

Innovations

The Impact of Personal Income Tax on State Internally Generated Revenues: Empirical Analysis of South-West States, Nigeria

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Abstract

*State Internally Generated Revenue (IGR) has been a tropical issue because of its immense importance to financial viability, budget implementation, and sustainable development. However, over reliance on federal allocation by states has resulted in paucity of IGR and total financial resources. Many studies have been conducted on IGR at state level, but with less emphasis on the impact of Personal Income Tax (PIT). Therefore, this study examined the probable impact of PIT on IGR of South-West states, Nigeria. Ex-post facto research design was adopted for the study while secondary data used were extracted from Nigeria Bureau of Statistics annual report (2013-2022). Data were analyzed with descriptive and inferential statistics at 5% level of significance. The study revealed that PIT has positive impact on IGR of South-West states, Nigeria ($Adj.R^2=0.988$, $F_{(2,10)}=2634.37$, $p=0.000$). The study concluded that PIT has significant influence on IGR as it contributed (61.95%) maximally and becomes an important source to IGR of South-West states, Nigeria. Also, individually, Pay As You Earn (PAYE) contributes maximally (57.85%) and Direct Assessment (DA) minimally (4.1%) to IGR of South-West states, Nigeria. The study recommends that State government should adopt better revenue generation mechanism, monitoring techniques, and information technology to enhance DA collections from the informal sector to boost IGR. Besides, revenue enlightenment, good governance, and provision of public goods and services will boost taxpayers trust, tax morale and tax compliance behaviour. Likewise, government should ensure continuous training of tax officers and updating of taxpayers' data with Tax Identification Number (TIN). **Word count: 248***

Keywords: Financial viability, Internally generated revenue, Personal Income Tax, Sustainable development, Tax compliance, Tax morale.

1.0 Introduction

Government revenue is a generic term, a form of monetary receipts, it involves tax and non-tax sources (Adekoya, Agbetunde & Akinrinola, 2021). Tax revenues are compulsory receipts assessed on incomes, profits or properties while non-tax revenues are receipts derived from usages or approval for activities. However, Internally Generated Revenues (IGRs) are forms of revenues endowed and generated within the jurisdiction spheres of influence of governments. These come from various sources like taxes, fees, levies, rates, licences, fines, stallages, permits and interests. BudgiT (2022) defined state IGR as revenues generated within the state jurisdiction from numerous sources. In recent time, IGR has been a topical issue because of its immense importance to financial viability, governance, infrastructural development, sustainable development, and budget implementation. Moreover, Adekoya (2020) viewed that in either private or public institutions, finance is the fuel or lubricants for the wheel of good administration. Therefore, government ability to generate enough IGR to compliment the allocated revenues from the Federal Account Allocation Committee (FAAC) is key to their financial viability.

Nigeria operates a federal system of government via three tiers: Federal, 36 State governments and 774 Local Governments. Revenue generating power of each tier of government is guaranteed by Joint Tax Board (JTB) while revenue functions, tax legislation and policy directions are entrenched in the Nigeria constitution. Prior to crude oil discovery in 1970s, the main sources of revenues to the government were from agricultural produces and taxation, but today, revenue from crude oil contributes at least 80% income to the governments. However, this revenue from crude oil has become unsustainable due to price volatility in the global market, and economic recession. According to Adekoya, Oyebamiji and Lawal (2020); and BudgiT (2022), many states in Nigeria relied heavily on federal allocation for financial viability with at least 75% of their total revenues come from Federal allocation thereby making them overdependent on federal allocation for financial survival, budget implementation, and sustainable development.

Many states lack drive on IGR, this resulting into paucity of fund to finance government activities, provide public goods, and achieve sustainable development (Adekoya, Olayinka & Aina, 2023). Therefore, state governments need to formulate policies and strategies to boost their IGR, enhance financial viability, and achieve sustainable development. To achieve this, Personal Income Tax (PIT) becomes pertinent and important for consideration. Although, PIT has been characterised with problems of tax evasion or avoidance in the informal sector due to

poor data management, mistrust, corruption, dishonesty, and lack of government transparency and accountability on tax revenues (Adekoya, Olaoye & Lawal, 2020).

PIT is a form of tax imposed on the income of individuals in employment, and informal business. It has two divisions: (i) Pay As You Earn (PAYE) and (ii) Direct Assessment (DA). PIT is assessed on taxpayer earnings and it is regulated by Income Tax Management Act (ITMA) 1961, amended in 1993, and known as PIT Decree (PITD) 104 of 1993. In 2004, it referred to Cap P8 LFN PIT Act 2004, and amended by PIT (Amendment Act 2011) Cap P8 LFN of June 2011. The law highlights the procedures, and administrative process to impose and collect taxes from individuals, partners, trustees, and executors. PIT is a common features of tax system, a quasi-income tax imposed on individual wealth, ascertained/estimated/imputed incomes. PAYE are payable by employee in paid employment, this is deducted at source from their monthly salaries and remitted to tax authority. DA is a tax chargeable on annual incomes of self-employed individual. PIT is collected by various state government from resident taxpayer through the State Board of Internal Revenue Service (SBIRS) while individuals like members of Armed Forces, Nigeria Polices, FCT residents, Foreign Affairs staffs, and Non-residents pay PIT to federal government via Federal Inland Revenue Service (FIRS).

Besides, in South-West states, Nigeria, there are paucity of funds to meet expenditures leading to budget deficit. In solving these problems, these states need to work more on IGR with focus on PIT. In the past, many research had been conducted on IGR as independent variable in public sector but with different dependent variables like total state revenues and financial viability (Adekoya, Olayinka & Aina, 2023); Infrastructural development (Sokoh, 2023); economic growth (Senzak & Gbegi, 2021); signage and revenue generation (Adekoya & Olayinka, 2023); transport infrastructures (Ajike *et al.* 2020); COVID-19 pandemic (Adekoya, Agbetunde & Akinrinola, 2021). Also, taxation as independent variable and other dependent variables like infrastructural development (Olugbade & Adegbie, 2020); economic growth (Adeyemi & Mieseigha, 2019); IGR (Mohammed, 2022; Nwafor, Obineme & Okey, 2021); revenue generation (Tarfa, Tarekegn & Yosef, 2020; Folayan, Dosumu & Amusa, 2020; Isimoya, 2022; Azende & Ganyam, 2020); with less emphasis on the impact of PIT on state IGR. Therefore, the objective of the study is to examine the impact of PIT on state IGR using South-West Geopolitical Zone, Nigeria, as case study. The study attempts to answer the question: Does PIT impacts on State IGR in South-West States, Nigeria? The hypothesis drafted in null forms and tested at 5% level of significance for the study is:

Personal Income Tax does not have significant impact on State IGR in South-West States, Nigeria.

The paper intends to contribute to previous studies on PIT and IGR, and proffer solution to paucity of funds in State. Studying the impact of PIT on IGR is not only an academic exercise but also to assist the state to boost IGR and achieve financial viability, broaden tax revenue base, and enhance sustainable development. Moreover, for better understanding, the rest of the paper is divided into four sections, section two is review of extant literature, section three methodology, section four discussion and data analysis, while the last section focuses on summary, conclusion and recommendations.

2.0 Review of Extant Literature

2.1 Conceptual Review

2.1.1 Internally Generated Revenues (IGRs): IGRs are revenues generated within government area of jurisdiction, such as taxes, levies, fees, fines and charges. IGRs are used to broadening and widening total revenues. According to section 162 (10) of Nigeria 1999 constitution CAP C25 LFN 2004, revenue is defined as any income or returns accruing to or derived by tier of government from any sources such as receipts arising from operation of the law, receipt from property held by government, and any form of returns such as interest from loan or dividend from shares in any company or statutory body. Omodero, Ekwe and Ihendinihu (2018) also viewed IGRs as funds generated by government to finance yearly programme and activities. It serves as a tool of social contract, economic and sustainable development, social engineering, and budgeting.

State IGRs can be classified into:

- 1. Personal Income Tax (PIT):** PIT is a common and major features of taxation system in states. It is a quasi-income taxes, imposed on individual wealth or ascertained/estimated/imputed incomes. This is classified into two: (i) Pay As You Earn (PAYE) and (ii) Direct Assessment (DA).
 - (i) Pay As You Earn (PAYE):** It is a form of tax deducted at source from wages and salaries of formal sector employees by employer on monthly basis and thus remitted to tax authorities. All employers of labour in Nigeria are expected to abide with tax laws for the implementation of PAYE system.
 - (ii) Direct Assessment (DA):** DA is the personal income tax chargeable on self-employed individuals or informal sector operators' income by state tax authority based on income size or volume of activities.

2. Road Taxes: These are daily fees or levies imposed on commercial transporters who operates within the states. Also, it involves motor vehicle annual renewal licenses fees paid by vehicles owner in the state.

3. Ministries, Departments and Agencies (MDAs) Revenues: These are revenues in form of fees, fines, and charges assessed by State MDAs on citizens for unique services rendered by MDAs to the citizens.

4. Other Taxes: These are other IGRs derived from market; land development and registration; pool betting/lottery/gaming; stamp duties on individuals; and others from health, agriculture, education, environmental or legal services.

2.1.2 Personal Income Tax (PIT): PIT is a tax levied on individual incomes. It is collectable by state governments through the SBIRS from individuals' resident in the state while individuals such as members of Armed forces, the Nigeria Polices, FCT residents, External Affairs and Non-residents pay PIT to the Federal government through FIRS. Presently, PIT is guided by Personal Income Tax (Amendment) Act 2011, this was gazetted on 31st January, 2012 but operational from 14th June 2011. PIT is levied on personal incomes like wages and salaries, royalties, dividends, rental incomes, income generating activities, and director fees based on residency rules, and payable by individuals like employees in the formal sector, and informal sector operations or self-employed. Employees pay PIT using PAYE system which involves monthly deduction at source from salaries and wages. This is a form of progressive taxation, the higher the salaries, the higher PIT and vice versa. Besides, DA is applicable and chargeable on self-employed or informal sector individual incomes on an annual basis. But DA collection is characterized with problems like incomplete records keeping, corruption, and ineffective monitoring which leads to high rate of tax evasion/avoidance. Besides, taxation is guided by the principles of neutrality, certainty and simplicity, effectiveness, flexibility and fairness. In the same vein, American Institute of Certified Public Accountants (AICPA) (2017) reported that a good tax system should ensure the principles of equity and fairness, simplicity, certainty, convenience of payment, neutrality, and economy of collections.

2.1.3 Principles of taxation as it relates to PIT and IGR:

Adam Smith in "Wealth of Nations" highlighted most important principles of taxation also known as Canon of taxation. These are:

1. **Equity:** This principle stipulated that taxpayer should contribute to support governance based on the proportion of their income. A good tax system should be fair and equitable to all tax payers such as a horizontal, vertical or geographical equitable. Horizontal equitable means tax burden will be the same to all taxpayers in the same level of economic resources. Vertical

equitable means payment of higher taxes by taxpayers with higher economic resources than those with lower income and vice versa while geographical equitable means tax payment based on location or geographical economic viability of taxpayers.

2. Principle of certainty: Tax should be designed with objective of certainty where the taxpayers can personally determine the amount of tax payable. This means that taxpayer should know time and amount of tax to pay. This entails transparency and accountability in tax collection.
3. Principle of convenience: One objective of PIT is the taxpayer convenience to make payment. This can be seen in PAYE process where taxes are withheld at sources and remitted to the tax authority. However, PIT rate should be low and easy to pay because higher rates might lead to taxpayers' evasion or avoidance behaviour.
4. Economic efficiency: Payment of tax affects individual economic choice. However, tax should be simple, easy to pay, and also should not discourage savings. But where taxes alter individual choices of what ought to have been made or discourage savings such taxes will be tag economically inefficient.
5. Principle of economy: Cost of collection should not outweigh the tax revenues. Besides, cost of collecting tax should not be exorbitant or excessive but relatively minimal, sensible and administratively cost effective.

2.1.4 Problems of PIT and IGR in states:

1. High rate of tax evasion, avoidance or non-compliance
2. Minimal taxpayer's data base and lack of Tax Identification Number (TIN)
3. Mistrust, misrule and bad governance
4. Over dependence on federal allocation for financial viability
5. Corruption by revenue officers
6. Shortage of experienced and professional revenue officers.
7. Lack of transparency and accountability on PIT and IGR
8. Ineffective revenue budget monitoring
9. Lack of modern technology to drive IGR
10. Political interference on revenue generation

2.1.5 South-West Geopolitical Zone of Nigeria:

Nigeria is classified into six geopolitical zones, these are North-East (NE), North-Central (NC), North-West (NW), South-East (SE), South-South (SS) and South-West (SW). The SW has six States, these are Ekiti, Ogun, Ondo, Osun, Oyo and Lagos. Ekiti is the home of renowned homegrown academicians and scholars, and a civil servants driven economy. The 15th most indebted state in the country and it largely

depends on federal allocation for financial viability. Ogun is the major manufacturing hub in SW zone of Nigeria with sizeable cluster of industrial estates, and also the 4th most indebted state. Ondo is the highest oil producing state in the SW region. It is the 6th largest bitumen reserves in the country and also the 27th indebted state. Osun is rich in mineral resources like gold and kaolin for economic growth and ranked as 12th most indebted state in the country. Oyo is ranked 28th on ease of doing business. It is the 17th largest economy in Nigeria and 4th largest economy in SW region and also ranked as 15th most indebted state in the country. Lagos is the first administrative capital and presently the commercial capital of Nigeria. It is the most indebted state and 20th in ease of doing business. According to BudgiT (2022), the fiscal performance ranking of the South-West states among the 36 states in Nigeria are Lagos(3), Ogun (10), Oyo (11), Osun (17), Ondo (19) and Ekiti (30). In addition, state performance based on: (i) Limited dependence on federally allocated revenue for their operations and thus with greater financial viability as an independent entity, and (ii) state that grows their IGR year by year and progressing by reducing their over reliance on federal allocation with their ranking and index are as follows:

Table 1: Performance

State performance based on limited dependence on Federal Allocation for their operation and greater financial viability			State that grows their IGR year by year and progressing by reducing their over reliance on Federal allocation		
State	Rank	Index	State	Rank	Index
Lagos	1	0.82	Ekiti	4	1.02
Ogun	6	1.69	Ogun	10	0.54
Oyo	10	2.28	Ondo	13	0.50
Ondo	13	2.47	Oyo	17	0.37
Osun	14	2.1	Lagos	20	0.30
Ekiti	25	3.73	Osun	30	0.11

Source: BudgiT(2022)

Besides, many states in Nigeria relied heavily on federal allocation for financial viability and implementation of their annual budgets. BudgiT (2022) reported that 13 states have at least 70% of their total revenue from federal allocation for financial viability while 33 states have 50% of their total revenue from federal allocation. This shows that these states need to wean themselves off dependence on federal allocation for financial viability and improve their capacity to boost IGR.

2.2 Theoretical Review:

The study anchored on benefit theory and ability to pay theory.

2.2.1 Benefit Theory:

Benefit theory was developed as aspect of public finance theory. The theory was popularized by Richard Musgrave in 1959 and Paul Samuelson in 2000. Benefit theory postulated that taxpayers' willingness to pay taxes depends on the principle of social contracts and the kind of benefit received from the government. This theory aligns with Adam Smith canon of taxation such as tax equity, justice and fairness. The theory also known as voluntary exchange theory focus on value exchange between the citizens (taxpayers) and the government. Government has responsibility to provide public goods for the wellbeing of the citizens while the citizens in return pay taxes in proportion of the benefit received.

2.2.2 Ability to pay theory:

The theory focuses on individual or firm power to pay taxes. The theory originated from the principle of affordability in taxation. Ability to pay is an extension of Adam Smith canon of tax likes equity, fairness, and justice, and also one of the theories in public finance. Moreover, it is a form of taxation based on power to pay measure by income or wealth. According to Batt (2012), ability to pay theory is the taxpayer capability to pay taxes assessed on the proportion of incomes, profits or services enjoyed. Ability to pay will make the rich to pay more taxes than the poor and vice versa. Moreover, Zhou and Madhikani (2013) reported that ability to pay is a function of taxpayer's income, wealth, or services enjoyed. Also, Kendrick (1939), opined that ability to pay theory will be perfect with taxpayer's honest mind when they are seen to be fair, sincere and exhibits their willingness to pay while the government in return should exhibit probity, accountability, transparency, and trustworthiness on tax revenues.

Empirical:

Adekoya, Olayinka and Aina (2023) examined the impact of state IGR on total state revenues and financial viability. The study revealed that state IGR positively impacts on total revenues. PAYE contributed maximally while DA contributed minimally to total revenue. Also, Mohammed (2022) looked at the influence of tax administration on IGR. The study revealed that appropriate training of revenue staff would influence tax collection performance. Likewise, Ogundipe (2022) studied the impact of tax administration on state IGR. The study revealed positive relationship between electronic tax payments, tax compliance and revenue generation. But tax avoidance and evasion have detrimental impact on state ability to generate more revenues. In addition, Adegbite, Ibrahim and Akinade (2022) investigated the connection

between PIT and revenue generation in North Central States, Nigeria. The study revealed that PIT has positive impact on IGR. The study recommends the automation of PIT remittance to boost IGR. Besides, Omodero, Okafor and Nmesirionye (2021) looked at PIT revenues and Nigeria aggregate earnings. The study revealed that PIT has significant positive influence on gross national income. The study recommends improved PIT administration to boost total revenues.

Adeleke, Osayemi and Adeola (2021) examined the effect of sub-national government revenue on socio economic and infrastructural development in Nigeria. The study revealed that sub-national government revenues spatially dispersed while federal allocation accounted for the major sum of revenues in states. In addition, Bala, Enoch and Yakubu (2018) looked at the problems of PIT on revenue generation in Gombe state, Nigeria. The study revealed that tax evasion or avoidance, and absence of information technologies are critical challenge to revenue generation in the state. The study recommends mechanism to avert tax avoidance or evasion with the use of information technology. Also, Kyari, Ahmed and Ogu (2018) studied the impact of PIT on IGR in Kaduna state, Nigeria and the study revealed a strong impact of PIT on IGR. The study recommends instant remittances of tax deducted at source to boost state revenues. In the same vein, Adedeji and Akindele (2018) investigated the effect of PIT on revenue generation in Ondo state. The study revealed that PIT has significant and positive correlation with IGR. The study recommends that PIT should be vigorously pursued as a means of boosting IGR.

3.0 Methodology:

The study adopts *ex-post facto* research design. Secondary data on PIT and IGR of South-West states, Nigeria for the period of 10 years (2013-2022) were extracted from the Annual Report of Nigerian Bureau of Statistics (NBS). The data were analysed with descriptive statistic of (percentage, bar chart, and tabulation), and inferential statistics of Ordinary Least Square (OLS) and Analysis of Variances (ANOVA) for the aggregate model. F-statistics at 5% level of significance was used to assess the combined effect of the explanatory variables on the criterion for rejection or acceptance decision.

3.1 Model specification:

The model shows the functional and conceptual relationship between the independent variable and dependent variable. The independent variable is PIT while dependent variable is the IGR. The study expects that PIT would enhance IGR, this mean that PIT would increase IGR and compliment the total State revenue

and financial viability. The mathematical expression of the regression model is given as:

$Y = f(X)$ $Y =$ Dependent variable. $X =$ Independent variable

$X = (x_1, x_2)$

$IGR = f(PAYE, DA)$

Where:

IGR = Internally Generated Revenue; PAYE = Pay As You Earn; DA= Direct Assessment

The model specification will be:

$Y = \beta_0 + \beta_1 X_i + \dots + \mu_1$

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \mu_i$

$Y =$ Internally Generated Revenue $X =$ individual revenue

$IGR = \beta_0 + \beta_1 PAYE + \beta_2 DA + \mu_1$

$\mu =$ Error term, $\beta_0 =$ Intercept or the constant

$\beta_1 - \beta_2 =$ Partial regression coefficient of the explanatory variables.

A priori Expectation:

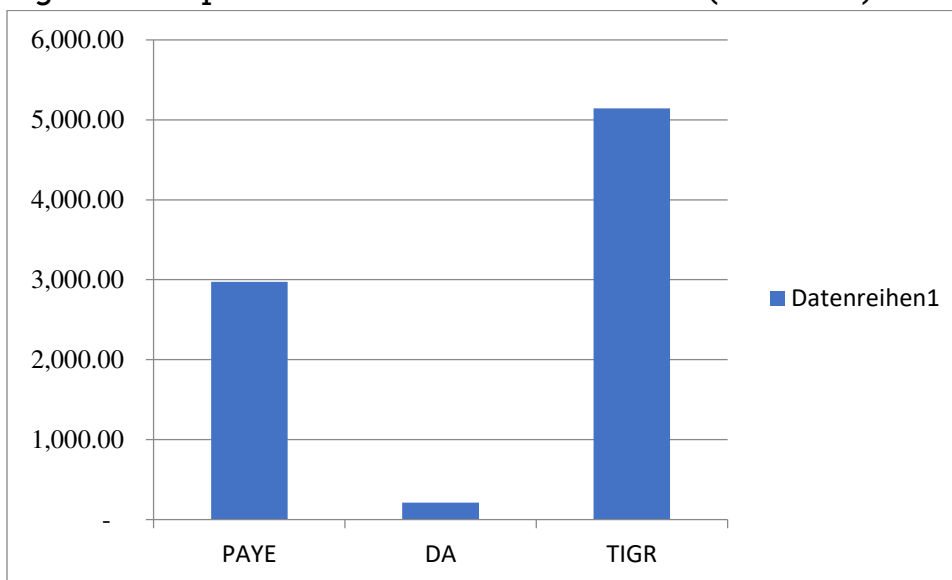
$\beta_1 - \beta_2$ are expected to be greater than zero and positively signed.

4.0 Data Analysis and Discussion of Findings:

Secondary Data collected from NBS were analysed and interpreted using descriptive statistic while the study hypothesis was tested with multiple regression analysis and Analysis of Variance (ANOVA).

4.1 Descriptive Analysis of the Test Items:

Figure 1: Graphical Illustration of All Indicators (In Billions)



Source: Researcher's work(2024)

Figure 1 shows the bar chart of the graphical illustration of total PAYE, DA and IGR for the entire states in South-West, Nigeria. Total amount generated for PAYE, DA and IGR for 10 years were ₦2.974 trillion, ₦211.929 billion, and ₦5.141 trillion respectively. However, percentage of revenue to total IGR were PAYE (57.85%), DA (4.1%), while the balance of 38.04% is for other sources.

Table 2: Percentage of contributions on total IGR

State	Percentage Contribution of PAYE to TIGR	Percentage Contribution of DA to TIGR	Percentage Contribution of OTHER factors to TIGR
Lagos	61.5	4.0	34.5
Ekiti	51.1	4.9	44.0
Ogun	39.7	4.1	56.2
Ondo	52.6	2.8	44.6
Oyo	56.5	5.8	37.7
Osun	52.2	4.6	43.3

Sources: Researcher's work (2024)

Table 2 shows the percentage contribution of PAYE, DA and other revenue sources to total IGR for each state in South-West, Nigeria. The contribution of PAYE to TIGR shows that Lagos has the highest percentage with 61.5% followed by Oyo (56.5%) while the least was Ogun with 39.7%. South-West states have very low DA contribution to TIGR. The highest was Oyo (5.8%), followed by Ekiti (4.9%) while the least was Ondo (2.8%). Revenue from other sources has Ogun with (56.2%) followed by Ondo (44.6%) while Lagos has the least with (34.5%).

4.2: Inferential Statistics:

Table 3: PIT and TIGR in SW, Nigeria

Dependent Variable: TIGR	Model One			
	Coefficient	Std. Error	T Stats	Prob.
C	3.9700	2.2700	1.749799	0.0855
DA	5.750556	1.164473	4.938333	0.0000
PAYE	1.238866	0.081865	15.13307	0.0000
Adjusted R ²	0.988			
F-Stat	2634.37 (0.00)			
Serial Correlation (DW)	2.04			
Heteroscedasticity	29.77 (0.10)			

Source: Researcher’s Work (2024)

@ Significant level of 5%

Post Estimations test Interpretation :

The model was tested for heteroskedasticity, and serial correlation to examine the robustness of the model. Heteroskedasticity test helps to examined whether the variations in the residuals of the model are constant over time or not; the null hypothesis states that the standard errors of the model are constant over time. This test was carried out using Breusch-Pagan/Cook-Weisberg test and the result of the heteroskedasticity hasp-value of 0.10.Thisgreater than 5percent level of significance selected for the study, this shows the absence of heteroskedasticity.This revealed that the residuals of the model are constant over time, thus the model is homoscedastic.

Also, serial correlation test was carried out to determine the existence of autocorrelation among the residuals and the coefficients of the model. However, autocorrelation problem causes the standard errors of the coefficients to be smaller than their actual value while the coefficient of determination (R-squared) to be higher than normal. The null hypothesis of the test states that there is no serial correlation (no first order of autocorrelation). However, usingDurbin Watson Statistic, the result of2.04shows that serial correlation problem does exist in the model.

4.3 Test of Hypothesis

H₀: Personal Income Tax does not have significant impact on State IGR in South-West States, Nigeria.

Regression Equation Results:

$$IGR_{it} = \beta_0 + \beta_1 PAYE_{it} + \beta_2 DA_{it} + \mu_{it} \dots \dots \dots \text{Model 1}$$

Table 3 shows the outcomes of regression analysis on the impact of PIT on IGR of South-West States, Nigeria. The results revealed that DA (5.7506) and PAYE (1.2389) have positive relationships with total IGR of South-West States, Nigeria. The study revealed that PIT has impact on IGR of South-West States, Nigeria. (*Adj R*²=0.988), F (2, 10)=2634.37; P=0.0000). There was evidence that DA and PAYE exerted significant relationships with IGR of South-West States, Nigeria (DA= 5.7506, *t*- test= 4.9383, p= 0.0000; PAYE= 1.2389, *t*- test= 15.1331, p= 0.0000). This implies that DA and PAYE were significant factors that effects changes in total IGR of South-West States, Nigeria. The nature and the extent of the effect of each of the measures of the explanatory variables on the dependent variable (IGR) are shown in the values of the coefficients. The coefficient values revealed that DA and PAYE positively impact IGR with DA (β=5.7506) indicating that an increase in the value of DA would yield 5.7506 percent increase in IGR; and PAYE(β=1.2389) also indicates that as PAYE increases by 1 percent, the IGR would increase by 1.2389 percent.

The Adjusted R² measures the proportion of the changes in total IGR of South-West States, Nigeria as a result of changes in DA and PAYE. The Adjusted R² of 0.988 explained about 98.8 percent changes in IGR of South-West States, Nigeria, while the remaining 1.2 percent were other factors explaining changes in total IGR of South-West States, Nigeria but were not captured in the model. The F- test of 2634.37 is statistically significant with p=0.0000. This shows that variables used in the model have a goodness of fit which was a good predictor of the main variable while DA and PAYE jointly explains changes in IGR of South-West States, Nigeria. The F-test of 2634.37 is statistically significant with p=0.0000. This indicates that on the overall, the statistical significance of the model showed that the null hypothesis that PIT does not have significant effect on IGR of South-West States, was rejected. Thus, the alternative hypothesis that state PIT has significant effect on total IGR of South-West States, Nigeria was accepted at 5 percent level of significance.

4.3 Discussion and implication of Findings:

Empirical findings from the test of hypothesis on the impact of PIT on IGR of South-West States, Nigeria revealed that DA and PAYE have positive relationships with IGR of South-West States, Nigeria. The F-statistic of 2634.37 is statistically significant at p=0.0000 therefore, the study revealed that PIT have significant influence on IGR of South-West States, Nigeria at 5 percent level of significance. In the aggregate model,

our findings showed direct relationship between PIT and IGR of South-West States, Nigeria. Also, PAYE has the highest contribution to IGR in five states with 61.5%, 51.1%, 52.6%, 56.5%, and 52.2% for Lagos, Ekiti, Ondo, Oyo, and Osun respectively while in Ogun has minimal contribution of 39.7%. This shows that PAYE contribute heavily to state IGR on yearly basis and therefore becomes an important factor for state IGR and financial viability. However, DA has very low contribution to IGR with the following results Lagos(4.0%), Ekiti(4.9%), Osun(4.1%), Ondo(2.8%), Oyo(5.8%), Osun(4.6%). DA should be given due attention for better performance based on numbers of endowed informal sector economy. In all, PIT contributes maximally (61.95%) to the growth of total IGR of South-West States, Nigeria while individually PAYE has (57.85%) and DA (4.1%). The outcome of the study aligns with the work of Adekoya *et al.*, (2023); Adegbite *et al.*, (2022); Omodero *et al.*, (2021); Adedeji & Akindele (2018); and Kyari *et al.*, (2018) that PIT have positive impact on state IGR and its financial viability.

5.0 Summary, conclusion and recommendation of Findings

5.1 Summary of finding and conclusion:

Boosting IGR with PIT will make the states via blend have financial resources to implement their annual budget, provides public goods and drive economic growth. No state can provide good governance without adequate and sustainable IGR. However, from the study on the impact of PIT on IGR of South-West States, Nigeria for the period of 10 years (2013-2022). The study revealed that DA and PAYE have positive relationships with IGR of South-West States, Nigeria. The finding also revealed that DA and PAYE exerts significant relationships with IGR of South-West States, Nigeria. Besides, DA and PAYE were significant factors which influenced changes in IGR of South-West States, Nigeria. In addition, PAYE contribute maximally (57.85%) to total IGR of South-West states while DA contribute minimally (4.1%). In conclusion, empirical discoveries revealed that PIT contributes (61.95%) to total IGR of South-west states. This means that PIT has impacts on the total IGR of South-West States, Nigeria and remain an important IGR source in states.

5.2 Recommendations:

State government should pursue better revenue generation mechanism on DA to enhance state IGR and total financial resources for sustainable development. This can be achieved with better monitoring and use of information technology to exploit DA potentials from the informal sector. Moreover, state government should have effective policies on IGR with adequate funding of tax authorities and other revenue generating units or agencies. Government should improve revenue generation

enlightenment, good governance, and provision of public goods and services that will minimise mistrust, dishonesty, misrule and corruption, this will boost citizens tax morale and increase level of tax compliance. Likewise, revenue officers should have continuous training and capacity building on modern techniques of generating IGR. Lastly, comprehensive taxpayers' data base should be compiled and updated with Tax Identification Number (TIN).

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