EFFECT OF PETROLEUM PROFIT TAX AND COMPANIES INCOME TAX ON ECONOMIC GROWTH IN NIGERIA

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Abstract: *Sustainability of economic growth and development which remains the true essence of governance is threatened in Nigeria due to insufficient fund caused by declining petroleum revenue upon which the country relies for development. This over reliance had placed the country in a position as at now in which the entire petroleum revenue is used for recurrent items by the government. It is against these setbacks that this study is design to evaluate the effect of petroleum profit tax and company income tax on Nigerian economy growth. Fully Modified Least Square (FMOLS) Regression Technique was used to estimate the model over a 34 years period (1981-2014) while Augmented Dickey Fuller Unit Root Test and Single Equation Co-integration Test were carried out. It was found that petroleum profit tax (PPT) and company income tax (CIT) have positive significant impact on gross domestic product (GDP) in Nigeria with the Adjusted R^2 of 87.6% which directly enhanced growth in Nigeria. The study then concluded that PPT and CIT serves as the major source of revenue to the Nigeria economy, and contribute to the growth of Nigeria economy. Based on these findings, the Study recommends that government should transparently and judiciously account for the revenue it generates through petroleum profit tax by investing in the provision of infrastructural facilities, FIRS should properly monitor the activities of companies to achieve optimum collection of taxes payable to the government as CIT. Revenue accrue to government through PPT and CIT should be judiciously used to develop the economy.*
Keywords: *Company Income Tax, Petroleum Profit Tax, Taxation*

1. BACKGROUND TO THE STUDY

Provision of basic infrastructure is quite necessary for the growth and development of any economy. This perhaps explains why the government shows great concern for sources through which funds can be made available to achieve their set goals for the society (Fagbemi & Noah, 2010). Government needs money to be able to execute its social obligations to the public and these social obligations include but not limited to the provision of infrastructure and social services. Meeting the needs of the society calls for huge funds which an individual or society cannot contribute alone and one medium through which fund is derived is through taxation (Murkur 2001).

Tax is therefore a major source of government revenue all over the world. It is an opportunity for government to collect revenue needed in discharging its pressing obligations. It has a bearing on the Gross Domestic Product (GDP) which is the standard indicator for measuring the economic wellbeing of a nation(Okafor, 2012). Sanni (2007), advocate the use of tax as an instrument of social engineering, to stimulate general and/or sectoral economic growth. A tax system offers itself as one of the most effective means of mobilizing a nation’s internal resources and tends itself toward creating an environment conducive to the promotion of economic growth (Azubike, 2009).

According to Emmanuel (2010), many developed and developing economies around the world had experimented and proven that no nation can truly develop without developing its tax system. Consequently, many countries have embarked on tax reforms and restructuring with a view to developing a tax system that maximizes government revenue without creating disincentiveness for investment. Basically, there are two ways of financing government expenditure in Nigeria; which are oil revenue and non-oil revenue sources, the Nigerian government derives a large proportion of its total revenue from oil (Bawa & Mohammed, 2007). According to Ogbonna and Ebimobowei (2012), from 1970 – 2009, the petroleum industry generated 82 per cent income for Federal Government of Nigeria, while only 18% came from non-oil revenue.

Apparently, oil is the dominant source of government revenue, accounting for about 90 percent of total exports, and this approximates to 80% of total government revenue (Ogbonna & Ebimobowei, 2012). The importance of taxation on petroleum profits cannot be overemphasized as tax revenue derived from taxing petroleum profits contributes largely to the total tax revenue available to the Nigerian government. According to the Oil Market Report (OMR) of the International Energy Agency (2012), Nigeria has been seen to be the largest oil producing country in African and the eleventh in the world. The major investors in the petroleum industry are the international oil companies (IOCs), the principal legislation governing petroleum operations in Nigeria is the Petroleum Profit Tax Act (PPTA) of 2007. Its main fiscal instrument is the Petroleum Profit Tax (PPT). The PPT Act provides for the imposition of Petroleum Profits Tax on the chargeable profits of companies involved in the upstream activities of exploration, drilling, extraction and transportation of crude oil. From inception in 1959, the Act has undergone series of amendments culminating in the Petroleum Profits Tax (Amendment) Act of 2007. According to Ilaboya and Ofiafor (2014), Petroleum Profits Tax is chargeable at the rate of 65.75% for the first five years of taxable operation and 85% thereafter. The Petroleum Profits tax rate was as low as 18.9% in 1970 after which it rose astronomically to 80.7% between 1971 and 1974. The rate was 82.3% from 1975 to 1989 and it peaked at 85% in 1990 till date. Nigeria appears to have the highest Petroleum Profits tax rate in the world (Appah, 2010).

The defense for this high rate is the need to capture the resource rent tax from the operations of the oil companies. Some other countries charge resource rent tax separately thereby reducing the Petroleum Profits tax rate. For example, South Africa charge 30% Petroleum Profits tax and 40% resource rent tax. Uganda has Petroleum Profits tax rate of 30% and resource rent tax of 0-80%; Malaysia has Petroleum Profits tax rate of 38% and resource rent tax rate of 70%. South Africa, Ghana, Uganda, Tanzania and Zambia appears to be the only African oil producing nations with resource rent rate (Sunley, Baunsgaard & Simard, 2002).

It is necessary to develop ways to harness and distribute resources, especially with Nigeria present financial problems resulting from volatility of oil prices because government responsibilities are on the increase. Hence, government evolves different mechanisms for generating additional revenue to meet these needs. This search for diversification will impact on development planning and poverty reduction in the long run. This study gives Company Income Tax (CIT) a place among alternatives from non-oil income. Taxation of companies was retained as a federal matter (1954 ordinance), direct taxation, a regional matter (1943 ordinance). Companies are taxed under the Companies Income Tax Act introduced in 1961 with modification in 2007. The administration of the companies' income tax in Nigeria is vested on the Federal Inland Revenue Services. The tax is payable by all companies at the rate defined by the Companies Income Tax Act (CITA).

The Company Income Tax (CIT) has become a major source of revenue in many developed countries (Ajakaiye, 2000). Companies Income Tax (CIT) is charged on the profit or gain of any company accruing in, derived from, brought into, earned in or received in Nigeria. The company income tax rate has been 30% and it is applied on the total profit or chargeable profit of the company (Adegbie & Fakile, 2011). According to Gwangdi and Abubakar (2015), recognizing the need for improved and sustained efforts by government to raise revenue in Nigeria as a matter of urgency; certain offences have been created by the CITA the breach of which makes a company liable to stated penalties. This is as a result of the large number of companies not capture in the tax net and even those captured there are incidence of tax evasion and avoidance hence having adverse consequence on revenue.

1.2 STATEMENT OF THE PROBLEM

Nigeria is Africa's most populous nation and the largest economy in the continent, with the highest growing GDP rate in Africa and world's eighth-largest oil exporter. Yet, more than sixty percent of the population lives in extreme poverty, youth unemployment is close to eighty percent, coupled with the daily violence in the north, where the rebel group Boko Haram is fighting for a state governed by Sharia (Margaret, Charles & Gift 2014). There is chronic power shortage, which reduce the cost of doing business in Nigeria. According to EIA (2015) the electrification rate in Nigeria is estimated at 41% leaving approximately 100 million people in Nigeria without access to electricity. Despite the fact that Petroleum Profit Tax has been the main source of income to the Nigerian economy and Company Income Tax being the major source of income from non-oil revenue for example in 2014, Petroleum Profit Tax generated ₦2,453,947 trillion and Company Income Tax generated ₦1,173,491 trillion (CBN Statistical Bulletin, 2014). The economy is still faced with poor performance of national institutions such as road, transportation, politics, and financial systems (Afuberoh & Okoye 2014).

The Niger Delta area where oil and natural gas industry is primarily located has been a source of conflict. Local groups seeking a share of the wealth often attack the oil infrastructure, forcing companies to declare force majeure on oil shipments (a legal clause that allows a party to not satisfy contractual agreements because of circumstances that are beyond their control). At the same time, oil theft leads to pipeline damage that is often severe, causing loss of production, pollution, and forcing companies to shut in production (EIA 2015). Petroleum profit tax which is supposed to be a source of finance for economic development has turned out to be a bone of contention between many interests groups precisely the government, the oil and gas companies and various researchers (Attamah, 2004).

The administration of the companies' income tax in Nigeria is vested on the Federal Inland Revenue Services. The tax is payable by all companies at the rate defined by the Companies Income Tax Act (CITA). However despite there being regulation on Companies Income Tax in Nigeria, low tax compliance has become a matter of grave concern in Nigeria because it limits the capacity of the governments to raise revenues for development purposes. According to Naomi and Sule, (2015) Companies Income Tax has significant impact on the economy of any nation because it serves as a stimulus to economic growth in the areas of fiscal and monetary policies. But the Nigerian case is difference because the revenue derived from CIT has been grossly understated as a result of several challenges. The factors responsible for the poor performance of CIT revenue in Nigeria include: high rate of tax evasion and avoidance by companies, poor tax administration, poor taxpayers education, inconsistent government policies, and lack of adequate statistical data, inadequate manpower and corruption among tax officials.

According to Iweala, (2013), about 75% of registered firms were not in the tax system and 65% of them had not filed their tax returns in the last 3years. Over ₦80billion was lost monthly from these companies, estimating the total Company Income Tax leakages in that period to about $250million. Therefore, it is pertinent to evaluate the effect of petroleum profit tax (PPT) and company income tax (CIT) on the economic growth of Nigeria.

1.3 RESEARCH QUESTIONS

Based on the statement of problem of this study, the following research questions were raised:

To what extent does the petroleum profit tax affect the gross domestic product in Nigeria?

In what way does company income tax affect the gross domestic product in Nigeria?

1.4 OBJECTIVES OF THE STUDY

The main objective of this study is to assess the effect of petroleum profit tax and company income tax on economic growth in Nigeria. Other specific objectives are to:

- examine the effect of petroleum profit tax on gross domestic product in Nigeria;
- assess the effect of company income tax on gross domestic product in Nigeria.

1.5 RESEARCH HYPOTHESES

$H0_1$: Petroleum Profit Tax has no effect on gross domestic product in Nigeria.

$H0_2$: Company Income Tax has no effect on gross domestic product in Nigeria.

1.6 JUSTIFICATION FOR THE STUDY

Appreciable efforts have been made on empirical studies carried out by researchers on effect of petroleum profits tax on economic growth and or effect company income tax on economic growth like; Kamiar and Hashem (2013), Keightley (2014), Baranova and Janickova (2012), and particularly in Nigeria by Attamah (2004), Adegbie and Fakile (2011), Nwachukwu and Ebimobowei (2012), Abdul-rahamon, Taiwo and Adejare (2013), Abdullahi, Madu and Abdullahi (2015), Naomi and Sule (2015), Gwangdi and Abubakar (2015) to mention a few. It has been identified that none of the existing studies relate both the petroleum profit tax and company income tax to the economic growth of Nigeria. Thus, this study is timely and appropriate due to the situation of the economy in which most of the states cannot afford to pay their workers salaries and the issue of federal government bailout fund does not seem viable enough to solve the problem. This study will be of benefits to policy makers and those in academics. The outcome derived from this study will equally serve as basic reference for future research, as well as add to the existing literature on the analysis of the effect of petroleum profit tax and company income tax on Nigeria economy.

1.7 SCOPE OF THE STUDY

The time frame covered by this study is from 1981 to 2014 with a view to trace the effect of petroleum profit tax and company income tax over the years when increases and reductions occurred. This enable the study get the effect of petroleum profit tax (PPT) and Company Income Tax (CIT) on the country's economic growth.

2.1 CONCEPTUAL ISSUES

An Overview of Taxation

Tax is a compulsory contribution imposed upon persons and firms by a public authority to cover government expenses (Attamah, 2004). Attamah opined that tax is a good source of revenue to government, as it is regularly imposed annually or as government thinks fit. He affirmed that income from taxes on people and firms play critical roles in any nation's economic growth and development. Tax administration and collection is a major problem facing taxation world wide. Bad administration and collection of tax has led to tax evasion. Udabah (2002) referred to tax as an evil necessary to meet the cost of those services a society wishes its government to provide.

According to Udabah, tax is an obligatory transfer from tax payers to the public authority. Udabah argued that taxation was originally formulated to raise revenue so as to cover the state expenditure. Today however, it has been assumed to play a more far reaching role which includes curtailing the consumption of harmful commodities, to regulate the production of certain commodities. It is used as an instrument of economic policy, to control monopoly, curb inflation, to protect infant industries, etc. The Institute of Chartered Accountants of Nigeria (2014) and the Chartered Institute of Taxation of Nigeria (2002) defined tax as an enforced contribution of money to government pursuant to a defined authorized legislation. New Webster Dictionary also defines it as a charge imposed by government authority upon property, individuals or transactions to raise money for public purposes.

2.1.1 Petroleum Profit Tax in Nigeria

Petroleum taxation is the instrument of choice for sharing wealth between host governments and international oil companies. It is a direct tax, levied annually on net profit of a petroleum tax payer, who is carrying on the business of petroleum exploration and production (Evans & Hunt, 2011). Petroleum taxation has some particular features as a result of oil industry's unique characteristics: the huge central contribution of revenue to the economy, the volatility of oil prices, the large operating and development costs, the high uncertainty associated with petroleum geology, the specific characteristics of individual oilfields, and the possibility of re-investment. The cost of petroleum projects tend to be incurred up-front and the time lags between the discoveries of oil or gas reserves to the time of first production can be significant. This adds to the challenge of designing and implementing appropriate petroleum tax system aimed at achieving a balance between both government and industry interest (Evans & Hunt, 2011). A variety of tax instruments have been used to capture the economic rent from oil activity over the years namely; gross royalty, brown tax, resource rent tax (RRT) and income tax. Royalty is an output- based tax because it is levied on the unit or value of production, whereas the other three instruments are profit based or cash flow taxes, because they are imposed on net profit or operating income after capital investment (Saheed, Abarshi & Ejide, 2014).
One of the sources of revenue to the government is petroleum income as available statistic shows that the Nigeria has proven oil reserves of 36 billion barrels, condensate of 4 billion barrels, proven gas reserves of 187 trillion cubic feet and the present average daily production of oil is put at 2.6 million bbl/b (Agbogun, 2004; Egbogah, 2006; EIA, 2015). Petroleum Profit Tax has been defined as a legislation which imposes tax upon profits from the mining of petroleum in Nigeria and provides for the assessment and collection thereof and for the purposes connected therewith (Attamah, 2004).

Accounting for income from oil and gas producing activities differ in many respects from financial accounting (Gallun & Stevenson, 1986). Odusola (2006) defined petroleum profit tax as a tax applicable to upstream operations in the oil industry. It is particularly related to rents, royalties, margins and profit sharing elements associated with oil mining, prospecting and exploration leases. Attamah (2004) asserted that Petroleum Profit Tax is the most important tax in Nigeria in terms of its share of total revenue contributing 95 and 70 percent of foreign exchange earnings and government revenue respectively. According to Jakir (2011), Nigerian law by virtue of the Petroleum Profits Tax Act (2004) which was further amended in 2007 requires "an Act to impose a tax upon profits from the winning of Petroleum in Nigeria, to provide for the assessment and collection thereof and for purposes connected therewith".

Adigbe (2011) further stated that the taxable income of a petroleum company comprises proceeds from the sale of oil and related substances used by the company in its own refineries. Adereti (2011) explained that the taxable income of a petroleum company is subject to tax at 85 per cent, but this percentage is lowered to 65.75% during the first 5years of operation but where oil companies operate under production sharing contracts they will be liable to tax at a rate of 50 percent.

Due to the importance attached to oil exploration and production by the Federal Government of Nigeria, the taxation of profit of companies engaging in such operation became inevitable under a tax Act different from the companies income tax Act (Success, Success & Ifurueze, 2012). According to Success *et al.*, this Act became effective 1st January, 1959 since export of oil to the international market started in 1958. This ordinance under which petroleum profit is taxed is referred to as the Petroleum Profit Tax Act (PPTA). It was first amended in January 1967 by the Federal Military Government through decree No 1 of 1967.

There have been further amendments since the last amendment in 1967. The principal Act governing the taxation of profits from petroleum in Nigeria is the Petroleum Profits Tax Act 2007. Section 2 of the PPTA defines petroleum operations as "the winning or obtaining and transportation of petroleum chargeable oil in Nigeria by or on behalf of a company for its own 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". The purpose of this legislation is to regulate and control the procedure of taxation of petroleum companies which involves petroleum exploration, development, production and sale of crude oil. However, Section 8 of Petroleum Profit Tax Act (PPTA) states that every company engaged in petroleum operations is under an obligation to render return, together with properly audited annual accounts and computations, within a specified time after the end of its accounting period.

Petroleum Profit Tax involves the charging of tax on the incomes accruing from petroleum operations (Nwezeaku, 2005). It was further noted that the importance of petroleum to the Nigerian economy gave rise to the enactment of a different law regulating the taxation of incomes from petroleum operations. The petroleum profit tax is charged, assessed and payable upon the profits of each accounting period of any company engaged in petroleum operations during any such accounting period, usually one year (January to December) (Anyanwu, 1993).

According Ofe, Onyemachi and Caroline (2008), the administration of PPTA is under the care and management of the Federal Board of Inland Revenue. The tax laws according to Adekanola (2007), have vested the authority to assess, administer and collect all taxes from corporate entities on the Federal Inland Revenue Services. Taxes administered at the Federal level include the Petroleum Profits Tax, Companies Income Tax, and the Value Added Tax as well as the Capital Gain Tax, when such capital gains are generated by corporate entities. The administration of taxes in Nigeria has also been focused on revenue generation to the detriment of stimulating economic development (Adekanola 2007).

2.1.2 Effect of Petroleum Profit Tax on the Economy

The tax system in Nigeria is made up of the tax policy, the tax laws and the tax administration. All of these are expected to work together in order to achieve the economic goal of the nation. According to the Presidential Committee on National Tax Policy (2008), the central objective of the Nigerian tax system is to contribute to the well being of all Nigerians directly through improved policy formulation and indirectly through appropriate utilization of tax revenue generated for the benefit of the people. In generating revenue to achieve this goal, the tax system is expected to minimize distortion in the economy. Other expectations from Nigerian tax system according to the Presidential Committee on National tax policy (2008) include:

- encourage economic growth and development;
- generate stable revenue or resources needed by government to accomplish laudable projects and or investment for the benefit of the people;
- provide economic stabilization;
- to pursue fairness and distributive equity; and
- correction of market failure and imperfection.

Azaiki and Shagari (2007) opined that countries blessed with petroleum resource, can base their development on this resource. Azaiki and Shagari (2007) also asserted that the presence of petroleum resource in a country has the potential benefits of enhanced economic growth and the creation of jobs, increased government revenues to finance poverty alleviation programme, the transfer of technology, the improvement of infrastructure and the encouragement of related industries.

Ogbonna (2009) expressed the view that the administration of Petroleum Profits Tax in Nigeria has mainly been focused on revenue generation to the detriment of stimulating economic growth and development. According to Nwete (2004) the following are the objectives of petroleum taxation in Nigeria:

- To achieve 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 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.
- To re-distribute wealth between the wealthy and industrialized economic 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.
- 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.

2.1.3 Company Income Tax in Nigeria

A Company is defined by Section 93 (1) of the Companies Income Tax Act CAP 60 Laws of the Federation of Nigeria (LFN), 1990 as "any company or corporation other than a corporation sole, established by or under any law in force in Nigeria or elsewhere". The registration of limited liability companies is being carried out by the Corporate Affairs Commission (CAC) in Nigeria. The world Limited (Ltd) or Public Company (Plc) is expected to end each name of a registered company. According to (CAMA), a company duly registered in accordance with the provision of the Companies and Allied Matters Act (hereinafter referred to as CAMA) or any enactment replaced by it is what the Act recognizes as a company in Nigeria. Although CAMA defines a foreign company to mean company incorporated elsewhere than in Nigeria, it does not recognize its existence in Nigeria for business activities. It only defines it for the purpose of identifying it to comply with the mandatory incorporation processes before carrying on business in Nigeria and to benefit from exemption from registration. Section 54(1) CAMA provides that:

Subject to Sections 56 - 59 of this Act, every foreign company which, before or after the commencement of this Act, was incorporated outside Nigeria, and having the intention of carrying on business in Nigeria shall take all steps necessary to obtain incorporation as a separate entity in Nigeria for that purpose, but until so incorporated the foreign company shall not carry on business in Nigeria or exercise any of the powers of a registered company and shall not have a place of business or an address for service of documents or processes in Nigeria for any purpose other than the receipt of notices and other documents as matters preliminary to incorporation under this Act.

However, the Companies Income Tax Act (CITA) defines 'company' in a broader sense. It defines a company as: "any company or corporation (other than corporation sole) established by or under any law in force in Nigeria or elsewhere".

Looking at this definition, the CITA recognises both Nigerian companies and foreign companies for the purpose of tax though on different basis. It should however be noted that the mandatory statutory provision of CAMA is clearly unambiguous in prohibiting the existence of a foreign company in Nigeria for any purpose (including carrying on business to make profit. In fact, any violation of the provision is banged with a penalty.

The CITA on the other hand permits the existence of foreign companies and charge their profits derived from Nigeria to tax. John (2011), argued that both Acts of the National Assembly made to serve economic and fiscal purposes. While CAMA regulates incorporation, control and management of companies, CITA charges to tax the profits of these companies. Before CITA can be effective, there must be in existence companies brought into being by CAMA. When CAMA prohibits the existence of a class of company can CITA permit or legalize it? This question according to John (2011), brings about two conflicting public interest. He said:

"One is the prevention of proliferation of foreign companies, unless registered as Nigerian company. The second is the revenue generation from the profits of companies including foreign companies." The two according to John (2011), constitute key components of Nigerian economic policy and needs to be reconciled and harmonized. It is important to state that the definition of company above analysed is the same under the Petroleum Profit Tax Act.

It is submitted that Nigerian system of taxation does not operate in isolation from the rest of the world. Some foreign companies operate globally and render returns on global basis. The profits made by these foreign companies cannot be ignored. In this regard, the definition of 'company' by CAMA cannot be accurate for tax purposes.

The CITA however, exempts the profits of any company engaged in ecclesiastical, charitable or educational activities of a public character in so far as such profits are not derived from a trade or business carried on by such company; What constitutes a 'trade or business' is however, not defined or described in the CITA (as amended). Orojo (2005), referred to the decision in *Arbisco v FBIR*15 where the Supreme Court applied the dictionary meaning which is that a trade or business is:

"The practice of some occupation, business or profession habitually carried on especially when practiced as a means of livelihood' It was also decided in this case that the question of whether the activity in question is a trade or business is a matter of fact and not of law".

CITA also exempts the profits from taxation of any company formed for the purpose of promoting sporting activities where such profits are wholly expendable for such purpose. Company limited by guarantee may be exempted upon an application to the president for an order for exemption. Companies' Income Tax is a compulsory levy by government on the profits made by the registered companies. This type of tax is a sub-set of direct taxes because the incidence of payment and burden of the companies' income tax are borne by the companies and not transferable to third parties (Naomi & Sule 2015). The relevant tax authority charged with responsibility of assessing and collection of companies income tax among others is the federal Inland Revenue service (FIRS) under the supervision of a board called Federal Board of Inland Revenue (FBIR).

According to Ariwodola (2000), Companies Income tax is chargeable on:

- The global profits of Nigerian companies irrespective of whether or not they are brought into or received in Nigeria.
- The portion of the profits of non-Nigerian companies derived from such companies operations in Nigeria.
- Dividends, interests or royalties due to non-Nigerian companies which are assessed at ten percent (10%) withholding tax rate.

Company Income tax is chargeable on the income of all companies operating in the country except those specifically exempted under the Act. There is some emphasis in the Act on the distinction between Nigerian and non-Nigerian companies. A Nigerian company is defined as one incorporated under the Companies and Allied Matters Act, or any enactment replaced by that Act. The total profits of such company are assessable to Nigerian tax irrespective of whether or not all the profit have been derived from, brought into or received in Nigeria.

According to Gwangdi and Abubakar (2015), A foreign company (non-Nigerian company) is defined as any company or corporation established by or under any law in force in any territory or country outside Nigeria, that is a company that is not incorporated under the Companies and Allied Matter Act. The profits of a non-Nigerian company shall be subject to Nigerian tax only to the extent to which such profits are attributable to the company's operations in Nigeria subject to provisions in the respective double taxation agreements if any is available with the country where the foreign company is registered.

2.1.4 Custom and Excise Duties

Customs duties in Nigeria are the oldest form of modern tax revenue. Their introduction dates back to 1860 known as import duties, which represents taxes on imports into Nigeria, charged either as a percentage of the value of imports or as a fixed amount of contingent on quantity (Buba 2007). Customs duty is a major source of revenue for the Federal Government which is payable by importers of specified goods (Buyonge 2008). According to Buba (2007), excise duties were also introduced on several goods to broaden the revenue base in Nigeria in 1962. Customs and excise duties is an important component of the non-oil revenue and has remained an important source of revenue before and after discovering of oil in Nigeria and over the years contributed significantly to national development. He further stated that the Nigeria custom service is saddled with the responsibility of collecting duties, excise, fees, tariffs, and other levies imposed by the Federal Government on imports, exports and statutory rates. It is a crucial facilitation of trade and key instrument of state sovereignty.

2.1.5 Economic Growth

According to Olopade and Olapade (2010), growth means an increase in economic activities. Jhigan (2004) defined economic growth as the process whereby the real per capita income of a country increases over a long period of time. However, it can also be seen simply, as the increase over time of an economy's capacity to produce those goods and services needed to improve the wellbeing of the citizen in increasing numbers and diversity. It is the steady process by which the productive capacity of the economy is increased over time to bring about rising level of national income (Anyanwu & Oaikhenan, 1995). Economic growth is primarily driven by improvement in productivity, which involves producing more goods and services with same input of labour, capital, energy and materials. However, economist draws a distinction between short term economic stabilization and long term economic growth. Economic growth is primarily concerned with the long run. The short run variation of economic growth is termed the business cycle (Devaranjan, Swaroop & Zou, 1996). A country's economic growth is a long term rise in capital to supply increasing diverse economic goods to its population (Oremade, 2006).

Economic growth represents the expansion of a country's potential GDP or output. Rostow-Musgrave model (1999) conducted a study on growth of public expenditure where Rostow-Musgrave focused mainly on the utilization of taxes as the major revenue source. The study concluded that at the early stages of economic development, the rate of growth of public expenditure will be very high because government provides the basic infrastructural facilities (social overheads) and most of these projects are capital intensive, therefore, the spending of the government will increase steadily. Investment in education, health, roads, electricity, water supply are necessities that can launch the economy from the practitioner stage to the take off stage of economic development, making government to spend an increasing amount with time in order to develop an egalitarian society.

2.1.6 Gross Domestic Product (GDP)

According to World Bank Report (2011), GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products, It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. The Central Bank of Nigeria (2010) defined GDP as the money value of goods and services produced in an economy during a period of time irrespective of the nationality of the people who produced the goods and services. It is usually calculated without making any allowance for capital consumption (or deductions for depreciation).

2.2 THEORETICAL FRAMEWORK

The only theory identified provides a link between tax revenue generation and economic growth is expediency theory.

2.2.1 Expediency Theory

This theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state and the effects of a tax system should be treated irrelevant (Bhartia, 2009). Anyafo (1996) explained that the expediency theory is based on a link between tax liability and state activities. It assumes that the state should change the members of the society for the services provided by it. This reasoning justifies imposition of taxes for financing state activities by inferences, provides a basis, for apportioning the tax burden between members of society. This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently. In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Tax revenue provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, and unemployment and so on. Accordingly, a tax system should not be designed to serve individual members of the society, but should be used to cure the ills of the society as a whole. This theory relates to a normal development process and represents a bench mark against which country specific empirical evidence may be compared.

This study therefore focuses on the expediency theory which enables us to assess the extent to which the Nigeria tax system conforms to this scenario where the link between tax liability and economic activities are linked. If applicable, such a characterization will enhance accurate tax revenue projection and targeting specific tax revenue sources given an ascertained profile of economic development. It will also assist in estimating a sustainable revenue profile thereby facilitating effective management of a country's fiscal policy, among others. This is because the expediency theory focuses on the fact that taxes are collected to achieve economic objective which enhances the growth and development of a country in all its spheres.

2.3 EMPIRICAL EVIDENCE

Eyisi, Chioma and Bassey (2015) examined the effect of taxation on the macroeconomic performance in Nigeria using ordinary least squares regression method from 2002 to 2011 and found that revenue generation from taxation has a positive effect on the macroeconomic performance of the Nigerian economy. The study concluded that change in taxation will lead to high standard of living, provision of employment and reduction in interest rate.

Kamiar and Hashem (2013) examined the impact of oil revenues on the Iranian economy for the period 1908 to 2010 and found that although oil has been produced in Iran over a long period, its importance in the Iranian economy was relatively small up until early 1960s. It was concluded that oil income has been both a blessing and a curse. In terms of maintaining and sustaining GDP growth, oil income has been a blessing. But it has also been a curse in inducing excess inflation, exchange rate volatility and macro-economic inefficiencies, with adverse political and institutional implications and recommendation were made that appropriate policy responses are needed to deal with the large swings in oil revenues that Iran has been facing, particularly over the past three decades.

Abdullahi, Madu and Abdullahi (2015) examined the evidence of petroleum resources on Nigeria economic using simple linear regression model from 2000 to 2009 and found that petroleum has a direct and positive significant relationship with the Nigeria economy and therefore concluded that petroleum has been the mainstay of Nigeria economy since it discovery and it constitutes the major source of our foreign reserves and main source of development capital. They showed no evidence of whether a unit root was conducted, and as such one would not be inclined to affirm a generalized statement as claimed by them.

Adegbite (2015) examined the effects of corporate income tax on revenue profile; it also determined the impact of corporate tax revenue on economic growth in Nigeria using multiple regression analysis method from 1993 to 2013 and found that there is a positive significant impact of corporate tax on revenue in Nigeria. The study concluded that government should reduce corporate income tax rather than eliminate corporate tax in Nigeria; lower corporate tax will increase the demand for labour which will in turn raises wages and increases consumption.

Afuberoh and Okoye (2014) also studied the impact of taxation on revenue generation in Nigeria for the period 1994 to 2004. Using petroleum profit tax, education tax and personal income tax as proxy for taxation (independent variables) and gross domestic product as the dependent variable. Regression analysis was employed by the researcher to analyse the data used in the study, and discovered that taxation has a significant contribution to revenue generation and that taxation has a significant contribution on Gross Domestic Product (GDP).

Naomi and Sule (2015) studied the company income tax in the light for alternative financing for sustainable development in Nigeria. The study employed Ordinary Least Square (OLS) method and Co integration Test over the period 1987 – 2013 to analyse the long run relationship between company income tax and revenue generation in Nigeria. The study concluded that there is a positive and significant relationship between company income tax and revenue generation in Nigeria. It has been identified that none of the existing studies relate the petroleum profit tax and company income tax to Nigeria economic growth in terms of the ability of the government to meet its capital and recurrent expenditures which will in turn increase gross domestic product. The task of filling this gap is undertaken in this study.

3.1 MODEL SPECIFICATION

Guided by the perceived functional relationship between the matrix of economic growth (GDP) with PPT, CIT and CED revenue, a link is forged among the 4(four) variables. From sub-macro and micro economic perspectives, the model for this work states that economic growth (GDP) depends on PPT, CIT and CED revenue. The model which is in line with the work of Ogbonna and Ebimobowei (2012) is a modified form of the model specified by Anyanwu (2007) in his study of Nigeria's tax efforts and economy development. Thus, the functional relationship and the resultant models are as specified below:

$$ECOG_t = f\,(PPT_t,\ CIT_t\ CED_t,)$$
$$logECOG_t = \alpha + \beta_1 logPPT_t + \beta_2 logCIT_t + \beta_3 logCED_t + U_t$$

Where;
ECOG= Economic growth (dependent variable)
Economic Growth; EGOG is measured using Gross Domestic Product at a given time
PPT= Petroleum Profit Tax (independent variable)
PPT; is measured using PPT at a given time
CIT= Company Income Tax (independent variable)
CIT is measured using CIT at a given time
CED= Custom Excise Duties (control variable)
CED is measured using CED at a given time
U= Error term
A priori expectation is that β_1, β_2 and $\beta_3 > 0$

Since the data to be used for the analysis is time series, we employed co-integration tests to avoid spurious regression. The first step would be a diagnostic test of each of the variables for stationarity. This study employs the Augmented Dickey - Fuller test for unit root. If any of the series found to be integrated, then a cointegration test conducted using Johansen Cointegration Test.

3.2 RESEARCH DESIGN

A time series research design is adopted in this study due to the nature of the variables under study. Because the variables assume different values at different times, data at different times extracted from relevant sources.

3.3 NATURE AND SOURCES OF DATA

Secondary data is extracted from various reports of the Federal Inland Revenue Service (FIRS) and the Central Bank of Nigeria (CBN) statistical bulletin 2014, Federal Ministry of Finance and Nigerian National Petroleum Corporation Annual Statistical Bulletin 2014 were used in this study. This is because the estimation of the model in the study requires the use of time series data. The macroeconomic data consist of Petroleum Profit Tax (PPT), Company Income Tax (CIT) and Economic Growth (EG) between 1981 and 2014 in Nigeria. Regression technique was adopted as our tool of analysis as it was found appropriate for the data analysis.

3.4 ESTIMATION TECHNIQUE

The study adopts a time series data analysis research method but were estimated using Fully Modified Least Square (FMLS) Regression Technique. The data were analyzed using Eviews version 7. The steps includes the testing of the series individually for stationarity using the Engle and Granger (1987) two step approach to determine the order of integration of the variables using the Augmented Dickey-Fuller (ADF) set of unit root test. After that we proceeded to search for the existence of long-run equilibrium casual relationship among petroleum profit tax, company income tax, custom excise duties and the economic growth variables.

DATA PRESENTATIONS, RESULT AND DISCUSSIONS

4.1 Preliminary Analysis:

Table 1 Augmented Dickey-Fuller (ADF) Unit Root Test

Variables	t-statistic	Prob @ 5% sig level	Order of integration
GDP	-5.376609	0.0001	I (1)
PPT	-5.627098	0.0001	I (1)
CIT	-9.308161	0.0000	I (1)
CED	-3.411061	0.0179	I (1)

Source: Author's Computations 2016

Table 1 shows the result of unit root test with the use of augmented dickey-fuller (ADF). The result shows that all the variables are stationary after first difference I (1) this means that there is present of unit root in the variables that is, there is present of short term variance among the variables. Since there is present of short term variance among the variables, this will lead to the test for long term variance through the use of is co-integration test.

Table 2: Co-integration test (Johansen Co-integration)
Date: 03/16/16 Time: 17:00
Sample (adjusted): 1983 2014
Included observations: 32 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP CIT PPT CED
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.929864	155.4513	47.85613	0.0000
At most 1 *	0.819250	70.41708	29.79707	0.0000
At most 2 *	0.376621	15.67661	15.49471	0.0469
At most 3	0.017145	0.553411	3.841466	0.4569

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values
Source: Author's Computations 2016

Table 2 presents the result of Johansen co-integration. Trace statistic values are compared to the critical values at 5% and the null hypothesis of no co-integrating or the existences of almost one co-integration vector were rejected, the result shows that there is present of co-integration in the model at most one. Therefore, a long run relationship exists in at most one the variables.

4.2 Hypothesis Testing:

Table 3: Effect of petroleum profit tax and company income tax on gross domestic product in Nigeria
Dependent Variable: LOG_GDP
Method: Fully Modified Least Squares (FMOLS)
Date: 03/16/16 Time: 17:03
Sample (adjusted): 1982 2014
Included observations: 33 after adjustments
Cointegrating equation deterministics: C
Long-run covariance estimate (Bartlett kernel, Newey-West fixed bandwidth = 4.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG_PPT	0.352882	0.129313	2.955590	0.0022
LOG_CIT	0.771234	0.368483	2.093000	0.0452
LOG_CED	0.103788	0.390334	0.265896	0.7922
C	0.965199	0.183325	5.264964	0.0000
R-squared	0.876171	Mean dependent var		6.363435
Adjusted R-squared	0.834741	S.D. dependent var		1.058380

S.E. of regression	0.130741	Sum squared resid	0.495703
Durbin-Watson stat	1.856493	Long-run variance	0.029975

Source: Author's Computations 2016

Table 3 shows the linear relationship between petroleum profit tax, company income tax and gross domestic product in Nigeria with the use of fully modified co-integration regression analysis. The result obtained from the static model indicates that the overall coefficient of determination R-squared (R^2) shows that the equation has a good fit with 87.6 percent of variations in gross domestic product is explained by the variables in equation. In terms of the sign of the coefficient which signify the effect of petroleum profit tax and company income tax on gross domestic product, the result shows that the three variables PPT, CIT and CED concur with *a priori* expectation with positive sign, this means that there is direct relationship between petroleum profit tax, company income tax, custom excise duties and gross domestic product the findings is in line with the result of Ogbonna and Appah (2012).

In terms of the magnitude of the coefficient that signifies the first objective of the study which state that Petroleum Profit Tax has no effect on gross domestic product in Nigeria. The coefficient PPT clearly has significant effect on gross domestic product as indicated by coefficient (0.3529) with prob (0.0022) at 5% level of significant. Thus, the null hypothesis was rejected; means that 1% increase in the petroleum profit tax will induce 0.35% increase in gross domestic product and also 1% decrease in the petroleum profit tax will induce 0.35% decrease in gross domestic product. Also in term of the magnitude of the coefficient that signify the second objective of the study which state that company income tax has no effect on gross domestic product in Nigeria. The coefficient CIT clearly has significant effect on gross domestic product as indicated by coefficient (0.7712) with prob (0.0452) at 5% level of significant, the null hypothesis was rejected, this means that 1% increase in the company income tax will induce 0.77% increase in gross domestic product and also 1% decrease in the company income tax will induce 0.77% decrease in gross domestic product. The was also evident in the study of Ola (2006) and Naomi and Sule (2015) where each study shows that company income tax has a positive impact on Nigeria's gross domestic product.

Finally, in term of the magnitude of the coefficient of the control variable CED clearly has no significant effect on gross domestic product as indicated by coefficient (0.1038) with prob (0.7922) at 5% level of significant. This signifies that as the custom and excise duties increases, the goods entering the country will decrease because the business men and women will be discouraged and this will have a negative effect on the economy of the country. The result here does not agree with the study conducted by Adegbie (2011) which state that a strong relationship exists between custom and excise duties and the economic growth of Nigeria. However it agrees with the study of Buba (2007).

5. CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

This study has been able to analyze the effect of petroleum profit tax and company income tax on economic growth in Nigeria. Section one introduces petroleum profit tax and company income tax. Section two extracts the relevant work of other researchers who have carried out research relating to petroleum profit tax and company income tax. Section three is based on the methodology which focuses on the sampling technique that was used by the researchers in solving the hypotheses. A time series research design was adopted by the study, data was obtained from Central Bank of Nigeria Statistical Bulletin 2014, Federal Ministry of Finance and Nigerian National Petroleum Corporation Annual Statistical Bulletin 2014 and co-integration regression analysis was adopted. Based on the result of the study below:

5.2 Conclusion

This study has been able to describe the roles that petroleum profit tax and company income tax play in the economic growth in Nigeria. Nigeria has the potential to build a prosperous economy, reduce poverty significantly, and provide the health, employment generation, education, and infrastructure services to its population needs. Considering the positive and significant relationship between petroleum profit tax, company income tax and economic growth in Nigeria, there is an urgent need for government to prioritize her needs as petroleum revenue continues to decrease and a situation where most of registered firms were not in the tax system. Economic growth cannot be achieved in a country where vast majority of her populace living below expectation, a situation similar to what is being experienced in the country where, capital expenditure is wholly financed through debt and the entire oil revenue for the federal government is used for recurrent items.

1.3 Recommendations

Based on the findings made in the course of this study, it is recommended that:

- Government should expand the tax yield through improved tax system administration. This is because of the danger of over-reliance on crude oil export receipts to drive the economy.
- Government should transparently and judiciously account for the revenue it generates through petroleum profit tax and company income tax by investing in the provision of infrastructural facilities. It is expected that the more effectively and efficiently revenue is utilized by government to create employment opportunities, satisfy the basic needs of her population, sustain her quest for the development.
- Government should try to diversify the economy. In so doing, revenue accrue to government through petroleum profit tax should be judiciously used to develop other sectors, especially in developing other mineral resources and agricultural sector since the country has what it takes in terms of fertile land, favourable climate and manpower which will lead to economic growth.

In addition to this, government policy should be directed towards creating conducive or investment friendly environment that will attract foreign investors into the country, any increase in investment has the potential of creating job opportunity for the citizens. It is of the view that government should minimize or find ways of eliminating totally the widespread corruption and leakages in the petroleum profit tax and company income tax administration.

The Federal Inland Revenue Service (FIRS) should properly monitor the activities of companies to achieve optimum collection of taxes payable to the government as Company Income Tax (CIT) is a potential source of alternative income as well as improve condition for companies to flourish.

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