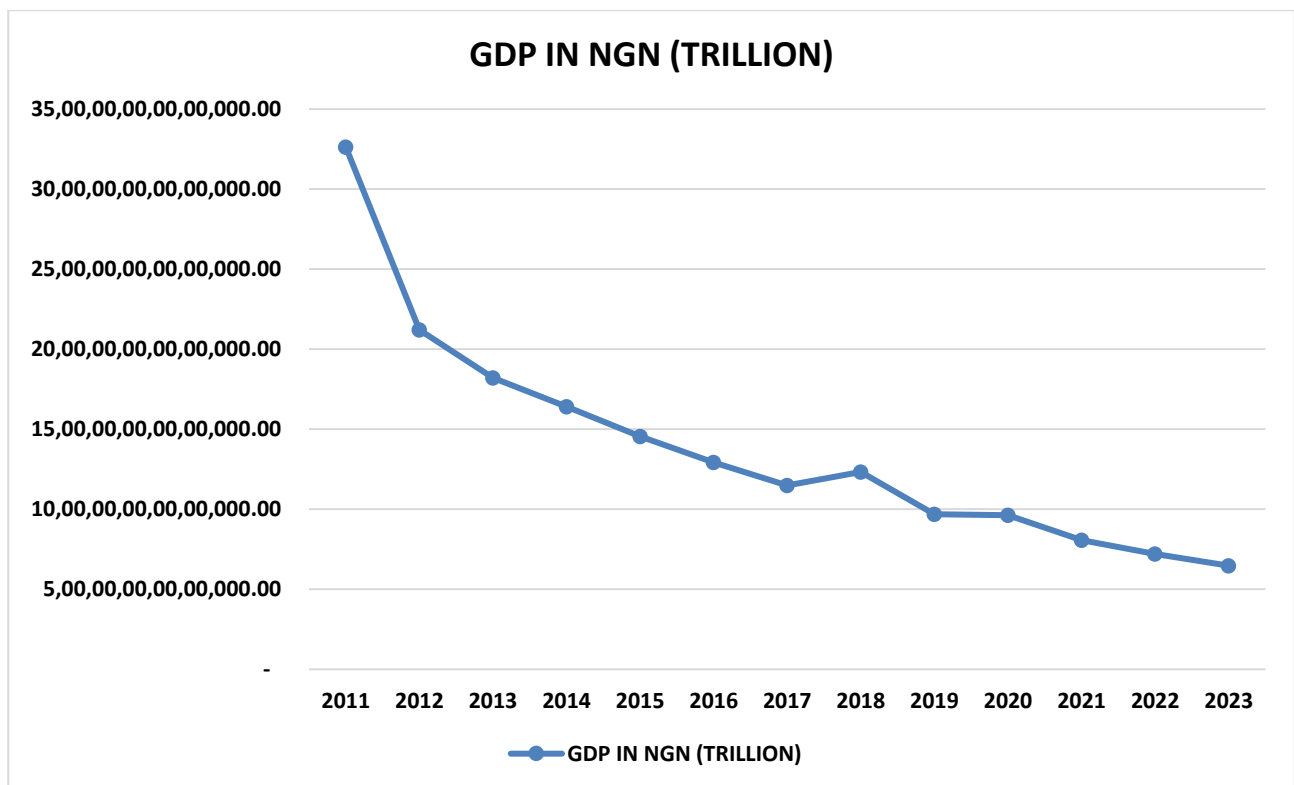


Figure 1: Nigerian GDP (NGN)

Source: Researcher’s Idea, 2025

The figure above shows a sharp decline in the Nigerian Gross Domestic Product. The table revealed that from 2011, there is a continuous falling in GDP down to 2023, although there appear to be a little boost in 2018.

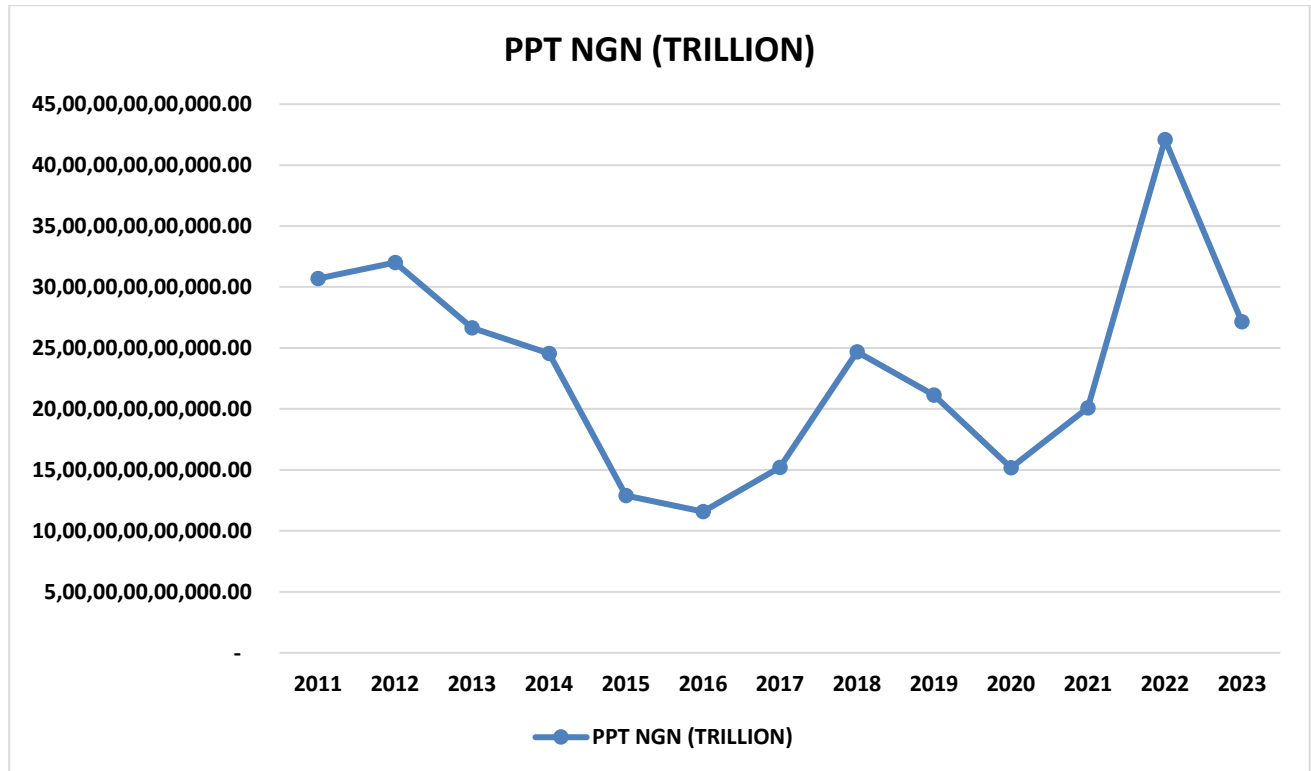


Figure 2: Nigerian PPT (NGN)

Source: Researcher’s Idea, 2025

The figure above shows a sharp irregular fluctuation in the Nigeria Petroleum Profit Tax (PPT). The table revealed that PPT took a boost in 2012 and gradually decline to 2016 and appreciated from 2017 to 2018 and again decline gradually back till 2020. However, the PPT rise from 2021 to 2022 and decline back in 2023.

Table 1: Showing effect of PPT on GDP

Part A: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.202 ^a	.041	-.046	72848.74694

a. Predictors: (Constant), PPT

Part: ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2490293760.074	1	2490293760.074	.469	.508 ^b
	Residual	58376339241.618	11	5306939931.056		
	Total	60866633001.692	12			

a. Dependent Variable: GDP

b. Predictors: (Constant), PPT

Part C: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	100299.052	60068.808		1.670	.123	-31911.504	232509.608
PPT	16.579	24.203	.202	.685	.508	-36.690	69.849

a. Dependent Variable: GDP

Table 1 Part A shows how Petroleum Profit Tax (PPT) relates to Nigerian Gross Domestic Product (GDP) from 2011-2023. Although there is a reported positive relationship between PPT and GDP as indicated by the coefficient of relationship ($r = 0.202$) which the R²-value (0.041) accounted for only 4.1% (0.041×100) variation in the model. The Part B on the other hand, reveals that there is no significant effect of PPT on Nigerian GDP ($F_{1,11} = 0.469$, $p > 0.05$). The null hypothesis was rejected at 0.05. Part C of the table shows the regression equation $y = 100299.052 + 16.579x$ indicating that GDP may positively be influenced if PPT increases.

Conclusion and Recommendation

The analysis presented in Table 1 highlights the relationship between petroleum profit tax (PPT) and Nigeria's gross domestic product (GDP) for the period 2011-2023.

Part A indicates a positive relationship between PPT and GDP, as shown by the correlation coefficient $r = 0.202$. However, this relationship is weak, as the coefficient of determination ($R^2 = 0.041$) reveals that PPT accounts for only 4.1% of the variation in GDP. This low explanatory power suggests that while PPT might influence GDP, other variables or factors play a significantly more dominant role in shaping GDP performance during this period. Part B shows that the effect of PPT on GDP is statistically non-significant, with $F_{1,11} = 0.469$, $p > 0.05$. This finding implies that changes in PPT did not have a substantial or reliable impact on Nigeria's GDP during the study period. The null hypothesis, which posits no significant effect of PPT on GDP, is rejected at the 0.05 level of significance. This outcome underscores that PPT may not serve as a key driver for GDP growth within the context of the dataset analyzed. The regression equation $y = 100299.052 + 16.579x$ presented in Part C suggests that GDP might experience a positive change with increases in PPT. The intercept of 100,299.052 represents the baseline GDP level when PPT is zero, while the coefficient 16.579 indicates the potential marginal increase in GDP for every unit increase in PPT. Despite the non-significant effect noted earlier, this equation suggests a theoretical positive contribution of PPT to GDP under certain conditions.

The findings suggest that while PPT has some positive impact on GDP, its role as a determinant is minimal and statistically insignificant over the period analyzed. This highlights the need for diversification of Nigeria's revenue base beyond reliance on petroleum-related taxes to drive substantial economic growth. Hence, the government should consider strengthening other sectors of the economy to reduce dependency on PPT and mitigate the risks associated with fluctuating oil prices. Also, in line with the socio – political theory, the government need to properly channel good portion of fund realized from petroleum profit tax to provide social amenities for the benefit of the citizens.

Further research is recommended to explore other macroeconomic variables that may better explain GDP variations, such as government expenditure, non-oil revenue streams, or international trade dynamics. Additionally, investigating structural and policy factors influencing PPT's efficiency and impact on economic outcomes could provide deeper insights.

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