IMPACT OF PERSONAL INCOME TAX ON REVENUE GENERATION OF THE STATE GOVERNMENT

(A CASE STUDY OF KWARA STATE INTERNAL REVENUE SERVICE)

BY

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CERTIFICATION

This is to certify that this project work has been written by **SULYMAN HALIMAT** with Matriculation Number **ND/23/ACC/PT/0005** and has been read and approved as meeting part of requirement for the Award of National Diploma (ND) in the Department of Accountancy, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin, Kwara State

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DEDICATION

This project work is dedicated to **Almighty Allah**, the omnipotent, omnipresent, and omniscience for His blessing, protection and guidance over me. May He never desist (Amen).

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I want to acknowledge the **Almighty Allah**, the author and finisher of all things, I want to acknowledge him for the wisdom, knowledge and understanding he grant unto me throughout this journey, for his grace, Mercy and strength May his name be forever praised.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Taxation is a means of pulling out resources from the private sector of the economy in order for the government to cover the cost of providing public goods and services, law and order, security, health care, education, among others. Revenue from taxation generally constitutes a substantial part of the total revenue of the governments; taxation has become an important instrument of revenue generation in every nation's economy. Adesina (2022) asserted that taxation is a charge imposed by the government authority upon income, profits and gains of individuals or companies to raise public revenue. This can also imply that taxes are compulsory payment imposed by legislation. Running a government business is associated with funds and much revenue is needed to plan, execute and run government activities at the state level. The needed revenue generated for running government activities could either be obtained internally or externally. The rapidly increasing demand for modern government's calls for effective collection of revenue because it is the life wire from which every government derives the needed fund to carry out government recurrent expenditure. Osisam (2019) cited in Adesoji and Chike (2019) states that there are basically two sources of revenue that accrue to the government. These include internal sources and revenue allocation from the external sources. Internal sources are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, road taxes and capital gain tax of individuals) among others. While the statutory allocation from Federation Account, Value Added Tax, Excess Crude Oil Account and Subsidy Reinvestment Account constitute the external sources to the states in Nigeria.

Tax can be imposed as an instrument for economic management. For example, it can be used to reduce or increase the money in circulation during inflation or deflation, as industries can be more easily protected with the use of tax. This can be done by increasing tariff on imported goods and services. The consumption and production of certain goods and services can also be checked with the use of tax (Agbetunde, 2020). Overall, tax is viewed as a compulsory levy imposed by the government through its various agencies on the income, capital, or consumption of its subject (Mustapha, 2022). From these few explanations, it could be seen that the payment of tax is not a voluntary exercise. Rather it is compulsory on all taxable individuals and corporate bodies.

Direct tax is a form of tax assessable directly on the tax payer who is required to pay tax on his income or profit while indirect tax is imposed on commodities before they reach the final consumer and is paid by them upon, not as taxes, but as part of selling price of the commodity (Institute of Chartered Accountant of Nigeria, 2006). Personal income tax (PIT) which forms part of direct tax refers to all taxes or levies imposed on the income, salaries and wages, profit, gratuities, etc., of individuals as well as interest and dividends from companies accruing to them. This tax is further divided into two categories: Pay As You Earn (PAYE) and direct assessment tax (Mohammed, 2019).

The PAYE focuses on the income of individuals as a result of employment and the employee's income are taxed using a graduated scale. The tax calculated is usually deducted at source and is done by the employer who will then remit the amount to the tax authorities. The second category, direct assessment tax, is a tax imposed on the income of an individual as a result of self-employment. This category of income tax covers income from trade, business, profession, or vocation. The payment of this tax, however, occurs after the individual has collected his/her gross income and filed in a return on the gross income. In a tax system, responsibility is assigned to three key entities: the tax payers whose obligation is payment of the assessed taxes promptly and correctly, tax authorities which ensure the collection of taxes for the government and the government whose duty is the imposition of taxes to finance the activities that ultimately benefit the citizens. Thus, the tripartite constituents of an effective tax system include tax administration, policy and law (Olaofe, 2021).

1.2 STATEMENT OF THE PROBLEM

In an attempt to solve the looming problem in Kwara state, this topic came as a savior, "the impact of personal income tax on revenue generation of the state government. **PIT** is one of the major sources of Government tax revenue that hither to be used to finance government expenditure to the benefit of the citizenries. Time immemorial some researchers have made an attempt to clearly identify the impacts on the government revenue, but to some extent they have not been able to have a clear points sufficient enough to convince the user of their research paper to believe in their findings. From the aforementioned reasons above i am being compelled to make a thesis that will be succinct enough to aid those that may be interested on the impacts of personal income tax on revenue generation of the state government.

1.3 RESEARCH QUESTIONS

i. What is the level of personal income tax operation in Kwara state Nigeria?

ii. What is the level of challenges of personal income tax collection in Kwara state Nigeria

iii. Is there a relationship between personal income tax revenue and government expenditure?

1.4 OBJECTIVES OF THE STUDY

The searchlight of this study is centered on the title, Impact of Personal Income Tax on the Revenue of Kwara State, Nigeria.

Specific Objectives

i. To examine the level of personal income tax operation in Kwara state Nigeria?

ii. To identify the level of challenges of personal income tax collection in Kwara state Nigeria

iii. To examine whether there is relationship between personal income tax revenue and government expenditure?

1.5 RESEARCH HYPOTHESIS

H1: Tax has no significant impact on government capital expenditure and economic in Nigeria

iv. There is no any challenges of personal income tax collection in Kwara state Nigeria

v. There is no relationship between personal income tax revenue and government expenditure?

1.6 SCOPE OF THE STUDY

The study focused on the impact of personal income tax on revenue generation of the state government.

The geographical scope of the work is Kwara state internal revenue service.

1.7 SIGNIFICANT OF THE STUDY

It is worthwhile to lay great emphasis on the significance of this study showing how it will add to knowledge, contribute to knowledge or aid practice. Hence, It is an indisputable fact that the study will be of great significant to job seeking graduates in Nigeria and crime reduction in the country, due to the fact that the study helps to provide ways of increasing the rural tax participation and suggesting ways of equal participation.

It is also hope that the study will be of great benefit to the Government, after been aware of the research by the World Bank that majority of Nigerians falls below the poverty line of $1 per day (World Bank 2019). Furthermore, to students and other scholars who intend to widen their knowledge in the study of taxation as a panacea for economic performance, this study shall be a basis of reference since it focuses on the unique characteristics of personal income tax schemes and their role in the Governance to harness their activities and how their activities contributes to the Economic performance in Nigeria leading the ladder to economic growth and development in Nigeria.

1.8 LIMITATIONS OF THE STUDY

This research was limited by some certain constraints such as;

(i) Non-availability of required data from case study

(ii) Non availability of data on certain variables

(iii) Financial constraint: Insufficient financial resources for the study

(iv) Time constraint: Inadequate of time because attention had to be given to other course of work.

1.9 DEFINITION OF TERMS

- **Unemployment:** Unemployment refers to a situation where people who are willing and capable of working are unable to find suitable paid employment. (Ajayi, 2020)

- **Migration:** This is the willingness and ability of an individual to identify and successfully carry out investment opportunities in an environment. (Udeh, 2019)
- **Revenue:** Public revenue could be defined as the funds generated by the government to finance its activities. In other words revenue is the total fund generated by government (Federal, state, local government/ to meet their expenditure for a fiscal year. This refers also to the grand total of money or income received from the source of which expenses are incurred. Revenue could be internal or external revenue. (Ake, 2020)
- **Generation:** This is the process of sourcing revenue for the government in carryout their aim and objectives. Udeh, 2019).
- **Expenditure:** Public expenditure refers to the expenses which the government incurs for its own maintenance, in the interest of the society and the economy in order to help other countries. (Ajayi, 2020).
- **Tax:** Tax can be defined as a compulsory levy impose by government on goods, services, income and wealth. It provides definite source of revenue for government expenditure. (Udeh 2019).
- **Tax Evasion:** Tax evasion means illegal reduction in one's tax liabilities, thereby paying less than the appropriate amounts and not paying at all. (Ake, 2020).
- **Tax Avoidance:** Tax avoidance is the act of streamlining one's financial affairs within the law so as to minimize the tax liabilities. (Ajayi, 2020).
- **Development:** According to Ake (2020) Development is thus the process by which people create and recreate themselves and their life circumstances to realize higher levels of civilization in accordance with their own choice and values.

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CHAPTER TWO

LITERATURE REVIEW

2.1 PREAMBLE

This chapter seeks to review literature of existing bodies of literature on the subject of the research. The chapter analyzed conceptual framework, theoretical framework and empirical review of the study.

This literature review focuses on study on personal income tax, government revenue and economic growth. This project also review the theoretical framework to include supply side and economic growth, benefit theory, it also review empirical studies relevant to the subject

2.2 CONCEPTUAL FRAMEWORK

2.2.1 CONCEPT OF PERSONAL INCOME TAX

Similarly, in the quest for stimulating economic growth, state government utilize their tax base to generate revenue in providing public services to the tax payers and residents.

Nigeria Personal Tax Act (PITA, 2011), defines taxable income as the aggregate amount of every taxable person from a source inside or outside Nigeria including earned income.

Personal income tax is a compulsory levy imposed by the government on individual income or revenue to generate revenue and redistribute income in the economy. It is a tax levied on wages, salaries, investment or income with rate increasing with income as seen in the income tax system.

The personal income tax rate in Nigeria stands at 24% from 2011 until 2025 reaching an all time high of 24% in 2012 and a record low of 24% in 2012 (Federal Inland Revenue service, Nigeria).

The main purpose of tax is to finance government expenditure, and one of the important uses of tax is to finance public goods and services, such as street lighting and street cleaning.

2.2.2 TAX ADMINISTRATION

Tax administration should be effective in the sense of ensuring high compliance by taxpayer and efficient in the sense that administrative costs are low relative to revenue collected, Good tax administration requires strong technical capacity by the administrative agency should be able to identify and evaluate the effort of both current tax policies and tax policies under consideration, tax administrative should be able to simplify the current tax system if needed, within the economic and political spectrum be aware of any low changes and emerging avoidance practices, and maintain a connection between the rules of law and tax administration.

2.2.3 ADVANTAGES OF PERSONAL INCOME TAX

This refers to the economic bonus which applies to certain accounts or investments that are by statue, tax-reduced, tax-referred, or tax-free. Government establish the tax advantages to encourage private individuals to contribute money when it is considered to be in public interest. In countries in which the average age of the population is increasing tax advantages may put pressure on pension scheme. Advantages of tax include the following:

i. Control inflation
ii. Discourage use of harmful products
iii. Revenue generation
iv. Redistribution of income
v. Ability to stabilize the economy

DISADVANTAGES OF PERSONAL INCOME TAX

This refers to all chaos brought along by taxation issues within society either directly or indirectly. Its disadvantages include;

i. Reduce purchasing power
ii. Discourages saving
iii. Discourages investment
iv. Acting as a disincentive to work

2.2.4 OBJECTIVE OF TAX

In any country, economic development is largely conditioned by the growth of capital formation. Some of the objectives of personal income tax are:

i. Economic development
ii. Removal of poverty and inequality
iii. Reduction of consumption
iv. Promotion of private saving
v. full employment
vi. price stability
vii. control of cyclical fluctuation
viii. Reduction of Bop difficulties

To overcome the scarcity of capital government of these countries mobilize resources so that a rapid capital accumulation take place. To step up both public and private investment, government taps tax revenues, through proper tax planning, the ratio of saving to national income can be raised.

2.2.5 TYPES OF PPERSONAL INCOME TAX

Here are some common types of personal income tax:

i. Progressive tax: Is a tax system where higher income levels are tax as a higher rate; that is, the tax rate increases as the tax payers income increases
ii. Flat tax: Is a tax system where a single tax rate applies to all income levels. That is, the tax rate remain the same regardless of the tax payers income
iii. Pay as you earn tax: Is a tax system where employers deduct taxes from employees salaries and remit them to the tax authorities on their behalf. That is the tax is paid as the income as earned.
iv. Withholding tax: Is a tax system where taxes are deducted at the source of income, such as from salaries or investments. The tax is withheld by the payer and paid to the tax authorities
v. Self assessment tax: Is a tax system where taxes are calculated and paid by the individuals that is, tax payer themselves. Tax payers must file a tax return and pay any tax due by a specified deadline.

2.2.6 THE IMPACT OF TAX ON GOVERNMENT CAPITAL EXPENDITURE

The impact of tax on government expenditure is to finance government expenditure and to redistribute wealth which translates of financing development of the country (Ola 2018, Jhigan 2020, Musgrave 2004, Bhartia 2019), whether the taxes collected are enough to finance the development of countries will depend on the needs of the country and country can seek alternative sources of revenue to finance suitable development (Unegbu and Irefin 2017). However, the use of tax is an instrument of fiscal policy to achieve economic growth in most less develops countries cannot be reliable because of dwindling level of revenue generation.

Tax is a source of revenue to the government. Government uses tax to monitor economic activities where there is inflation, tax can be used to reduce aggregate demand so as to reduce inflation and when there is economic slump, government can reduce tax rate to boost aggregate demand which will lead to increase in purchase of goods and services thereby promoting effective demand. Government can fine tune resources allocation using tax instead of leaving resources allocation to market forces, it is preferable to use taxation in guiding the economy towards desired line.

2.2.7 CONCEPT OF CAPITAL EXPENDITURE

Capital expenditure is an amount spent to acquire or improve a long-term asset such as equipment, buildings. Usually the cost is recorded in an account classified as property plant and equipment. The cost will be charged to depreciate expenses over the useful life of the asset. It helps protect the interest of shareholders as well as of the firm because it avoids over investment and under-investment in fixed assets. The main purpose of capital expenditure is decision or capital budgeting is a process that plans to ascertain the long-term investments of the firms.

To supply goods and services that the private sector would fail to do, such as public goods including defense, roads and bridges while merit goods are hospitals and schools.

(i) To achieve supply-side improvements in the macro-economy such as spending on education and training to improve labour productivity.

(ii) To reduce the negative effects of externalities such as pollution controls

(iii) To help redistribute income and achieve more equity

(iv) To inject extra spending into the macro-economy to help achieve increase in aggregate demand and economic activity. Such a stimulus is part of discretionary fiscal policy.

(v) It is important that the priorities of government are established as this will drive the most appropriate measures to be used and leads to the best effectiveness.

The quality of expenditure depends on: Delivery unit receiving budgeted funds on time adequate process and control with respect to resources.

The capital expenditure in relation to Nigeria economy. Government expenditure are usually funded from taxation, the principle of maximum social gain posits that, for any project to be of interest to the public, the social value for that project must exceed the cost or tax paid by the individual within the environment. So government should not embark on any project that the cost is greater than the benefit. No doubt is an important instrument for a government to control the economy growth. Anyway the general view is that government expenditure notably on social and economic infrastructure can be growth enhancing although the financing of such expenditure to provide essential infrastructural facilities including transport, electricity, telecommunication, water and sanitation, waste disposal, education and health can be growth retarding (Olukayode, 2019).

Maximum Test: Maximum test theorists believe that government should search all possible alternative and embark on those projects that generate the largest or maximum gain to the inhabitants of any given community. Under maximum test theory if a community prefers road to water supply, government should consider the benefit of road as the best priority and give such community an amenity.

Minimum Test: Public expenditure should be undertaken only when the prospective benefit exceed anticipated cost. Government should not approve any expenditure that does not pass the test because if approve government will be tapping resources from high value private sector to low value public sector.

2.2.8 CONCEPT OF RECURRENT EXPENDITURE

Recurrent expenditure are those expenses that are incurred regularly to maintain the functioning of government and the provision of essential services.

That is, recurrent expenditure in the context of taxation and government finances, refers to ongoing, recurring expenses necessary for the day to day operation of the government, such as salaries, pensions, maintenance, unlike capital expenditure which is for long term access.

This is the type of expenditure that happens repeatedly on a daily, weekly or even on a monthly bases. The amount involved is charged to some operating account e.g profit and loss account or income and expenditure account.

Taxation is a primary source of funding for recurrent expenditure, as government rely on tax revenue to cover these ongoing costs. Effective management of recurrent expenditure is crucial for fiscal sustainability and effective resource allocation, as it ensure that government can continue to provide essential services and maintain operational capacity. Recurrent expenditure is also known as operational or running cost.

Relationship between tax and recurrent expenditure are as follows:

i. Funding: tax revenue directly funds recurrent expenditures, allowing governments to pay essential services and maintain their operations.
ii. Economic impact: The level of tax revenue collected influences the amount of recurrent expenditure a government can undertake, impacting the provision of public services
iii. Government employees including teachers, police officers, and civil servant are paid from recurrent expenditures which are financed by tax revenue.
iv. Funding for hospitals, clinics and public health programs relies on recurrent expenditures which are funded through taxes.
v. Salaries for teachers, school maintenance, and other educational resources are funded by recurrent expenditures, which are also financed by tax revenue.

The relationship between personal income tax and recurrent expenditure can impact fiscal sustainability, as government must balance their revenue and expenses to maintain a suitable financial position

2.2.9 CONCEPT OF ECONOMIC GROWTH

Economic growth is the expansion of the supply side of the economy and parental Gross Domestic Product (GDP). It is defined as the increase in the inflation-adjust market value of the goods and services produced by an economy over time. The effect of tax on economic growth, one of the most commonly discussed issues in economics is how tax rates relates to economic growth. Advocates of tax will lead to increased economic growth and prosperity. Others claims that if we reduce taxes, almost all of the benefits will go to the rich, as those are the ones who pay the most taxes.

The relationship between tax and economic growth is tax expect lump sum, neutral tax, although impossible to carry through in practice introduce distortions to an economic system. Tax distortions changes the system of incentives for individuals, so their decision on, for example work and leisure or saving and consumption are different than they would be in a world without taxes. The distortion that tax introduce to economy which is called dead weight loss.

The important of economic growth is often seen as the 'holy grail' of economic policy. This simplistic emphasis on economic growth is often criticized because of limitations of economic growth is improving living standards. Economic growth can definitely have limitations in improving standards, depends on the distribution of higher incomes, may cause negative externalities such as pollution, may conflict with the environment e.g global worming, can be unsustainable, especially if it is a boom and bust.

2.3 THEORETICAL FRAMEWORK

2.3.1 Martins and George Theory

Martin and George (2020) analyzed several tax rates and expenditure categories and concluded that the tax system has a direct impact on the growth rate of the economy of a country. Furthermore, Tracy and Kester (2019) investigated the interrelationship between total government expenditure and total tax revenue in Barbados applying Granger Causality on both bivariate and multivariate co-integrating models. The result of the multivariate error correction model suggests that a unidirectional causality exists from tax revenue to government expenditure. Emelogu and Uche (2022) studied the relationship between government revenue and government expenditure in Nigeria using time series data from 1970 to 2007. They utilized the Engel-Granger two-step co-integration technique, the Johansen cointegration method and the Granger causality test within the Error Correction Modeling (ECM) framework and found a long-run relationship between the two variables and an unidirectional causality running from government exists from tax revenue to government expenditure.

Emelogu and Uche (2022) studied the relationship between government revenue and government expenditure in Nigeria using time series data from 1970 to 2007. They utilized the Engel-Granger two-step co-integration technique, the Johansen co-integration method and the Granger causality test within the Error Correction Modeling (ECM) framework and found a long-run relationship between the two variables and unidirectional causality running from government revenue to government in Nigeria.

Ogujiuba and Abraham (2019) also examined the revenue-spending hypothesis for Nigeria using macro data from 1970 to 2011. Applying correlation analysis, granger causality test, regression analysis, lag regression model, vector error correction model and impulse response analysis, they report that revenue and expenditure are highly correlated and that causality runs from revenue to expenditure in Nigeria. The vector error correction model also proves that there is a significant long run relationship between revenue and expenditure.

Easterly and Rebelo (2020) emphasized the importance of government policy (activity) in economic growth. They laid emphasis on the composition of public expenditure rather than its level and in that vein felt that the productive government expenditure has an effect while the unproductive government expenditure has no effect. But the problem is to identify which government expenditure is unproductive before the spending. This implies that government expenditure and composition of government expenditures are important determinants of growth. On the other hand, there seems to be a direct link between budget policy and growth, and this has primarily been associated with tax policy. The structure of taxation could have important implication for growth. The empirical evidence of the impact of various aspect of tax policy on growth has so far been mixed.

2.3.2 Laffer Theory of Taxation

According to Arthur Laffer, there is a positive relationship between tax revenue and tax rates, diagram will clarify the explanation better.

Laffer curve from the graphic concept above do not originates from zero. Meaning that, there is no zero rates ever found in the economy. Zero rate will attracts zero revenue. Also, from the diagram, over- rated tax to 100 tax rate level on the X-axis, will only attracts zero revenue. Laffer curve is exhibiting positivism and negativism together. Dr. Mammahan sigh a onetime minister of finance in India opined that, the lower the tax rate, the higher the tax revenue. According to him, reducing taxes to payers will induce tax payers to pay. It also, discourages tax evaders and various tax shelters in the economy culminating more revenue in the economy. This will boost many people into paying taxes resulting into booming Government revenue. Lower tax rates will boost investment; exemption from tax will increase productivity and increase productivity will also increase economic growth in the country and ultimately reduce unemployment and Government transferred payments, such as unemployment allowances.

Arthur Lafferlay stress on points A, B, C which increment in tax rate could be favourable, but beyond point C is diminishing returns. Meaning that increase in tax rate, after the optimum point is attained will dwindle the country's revenue.

President Reagan of USA was prominent in tackling stagflation. He came into power in 1981. He met stagflation that posed a major concern among policy-makers. Reagan recommended four key pillars to tackle stagflation; he succeeded in bringing stagflation into its demise in his own reign. The four fold pillars were named after him as Reaganomic economics.

Reaganomics 4 pillars

i. Cutting-down tax rates.
ii. Slowing down the growth of Government expenditures.
iii. Curtailing the burdens of regulations.
iv. Reducing the growth of money supply.

Dr. Baumol and Blinder criticised that concentration on the supply side excluding the demand side does not hold a true test of empirical evidence.

As defined earlier in this chapter, stagflation refers to a situation whereby, a high rate of inflation occurs simultaneously with a high rate of employment. The existence of high rate of unemployment means the decline in the GNP, while high rate of inflation means the rapid increase in the price- level

The term "Stagflation" is a coined terminology that emerged in the 1970s. The hike in the price of oil (i.e, OPEC) in (1973-75) brought back recession in the economy in 1974. The 1974 recession is the worst recession since the one that occurred in the 1930. Consequently, it is been accompanied with high rate of unemployment and high rate of inflation. The two monsters were in operation concordantly in order to bring the economy down. After the recovery from recession that occurred in 1975, again another recession occurred in1979 in Britain, France, Germany, India and most part of developed world. The 1979 recession was due to a revolution in Iran that created crises in the world of oil markets. OPEC doubled the price of oil 4times what it used to be in 1973-1975. The hike in oil prices had triggered cost-push inflation.

There are five major propositions of supply-side economics. They are the major causes of stagflation in the 1970s.

i. Taxation and labour-supply.
ii. Incentives to save and invest.
iii. cost- push effect of the tax wedge
iv. Underground economy.
v. Tax revenue and Arthur Laffer curve.

2.4 EMPIRICAL REVIEW

A number of studies have focused on the relation between government expenditure and economic growth in developed and developing countries like Nigeria. The results varied from one study to another. Alexander applied OLS method for sample of 13 organizations for economic cooperation and development (OECD) countries panel during the period raging from 1959 to 1984. It shows among others, that growth of government spending has significant negative impact on economic growth.

Gammell and Kneller (2016) provide empirical evidence of the impact of fiscal policy on long-run for European economy. Their study required that all least two of the taxation expenditure/deficit effects must be examined simultaneously and they employ panel and time series econometric technique, including dealing with the endogeneuty of fiscal policy.

Their result indicate that while some public investment spending impacts positively on economic growth, consumption and social security spending have zero or negative growth effects.

Mitchell (2018) evaluated the impact of government spending on economic performance in developed countries. He assessed the international evidence, reviewed the latest academic research cited, examples of countries that have reduced government spending as a share of national output and analyzed the economic consequence of these reforms.

Olorunfemi (2015) studied the direction and strength of the relationship between public investment and economic growth in Nigeria, using the time series data from 1975 to 2004 and observed the public expenditure impacted positively on economic growth and that there was no link between gross fixed capital formation and Gross Domestic Product (GDP). His disaggregate analysis result reveal only 37.1% government expenditure is devoted to capital expenditure while 62.9% share is to current expenditure.

Olopade and Olepade (2017) assess how fiscal and monetary policies influence economic growth and development. The essence of their study was to determine the components of government expenditure and that enhance growth and identify those that do not and recommend those that should be cut or reduce to the barest minimum. The study employs the analytic framework based on economic models, statistical methods encompassing trends analysis and simple regression. They find no significant relationship between most of the components of expenditure and economic growth.

Abu and Abdullah (2020) investigates the relationship between government expenditure and economic growth in Nigeria from the period ranging from 1970 to 2013. They used disaggregated analysis in an attempt to unravel the impact of government expenditure on economic growth. Their result reveal that government total capital expenditure, total recurrent expenditure and education have negative effect on economic growth. On the contrary, government expenditure on transport, communication and health result in an increase in economic growth. They recommend that government should increase both capital expenditure and recurrent expenditure including expenditure on education as well ensure that funds meant for development on these sectors are properly utilized.

2.4.1 RESEARCH GAP

Despite the essence of Government participation in politics in Nigeria, the political terrain via the expenditure still face enormous challenges in today's ultra-competitive political economy

i. *Cash flow management*

   The challenge: Cash flow is essential for survival of any businesses, yet the business owners struggle to pay the bills (let alone themselves) while they're waiting for checks to arrive. Part of the problem stems from lack of believes that taxation cannot be involved in the Governance, which is uncommon in the Nigeria political world

ii. *Hiring employees*
iii. *Time management*
iv. *Delegating tasks*
v. *Choosing who to represent them*
vi. *Tax strategy*
vii. *Capital*
viii. *Strapped budget*
ix. *Economic growth*

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter sets out research used in achieving at the study objectives. It sets out the method used in selecting respondents. Collecting data and analyzing the same. The chapter is thus structured into section analyzed the research design, another presents the target population and the sampling design, the next section are the data collection instruments and data collection procedure and finally analyze entailing the conceptual and analytical models.

3.2 RESEARCH DESIGN

This study made use of survey research techniques which is a means of obtaining information directly from people by the use of questionnaire and interview. It helps an researcher to determine the type of data required, how to analyze and measure them.

Some of the things that determine research designs are type of study, type of data, scope of the study, research hypotheses and appropriate analysis of data.

3.3 POPULATION OF THE STUDY

The research restricted himself to the Inland Revenue Service, Ilorin. The study research population work consists of those that are directly affected by tax policy, that is self-employed tax payer's inspectors of taxes and staff Inland Revenue Services.

In line with the above mentioned research population, sample random, sample has equal chances of selection as representative of the population in simple random sampling there is itemization or listing the various elements within a population before actual sampling can start.

The questionnaire which was distributed by the researcher was distributed to the finance department of the firm, which (100) questionnaires were given to the firm, and the population size was (100) and the sampling size was (86).

X = means of population

S = variance of population

N = Total of population

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUE

The research made use of sample random, sampling procedure in selecting respondents to the question which serve as representative of the total population of employees census of employees cannot be easily study due to resources and time constrains. The random sampling technique used for this study affords everyone equal chance of being selected as representative sample for the study without being bias.

3.5 SOURCES AND METHOD OF DATA COLLECTION

Sources of data information include primary source and secondary source of data collection. Primary sources of data are ways in which we collect the data from the original sources of it i.e face-to-face discussion with the respondent which is a staff in the organization. it is designed by the researcher to fill by the staff of the organization in accounting departments. The researcher urged the respondents to respond honestly to the question administered. While secondary sources of data are the information that have already been recorded in the subject data in various document including book annual of the corporation.

Data obtained from study were tabulated and also presented using statistical figures, percentage and chi-square for easy interpretation.

The data analysis is based on the positive and negative response to the questionnaire. It is presented below (Number of response) (Number of respondent).

3.6 INSTRUMENT FOR DATA COLLECTION

Numerous research tools are used by the researcher together with the data used in this project work, some of the tools are discussed below:

- Interview is one of the process by which information that could not be collected through accurately through questionnaire is been collected through interview, it was conducted with most of the staff of the finance department. During the interview, information collected includes the general structure of Inland Revenue, Ilorin and that of the finance department as well.
- Questionnaires were distributed personally to the staff of finance department and monitored accordingly which from the single size of the project.
- The administrations of the questionnaire were limited to the inland revenue, Ilorin and particular attention was placed to the finance department of the organization due to nature of study, positive result was received from the staff of the finance department and information collected made the writing of this project easier.
- Secondary data made the information collection from the administration of questionnaire and personal interview other publication and records used are accounting textbooks, financial manual, journals, internet, administration manual and Kwara State Plytechnic library, Ilorin.

3.7 TECHNIQUES FOR DATA ANALYSIS

Data collected for the testing of the hypothesis were analyzed using simple statistical tools like mean, standard deviation, tables and percentages.

The standard hypotheses of the study were tested with the use of x^2 = chi square test statistics which is expressed as $X^2 = \sum(0 - E)^2$ with the degree of freedom of $v = k-1$

Here, 0 = observed frequency

E = Expected frequency

The maximum response rating for each question is 5% and this gives an expected mean score of 2.5.

In analyzing the responses to the questions, the decision rule applied is that, if calculated mean is greater than expected mean of 2.5, we accept the statement, otherwise, we reject it. With respect to the hypothesis testing, if the calculated value of x^2 is greater than the table valve, we reject the null hypothesis and accept the alternative.

CHAPTER FOUR

4.1 PREAMBLE

This chapter covers the analysis and interpretation of the various data collected through the use of questionnaires and interview as per objectives of the study. It can be presented in various forms depending on the type of data collected, a frequency table is used to summarize, categorical or numerical data.

The respondents were eighty six (86) in number out of the hundred (100) questionnaires distributed and they are grouped as follows: sex, age, marital status, job status, year in service and educational qualification.

Ten question were selected from questionnaire and the responses of the respondents are analyzed below:

4.1.1 Distribution according to Sex

Options	Response	Percentage
Males	50	58
Females	36	42
Total	86	100

Sources: Field survey (2025)

4.1.2 Distribution according to Age

Options	**Response**	**Percentage**
20-30	10	12
31-40	40	46
41-50	26	30
50 – above	10	12
Total	86	100

Source: Field survey (2025**)**

4.1.3 Distribution according to marital status?

Options	Response	Percentage
Single	9	11
Married	15	17
Divorced	20	23
Widow	42	49
Total	86	100

Sources: Field survey (2025)

4.1.4 Distribution according job status

Options	**Number of respondents**	**Percentage**
Management staff	50	58
Senior staff	20	23
Junior staff	16	19
Total	86	100

Source: **Field survey (**2025**)**

4.1.5: Distribution according to year in service

Options	**Response**	**Percentage**
1-3	11	13
6-10	35	41
11- above	40	46
Total	86	100

Source: **Field survey (**2025**)**

4.1.6 Distribution according educational qualification

Options	Response	Percentage
OND	5	6
HND	20	23
B.Sc	20	23
PHd	11	13
Master	30	35
Total	86	100

Source: Field survey (2025**)**

4.2 PRESENTATION AND ANALYSIS OF DATA

Question 1: Is tax a significant tools for development of Nigeria Economy?

TABLE 1

Option	Responses	Percentage (%)
Agree	78	91
Disagree	8	9
Total	86	100

Source: Research Survey, 2025

Question 2: Tax has no significant impact on government capital expenditure and Nigeria Economy.

TABLE 2

Option	Responses	Percentage (%)
Agree	76	88
Disagree	10	12
Total	86	100

Source: Research Survey, 2025

Question 3: Does tax has impact on profit local industries?

TABLE 3

Option	Responses	Percentage (%)
Agree	76	88
Disagree	10	12
Total	86	100

Source: Research Survey, 2025

Question 4: Does tax impact serve as a means of industrialization?

TABLE 4

Option	Responses	Percentage (%)
Agree	75	87
Disagree	8	13
Total	86	100

Source: Research Survey, 2025

Question 5: Does tax impacts encourage the collection of taxes?

TABLE 5

Option	Responses	Percentage (%)
Agree	70	88
Disagree	16	12
Total	86	100

Source: Research Survey, 2025

Question 6: Should the government provide adequate security for potential investors in the country?

TABLE 6

Option	Responses	Percentage (%)
Agree	72	84
Disagree	14	16
Total	86	100

Source: Research Survey, 2025

Question 7: Should government use taxation to pursue long term National objectives?

TABLE 7

Option	Responses	Percentage (%)
Agree	68	79
Disagree	18	21
Total	86	100

Source: Research Survey, 2025

Question 8: Should taxation be targeted at a limited class of beneficiaries?

TABLE 8

Option	Responses	Percentage (%)
Agree	59	69
Disagree	17	31
Total	86	100

Source: Research Survey, 2025

Question 9: Should adequate taxation be imposed on manufacturing industries?

TABLE 9

Option	Responses	Percentage (%)
Agree	50	58
Disagree	30	35
No Opinion	6	7
Total	86	100

Source: Research Survey, 2025

Question 10: Does taxation contribute to the development of federal board of Revenue Services?

TABLE 10

Option	Responses	Percentage (%)
Agree	78	91
Disagree	8	9
Total	86	100

Source: Research Survey, 2025

4.4 TEST OF HYPOTHESES

Hypothesis One (1)

H0: Tax has a significant impact on government capital expenditure and economic growth.

H1: Tax has no significant impact on government capital expenditure and economic growth.

This hypothesis will be tested using chi-squrae (x^2)

0	E	0-C	$(0\text{-}c)^2$	$(0\text{-}C)^{2/2}$
78	66.3	11.7	136.89	2.06
50	61.7	11.7	136.89	2.22
8	19.7	11.7	136.89	6.95
30	18.3	11.7	136.89	7.48

X^2 calculated = 0.07

X^2 (1-1) (1-1) = 0.05

Decision Rule: Accept H0, if x^2 calculated <x^2 table

Conclusion: Since x^2 calculated is greater than the table value, we accept. The NULL HYPOTHESIS is that taxation has a significant impact on government expenditure and economy growth.

Hypothesis Two (2)

H0: The beneficiaries of taxation take advantage of incentives.

H1: The beneficiaries of taxation do not take advantage of incentive.

$X^2 = \sum (0\text{-}e)/e$

Where e = column x row total/grand total.

0	E	0-C	$(0\text{-}c)^2$	$(0\text{-}C)^{2/2}$
76	76.8	0.8	0.64	0.008
75	74.2	0.8	0.64	0.004
10	9.2	0.8	0.64	.064
8	8.2	0.8	0.64	0.004

4.5 SUMMARY OF FINDINGS

The finding of our study implies that taxation is an instrument of economy growth in Nigeria.

Therefore, with all these aforementioned explanations and analysis it implies that company income tax (CIT) and VAT have significant relationship with economic growth in Nigeria. We accept the NULL HYPOTHESIS and conclude that the level of taxation has a significant impact on government capital expenditure and economy growth. The acceptance of the NULL hypothesis of majority show that in Federal Inland Revenue Services, Ilorin tax as significant impact in capital expenditure and economy growth.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The analysis of this study revealed that taxation has been and will always serve as an effective tool for the development of board of Federal Inland Revenue Service and the study also confirmed that tax significant is also an effective tool and important tool for the development of Nigeria economy.

The truth is derived from the fact that various incentive relating to the different level of tax payer has been able to achieve the desired result some of which include investment in the economy prompt payment of tax, utilization of the country's natural resources and means of industrialization.

These achievements of tax incentive as document in the project were made possible by the effective and appropriate collection machine that is, the board of inland revenue.

Discoveries made from the personnel of this board revealed that the government can record to tax payer in order to carry along all respect give tax payers and that tax incentive should be targeted at certain preferred sector of the economy.

5.2 CONCLUSION

From the finding made available in the research work, the study therefore conclude that tax significant impact has been no effective tool to economic development in Nigeria and has been felt among others in the following areas;

- Encourage Investment
- A mean of industrialization
- Encourage tax payment

Utilization of the country national resources, it can also be concluded that taxation serves as an instrument of controlling the economic life of the country.

The conclusion points to the need for additional measures by government in ensuring that tax payers do not avoid and evade tax so that income can be properly re-distributed in the economy. In addition, regulatory authorities charged with the sole responsibility of collecting tax should further be strengthened to enforce compliance by tax payers. Above all, tax revenues should be properly distributed so that economic growth can be amassed especially in providing basic social amenities as well as infrastructures in Nigeria.

5.3 RECOMMENDATION

Based on this research work, the research offers the following recommendations:

- Government should embark on more enlightenment campaign on taxation to the public
- Government should provide or create peaceful environment in order to attract foreign investors to the country.
- Better renovation and welfare facility work better.
- Establishment of state revenue court and
- Government should try or attempt any means to eradicate corruption since it serve as a discouraging factor to the potential services.

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