TAX ACADEMY RESEARCH JOURNAL (TARJ)
Vol. 1 No.1 pp 139 - 150

Impact of Petroleum Profits Tax on Economic Growth in Nigeria: A Longitudinal Study

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Abstract
This study examines the causal relationship between petroleum profits tax and economic growth in Nigeria over the years 1999 to 2015. Relevant data on real gross domestic product, petroleum profits tax, companies' income tax and value added tax were collected from the Central Bank of Nigeria Statistical Bulletin, 2015 edition, the Annual Report and Accounts of the CBN, for 2014, and journal articles. The econometric technique of ordinary least squares (OLS) is used to estimate the regression line, the Correlogram Q Statistic is used to test for stationarity of the variables, the Johansen Cointegration test is used to establish any long run relationship among the variables of the research, and the granger causality test is used to determine the nature and direction of causality between petroleum profits tax and economic growth in Nigeria over the relevant years. The study, on the basis of findings, concludes that petroleum profits tax has a significant positive relationship with economic growth, but does not granger cause economic growth over the years under consideration. The study recommends, among other things, that Government should diversify the economy and improve the economic environment to boost commerce and business which can expand the tax base available to it.

Keywords: Petroleum Profits Tax, Economic Growth, Gross Domestic Product

JEL Classification Codes: H25; F43; O11

INTRODUCTION

The development and growth of any economy is the ability to provide basic infrastructure that are quite necessary. Among these are the provisions of schools, hospitals, construction of roads, bridges airports, seaports and railway lines. Globally, government is saddled with the responsibility of providing some basic infrastructure for her citizens (Abiola & Asiweh, 2012). The economic effects of

taxation include micro effects on the distribution of income and efficiency in the use of resources and macro effects on the level of output, employment, prices and growth (Musgrave & Musgrave, 2004). In lieu of this, the government of any society seeks sources of funds to maintain the development, and meet the needs of its society. Meeting the needs of the economy calls for huge funds which an individual or society cannot contribute alone (Murkur, 2001). In Nigeria, there are two ways of financing government expenditure; these are, oil revenue and non-oil revenue.

The Petroleum industry is the largest and main generator of GDP in Nigeria which is the most populous in African nations. 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". Nigerian economy is dependent on oil, as it cannot finance social and economic growth in the absence of a large oil revenue base.

In Nigeria, 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. The oil glut of the 1980's greatly impacted on global 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 (Nwete, 2003). Since then Nigeria has had lofty aims for its oil industry, including the desire to increase reserve from 34 billion barrels to 40 billion barrels by 2010 and subsequently its OPEC quota, optimization of oil revenue, increase in the industry's local contents 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 (Success, Ejura & Ifurueze, 2012).

The problems with Nigerian economy have been traced to failure of successive governments to use oil revenue and excess crude oil income effectively in the development of other sectors of the economy (Yakubu, 2008).

According to Odularu (2008) outside of the energy sector, Nigeria's economy is highly inefficient. Moreover, human capital is underdeveloped. Nigeria is ranked 152 out of 188 countries in the United Nations Development Index Report of 2015 and non-energy related infrastructure is inadequate.

Bawa and Mohammed (2007) assert that "Nigeria with all its oil wealth has performed poorly, with GDP, per capita today not higher than at independence in 1960". From the above, it means that an average Nigerian was better off before independence. The assertion by Bawa and Mohammed that the poor performance of Nigeria's economy did not provide any empirical evidence by way of testing of hypotheses thereby confirming the fact that some of their works must have been based on assumptions that cannot be statistically verified and generalized (Baridam, 2008; Eromosele, 1997). Most of the literature dwell on the relationship between taxation, generally, and economic development. Only a few have ventured into petroleum profits tax (PPT) and economic growth. Even those that considered the specific relationship between PPT and economic growth, none, to the best of the researcher's knowledge has tried to examine causal relationship between the two important phenomena. Again, none has extended to cover up to the year 2015. This study attempts to cover this gap.

It is observed from the judgment articulated in the previous theories that petroleum income, be it revenue from the sale of crude oil, Petroleum Profit Tax, royalties and others can cause an increase or decrease in economic growth and development of a nation, depending on the type of theory, policy and practical implementation the government in power adopts. Nigeria with all its oil revenue wealth has performed poorly, with GDP, per capita below the United Nations' standard. The problems with the economy have been traced to failure of successive governments to utilize petroleum revenue for the development of other sectors of the economy.

In developing countries the government has to play an active role in promoting economic growth and development because private initiative and capital are limited. Fiscal policy or budget has become an important instrument in promoting growth and development in such economies. Taxation is an important part of fiscal policy which can be used effectively by government and developing economies. According to classical economists, the only objective of taxation is to raise revenue for the government. But with the changing circumstances and ideologies, the aim of taxes has also been changed. Today, apart from the objective of raising revenue, taxes affect consumption, production and distribution with a view to ensuring the social welfare and economic growth of a country.

The work examines if there is any causal relationship between petroleum

profits tax and economic growth in Nigeria over the years 1999 to 2015.

The main objective of the study is to examine the effect of Petroleum Profit tax on economic growth in Nigeria over the years 1999 to 2015. Specifically, the study investigates:

i) The contributions of petroleum profits tax to the economic growth of Nigeria over the years 1999 to 2015; and

ii) If petroleum profits tax has any causal relationship with economic growth in Nigeria over the years 1999 to 2015.

In furtherance of the objectives of this study, the following hypotheses has been put forward, stated in their null form:

HO_1: Petroleum profits tax has not significantly contributed to economic growth in Nigeria over the years 1999 to 2015.

HO_2: Petroleum profits tax has no causal relationship with economic Growth (GDP) in Nigeria over the years 1999 to 2015.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Petroleum Profit Tax Act is a legislation which imposes tax upon profits from mining of petroleum in Nigeria and provides for the assessment and collections thereof and for the purposes connected therewith (Attamah, 2004).

Tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations (Azubike, 2009). A tax system offers itself as one of the most effective means of mobilizing a nation's internal resources and it lends itself to creating an environment conducive to the promotion of economic growth. Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society (Appah, 2004: Appah & Oyandunghan, 2011).

Anyanwu (1997) defined taxation as the compulsory transfer or payments (or occasionally of goods and services) from private individuals, institutions or groups to the government. Anyanfo (1996) and Anyanwu (1997) stated that taxes are imposed to regulate the production of certain goods and services, protection of infant industries, control businesses and curb inflation, reduce income inequalities etc. The main purpose of tax is to raise revenue to meet government expenditure and to redistribute wealth and management of the economy (Ola: 2001, Jhingan, 2004; Bhartia, 2009). According to Nzotta (2007), four key issues must be understood for taxation to play its functions in the society. First, a tax is a compulsory contribution made by the citizens to the government and this contribution made by the citizens to the government is for general common use. Secondly, a tax imposes a general obligation on the tax payer. Thirdly, there is a

presumption that the contribution to the public revenue made by the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a citizen by the government because it has rendered specific services to him or his family. Thus, it is evident that a good tax structure plays a multiple role in the process of economic development of any nation of which Nigeria is not an exception (Appah, 2010).

According to Dwivedi (2002) economic growth means a sustained increase in per capita national output or net national product over a long period of time. It implies that the rate of increase in total output must be greater than the rate of population growth. To measure economic growth, economists generally examine the rate of change in real GDP from one year to the next. The Central Bank of Nigeria (2008) stated that GDP is 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. The economic effects of taxation include micro effects on the distribution of income and efficiency in the use of resources and macro effects on the level of output, employment, prices and growth (Musgrave & Musgrave, 2004).

Theoretical Underpinnings

A taxation theory may be derived on the assumption that there need not be any relationship between tax paid and benefits received from state activities. Under this assumption are the socio-political theory and expediency theory (Anyanfo, 1996; & Bhartia, 2009). A taxation theory may also be based on a link between tax liability and state activities. This reasoning justifies the imposition of taxes for financing state activities and also providing a basis for apportioning the tax burden between members of the society. Under this schools are the benefit received theory and cost of service theory (Anyanfo, 1996; & Bhartia, 2009). There is also the faculty of ability-to-pay theory of taxation (Anyanfo, 1996; ICAN, 2006; & Bhartia, 2009), which argues that a tax payer should only be taxed according to his ability to pay the tax.

This study follows after the socio-political theory of taxation to study the impact of petroleum profits tax on the economic growth of Nigeria covering the years 1981 to 2014.

Empirical Studies

Several empirical studies have been carried out relating to the impact of petroleum profit tax on the economic growth of Nigeria. A study, carried out by Ogbonna and Ebimobowei (2012) and Ebimobowei and Ebiringa (2012), investigating the impact of petroleum profit tax on the economic growth of Nigeria using relevant data accumulated from CBN and FIRS from year 1970 to 2012 and 1970 to 2010 respectively, showed that there exists a long run equilibrium relationship between economic growth and petroleum profit tax. Based on their analysis, they concluded that petroleum profit tax appears to be one of the

most important direct taxes in Nigeria that affects the economic growth of the nation. They suggested that it should be properly managed to reduce the level of evasion by petroleum exploration companies in Nigeria.

Chigbu, Akujuobi and Ebimobowei (2011) observed that taxation, generally, has been a very important instrument of fiscal policy that contributed to the economic growth of Nigeria for the period 1970 to 2009. Also, Ogbonna and Ebimobowei (2011) investigated the impact of petroleum revenue (which includes PPT) on the economy of Nigeria from a period of 1970 to 2009 and it was observed that petroleum revenue affects the gross domestic product and per capita income of Nigeria positively. However, results showed that there exists a negative relationship between petroleum revenue and inflation rate. They posit that since petroleum revenue contributes to the gross domestic product and per capita income of Nigeria, they should be properly managed and utilized to ensure long term growth and development of Nigeria's economy.

Jibrin, Blessing and Ifurueze (2012) also conducted a study on the impact of petroleum profit tax on the economic development of Nigeria from year 2000 to 2010. Their investigations showed that petroleum profit tax has a significant and positive impact on gross domestic product of Nigeria.

Adegbie and Fakile (2011) opined that petroleum profit tax is a major source of revenue for the Nigerian government to meet its statutory obligation of ensuring the development of the Nigerian economy. It was also observed by them that there exists a strong relationship between petroleum profit tax and economic development of Nigeria and that tax avoidance and evasion are major factors that draw back the income growth of this sector and that poor tax administration is a problem to the effectiveness and efficiency of this course of income.

Given the dwindling fortunes of the oil industry in Nigeria over the last few years and the consequent negative impact it is having on the economy, this study believes that it is important to have another look at petroleum profits tax vis-à-vis the growth of the economy. This is more so that none of the above studies have covered up to the year 2014.

METHODOLOGY

Historical time series data relating to real gross domestic product (RGDP), petroleum profits tax (PPT), companies income tax (CIT), value added tax (VAT) and customs and excise duty (CED) were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, 2015 edition, the CBN website and journal articles, such as Okafor (2012). The econometric technique is applied to analyze the data, using the econometric views (Eviews) version 9 computer software. Basically, the ordinary least squares (OLS) model was used to estimate the regression line. Other

econometric techniques used include the Correlogram Q Test of Stationarity to test for stationarity in the individual data series (Hossain, n.d); Engle-Granger Cointegration to test for the long run integration of all the data series; and Pairwise Granger Causality Test to determine the direction of causality between petroleum profits tax and economic growth in Nigeria between 1999 and 2015. To determine the fitness of the model for the analysis, serial correlation; heteroskedasticity; and normality tests (Hossain, n.d.) were carried out. The proxy for economic development for this study is Gross Domestic Product at current prices with 2010 as the base year, as defined by CBN, 2015, while petroleum profits tax is represented by the figures collected over the period under review.

Model Specification

The basic model for this study is presented below:

RGDP = f(PPT, CIT, VAT, CED)

When transformed into its econometric form, it becomes:

$RGDP = a_0 + a_1PPT + a_2CIT + a_3VAT + a_4CED + u$

Where, RGDP = Real Gross Domestic Product at current basic prices; PPT = Petroleum Profits Tax; CIT = Companies Income Tax; VAT = Value Added Tax and CED = customs and excise duty. a_0 is the intercept or constant, while a_1, a_2, a_3 and a_4 are the coefficients of the independent variables, and u is the stochastic error term.

RESULTS AND DISCUSSIONS

The *p* value of the OLS (0.0005) in Table 1 below at the 0.05 level of significance, is an indication of the existence of a significant relationship between all the independent variables and economic growth in Nigeria. Table 1 also shows that PPT and CIT each have a significant positive relationship with RGDP with p values of 0.0094 and 0.0000 and coefficients of 4.447286 and 70.16698, respectively. VAT, on the other hand, has an insignificant positive relationship with RGDP with a p value of 0.3692 (which is greater than 0.005 level of significance) and a coefficient of 5.195798. However, CED has a negative but significant relationship with RGDP with a p value of 0.0036 and a negative coefficient of 36.51513. R-squared with a value of 0.992653 shows all the independent variables in the model have a significant relationship with the dependent variable within the sample. The F-statistics with a coefficient of 405.3275 and a p value of 0.000000 shows a significant relationship between all the independent variables, combined, and the dependent variable.

TABLE 1: RESULT OF EVIEWS OLS ESTIMATION

Dependent Variable: RGDP
Method: Least Squares
Date: 03/22/17 Time: 21:39
Sample: 1999 2015
Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8136829.	1711347.	4.754634	0.0005
PPT	4.447286	1.441110	3.086013	0.0094
CIT	70.16698	3.619901	19.38367	0.0000
VAT	5.195798	5.569039	0.932979	0.3692
CED	-36.51513	10.11402	-3.610349	0.0036

R-squared	0.992653	Mean dependent var	40132536
Adjusted R-squared	0.990204	S.D. dependent var	30172681
S.E. of regression	2986342.	Akaike info criterion	32.89693
Sum squared resid	1.07E+14	Schwarz criterion	33.14199
Log likelihood	-274.6239	Hannan-Quinn criter.	32.92129
F-statistic	405.3275	Durbin-Watson stat	1.490891
Prob(F-statistic)	0.000000		

Source: Author's computation using Eviews 9 computer software.

Before the OLS regression is carried, there is need to test for the stationarity of the variables in the study. Table 2 shows the result of the test of stationarity in the variables of the study, using the Correlogram Q test which reveals that all the variables of the study are stationary. This is indicated by all the 12 observations having p values that are greater than 0.05 level of significance. Having established the stationarity of the variables, it is important to test the long run relationship between the independent variables and the dependent variable. The Engle-Granger Cointegration test is used for this purpose. The result of the Engle-Granger Cointegration test in Table 3 reveals, with the following p values (RGDP = 0.5289; PPT = 0.1088; CIT = 0.5659; VAT = 0.5253; and CED = 0.1716), a long run integration between the independent variables of the study and the dependent variable.

TABLE 2: RESULT OF CORRELOGRAM Q TEST OF STATIONARITY

Date: 03/22/17 Time: 22:12
Sample: 1999 2015
Included observations: 17

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
. |* . |	. |* . |	1	0.170	0.170	0.5847	0.444
. |* . |	. |* . |	2	0.137	0.111	0.9884	0.610
. | . |	. | . |	3	-0.017	-0.059	0.9948	0.803
. *| . |	. *| . |	4	-0.164	-0.176	1.6652	0.797
. **| . |	. *| . |	5	-0.241	-0.194	3.2227	0.666
.***| . |	. **| . |	6	-0.354	-0.282	6.8943	0.331
. *| . |	. *| . |	7	-0.194	-0.101	8.1105	0.323
. *| . |	. | . |	8	-0.115	-0.063	8.5845	0.379
. | . |	. | . |	9	0.073	0.055	8.7990	0.456
. | . |	. *| . |	10	0.062	-0.068	8.9750	0.534
. | . |	. *| . |	11	0.038	-0.164	9.0511	0.617
. |* . |	. *| . |	12	0.089	-0.101	9.5661	0.654

Source: Author's computation using Eviews 9 computer software.

TABLE 3: RESULT OF ENGLE-GRANGER COINTEGRATION TEST

Date: 03/22/17 Time: 21:59
Series: RGDP PPT CIT VAT CED
Sample: 1999 2015
Included observations: 17
Null hypothesis: Series are not cointegrated
Cointegrating equation deterministics: C
Automatic lags specification based on Schwarz criterion (maxlag=3)

Dependent	tau-statistic	Prob.*	z-statistic	Prob.*
RGDP	-3.444064	0.4580	-13.18940	0.5289
PPT	-4.763081	0.1071	-18.90295	0.1088
CIT	-3.402488	0.4747	-12.75594	0.5659
VAT	-3.241731	0.5408	-13.22751	0.5253
CED	-4.372060	0.1739	-17.70429	0.1716

*MacKinnon (1996) p-values.
Warning: p-values may not be accurate for fewer than 20 observations.

Intermediate Results:	RGDP	PPT	CIT	VAT	CED
Rho – 1	-0.824338	-1.181435	-0.797246	-0.826719	-1.106518
Rho S.E.	0.239350	0.248040	0.234313	0.255024	0.253088
Residual variance	5.94E+12	1.47E+11	1.15E+09	1.73E+10	2.45E+09
Long-run residual variance	5.94E+12	1.47E+11	1.15E+09	1.73E+10	2.45E+09
Number of lags	0	0	0	0	0
Number of observations	16	16	16	16	16
Number of stochastic trends**	5	5	5	5	5

**Number of stochastic trends in asymptotic distribution
Source: Author's computation using Eviews 9 computer software.

Furthermore, to test the nature and direction of causal relationship between the independent variables and the dependent variable, the Granger Causality test showed none of PPT, CIT, VAT and CED granger cause RGDP. The results in Table 4 below shows no causal relationship between PPT and RGDP as well as between CED and RGDP. However, there is a unidirectional causal relationship from RGDP to CIT, as well as from VAT to RGDP.

TABLE 4: RESULT OF GRANGER CAUSALITY TEST

Pairwise Granger Causality Tests
Date: 03/22/17 Time: 22:09
Sample: 1999 2015
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
PPT does not Granger Cause RGDP	15	0.51675	0.6115
RGDP does not Granger Cause PPT		1.98290	0.1882
CIT does not Granger Cause RGDP	15	0.54633	0.5954
RGDP does not Granger Cause CIT		4.13394	0.0492
VAT does not Granger Cause RGDP	15	4.12821	0.0493
RGDP does not Granger Cause VAT		1.02643	0.3931
CED does not Granger Cause RGDP	15	0.13116	0.8786
RGDP does not Granger Cause CED		0.57614	0.5797

Source: Author's computation using Eviews 9 computer software.

Residual tests were also carried out to establish the fitness of the OLS model for the study. Table 5 shows there is no serial correlation in the residuals of the variables, as the Breusch-Godfrey Serial Correlation LM Test shows a p value of 0.5640, which is greater than the 0.05 level of significance. The Breusch-Pagan-Godfrey Test of Heteroskedasticity shows a p value of 0.601, also greater than the 0.05 level of significance. Lastly, the Jarque-Bera test of Normality shows a p value of 0.735361, which is as well greater than the 0.05 level of significance. In addition to these three statistics, three of the independent variables (PPT, CIT and CED) individually have a significant relationship with RGDP, which is 75% of the variables. Only VAT has an insignificant relationship with RGDP, which is 25% of the variables. The R-squared of 0.992653(i.e. 99.26%) is very high enough, while the F-statistic with a p value of 0.000000 is also significant. Hossain (n.d.) posits that these are the desirable qualities of a model that is fit in a research.

TABLE 5: TEST OF RESIDUALS

S/NO.	Residual Test	Type of Test	Null Hypothesis	Obs. R-Squared (*p*)	Remarks
1	Serial Correlation Test	Breush-Godfrey Serial Correlation LM Test	No serial correlation	1.145413 (*0.5640*)	No serial correlation
2	Heteroskedasticity Test	Breusch-Pagan-Godfrey Heteroskedasticity Test	No heteroskedasticity	2.744794 (*0.6014*)	No heteroskedasticity
3	Normality Test	Jarque-Bera Normality Test	Residuals are Normally Distributed	0.614787 (*0.735361*)	Residuals are Normally Distributed

Source: Author's computation using Eviews 9 computer software.

CONCLUSION AND RECOMMENDATIONS

From the findings of this study, it is concluded that petroleum profits tax has a significant positive relationship with, but does not granger cause, economic growth as proxied by RGDP. This finding is contrary to that of Gado and Obumneke (2014), where they concluded an insignificant and negative relationship between PPT and economic growth in Nigeria. It is also concluded that petroleum profits tax, companies income tax, value added tax and custom and excise duty have a long run relationship among themselves for the period covered in the study. These findings agree with those of Jibrin, Blessing and Ifurueze (2012); Ogbonna and Ebimobowei (2012) and Ebimobowei and Ebiringa (2012).

The study recommends as follows:

1. Given the dwindling fortunes of revenue from petroleum related sources, of recent, and the seeming bleak future of oil worldwide, Government should embark on the strategic pursuit of broadening the economy to enhance economic growth and development;
2. Government should work at making the economic environment more conducive for businesses to thrive, as companies income tax could be a veritable complement or even replacement for the PPT.

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