International Journal of Social Sciences and Conflict Management
Volume 3, Number 1, March 2018
ISSN: 2536-7234 (Print) : 2536-7242 (Online)
http://www.casirmediapublishing.com

The Effects of Personal Income Tax on Revenue Generation in Ondo State

[1]Adedeji, Abosede O. & [2]Akindele, Ajbisola A.
[1]Department of Business Administration, Federal University of Technology, Akure
[2]Department of Project Management Technology, Federal University of Technology, Akure
E-mail: aoadedeji@yahoo.com, bisak56@gmail.com.
Corresponding Author: A. O. Adedeji

ABSTRACT

This study examined the contribution of personal income tax to revenue generation in Ondo State from 2006 to 2015 and assessed the relationship between personal income tax and revenue generation in the state. The research was descriptive and expose-factor. Published secondary data were obtained from the Ondo State Board of Internal Revenue. Data were analysed using descriptive and inferential statistics such as; simple percentage, mean, standard deviation, trend analysis and Spearman rank correlation analysis. The trend analysis shows the movement of personal income tax from 2006 to 2015. The least percentage contribution of PIT to revenue was 65.76% in the year 2010 even as the highest contribution was 90.71% in the year 2011. The forecast line showed an upward positive trend. If the line of best fit represented by forecast line is to go by, percentage contribution of PIT to revenue should increase to a little above 90.10% in 2016 and to 90.40% in 2017. The result of the correlation analysis showed that personal income tax was significantly and positively correlated with internal revenue with r=.98 (p< 0.01). Also, PAYE and direct assessment (DA) positively correlated with internal revenue at 98% and 93% respectively. This indicates that internal revenue is influenced by personal income tax and both are related. Based on the findings of the study, it was recommended that personal income tax should be vigorously pursued as a means of generating revenue internally to finance governmental obligations to the citizens of the state while areas of leakages are blocked.

Keywords: *Personal income tax, revenue generation PAYE, DA.*

INTRODUCTION

Every state or nation requires a lot of revenue in order to provide and maintain essential services, such as security, healthcare, good roads, and other amenities for its citizens. To this end, governments generate income from diverse sources for the purpose of meeting their expenditure. These sources are either internal like investments and taxes or external such as allocation from the Federal Government of Nigeria, grants, aids, and donations. Imposition of taxes is one ready means of revenue for the government, and it is not a new phenomenon since there is hardly any government today that does not rely on taxation for sustainable development. However, the reason for the imposition of tax is not only for the generation of revenue for the government, but it has also become the avenue for provision of social amenities, redistribution of wealth and re-adjustment of the economy (Ojo, 2008). With the dwindling revenue allocation from the Federal Government, states now look inwards for adequate revenue generation especially through taxation. Sanni (2007), advocate the use of tax as an instrument of social engineering, to stimulate general or sectorial economic growth. A high tax rate provides the most reliable, important and dominant source of government revenue for promoting the economic development. Personal income tax is imposed on individuals who are either in employment or are running their own small businesses under a business name or partnership.

Personal Income Tax Act has been amended by the government severally just to yield the expected outcome (revenue) and reduce the loopholes available for tax evasion and avoidance in order to finance governmental activities. Census (2006) put Ondo State population at over two million people; which ought to generate a sizeable personal income tax into the covers of the government. Moreover, the state being a civil service state with little manufacturing activities is expected to generate much revenue from pay as you earn (PAYE) tax such that governmental activities would not be adversely affected. However, uncompleted projects appear to dot the landscape of the state and many government companies seem moribund, perhaps due to reduction or nonpayment of personal income tax to boost the revenue of the state. It becomes relevant to examine the effects of personal income tax on revenue generation in Ondo State.

STATEMENT OF THE PROBLEM

Taxation is an important source of revenue in running the affairs of a state. Expectedly, personal income tax should be a major source of income to the government especially Ondo State where there are banks, sole proprietorship, schools and colleges, hospitals and hotels, modern farms, real estate and other revenue generation entities. These businesses and government establishments are run by men who are expected to be paying personal income tax regularly to boost the revenue generation of the state. However, the state government has not been able to execute many projects due to diminishing revenue allocation from federation account which serves as the main source of financing to the state government. Ondo State Government makes direct deduction of PAYE from salaries while artisans, traders, okada riders and the others are mandated by government to pay tax on direct assessment basis. With a population of over 2 million (Census 2006), one would have thought that personal income tax would be a rentable and significant contributor to the total revenue of the state such that there would be infrastructural development and workers' salaries are paid as at when due. However, the reverse seems to be the case as Ondo State Government finds it difficult to execute new projects and owe salaries in arrears. One begins to wonder whether there is tax evasion or tax avoidance on account of some of the inhabitants of the state. Perhaps the personal income tax administration has not been effective which could affect the amount collected. According to Olotu (2012), taxation is already sowing seed of transformation in many states of the federation of Nigeria in that more states across the country are now turning to taxation to shore up their revenue to finance infrastructural projects. Therefore this study examined the contribution of personal income tax to revenue generation of Ondo State.

OBJECTIVES OF THE STUDY

The objectives of the study were to: determine the contribution of personal income tax to revenue generation of Ondo State from 2006 to 2015; and
Examine the relationship between personal income tax and revenue generation in Ondo State.

RESEARCH QUESTIONS

In addressing these problems, the following research questions were raised: What is the contribution of personal income tax to revenue generation in Ondo State from 2006 to 2015?

1. What is the relationship between personal income tax and revenue generation in the state?

LITERATURE REVIEW

Taxation is a worldwide phenomenon and tax offenders are often punished by the state. According to Farayola (1987), taxation is one of the sources of income for government and such income is used to finance or run public utilities and perform other social responsibilities. It is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income (Adam, 2001). According to Aguolu (2004), taxation is a compulsory levy by the government through its agencies on the income, consumption and capital of its subjects made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits, petroleum profits, capital gains and capital transfer. Specifically, the Personal Income Tax Act (PITA) S.8, Cap P8 LFN 2011 defined personal income as income of individual, group of individuals, proprietors, corporation, sole communities, families, trustees and executors who reside in a state which is often collected on a pay as you earn basis and on direct assessment basis. The PAYE is easy to collect from civil servants as it is deducted from source by the appropriate authorities unlike the private sector who will have to file returns of each tax payers which is not done in most cases (Asada, 2005). According to Adejuwon (2009), there are two types of income; earned income such as employment and unearned income such as gifts which are subjected to taxation. There are several principles of taxation as stated by Smith (1776); Oduh (2012); and Angahar and Alfred (2012), which are: Principle of equity, certainty, convenience, flexibility, neutrality, economy, simplicity, efficiency investment, and productivity. The details of taxation are guided by three principles; which brought about Equal Distribution Principle, Benefit Theory and Ability to Pay Theory. The usual and most supported justification of ability to pay is on grounds of sacrifice because taxes paid are seen as a sacrifice by taxpayers.

Empirically, personal income tax and Nigerian economic development was considered by Festus and Samuel (2007), who concluded that there is a significant relationship between personal income tax and Nigerian economic development and that tax evasion and avoidance are major hindrances to revenue generation. Likewise, Samuel and Tyokoso (2014) evaluated the impact of taxation on revenue generation in Nigeria. The study utilizes both primary and secondary data and analyses were made using regression analysis via SPSS version 17.0 and the result revealed that taxation has a significant contribution to revenue generation. Also, taxation has a significant contribution to Gross Domestic Product (GDP) and tax evasion and tax avoidance have a significant effect on revenue generation in Nigeria. The study recommends the establishment of a well equipped database on tax payers by governments with the aim of identifying all possible sources of income of tax payers for tax purpose. However, the study did not treat persona income separately. Moreover, Oseni (2013) examined the proportions of internally generated revenue to total revenue of states for a five-year period

(2007-2011). Data were sourced from the annual reports of the Central Bank of Nigeria for the period. Descriptive statistics was used for analysis. It was found that states getting additional revenue from the statutory allocations as derivation have lower proportions of IGR to their total revenues than the others. Secondly, states where insurgency has been widespread have the lowest IGR for the period. Dependence on the statutory allocations by the states does not necessarily translate to good dividends of democracy as internally generated revenues can better be relied upon for development. The paper recommends, among others, that the right parameters should be instituted in order to identify the tax payers and the types of businesses they are engaged in Fasina (2014), examined the revenue generation of Ondo State among South-Western States in Nigeria utilizing secondary data for the period 2002 to 2011.

The descriptive statistics results showed that Ekiti State has the minimum generated revenue of co-efficient 0.10 and the least stable with standard deviation (SD) value of 2.71. On the average, the maximum revenue is generated by Lagos state with co efficient of 16.25 followed by Ondo State with coefficient of 11.94. Revenue generation in Ondo State is least stable with SD of 0.404 compared to that of Lagos State with SD of 0.391. Ogun State, though ranked third in revenue performance in South Western Nigeria with coefficient of 7.63, yet it has the most stable revenue profile with SD of 0.177. Multiple regressions were employed to analyse the individual, cumulative relationship and effect of the revenue sources on IGR respectively. The findings indicate that personal income tax contributed significantly to IGR in Ondo State. They recommended the use of electronic revenue assessment and tax payer identification number to reduce tax evasion and avoidance. Meanwhile, Uche and Uche (2014) considered Personal Income Tax Amendment Act 2011 and concluded that the Amendment Act has some positive effect on the system but the system is still grappling with some challenges ranging from poor awareness rate concerning the amendment and poor attitude of tax collectors. It is therefore felt that personal income tax in Nigeria requires radical handling to ensure that a large number of the taxable population does not escape tax. In contrast, Olotu (2012) found that Lagos and some states have seen their tax revenue tripled in recent times which has enabled the implementation of numerous life and community transformation projects and programmes leading to an increasingly satisfied populace.

Specifically, the efficiency of personal income tax administration policies and laws has been contestable over the years. The problem areas of the administration of personal income tax in Nigeria was examined by Asada (2005) who mentioned among others tax avoidance and evasion perpetrated with the deep seated knowledge and connivance of the best minds in accountancy, law firms, insurance companies and others all in the name of "tax planning" or "tax mitigation" as major problem areas. Abiola and Asiweh (2012) studied the Nigerian tax administration and its capacity to reduce tax evasion and generate more revenue for development that is desired by the populace. The researchers administered 121 survey questionnaire containing 25 relevant questions through online distribution. The study found lack of enforcement machineries to be the major challenge of tax administration in the country. They suggested more effort in the area of adequate manpower, computerization and effective postal and communication system to enhance tax collection and administration.

METHODOLOGY

In this research, descriptive survey and ex-post facto approaches were adopted. This is to enable a systematic description of the area under study. The study covers Ondo State. The population of the study was those covered by Personal Income Tax (Amendment) Act 2011 from which personal income taxes are deducted from; which comprises employments as salaried workers (PAYE) and trades, businesses, professions and vocations (DA). The actual population figure is undefined. Secondary data was used for the study which was extracted from Ondo State Board of Internal Revenue Annual Tax Report from 2006 to 2015. Data collected were analysed using descriptive statistics, trend analysis and Spearman's rank correlation at 0.01 level of significance.

RESULTS AND DISCUSSION

Descriptive Analysis of Personal Income Tax and Ondo State Internal Revenue Generation

Personal Income Tax (PIT) is an important component of Ondo State Internal Revenue (RVN). It is made up of Pay-As-You-Earn (PAYE) and the Direct Assessment (DA). Table 1 reveals the means and standard deviations of the variables under study which include: PAYE, DA, PIT and RVN. Since mean is a value which is typical or representative of a set of data (in this case, 10 years), the mean values for the PAYE and DA that are components of PIT can be easily compared during these periods. The summary of the descriptive statistic relating to the variability of the variables used is presented in Table 1. PIT shows the highest variability from mean of the two independent variables, having a standard deviation value of 2.2 billion naira. This appears to be as a result of the high variability of PAYE with a standard deviation value of approximately 2.1 billion naira which is twenty-one times that of DA. The latter has a standard deviation value of 1.0 million naira. However, it is clear from the table that all the variables have standard deviation below their mean which indicate that the data points (actual amount) tend to be close to the expected value (budgeted amount) in their individual yearly figures. This is in line with the findings of Uche and Uche (2014) that Personal Income Tax Amendment Act 2011 has some positive effects on the tax system although there are still challenges especially tax evasion and avoidance. The outcome also agrees with the finding of Fasina (2014) that Ondo State follows Lagos State in revenue generation among South Western Nigeria states.

Table 1: Descriptive Statistics of Personal Income Tax and Revenue Generation

Variables	N	Minimum	Maximum	Mean	Std. Deviation
PAYE	10	1152386338.00	6683403799.00	3274648641.20	2110154209.43
DA	10	30254592.00	344058842.00	131978197.70	106045368.09
PIT	10	1182640930.00	7027462641.00	3406626839.10	2206615937.99
RVN	10	1681776035.00	8281501425.00	4186208562.00	2405356358.65

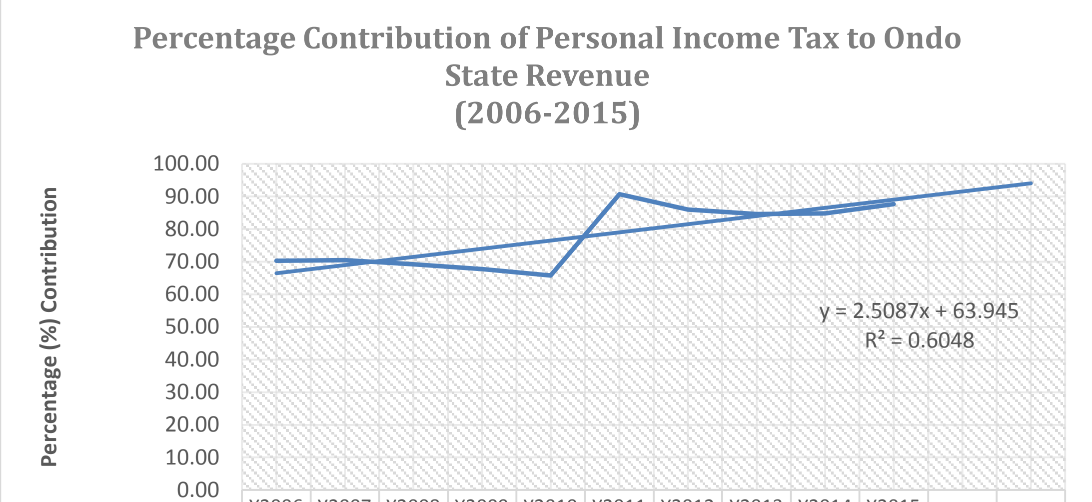
NOTE: DA (Direct Assessment), PIT (Personal Income Tax), RVN (Revenue)
Source: Field Survey, 2017.

RESEARCH QUESTION 1:

What is the contribution of personal income tax to revenue generation in Ondo state from 2006 to 2015?

In responding to this question, data on personal income tax was extracted and compared with the state revenue. Figure 1 below displays both trend line and forecast line of percentage contribution of personal income tax; illustrating clearly that Personal Income Tax contributes more than 50% of Ondo State internal revenue. The least percentage contribution of PIT to revenue was 65.76% in the year 2010 even as the highest contribution was 90.71% in the year 2011. It rises a little between 2006 and 2007 but dropped to 70.51% in 2007 and to 65.76% in 2010. It rises again to 90.71% in 2011. The forecast line showed an upward positive trend. If the line of best fit represented by forecast line is to go by, percentage contribution of PIT to revenue should increase to a little above 90.10% in 2016 and to 90.40% in 2017. Figure 1 also shows the trend equation for the percentage contribution of PIT to revenue with 2.5087 as the slope of the equation. It is the rate at which percentage contribution of PIT increases for every unit increase in year whereas 63.945 is the intercept of the equation, the least value for PIT. The R Square (R^2) shows that the equation explains 60.48 percentage of the variance in y (in this case, PIT). This findings show PIT as a major contributor to Ondo State revenue particularly due to PAYE. The result supports the findings of Fasina (2014) that personal income tax contributed significantly to IGR in Ondo State. The result is also in line with the findings of Samuel and Tyokoso (2014) that taxation has a significant contribution to revenue generation in Nigeria. It also agrees with the work of Festus and Samuel (2007) that there is a significant relationship between personal income tax and Nigerian economic development. The findings of this research supports the findings of Appah and Ogbonna (2014) that self assessment compliance rate significantly affects revenue generation in Nigeria as this study shows that the rate is 22 times less that PAYE. Likewise it agrees with the findings of Hausman and Mcpherson (2000) that taxes on companies and peoples incomes play critical roles in the revenue system of all developed countries such that personal income tax revenue is the largest source of revenue for the government of the United State of America. In support, the findings of Nzotta (2007) revealed that personal income tax accounted for.

Figure 1: Percentage Contribution of Personal Income Tax to Revenue Generation in Ondo State
Source: Field Survey, 2017 nearly 50% of all federal revenues in Nigeria



	Y2006	Y2007	Y2008	Y2009	Y2010	Y2011	Y2012	Y2013	Y2014	Y2015		
CONTRN (PIT)	70.32	70.51	69.17	67.74	65.76	90.71	86.03	84.67	84.86	87.68		

RESEARCH QUESTION 2:

What is the relationship between Personal Income Tax and Revenue Generation in Ondo State?

To answer this question, Spearman rank correlation analysis was used. The Spearman's rank correlation matrix in Table 2 explains the association between Ondo State PIT and its components, PAYE and DA within periods 2006 - 2015. Tracing the row of PIT from left to right or column from top downward, it is clear that there exist a very strong positive association between PIT and PAYE and DA as indicated by their correlation coefficients with values 1.00 and 0.95 correspondingly. As the values of PAYE and DA are increasing, the value of PIT increases. These values are significant at 0.01 levels (2-tailed); the strength of the relationships is acceptable at 99% confidence level. Also as displayed in Table 2, tracing RVN row from left to right and PIT column from top downward or vice versa, the junction of the two variables tracing shows a correlation significant value of 0.98. This indicates a very strong association between the two variables. As the yearly value of PIT increases, that of RVN also increases. This strength of relationship is significant at 0.01 levels (2-tailed) which shows that at 99% confidence level this strength of relationship is acceptable. Thus, personal income tax has contributed significantly to the state generated revenue for the periods 2006 to 2015. The outcome of this research is similar to the work of Festus and Samuel (2007) that there is a significant relationship between personal income tax and Nigerian economic development. The finding also supports the outcome of Fasina (2014) that there is significant relationship between personal income tax and revenue generation in Ondo State but he examined the revenue generation of Ondo State among South Western states. The findings were also consistent with those of Nassar and Fasina (2005) that personal income taxes have the highest contribution of 68.4% effect on IGR in Oyo state.

Table 2:Correlation Matrix on Personal Income Tax and Internal Revenue in Ondo State

			PAYE	DA	PIT	RVN
Spearman's Rank Correlation	PAYE	Correlation Coefficient	1.000			
		Sig. (2-tailed)	.			
		N	10			
	DA	Correlation Coefficient	.952**	1.000		
		Sig. (2-tailed)	.000	.		
		N	10	10		
	PIT	Correlation Coefficient	1.000**	.952**	1.000	
		Sig. (2-tailed)	.	.000	.	
		N	10	10	10	
	RVN	Correlation Coefficient	.988**	.939**	.988**	1.000
		Sig. (2-tailed)	.000	.000	.000	.
		N	10	10	10	10

Correlation is significant at the 0.01 level (2-tailed).

Note: PAYE (Pay-as-you-earn), DA (Direct Assessment), PIT (Personal Income Tax), RVN (Revenue) Source: Field Survey, 2017.

CONCLUSION

Considering the findings of this study, it was concluded that personal income tax is a critical variable in revenue generation in Ondo State, Nigeria. Findings support the conclusion that PAYE formed the bulk of personal income tax in the state. Finally it is concluded empirically that personal income tax is related to revenue generation in Ondo State.

RECOMMENDATIONS

Based on the findings of this research, it is recommended that Ondo State government should focus more on personal income tax as a means of generating revenue internally and therefore block areas of leakages in order to boost the state economy. Government should embark on aggressive enlightening programmes to ensure funds availability for state projects and infrastructure. Also, government should use tax-payers' funds in the most efficient way to justify the collection and motivate personal income tax payment.

REFERENCES

Abiola, J. and Asiweh, M. (2012). Impact of tax administration on government revenue in a developing economy: A case study of Nigeria. *International Journal of Business & Social Sciences 3(8). Special Issue - April 2012*

Adams, C. (2001). *For Good and Evil: The Impact of Taxes on the Course of Civilization, U. S. A;* Madison Publishers.

Adebisi, J. F and Gbegi, D.O (2013).Effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. *American Journal of Humanities and Social Sciences 1(3), 125-134. DOI: 10.11634/232907811301328*

Adejuwon, J. A. (2009). *Analysis of Taxation Principles for Nigerian Students*: Lagos, Not by Power Nig. Ltd.

Aguolu, O. (2004). *Taxation and Tax Management in Nigeria, 3rd Edition,* Enugu; Meridan Associates.

Angahar, P. A, and Alfred, S. I. (2012).Personal Income tax Administration in Nigeria: Challenges and prospects for increased revenue generation from self-employed persons in the society, *Global Business and Economic Research Journal, 1(1): p1–11.*

Appah, E. & Ogbonna, G.N. (2014). Self-Assessment Scheme and Revenue Generation in Nigeria. *Developing Country Studies,* 4(10), 102-111.

Asada D. (2005).*The administration of personal income tax in Nigeria: some problems areas.* Matches Publishing Ltd.

Farayola, G.O. (1987). *Guide to Nigerian Taxation,* Ikeja, All Group Nigeria Limited Publishers.

Fasina, H. T (2014).An examination of the revenue profiles of state governments in south western Nigeria. *International Journal of Economics, Commerce and Management. 11(9), Sep 2014,ISSN 2348 0386.s*

Festus, A.F. and Samuel F.A.(2007).Company income tax and Nigeria economic development. *European Journal of Social Science,22(2) 2011*

Hausmann D. and McPherson M. (2000).*Economic analysis and moral philosophy* Cambridge. Cambridge University Press.

Mohammed, A. N. (2007). The impact of direct assessment tax on performance of internal revenue in Zamfara State. In M. Sc Accounting Thesis, ABU, Zaria Nigeria

Musgrave, R. A and Musgrave, P. B (1989). *Public finance in theory and practice, 5th edition.* Singapore: McGraw Hill.

Nassar, M.L. & Fasina, H.T. (2005). Impact of personal income tax on Internally Generated Revenue performance in Oyo State. *International Journal of African Culture and Ideas*, 5(1).

Nzotta, S. M. (2007). Tax evasion problems in Nigeria: A critique. *Niger Account, 40(2), 40– 43.*

Oduh, M (2012). Revenue implication of Nigeria tax system, Lagos. *Journal of Economic and Sustainable Development, 3(8).*

Ojo, S. (2008). *Fundamental principles of Nigerian tax.* Lagos: Sagribra Tax Publications.

Olotu, G.E. (2012). Welcome Address speech by the chairman, Chartered Institute of Taxation of Nigeria, 14th Annual Tax Conference, 10th May 2012.

Oseni, M. (2013). Internally generated revenue (IGR) in Nigeria: A panacea for state development. *European Journal of Humanities and Social Sciences 21(1).*

Samuel, S.E. and Tyokoso, G. (2014).Taxation and Revenue Generation: An empirical investigation of selected states in Nigeria. *Journal of Poverty, Investment and Development. Vol. 4 2014*

Sanni, A.U (2007). *Tax Reform in the Capital Market; A Welcome Development Seminar Paper. Ogun State Internal Revenue Service's Seminar Paper.*

Smith, A. (1776). "*Wealth of Nations*"; W. Strahan and T. Cadell, London.

Uche, L.O., and Uche, B.U. (2014). Assessing Personal Income Tax Amendment Act 2011: Effects on revenue generation in Nigeria. *International Journal of Economics and Finance; Vol. 6, No. 9; 2014. http://dx.doi.org/10.5539/ijef.v6n9p1*