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The Integrated Trend Analysis of Personal Income Tax and Budget Implementation In Southwest, Nigeria

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ABSTRACT

The study looked at the implementation of the budget and an examination of personal income tax trends in the Southwestern States, Nigeria. The study specifically examined developments in the personal income tax as one of the broken-down elements of tax revenue and its effect on budget implementation in the six states that make up the Southwestern The analysis used time-series secondary data from each state's annual budget for a period of 10 years, from 2011 to 2019. The compiled data were subjected to trend analysis. It was discovered that personal income tax has had a large relative impact on the level of budget implementation over the last 10 years, with a trend that is primarily upward. Therefore, the study suggested that state governments develop a fresh plan for fostering and capturing more taxpayers in order to increase the level of internally created revenue in a way that encourages effective and efficient budget execution by coordinating state resources and untapped potential.

Keywords: Integrated Trend Analysis, Personal Income Tax, Budget Implementation, Southwest, Nigeria

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1. INTRODUCTION

For any government, tax revenue is essential (Siddiqi & Ilyas, 2011). According to Olaoye (2006) and Saratu (2015), the majority of the government's funding comes from taxes, and the capacity of a government's citizens to willingly pay their taxes without compulsion or harassment is a key component of that government's effectiveness. Obara (2013) asserts that in order for the government to meet the demands of its people, budgets must be developed and implemented. This method entails determining the general public's needs and the quality of the goods and services required to satisfy those needs by using the political system, economic analysis, and overall development plan. However fantastic our budget may be in Nigeria, it doesn't exactly perform admirably when it comes to accomplishments. The gap between budget and accomplishment is enormous and has been growing as the years have gone by. Realizing budget goals is a long way off (Olayinka & Phebe, 2019).

The Nigerian tax system was created with these fundamental economic, political, and social goals in mind: to generate income for the sustenance of economic and social needs; to control consumer demand; to stimulate investment and saving; to combat economic depression, inflation, and deflation; to ensure unbiased distribution of income and wealth; and to ensure proper allocation of national resources. However, this system has so far failed due to certain factors (Asaba, 2011; Nanthakumar & Roshaiza, 2007). Due to this, there is a persistent issue with declining income production, which is characterized by annual budget deficits and a lack of resources for economic advancement and improvement at the state level.

In Nigeria, several state governments, notably the Southwest States, sincerely want to increase their internal revenue base. However, they frequently appear unable to take advantage of opportunities to do so (Bakare, 2013). Numerous legitimate revenue streams in the state go untapped, and the procedures for collecting, remitting, and holding those who took advantage of them accountable frequently fall short of expectations, creating opportunities for needless leakages (Akinleye & Ogunmakin, 2016). Internally generated income and other federation account revenues are included in the total state revenue account. When internally generated income is low, states are supposedly required to use the majority of their federation account sharing to pay for recurrent expenses, whereas the federation account would be used for capital expenditures to a greater extent when internally generated revenue was strong (Olayinka & Phebe, 2019). Does the state have such a rigorous fiscal strategy that it makes sure that all of the federation account allocation is used for capital expenditures, notwithstanding the low level of internally generated revenue? (Hjerpe, Pellervo, Kiander, & Viren, 2007). Long-term possible changes to the income and budget operations in southwest Nigeria have attracted the attention of policymakers and researchers. This article focuses on the impact that variations to the personal income tax had on the budget's performance in Nigeria's southwestern states. Therefore, this study's objective is to determine the trend of personal income tax as one of the internally generated revenues and budget execution in the southwestern Nigeria geopolitical zone, which includes the states of Lagos, Osun, Oyo, Ekiti, Ogun, and Ondo.

2 LITERATURE REVIEW

2.1 Tax Income and Government Expenditure

Governments all across the world rely heavily on taxes as a source of funding. Oates (1993) asserts that taxes are a compulsion enforced by the state through its representatives on the subjects' capital, income, and consumption (Nursakti & Aria, 2017). These taxes are levied against individual income, including wages, company incomes, dividends, and royalties. Along with petroleum earnings, capital gains, and capital transfers, it is assessed against corporate profits. In order to provide safety, public facilities, and circumstances for societal economic welfare, the government must impose tax as a mandatory levy on a person or his property (Morufu & Babatope, 2017). Olaoye and Akinola (2019) observed that budget implementation, includes ensuring that the fiscal year's income projections and expenditure parameters are satisfied. Any level of government's handling of the budget demonstrates a high level of system transparency and accountability. The allocation of scarce government resources to programs and services for government operations has changed from being an annual ritual to a purposeful and comprehensive procedure through budgeting (Kiminyei, 2014).

This has led to the budgeting process becoming a valuable instrument for participatory government. While some states give all of the power to governors, others give it to public servants, government appointees, legislative, and administrative officers, while other states combine it with all of these parties (Danang, Setyo, & Candra, 2018; Turns, 2006).

2.2 Historical Trends

According to Nigeria's historical data, tax revenue has fluctuated greatly while budget implementation rates have hardly changed at all. For instance, the Southwest did not have an income tax from 1990 to 2000, and tax receipts represented only 3% of GDP. The economy was particularly unstable from 2001 and 2010, with two debts being forgiven or relieved, an economic crisis, the introduction of income and payroll taxes, and an increase in estate and corporate taxes (Akinleye & Ogunmakin, 2016). With enduringly rising taxes and government spending, the economy has entered a new phase (William & Andrew, 2014).

Federal revenues typically made up roughly 18 percent of GDP from 2011 to 2020, with the highest marginal income tax rate averaging 66 percent. State-level taxes increased dramatically over earlier levels, and estate and corporation taxes were levied at high marginal rates. However, from 2011 through 2020, the real GDP per capita growth rate remained constant at 2.2%. (Olaoye & Olugbamiye, 2019). Formally, Morufu and Babatope (2017) examine the impact of the considerable rise in income tax on the growth percentage of gross domestic product (GDP). The study demonstrated that the fundamental patterns of rising income tax and total tax collections had no appreciable influence on the long-term growth rate of per-capita GNP or on spending.

2.3. Theoretical Review

2.3.1 The Theory of Public Expenditure

Adolph Wagner put forth this theory in 1890. Public spending was described as the expenses incurred by the government in performing its duties (Kiminyei, 2014).

It may be challenging to distinguish between the amount of government spending that goes toward maintaining the government and the amount that goes toward enhancing society and the economy as a whole, given the growing list of responsibilities that the government has to citizens. Despite having increased greatly in significance and responsibility within the national economy, the public spending sector has not changed all that much throughout the years. The majority of studies have concentrated on taxes and how government expenditure affects services and values (Kiminyei, 2014; Bakare, 2013; Koren & Stiassny, 2008).

3. METHODOLOGY

All States in Southwestern Nigeria were included in the study's sample (Osun, Ekiti, Ondo, Ogun, Oyo and Lagos). The data was gathered from the internal revenue office, research department, and budget and economic planning office of these states. The information used ranges from 2011 to 2019.

4.0 RESULTS

4.1 Trend Analysis

4.1.1 Total Revenue Generated by Each State in the Southwest, Nigeria

Figure 4.1 below shows a trend analysis for each state in southwestern Nigeria for the ten years that range from 2010 to 2019. Lagos was used as the benchmark since it is noted as the most industrialized state in Nigeria, particularly among southwest states. This was evidenced by Ojo (2012), who observed that the state contributed about 36% of the Nigerian gross domestic product (GDP). A closer look at the trend analysis reveals that the total revenue generated in Lagos State is double the aggregate revenue from all the remaining states. This could be due to the existence of more formal and informal sectors, the constant attraction of foreign direct investments, as well as the blocking of revenue linkages by the state. It was further revealed that Oyo also took the lead among the other five states. At this point, one might be thinking that since Ogun State is closer to Lagos State, its revenue drives would have trended up and improved, but the reverse is the case. This might have been attributed to the fact that Ogun State might not be aggressive and innovative enough to generate more revenue.

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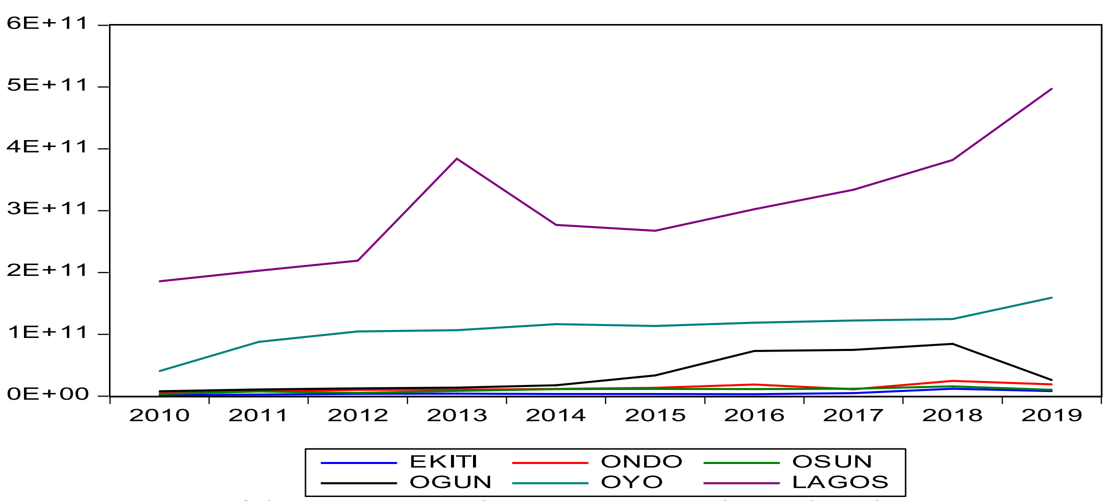

Figure 4.1. Total Revenue Generated by Each State of the Southwest, Nigeria.
Source: SPSS (2024)

4.1.2 Budget Implementation (Actual Expenditure) of Each State in the Southwest, Nigeria.

Figures 4.2 below provide a trend of how each state in southwestern Nigeria has implemented its budget over a 10-year period, from 2010 to 2019. Lagos State showed a markedly higher trend than other states for each of the years taken into account, as was to be expected. This might be explained by the amount of revenue produced. It was demonstrated that state budgets for capital and ongoing projects were higher in Osun, Ogun, and Oyo than in Ekiti and Ondo states. Throughout the study's time period, real expenditures in Ekiti State and Ondo State both continued to trend unevenly. This is an illustration of the yearly income. This discovery leads to the conclusion that spending is dependent on income.

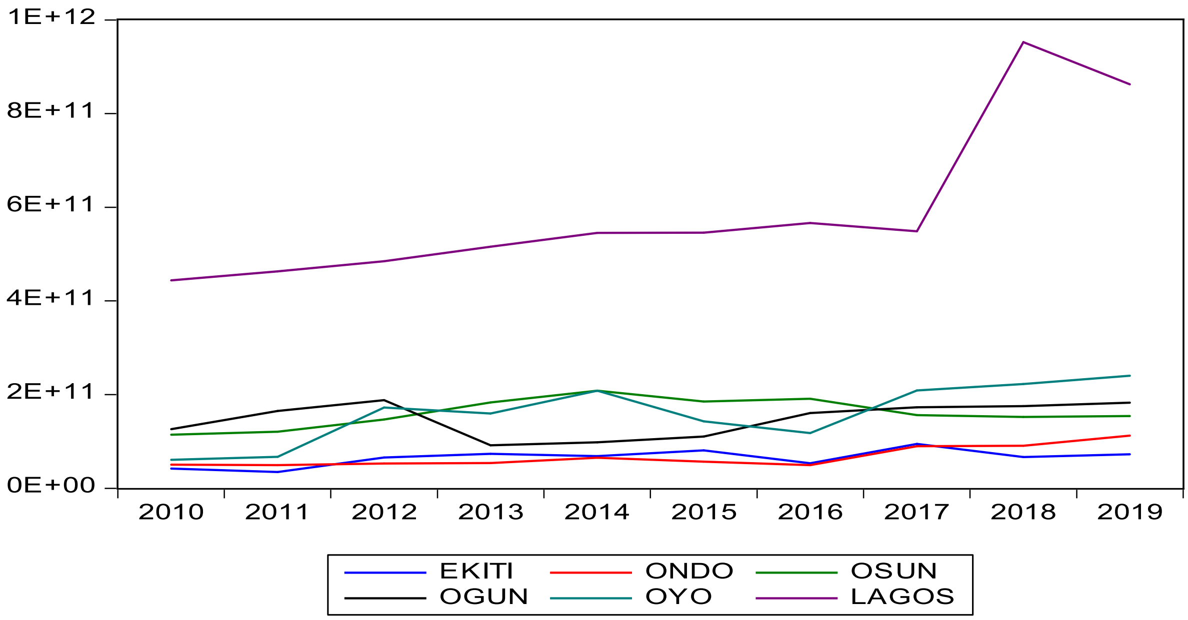

Figure 4.2 Budget Implementation (Actual Expenditure) of Each State in the Southwestern, Nigeria. Source: SPSS (2024)

4.1.3 Personal Income Tax of Each State in the Southwestern, Nigeria

The personal income tax trend analysis for each of the southwest Nigerian states for the ten-year period 2010–2019 is shown in Figure 4.3. According to Figure 4.3, Compared to other states in the region, Lagos State's trend was higher, and the difference was substantial. This may be accounted for by the large workforce, corporate companies, and other governmental organizations that make up Lagos State, all of which increase and draw in more personal income tax. In comparison to the other states, Ogun and Oyo states trended higher, while compared to the other states in the region, Ekiti state showed a downward trend.

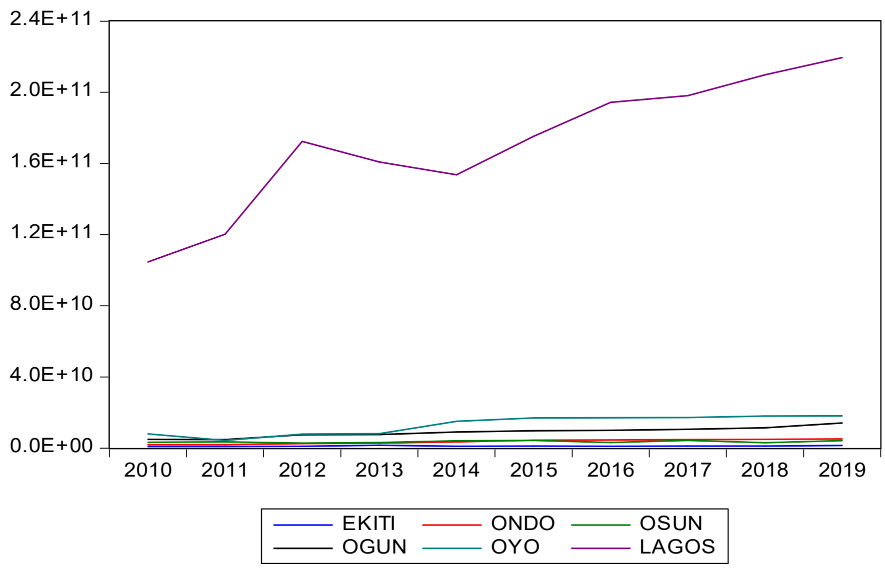

Figure 4.3 Personal Income Tax of Each State in the Southwestern, Nigeria
Source: SPSS (2024).

4.1.4 Aggregate Revenue Generated in the Southwestern (ARGS), Nigeria from 2010-2019.

Figure 4.4 below shows the overall trend in internally produced revenue for all the states in southwestern Nigeria. The graph shows that state internal revenue rose from 2010 to 2012, dropped in 2014, and then rose once more from 2015 to 2019. This could be a consequence of the numerous tax reforms that were implemented essentially in every state of the union following a sharp reduction in federal funding, which the drop in the price of crude oil internationally necessitated. The tax reform was put into place with the dual objectives of paying wages to employees and sustaining state-level development programs.

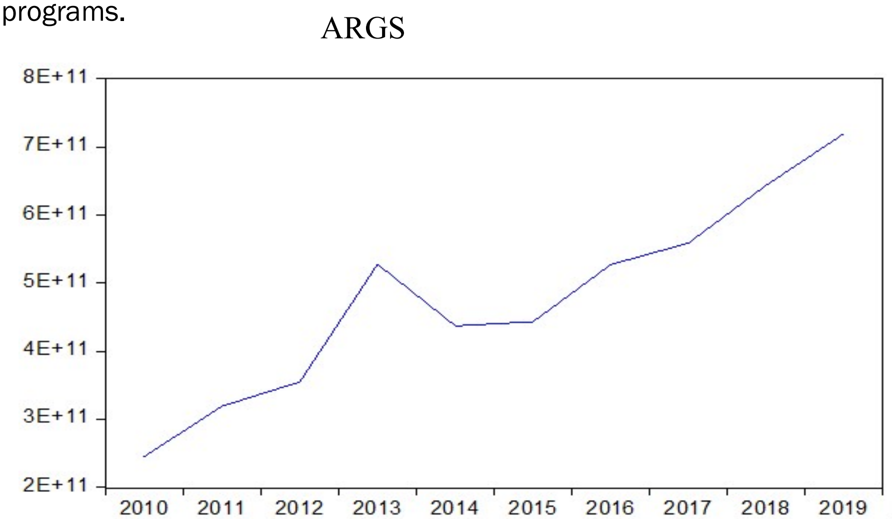

Figure 4.4: Trend Analysis of Aggregate Revenue Generated of Southwest (ARGS) States, Nigeria from 2010-2019. Source: SPSS (2024).

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4.1.5 Aggregate Budget Implementation (Actual Government Expenditure) in Southwest states, Nigeria from 2010-2019.

Figure 4.5 displays a trend analysis of budget execution in each of the southwest Nigerian states. The study showed that the actual government spending in all of the southwest Nigerian states had a general upward tendency from the starting year, 2010, to 2011, then significantly increased from 2012 to 2013, and then dwindled at the same rate in 2014. From 2015 to 2019, it continued a parallel but unpredictable trend.

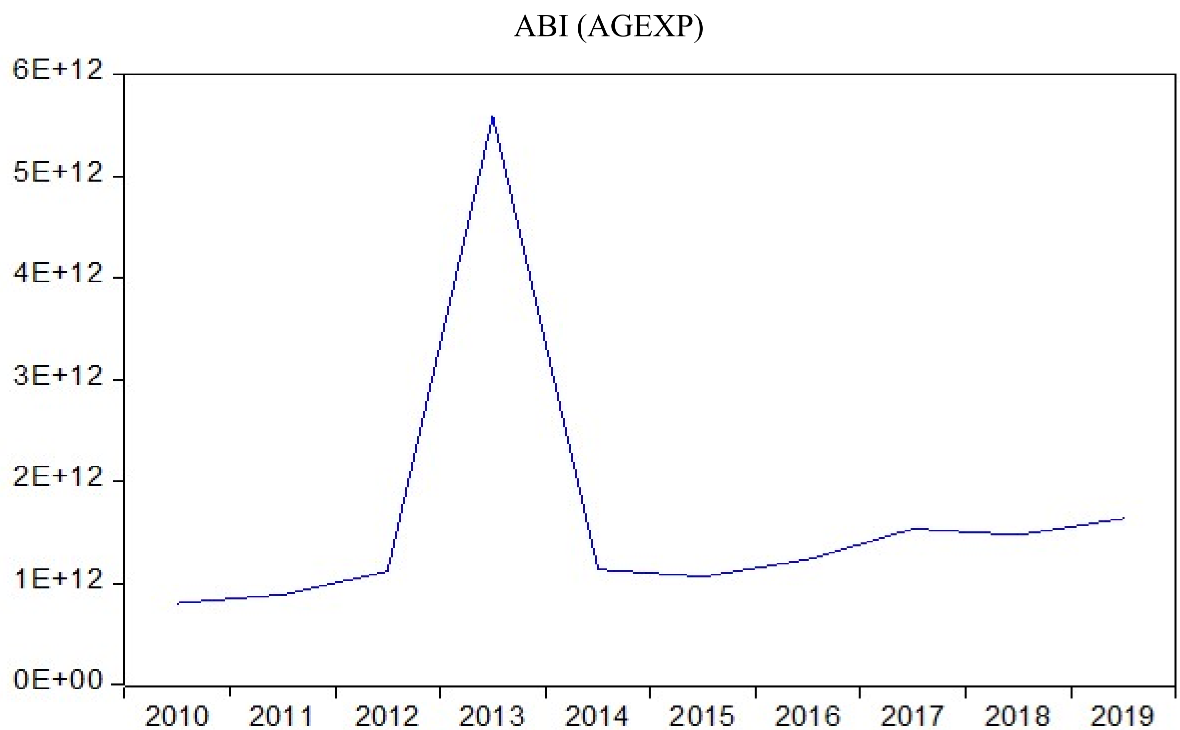

Figure 4.5: Trend Analysis of Aggregate Budget Implementation (Actual Government Expenditure) in Southwestern states, Nigeria from 2010-2019

4.1.6 Aggregate Personal Income Tax (PIT) in Southwestern States, Nigeria from 2010-2019.

Figure 4.6 provides a trend study of the personal income tax in the states of southwest Nigeria over the course of ten years, from 2010 to 2019. It shows that personal income tax rose from the base year, 2010, to 2011, dropped slightly in 2012, and then rose once more from 2013 to 2019. This may be attributed to government initiatives like the Tax Identification Number (TIN) and ongoing training sessions offered to tax authorities with the express purpose of increasing efficiency and output.

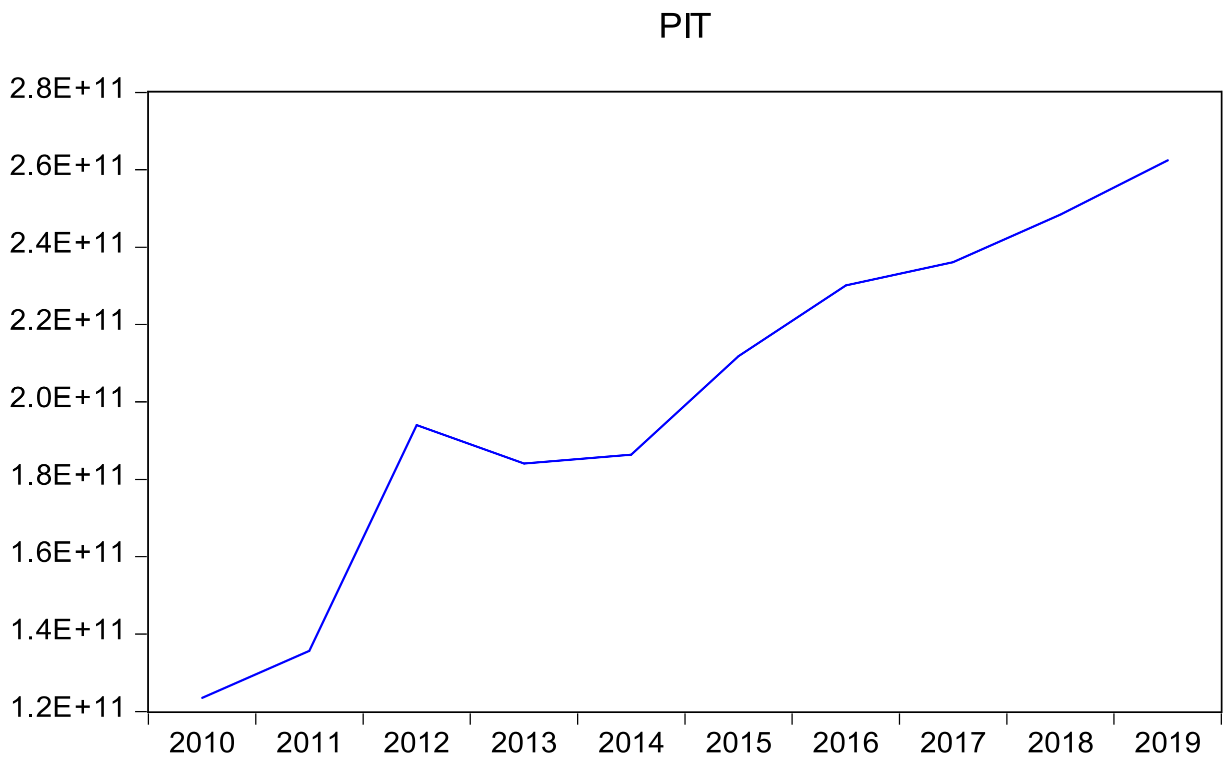

Figure 4.6: Trend Analysis of Aggregate Personal Income Tax (PIT) in Southwestern States, Nigeria from 2010-2019. Source: SPSS (2024).

4.2 Discussion of Results

The investigation was focused on achieving the clearly stated goals of this research, and it had a single goal to be accomplished. However, a trend analysis was done. According to research, the internal revenue generated by personal income tax in the southwestern states of Nigeria increased from 2010 to 2012, fell in 2014, and then increased from 2015 to 2019. This is the result of the many tax reforms that were put into place practically in all the states under the federal government after a significant cut in the federation account was necessary due to the drop in the price of crude oil globally. The operation of the tax reform was done with the dual intent of remunerating government workers and advancing the state's development. Additionally, it was found that the actual financial plan or operation in all of the states in southwestern Nigeria trended slightly upward from the base year, 2010, to 2011, before spiking dramatically upward from 2012 to 2013, and then declining at the same rate in 2014. It kept up an erratic parallel trend from 2015 to 2019.

5. CONCLUSION AND RECOMMENDATIONS

Although the study's internal revenue sources, such as personal income tax, have trended primarily upward over the past 10 years, research has shown that they still have a sizable comparative impact on the extent of budget execution. Furthermore, the study found a link between personal income tax, one of the constituents of internally generated income, and budget accomplishment.
As a result, the level of budget implementation in the States and vice versa is not greatly affected by the previous values of these components. Based on the findings, the study recommends that other governments in states like Ondo, Osun, Oyo, and Ekiti should design a new structure for boosting the volume of internally generated income in their states in order to harmonize potential and resources lying idle in their domain in order to foster effect, in addition to Lagos State, which has greatly benefited from being Nigeria's largest commercial hub (Olaoye & Akinola, 2019).

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