ISA Journal of Business, Economics and Management (ISAJBEM)

Homepage: https://isapublisher.com/isajbem/
Email: office.isapublisher@gmail.com

Volume 2, Issue 5, Sept-Oct, 2025 ISSN: 3049-1835

Effect of Personal Income Tax on Internally Generated Revenue of Osun State Government

Olagunju Saheed Abiodun, Adewale Opeyemi Temilade & Oladejo Morufu Oladehinde

Department of Accounting, Ladoke Akintola University of Technology, Ogbomoso, Oyo State, Nigeria

Received: *15.08.2025* | ***Accepted:*** *07.09.2025* | ***Published:*** *08.09.2025*

***Corresponding Author:** Olagunju Saheed Abiodun

DOI: *10.5281/zenodo.17080178*

Abstract **Original Research Article**

A nation economic growth is reliant on a steady means and bases of income, while taxation is the basis upon which the nation's economic structure is erected. However, inadequate monthly payment of funds from the federal government to the state government account necessitates reason to explore other sources of income. The study therefore explores the key factors that influence personal income tax.

The study employs both longitudinal survey design to track variables over time and Ex-post facto research design, primary data were collected via a structured questionnaire while Secondary data were extracted from National Bureau of Statistics and Osun Internal Revenue Service from 2014 to 2023 - ten (10) years. Both descriptive and inferential statistics are used, descriptive statistics inform of factor analysis was utilized to determine the relevant factors of Personal Income Tax, whereas inferential statistics through correlation analysis helps assess relationships between Personal Income Tax (PIT) and Internally Generated Revenue (IGR). Additionally, Ordinary Least Square regression model was applied to evaluate the impact of PIT on IGR. All test were conducted at 5% level of significant.

Factors such as tax rate (0.761), tax policies and laws (0.757), penalty rate (0.729), employment status (0.742) income level of taxpayers (0.695), The attitude of taxpayers (0.665), poor tax collection methods (0.684), lack of accountability and transparency (0.565) and Government spending habits (0.640) display strong communalities. Public confidence in government (0.546), tax audit frequency (0.547) and tax knowledge and awareness (0.590) showed a moderate communality. Conversely, tax enforcement (0.321) exhibits a comparatively low communality. The existence of positively strong relationship (0.9375) was discovered betwixt IGR and Pay-As-You-Earn (PAYE), fines and fees exhibit a high positive correlation (0.9178) with IGR, Earnings and sales also show a strong positive relationship (0.8751) with IGR, rent from government property, while positively correlated with IGR (0.3311), has a relatively weaker association compared to other revenue sources. The strong correlation between PAYE and fines and fees is (0.8522). Similarly, earnings and sales correlate strongly with PAYE (0.7624) and fines and fees (0.7024), direct assessment tax on the other hand was negatively correlated with IGR (-0.1459), direct assessment tax and earnings and sales (-0.4262) and rent from government property (-0.5660). However, the following variables were significant; PAYE (p-value = 0.0003), Fine and Fees (p-value = 0.0008), and Rent on Government property (p-value = 0.0020) except Earnings and Sales (p-value = 0.0578) and direct assessment (p-value = 0.0641) that were not significant.

The study concluded the existence of a positively significant relationship and effect betwixt personal income tax and Osun state IGR. It was therefore recommended that strengthening PAYE tax enforcement, improving tax administration efficiency as well as enhancing compliance in direct assessment tax are crucial for ensuring sustainable fiscal growth in Osun State.

Keywords: Internally Generated Revenue, Osun State Government, Personal Income Tax, Revenue Profile, Tax, Taxation.

1.0 INTRODUCTION

The bed-rock upon which a nation's revenue structure is built is taxation. This disclosed that effective tax collection, well-efficient tax system with few or no avoidance, bequeath the government with sufficient chances to make available the basic social amenities for the general public. Strengthening of state resource mobilization and revenue generation are mainly dependent on efficient and effective tax system structure in the country (Bala, Enoch and Yakubu, 2018). The efficient and effective tax system structure encourages inclusion, social fairness, and good governance, wealth and income equalities. It is generally agreed that, the diversification of national revenue base is the most viable way out, particularly among the developing countries in current waves of economic hardship. Hence, tax is considered as one of the most important means through which governments at various levels can generates revenue; if properly manage El-Maude, Zephaniah, Akilahyel and Abu-Saeed, (2023).

Taxes helps the government make its citizens more accountable. When government expend, it makes them more responsible for transparent and accessible budget decisions. According to Spilker, Ayers, Barrick, Outsley, Robinson, Weaver and Worsham, (2019) tax is an enforced charge obligatory to the government which does not relate to benefits or services from the government. The sustainability of revenue generation is of utmost importance because revenue signifies the heartbeats of organizations in both developed and developing countries. The benefits of revenue generation, allocation and distribution aimed at sustaining both the prevailing and novel socio-political and economic structure in any economy cannot be overstated (Oladejo and Babatope, 2017).

Samuel and Tyokoso (2014) opined that a tax system's related role is to generate income to fund government expenditure. Personal income tax is an element of taxes that generates revenue that is significant to the state revenue. It is therefore required to cover spending which sprang from goods and services provision that are out of municipal capacity in the nation like defense and security, health care and education. The personal income tax has arisen as an indispensable component of contemporary tax systems, providing the larger percentage of nations with their main source of government revenue (Piketty and Saez, 2023). Personal Income Tax (PIT) plays a crucial part in rendering an unswerving and sustainable source of tax revenue to various developed nations. Nasir (2022), stated that PIT accounted for 41.2% of the overall tax revenue generated in United State of America in 2021. Likewise, Benedek, Benitez, and Vellutini (2022) were of the opinion that, PIT is a significant basis of tax revenue in almost all the developed countries. Almost all the governments across the world depend severely on personal income tax been a vital basis of generating income.

Therefore, PIT has been rated amidst other taxes as the inward solution to the state scarcity of funds to accomplish all the relevant duties in the state. This is the tax imposed by government on employees' income and individual (self-employed) income for effective actualization of the promises. It is broadly known as a significant instrument for state growth and development in many nations. Also, it is regarded as a main tool for extensive infrastructure extension and economic development of the state (Adegbite, 2020). According to Baba (2020) he posits that majority of Nigerians are not paying tax while Aderibigbe (2022) was of the opinion that tax payers were discouraged from paying tax because government are not using the revenue generated from taxes to meet their social/infrastructural needs as expected.

PIT as an element of revenue for the government has become contentious with the current administration urge to strengthen the revenue base of the government through tax and the salary earners who are liable to PAYE moans often of abnormal tax. Without begetting revenue internally, it will be undeniably tough for the government to satisfy the populace requirements as regards expenditure (both recurrent as well as capital) with respect to diminishing allocation from the federation account which has been induced by the declining oil price in the global market according to Fasina, Adegbite and Alabi, (2018). An amount of the research has been done on effect of PIT on IGR of some states in Nigeria, but most of these works did not consider the factors that influence PIT. Based on what I know, there has not been any research carried out on effect of PIT on IGR of government in Osun state by putting into consideration the factors that influence PIT. This research is thus been done to fill the gap left opened in literature. Thus, this work will examine effect of PIT on Osun state IGR to evaluate if personal income tax contributes significantly to the internally generated revenue of Osun State.

To this view, these research questions will be answered; what factors influence personal income tax payment in Osun State, are there any relationships between PIT and IGR in Osun State and to what extent does PIT influence internally generated revenue (IGR) of Osun State. The exact aims of this research were to; identify factors that influence personal income tax payment in Osun State, observe the connection betwixt PIT as well as IGR in Osun state and assess the effects of PIT on IGR of Osun State. The following hypothesis were expressed and presented in the null form.

$H0_1$: There is no significant relationship between personal income tax and internally generated revenue (IGR) of Osun State.

$H0_2$: Personal income tax does not have significant effect on the internally generated revenue (IGR) of Osun state

Discoveries of this research is projected to help the government to set in place measures to enhance the internally generated revenue of states and efficient usage of such fund for development and growth of the state in order to encourage the taxpayer. Thus, encourage the state to desire internally generated revenue above the allocation from the federally collectible revenues, most particularly with the diminishing oil prices in the global market, to discover strategies internally for enhancing revenue in the state to attain government micro-economic aims as well as eliminate scarcity of public revenue. To the Osun citizen, this study is expected to make available to the public information on the significance of revenue generation and effective use of revenue in order to encourage them to conform with the payment and filling of necessary required tax returns as at when due.

Specific study variables among others include, internally generally revenue - IGR (as the dependent variable) to proxy revenue profile, Personal Income Tax – PAYE and Direct Assessment (as independent variables) while penalties and fees, incomes and sales, and rent on government property were the intervening variables.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Taxation

Taxation can be stated as "the process or machinery by which communities or groups of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society". "Taxation is the transfer of real economic resources from the private sector to the public sector to finance public sector activities" Oyedokun (2020), defined taxation as a mandatory payment to government which is not attached to any exclusive benefit other than benefiting from a society that prioritizes education, health and safety.

2.1.2 Tax structure

There are numerous bases used in the classification of taxes. However, as classified by the Institute of Chartered Accountants of Nigeria (ICAN, 2013) we shall identify three broad classifications as follows:

i.) Tax base classification: which is the object or item on which tax is collected within the framework of the Nigerian Tax Laws. Here, three (3) bases are identifiable which include; **Income Tax** (i.e., PIT, PPT and CIT), **Capital Tax** which includes CGT on capital goods sales (noncurrent asset) and **Consumption Tax** (i.e., VAT, stamp duties and excise duties).

ii.) Incidence of tax classification: this refers to the effect of tax on taxpayers. Two categories of taxes are obvious in this classification. They are; direct tax (an assessable tax imposed directly on the taxpayer) and indirect tax (taxes levied on commodities before it gets to the final consumer, and are paid by those on whom it eventually falls. Examples of direct taxes are: PIT, CIT, CGT, PPT, and Education Tax while that of indirect taxes are Customs and excise duties, VAT, Stamp Duties, Import and Export duties.

iii.) Tax rate Classification: is the percentage of income pool paid as tax. Here, we have **progressive tax** which employs increase levy rates as earnings rises, otherwise known as 'Pay as You Earn'. The main aim is to redistribute income in the economy. **Proportional tax** employs stable percentage to taxable income of citizens to arrive at the tax payable and **regressive tax**; where taxpayer pay lesser as the earnings increase. This classification of tax is previously in use in Britain.

2.1.3 Tax Policy

Tax policy is the procedures and standards created by government for levying and collecting taxes. It has both microeconomic and macroeconomic factors. The macroeconomic factors issue the general quantity of taxes to gather, that could inversely have an effect on the extent of economic dealings; this is a part of economic policy. The microeconomic factors involve considerations of fairness (particularly the division of tax burdens) and allocative efficiency that aims to enhance the distribution of resources within the economy. Tax policies typically provide the fundamental guidelines for the development of an effective tax system (Olugbenro, 2020). The devising of tax policy encompasses deliberation among policymakers regarding the optimal tax structure, including its progressivity or regressivity and its probable impacts on tax incidence, which can significantly influence the economic well-being of individuals and businesses. According to Oyedokun (2020), the execution of tax policy is a sensitive and intricate process, example of which is the renowned tax policy quote of President George H. W. Bush's, "Read my lips: no new taxes." The Nigerian National Tax Policy (NTP) was first published in 2012 and later revised in 2017 as part of the efforts to establish a strong and efficient tax system in Nigeria.

2.1.4 Tax Administration

Tax agencies or administrative organs serve as the principal bodies for tax policy implementation and enforcement. The core functions of tax administration include the implementation and enforcement of tax legislation and regulations; encompassing taxpayer registration, tax return processing, tax audits, tax assessments, collections and taxpayer support services. Tax administrations face evolving challenges in rapid changing societies, where stakeholders' demands and expectations are increasing. Taxpayers now expect sophisticated government services, driven by economic developments and rising standards. To adapt, tax administrations must reassess their strategic direction. Essentially, a tax administration refers to the organizational framework responsible for managing the tax system, operating as a government department under the guidelines set by tax laws (Aderemi, Adewumi and Olatunji, 2022).

In Nigeria, taxes are administered by representative agencies of the three tiers of government based on extant laws. The relevant powers have been summarized and codified in the Taxes and Levies Act (as amended). The following bodies are responsible for tax administration in Nigeria: (1). Federal Inland Revenue Service Board, Section 1, 2 and 3 of the Companies Income Tax Act (CITA) Cap C21 LFN 2004. (2). The State Board of Internal Revenue (SBIRS), Section 85A, B and C of Personal Income Tax Act as amended. (3). The Local Government revenue committee, sections 85D and E of Personal Income Tax Act as amended.

2.1.5 Personal Income Tax

Personal income tax signifies taxes imposed on the personal income of individual. These taxes are imposed on the income of the individual on a basis of 'Pay as You Earn" (PAYE) and the individual taxpayer must be an employed person and expected to file returns on a yearly basis.

Personal income tax (PIT) is given different definitions based on the various objectives of the studies. Kwame (2019) define Personal Income Tax (PIT), as the taxes payable by individuals or households in a particular tax jurisdiction. PIT can also be conceptualized as any tax imposed on the income of taxable individuals, partnership, families or communities. While Bala, Enoch and Yakubu (2019) defined PIT as a tax chargeable on income earned by an individual, hence refers to as Pay-As-You-Earned (PAYE).

The personal Income Tax Act; Cap P8 Volume 13 LFN 2004 provides the legal backing for the collection of Personal Income Tax (PIT) in Nigeria. The act was amended by the Personal Income Tax (Amendment) Act, 2011. Section 3 of PITA provides that every tax payer in Nigeria is liable to pay tax on the totality of his income whether derived from within or outside Nigeria. The salaries, wages, fees, allowances, and other gains or benefits, given or granted to an employee are chargeable to tax. An employer under the Act is expected to register with the relevant tax authority for the purpose of deducting income tax from his employees' incomes with or lacking official notice or guidance from the appropriate tax body, pursuant to Section 80(6)).

According to Sections 1 and 2 of the Act, personal income tax is levied on income earned by various entities including; individuals, sole proprietors, groups, communities, families and trustees or executors of settlements. Taxpayers are required to pay PIT directly in the state where they reside. The following individuals are exempted from state taxation;

- Nigerian military personnel (Army, Navy, Air Force or Police) serving in military capacity (excluding civilian employee)
- Nigerian foreign service officers
- Residents of the Federal Capital Territory, Abuja
- Foreigners living outside Nigeria that obtains earnings or gain from Nigeria.

These exemptions are outlined in Section 2(1)(a)(b) of PITA administered by the Federal Inland Revenue Service.

Pursuant to the provisions of the Personal Income Tax (Amendment) Act, 2011 (Sixth Schedule, Paragraph 3), the PIT rate structure has been established, with rate ranging from 7% to 24%. Additionally, individuals with gross income below ₦300,000 per annum are subject to a minimum tax of 1%. According to Paragraphs 1 and 2 of the Schedule, taxable income is calculated by deducting relief allowances and other permissible deductions from gross income. Taxpayers are entitled to a consolidated relief allowance of either ₦200,000 or 1% of gross income (whichever is higher), plus an additional 20% of gross income. Furthermore, contributions to the following schemes are tax deductible:

- National Housing Fund
- National Health Insurance Scheme
- Life Assurance Scheme
- National Pension Scheme and
- Gratuities.

The Personal Income Tax (Amendment) Act 2011 requires that a taxpayer file returns for the preceding year within 30 days of the end of the year (i.e., January 31st. – previously 90 days, i.e., March 31st.). In line with the Personal Income Tax Act 2011, income tax is to be paid on income from sources within and outside Nigeria, in precise term, but not limited to the following:

- Profit from trade, business, profession or vocation,
- Dividend, interest or rent,
- Any charge or annuity,
- Rental income, premiums or other profits from granting property usage or occupancy rights.
- Emolument or Remuneration from an employment from both the public and private sectors. Remuneration covers salaries, wages, and fees, allowances including compensations, commissions, bonuses, premiums and other advantages provided by an employer.
- Any balancing charge arising where a business person disposed of an asset used for the purpose of trade or business carried on by it at a profit, and
- Any profit, gain or other payments accruing to an individual not falling within items listed above.

The payment of PAYE due date is 10th day of every following month. It is expected by an employer to submit annual returns of taxes and emoluments deduced from staff by January 31st of each year covering the preceding year as per FIRS guidelines. Failure to file a return can result in a penalty of ₦5,000 plus an additional sum of ₦100 for each day during which the failure persists or imprisonment of 6 months or both. Any employer failing to file a return may face fines of ₦500,000 if a corporate body or ₦50,000 for an individual employer, upon conviction. The taxable income of an individual is evaluated to tax at the rate which is given by the government and may be reviewed from time to time. The table below shows the personal income tax rates effective from 14th June, 2011:

Table 1: Effective from 14th June 2011

	Taxable Income (₦)	**Tax Rate (%)**	**Taxable Income (₦)**	**Tax Rate (%)**
	Annual		Monthly	
1st	300,000	7	25,000	7

2nd	300,000	11	25,000	11
Next	500,000	15	41,666	15
Next	500,000	19	41,666	19
Next	1,600,000	21	133,333	21
Above	3,200,000	24	266,666	24

Researcher's Design 2025.

2.1.6 Revenue Profile

Revenue has been well-defined by several researchers in diverse ways. According to Adam (2006) as cited in Muojekwu and Udeh (2023); Elamah, (2015) and Balogun, (2015) revenue is defined as the fund that is expected by the government to sponsor its social responsibilities. The funds are gotten from diverse sources like taxes, debts & borrowing, fines & fees and so on. It is also the overall sum of revenue that accumulates to an entity within a specific time. Also, Adekoya, Agbetunde and Akinrinola (2021) stated revenue as a broad term for tax and non-tax sources. A tax revenue is a mandatory payment by taxpayers on income, profit, or property while non-tax revenue are payments charge on usages or activities, such as fees, fines, rates, tolls, licenses, permits and other miscellaneous revenues.

Nigeria Governor's Forum (2012) defined government revenue as tolls, taxes, rates, fees, penalties, rents, forfeitures and other receipts from any origin whatsoever over which legislature has power of appropriation as well as proceeds of loans raised. Section 160 (9) of the 1989 constitution and Section 5, 162 (10) of the 1999 constitution explained revenue as any fund or returns amassing to, or gotten by the government from any government possessions, returns in form of loans interest and dividends in respect of shares or interest held by the government, in any company or statutory body, incidental sources arising from a specific environment, permissive sources from regular operations and statutory sources acknowledged by the Nigerian constitution (FRN, 1999).

According to Akinleye, Olaoye and Oginmakin (2019) there are three major sources that institute the revenue profile of state governments; firstly, is the federal allocation, secondly is Internally Generated Revenue (IGR) that contains revenues from taxes and non-tax sources while thirdly is other financial arrangements like excess crude oil, other statutory receipts, grants, internal and external loan, ecological fund and so on. Revenue generation ensures financial viability which represents the aptitude to generate adequate income for operational expenses, debt commitments growth and development while sustaining service levels. It is the aptitude of an economy to continue to accomplish its operating objectives and fulfill its mission in the long run (Adejoh, Ekeyi and Mary, 2019). Notwithstanding the several sources of revenue accessible to Nigeria's three tiers of government as delineated in 1999 constitution, oil and gas remain the dominant source of revenue, accounting for over 80% of yearly revenue (Olajide, 2015).

2.1.7 Internally Generated Revenue (IGR)

Revenue generated within states are from tax, non-tax and other miscellaneous sources. Revenue arising from events and differs origins within the state is called internally generated revenue (IGR). IGR excludes subventions, allocation and grants from the federal governments. Fundamentally, two types of revenue amass to Nigeria state governments. These comprises of internally generated revenue (IGR) and revenue from Federation Account generally referred to as Federal Statutory Allocation. Nevertheless, we are more bothered about the state internally generated revenue. The several sources of internal revenue accessible to state governments are taxes, fines and fees, licenses, earnings & sales, rent on government property, interests and dividends, and lots more.

Tax revenue includes PAYE (Pay As You Earn), direct assessment, withholding tax, property tax sales or consumption tax, pool betting taxes, market taxes, business premises and registration fees, development levies for taxable persons, capital gains tax for individuals, lottery and casino taxes, fees for right of occupancy on State-owned urban land, and levies while non-tax revenue examples were earnings and sales, licenses, penalties and fees, rent on government buildings and interest repayment and dividends. Corporate bodies have several means of boosting her internal revenue sources. IGR acts as a vital means of social contract, social engineering and an instrument of economic growth. It supports consistent budgeting and improves the state economy for growth and development. IGR aids the government to be more receptive and accountable to the needs of the citizens, keeps society composed and guarantees conducive ambience for business to thrive.

2.1.8 Osun State Government

Osun state was created from the southeast of Oyo State on 27 August 1991 with Osogbo as her capital city. The State is recognized as the "State of the living spring" situated in southwestern Nigeria; bordered to the east by Ekiti and Ondo states, to the north by Kwara State, to the south by Ogun State and to the west by Oyo State. Osun state population is about 5.6 million (National Population Commission and National Bureau of Statistics Estimates 2022) with a land mass area of 9,251 km^2. It was mainly inhabited by the Yoruba ethnic group which may be separated into five large sub-groups: Ife, Ijesha, Oyo, Ibolo and Igbomina. Geologically, the state is separated between the Nigerian lowland forests in most of the state and the drier Guinean forest–savanna mosaic in the north. The main geographical elements are rivers and mountains. Osun State is widely based around agriculture, majorly cocoa, cassava, millet, maize, and yam crops economically. Further significant industries are services, particularly in urban areas, alongside with artisanal mining and livestock herding.

2.2 Theoretical Review

The issue of income generation from tax is guided by several theories as taxation is said to be a product of theories. However, this study will be anchored on two of these theories as the basis for the work; these are pecking order theory and ability to pay theory.

2.2.1 Ability to Pay Theory

This theory was propounded by Kendrick MS (1939) and it is considered to be the principal theory of taxation. It asserts that taxes should be established on the capability of the taxpayer to pay, which means, those who earn higher income should pay higher taxes and vice-versa. This principle makes an immense deal of sense, particularly for the provision of public goods that are consumed by everybody. If everyone gains from public goods, without exception, then everyone should pay. Nevertheless, everyone does not have the ability to pay, therefore those that can afford to pay need to carry the burden further. According to Ojeka (2011) as cited in Musa, Anaja and Ejura (2017), the ability theory states that "public expenses ought to originate from "him that has instead of from him that has not". He purported that the theory is the origin of progressive tax while Eftekhari (2009) purported that the basic truth of the ability to pay theory is that the obligation of taxation should be distributed by general public on the principles of equity and justice to ensures that tax burden is divided according to the taxpayer's relative ability to pay.

The concept of economic stated that most common and popularly acknowledged principle of justice and equity in taxation is that taxpayers in a particular nation must remit taxes based on their ability to pay. Ojeka (2011) documented that the utmost endorsed validation of the ability to pay is on the basis of sacrifice. Although, it appears that if taxes are levied based on this principle, justice is most likely to be attained however there are limitations to this theory as economists are uncertain as to the precise measure of taxpayers' ability to pay and there is insubstantial tactic for the measurement of the sacrifice of equity. However, there are some points of view as to what basis of measuring the ability to pay tax should be; some researchers believe that property ownership is a good basis of taxpayers' measurement for ability to pay. Overtime this conception has been precluded because it has been seen has absurd and unjustifiable.

Some scholars in economics are also of the belief that taxpayer's "ability to pay have to be considered based on the taxpayers' expenses i.e., the higher the expenses the higher the tax burden should be. This view has likewise been outrightly rejected because it has been seen as unfair and unjustifiable to persons who have to spend a lot irrespective of their income. Some economists suggest that income should be the basis of determining a taxpayer's ability to pay i.e., the higher the income earned, and the higher the tax to be paid would be. It's seemed to be a very fair and just basis for judging the ability of taxpayers to pay. Equity of sacrifice can be measured in three ways, as demonstrated by Richard Musgrave (1959), namely; (i) Equal Absolute Sacrifice: Each taxpayer would surrender the equal complete level of utility obtained from income earned. (ii) Equal Proportional Sacrifice: Each taxpayer forgoes equal percentage of utility obtained from income made iii) Equal Marginal Sacrifice: Each taxpayer would surrender the same utility for the last unit of income.

2.2.2 Pecking Order Theory

In 1961, this theory was first proposed by Donaldson and in 1984, it was popularized by Stewart C. Myers and Nicolas Majluf. In line with this theory, companies and government authorities have a preference for internal funding than external funding. It holds that, perhaps organizations require external funding they would have a preference for debt than equity, and equity is created as the latter resort. So, the companies do not have fixed or ideal debt to equity ratio due to information irregularity. The organizations employ conventional approach when it comes to dividends, and use debt financing to amplify the worth of firm. In corporate finance, pecking order theory suggests that the cost of financing intensifies with irregular information.

Financing emanates from three major sources; internal funds, debts and new equity. Organizations give precedence to their finance sources, firstly preferring internal financing, followed by debt, and lastly, raising equity as a "last resort". Therefore, internal financing is firstly used; when it is dwindled, and debt is issued; and when more debt it is no longer reasonable to issue, equity is employed or utilized (Tyoakosu and Awuhe, 2017). Government, when faced with fund raising issues, seeks to raise its funds internally than to resort to external financing, like debt (government borrowing). The internal approach of fund raising by government is mainly via the burden of taxes more equally, conveniently, and economically on the income of its citizens (both corporate and individuals), which has huge potentials to impact positively on the IGR.

2.3 Empirical Review

Several studies had been made on personal income tax and revenue profile in respect to economic growth of different states and countries. Most of the researches established an optimistic effect and relationship relating to personal income tax and internally generated revenue. Few of the work that are significant and correlated to this research are considered:

Igwegbe, I.C. & Eneh, O.M. (2024) studied the influence of PIT reforms on generation of revenue in Anambra State. This study made use of a combination of primary and secondary data, with primary data amassed using questionnaire while the secondary data were extracted from the Joint Tax Board (JTB) and Nigerian Bureau of Statistics website from the year 2011 to year 2022. The study's hypotheses were tested using regression analysis. Result of this research work indicated that implementing of electronic systems, introduction of unique identification numbers and modifications of tax rates, have jointly enhanced the IGR of Anambra State, thus it was concluded that the personal income tax reform in Anambra State, had added to a more increased and effective tax system that generates additional income for the state while setting the basis for prospective sustainable economic development. Among others, the study suggested that the Anambra State Internal Revenue Service should keenly support and make available training programs for tax experts, businesses and individuals to inspire an extensive implementation of the electronic tax filing system. This ensures a smooth switch and increases the advantages of efficiency and transparency obtainable by the digital platform.

Kazi, Khandaker and Omar (2021) identified elements that have effect on the compliance of individual income taxpayers in Bangladesh. The study target population were individual income taxpayers of the fifteen zones of Dhaka and 385 was the sample size. During the period of 1st December 2019 to 15th February 2020, questionnaires were administered. The outcomes of the ordered logistic regression model disclose that the fairness, tax penalty and relationship with respect to taxpayer's view of government expenditure had positive and important relationships with compliance. Likewise, it examined the influence of compliance decisions of referrals on others compliance decisions. The results showed an insignificant negative relationship between the two variables which denotes that individual income taxpayer's make their compliance decisions independent of others' decisions. In conclusion, the work having appraised the effect of cost of conforming with tax laws on tax compliance and resolved that there exists a negative relationship between the variables indicating that higher cost of compliance will lead to lower levels of compliance. Hence, the study suggested that spending the tax revenue on public development projects, maintaining tax fairness, optimum levels of penalty, keeping tax rates to the minimum as much as possible and keeping compliance costs to the minimum can improve the compliance of taxpayers.

Aregbesola, Owosekun and Salawu (2020) examined the effect of marital status and educational background of taxpayers on Personal Income Tax compliance in Nigeria. The work utilized a cross-sectional design with the use of a structured questionnaire. Mean, Standard Deviation, Percentages and ANOVA were employed for data analyzes. It was revealed through discoveries that marital status greatly influences personal income tax compliance in Nigeria (P=0.005) while the mean scores revealed that singles were more compliant than other types of marital status. On the other hand, personal income tax compliance was not greatly influenced by educational background (P=0.338). The research therefore deduced that it is necessary for the government to inspire the general public to attain a required level of tax compliance among the citizen. Additionally, to improve tax law applicability, tax law should be clearer, obvious and positioned properly.

Fasina, Adegbite and Alabi (2018) analyzed the influence of PIT on Ekiti State IGR and investigated the correlation betwixt the two variables. Also, the components of Ekiti State IGR were identified. The study made use of secondary data, which was obtained from Ekiti State approved budgets. The research focused on key variables covering the period 2003 – 2012; PAYE, Road Taxes, Direct Assessment, government development stock and Government Expenditure. Descriptive statistics (Mean and standard deviation) were employed to evaluate revenue components while multiple regression analysis (OLS method) analyzed correlation betwixt Government Revenue and key variables: PAYE, DA, Road Taxes and Other Revenue. It was also deduced by discoveries that PAYE, Direct assessment and Road tax positively impact Revenue generation of Ekiti state government. It was therefore, inferred that Personal Income Tax positively and significantly influenced IGR of Ekiti state government. This study recommends greater emphasis on stern implementation and compliance of PIT to broaden the tax net, focusing on direct assessment, thereby increasing the state IGR in the long-term.

Adegbite (2017) analyzed the impact of PIT on Oyo state revenue generation, examining its important elements, using data from the state's approved budgets for 1990 - 2015. Pearson correlation and multiple regression examined the correlation betwixt Oyo State revenue generation and PAYE, CGT, Road Taxes and Other Taxes (including Stamp duties, betting and Gaming Taxes, etc.). The outcome of the discoveries showed a positively significant impact of PAYE on the state revenue. The work also revealed that all other variables significantly and positively impacted Government Revenue in Oyo state excluding Capital gain tax that negatively impacted the state revenue with an Adjusted R^2 of 96.4%. It was concluded that, PIT significantly positively impacted the state revenue. This study suggested that the Government of Oyo state should look deep into means of generating IGR extensively to facilitate the attainment of government micro-levels goals and eliminate scarcity of public revenue.

3.0 METHODOLOGY

This research work was executed in Osun state of Nigeria. Research design adopted for this study was both longitudinal survey design and Ex-post factor. Population of the study comprises of the 18 years old and above employees, in both public and private establishments. Traders and skilled workers were chosen in the informal establishments. About 3.1 million were in the age range of 18 years and above in Osun state (National Population Commission and National Bureau of Statistics, 2022). While the tax years under review is 2014 – 2023. Purposive sampling technique was employed. The study's sample size was calculated through application of Taro Yamane formula was 400 residents of Osun State who are 18 years old and above. Both primary and secondary sources of data were employed to achieve preset objectives of this study. Primary data were gathered from both formal and informal sector of Osun State, secondary data was generated by extraction via Nigerian Bureau of Statistics (NBS) as well as board of internal revenue service of Osun State from Year 2014 to Year 2023.

Well-structured questionnaire was employed which is close ended and laid open to content validity test making use of professionals in taxation and research methodology. Descriptive with inferential statistical tools were employed for this study. Factors that influenced personal income tax in Osun state was analyzed through descriptive statistical tool while Pearson Correlation and Multiple Regressions was employed to examine; correlation betwixt personal income tax with internally generated revenue, the effect of PIT on IGR of Osun state respectively. F-statistics was used to validate the hypothesis of the study. Stata version 14 and E-view 9 was employed to operationalized data obtained from the field.

3.1 Model Specification

Model 1

The model specification for objective two which is to evaluate the correlation between personal income tax and IGR in Osun state is represented mathematically in equation 3.1 using Pearson Product Moment Correlation Coefficient for data analysis as follows:

$$r = \frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{[n\Sigma X^2 - (\Sigma X)^2]\,[n\Sigma Y^2 - (\Sigma Y^2)]}} \quad \ldots\ldots \quad \ldots\ldots \text{ Eq (3.1)}$$

Where:

n = the number of data points, i.e., (x, y) pairs, in the data set.

ΣXY = the sum of the product of the x-value and y-value for each point in the data set.

ΣX = the sum of the x-values in the data set.

ΣY = the sum of the y-values in the data set.

ΣX^2 = the sum of the squares of the x-values in the data set.

ΣY^2 = the sum of the squares of the y-values in the data set.

Model 2

The model specification for objective three which stated that; to examine the effects of PIT on Osun state IGR is represented mathematically in equation 3.2 and 3.3 as follows:

$$IGR = F(PAYE, DA, \mathrm{FF}, \mathrm{ES}, \mathrm{RGP}) - - - - - - - - - - - -(3.2)$$

$$IGR = C + \beta 1\mathrm{PAYE} + \beta 2\mathrm{DA} + \beta 3\mathrm{FF} + \beta 4\mathrm{ES} + \beta 5\mathrm{RGP} + \mathcal{E}\mathrm{i} - - - - - - -(3.3)$$

Where:

IGR = Internally Generated Revenue

PAYE = Pay As You Earn

DA = Direct Assessment

FF = Fine and Fees

ES = Earnings and Sales

RGP = Rent on Government Property

C is Constant of slope

β_1–β_5 is Co-efficient of explaining variables

$\mathcal{E}$i is Error term

4.0 RESULTS AND DISCUSSION

4.1 Demographic Features of the Respondents

To analyze the demographic features of the respondents, Percentage frequency was employed. This was presented in Table 2. 56.3 percent and 43.7 percent of the sampled respondents accounted for male and female respectively. The marital status of the respondents showed that majority of them were married with 60.2% while 24.4% accounted for singles, 11.2% for divorced and 4.2% are widowed. The age of the respondents shows a diverse representation across different age groups. 33.3% falls within the 40–50 age range, followed closely by 32.2% in the 29–39 category, 51-61 make up 17.9%, 18-28 constitute 10,9% and 5.6% are above 61 years of age. In similar manner, the educational qualification of respondents sampled reflects that 42.9 percent, 27.2 percent, 16 percent, 1.1 percent and 12.9 percent of the respondent had HND/BSc, OND/NCE, MSc, PhD and O' level /no formal education qualification respectively. Moreover, the nature of their work reveals that 31.9 % are government workers, 17,6% are employees in private organizations, 23.8% were artisans, 22.7% were traders and 3.9% were with unspecified occupations. Monthly income distribution shows that largest proportion of 34.5% earns between ₦101,000 and ₦300,000; 27.5% earns between ₦61,000 and ₦100,000; 17.1% earns above ₦300,000; while 17.1% earns above ₦300,000; 14.6% earns between ₦41,000 and ₦60,000 and 6.4% receive between ₦31,000 and ₦40,000.

Table 2: Demographic Features of the Respondents.

Variables	Options	Frequency	Percentages (%)
Gender	Male	201	56.3%
	Female	156	43.7%
	Total	**357**	**100%**
Marital Status	Single	87	24.4%
	Married	215	60.2%
	Divorced	40	11.2%
	Widowed	15	4.2%
	Total	**357**	**100%**
Age	18-28 Years	39	10.9%
	29-39 Years	115	32.2%
	40-50 Years	119	33.3%
	51-61 Years	64	17.9%
	Above 61 Years	20	5.6%
	Total	**357**	**100%**
Educational Qualification	None	19	5.3%
	O' Level	27	7.6%
	OND/NCE	97	27.2%
	HND/BSC	153	42.9%
	MSC	57	16.0%
	PHD	4	1.1%
	Total	**357**	**100%**
Nature of Work	Government Worker	114	31.9%
	Private Servant	63	17.6%
	Artisan	85	23.8%
	Trader	81	22.7%
	Others	14	3.9%
	Total	**357**	**100%**
Monthly Income	31,000-40,000	23	6.4%
	41,000-60,000	52	14.6%
	61,000-100,000	98	27.5%
	101,000-300,000	123	34.5%
	Above 300,000	61	17.1%
	Total	**357**	**100%**

Source: Author's Computation, 2025

4.2 Communalities of Factor Analysis for Identification of Factors that Influences Personal Income Tax in Osun State.

The communalities derived from the factor analysis provide insights into the extent to which each variable contributes to the underlying factors influencing personal income tax in Osun State. The extracted values indicate the ratio of variance in each variable that is clarified by the identified factors. Higher extraction values suggest a stronger association with the latent constructs, while lower values imply weaker relevance within the factor structure. Notably, variables such as tax rate (0.761), tax policies and laws (0.757), and penalty rate (0.729) exhibit high extraction values, indicate that these elements are significantly accounted for by the underlying factors. Similarly, employment status (0.742) and income level of taxpayers (0.695) also display strong communalities, suggesting that these economic determinants perform a very important and critical function in moulding tax compliance and revenue generation. Public confidence in government (0.546) and tax audit frequency (0.547) shows moderate extraction values, reflecting their moderate influence on tax compliance behaviour.

Conversely, tax enforcement (0.321) exhibits a comparatively low communality, suggesting that it is less effectively captured by the extracted factors. This may imply that other exogenous variables or systemic inefficiencies affect its role in influencing personal income tax. The attitude of taxpayers (0.665), poor tax collection methods (0.684), and lack of accountability and transparency (0.565) also hold substantial relevance, emphasizing the behavioural and administrative challenges impacting tax adherence. Government spending habits (0.640) and tax knowledge and awareness (0.590) further reinforce the notion that fiscal policies and public perception play an integral role in modelling tax compliance tendencies.

The findings underscore the multidimensional nature of personal income tax determinants in Osun State in general, highlighting the interplay between economic, policy-driven, administrative, and behavioural factors. The varied extraction values suggest that while some factors exert a pronounced influence, others are more peripheral within the analysed framework.

Table 3: Communalities of Factor Analysis for Identification of Factors that Influence Personal Income Tax in Osun State.

	Initial	Extraction
Income level of tax payer	1.000	0.695
Tax Rate	1.000	0.761
Tax Enforcement	1.000	0.321
Public Confidence in Government	1.000	0.546
Penalty Rate	1.000	0.729
Tax Audit Frequency	1.000	0.547
Tax Knowledge and Tax Awareness	1.000	0.590
Poor Method of Tax Collection	1.000	0.684
Attitude of Tax Payer	1.000	0.665
Lack of Accountability and Transparency in Tax System	1.000	0.565
Government Spending Habit	1.000	0.640
Tax Policies and Laws	1.000	0.757
Employment Status	1.000	0.742

Source: Author's Computation, 2025

4.3 Total Variance Explained through Factor Analysis for Identification of the Factors that Influences Personal Income Tax in Osun State

The total variance clarified by the factor analysis highlights the extent to which the recognized factors collectively account for the variability in the factors influencing personal income tax in Osun State. The initial eigenvalues indicate that the first four components have eigenvalues greater than 1, signifying their significance in explaining the underlying structure of the data. Together, these four factors cumulatively account for approximately 63.39% of the total variance, meaning they capture a solid percentage of the influences on personal income tax compliance and administration. The first factor alone explains 26.29% of the variance, suggesting that it is the most dominant determinant in shaping tax-related behaviours and policies. The second and third factors contribute an additional 15.28% and 12.42%, respectively, further reinforcing their importance in explaining tax compliance variations. The fourth factor, though slightly weaker, still accounts for 9.41% of the total variance, ensuring that the majority of significant influences are well-represented.

Beyond these four principal components, the remaining factors exhibit eigenvalues below 1, indicating their limited explanatory power. These lesser components contribute only marginally to the total variance, with the cumulative variance reaching 70.58% by the fifth factor, and subsequently tapering off. By the final component, the variance explained reaches 100%, but the diminishing individual contributions of later factors suggest that they do not add substantial new insights to the underlying structure. Overall, the results suggest that a four-factor model sufficiently captures the key influences on personal income tax compliance in Osun State, encompassing economic, policy-related, administrative, and behavioural dimensions. The dominance of the first few factors indicates that while multiple elements contribute to tax behaviour, a smaller subset of core determinants plays the most critical role in shaping tax outcomes.

Table 4: Total Variance Explained through Factor Analysis for Identification of Factors that Influences Personal Income Tax in Osun State.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.418	26.290	26.290	3.418	26.290	26.290
2	1.986	15.276	41.566	1.986	15.276	41.566
3	1.614	12.418	53.984	1.614	12.418	53.984
4	1.223	9.409	63.393	1.223	9.409	63.393
5	0.934	7.185	70.578			
6	0.863	6.641	77.218			
7	0.644	4.954	82.172			
8	0.507	3.900	86.072			
9	0.451	3.466	89.538			
10	0.440	3.384	92.922			
11	0.390	3.001	95.923			
12	0.319	2.457	98.380			
13	0.211	1.620	100.000			

Source: Author's Computation, 2025

4.4 Correlation Matrix for Examining the Connection betwixt PIT and Osun State Internally Generated Revenue.

The relationships betwixt internally generated revenue (IGR) and its key determinants in Osun State is provided valuable acumens by the correlation matrix. A strong positive relationship (0.9375) between IGR and PAYE suggests, PAYE as a main driver of IGR. This indicates that as PAYE collections increase, there is a significant corresponding rise in IGR, highlighting the structured and reliable nature of this tax source. Similarly, fines and fees exhibit a high positive correlation (0.9178) with IGR, suggesting that revenue from penalties and service fees plays a critical role in boosting the state's income. Earnings and sales also show a strong positive relationship (0.8751) with IGR, reinforcing the importance of commercial activities and government-owned enterprises as key contributors to revenue generation. Rent on government property, while positively correlated with IGR (0.3311), has a relatively weaker association compared to other revenue sources, implying that income from public property rentals contributes to revenue but not as significantly as PAYE or fines and fees.

Direct assessment tax, on the other hand, presents a more complex picture. Its correlation with IGR is negative (-0.1459), which suggests that fluctuations in direct assessment tax revenue may not consistently align with overall revenue growth. This could be due to lower compliance levels or inefficiencies in collecting taxes from self-employed individuals and informal sector businesses. Additionally, the negative correlation between direct assessment tax and earnings and sales (-0.4262) and rent from government property (-0.5660) may indicate that reliance on direct assessment tax could be inversely related to revenue generated from other sources, possibly due to differences in taxpayer behavior or enforcement mechanisms.

The strong correlation between PAYE and fines and fees (0.8522) suggests that regions or sectors contributing significantly to PAYE revenue may also generate substantial revenue from administrative fines and service charges. Similarly, earnings and sales correlate strongly with PAYE (0.7624) and fines and fees (0.7024), emphasizing their interconnectedness in contributing to IGR. Overall, the correlation patterns suggest that enhancing PAYE compliance and enforcement, alongside maximizing revenue from fines, fees, and earnings, could significantly strengthen internally generated revenue. While direct assessment tax appears to have a weaker and sometimes inverse relationship with other revenue components, improving its administration and broadening its taxpayer base could help increase its contribution to overall revenue. The discoveries highlight the significance of a diversified revenue structure, where reliance on multiple revenue streams ensures financial sustainability for the state.

Table 5: Correlations betwixt PIT and Osun State Internally Generated Revenue.

	IGR	PAYE	Direct Assessment	Fine & Fees	Earnings & Sales	Rent on Government Property
IGR	1.000000					
PAYE	0.937504	1.000000				
Direct Assessment	-0.145898	0.025930	1.000000			
Fines & Fees	0.917759	0.852239	0.095030	1.000000		
Earnings & Sales	0.875123	0.762376	-0.426158	0.702351	1.000000	
Rent on Government Property	0.331095	0.066116	-0.565974	0.209666	0.314493	1.000000

Author's Computation, 2025

4.5 OLS for Assessment of Effects of PIT on Osun State IGR.

Regression analysis assessed effect of PIT on Osun State IGR over ten-year period as of 2014 to 2023, using OLS method. Dependent variable (IGR) was regressed on five independent variables (Earnings and Sales, PAYE, Fines and Fees, Rent on Government Property and Direct Assessment). The model was statistically fit and provides deep insight into the structure and performance of local revenue mobilization mechanisms. The model yields an exceptionally high R^2 value of 0.9992, indicating that almost 99.92% of variation in IGR is clarified by independent variables. This is corroborated by the adjusted R^2 of 0.9983, of that remains extremely high even after accounting for the explanatory variables in the model. Marginal difference between these two values reflects the efficiency of the model without suggesting overfitting.

The joint effects of explanatory variables on IGR were statistically significant which strongly indicated by the F-statistic of 1033.91, paired with p-value of 0.000003. This confirms the reflection of a candid and genuine correlation between selected revenue sources and dependent variable. Furthermore, no existence of first-order serial correlation was found in the residuals because Durbin-Watson statistic of 2.08 lies close to the benchmark value of 2.0. This strengthens confidence in the reliability of the estimated coefficients and the inferential conclusions drawn from them. The individual regression coefficients provide further clarity on the contribution of each independent variable to IGR. PAYE coefficient is positively and statistically significant at 1% level, reflecting dominant role of personal income tax in driving IGR. Its relatively small standard error and high t-statistic demonstrate consistency and robustness, suggesting that PAYE collections have a consistently strong and direct impact on revenue performance. Similarly, Fines and Fees show a strong statistically positive significant correlation with IGR, implying that administrative charges and penalties are important sources of internally generated funds, possibly due to increased enforcement mechanisms and regulatory compliance.

Rent on Government Property also shows a highly significant and positive effect on IGR, with its coefficient suggesting a strong marginal contribution. This highlights the strategic importance of efficient asset management and the monetization of government-owned properties as a means of augmenting revenue. Meanwhile, Earnings and Sales present a moderately significant positive relationship with IGR. Although its p-value slightly exceeds the conventional 5% threshold ($p = 0.0578$), the direction of the coefficient indicates that commercial and service-related revenue sources contribute positively to fiscal outcomes, albeit with some variability that may reflect market or administrative fluctuations. Alternatively, Direct Assessment has statistically insignificant negative effect ($p = 0.2030$), suggesting that this revenue stream does not have a reliable or consistent effect on IGR within the sampled period. The negative sign may indicate systemic inefficiencies, non-compliance, or outdated assessment practices that hinder its performance. This finding warrants closer examination and may call for institutional reforms, modernization of tax identification systems, or a reassessment of valuation techniques to enhance the credibility and effectiveness of direct taxation.

In terms of model diagnostics, the low standard error of regression (3.27E+08) and sum of squared residuals further reinforce the precision of the model estimates. Additionally, the information criteria (Akaike, Schwarz, and Hannan-Quinn) suggest that the model is well-specified and parsimonious, providing a strong basis for future forecasting and policy simulations. Finally, the regression analysis above provides strong empirical evidence on the determinants of Internally Generated Revenue. The outcomes shows that PAYE, Fines & Fees, Rent on Government Property, and to a moderate extent, Earnings and Sales, are reliable and significant drivers of revenue performance. These results emphasize the necessity for state governments to improve and boost administrative efficiency, compliance, and resource management in these areas. Conversely, the underperformance of Direct Assessment highlights an area requiring policy attention and operational reform. Taken together, the model offers a statistically rigorous and policy-relevant framework for understanding and strengthening revenue generation in Osun State.

Table 6: OLS for Assessment of Effects of PIT on Osun State IGR.

Dep. Variable	Ind. Variable	Coefficient	Std. Error	t-Statistic	Prob.
Internally Generated Revenue	C	1.55E+09	5.67E+08	2.738163	0.0520
	PAYE	1.203102	0.103700	11.60173	0.0003
	Direct Assessment	-1.659311	1.091188	-1.520646	0.2030
	Fine and Fees	1.105844	0.121217	9.122825	0.0008
	Earnings and Sales	0.765993	0.290578	2.636099	0.0578
	Rent on government property	6.489898	0.903201	7.185443	0.0020
	R-squared	0.999227	Mean dependent var		1.85E+10
	Adjusted R-squared	0.998260	S.D. dependent var		7.83E+09
	S.E. of regression	3.27E+08	Akaike info criterion		42.33019
	Sum squared resids	4.27E+17	Schwarz criterion		42.51174
	Log likelihood	-205.6509	Hannan-Quinn criter.		42.13103
	F-statistic	1033.907	Durbin-Watson stat		2.080128
	Prob(F-statistic)	0.000003	Mean dependent var		

Author's Computation, 2025

4.6 Test of Hypotheses

Hypothesis One ($H0_1$)

Testing for hypothesis one which state "there is no significant relationship between personal income tax and internally generated revenue of Osun State", Pearson Product Moment Correlation (PPMC) analysis was utilized which was presented in table 4.10. According to the result, it was revealed the existence of a positively strong significant correlation betwixt PAYE and Osun State IGR. Also, Fines & Fees; Earnings & Sales had positive significant relationship with Osun state IGR. On the contrary, Rent of Government Property had a positive but weaker relationship with Osun state IGR while direct assessment does not significantly correlate with IGR of Osun state. Thus, alternative hypothesis was acknowledged and accepted while the null hypothesis, "there is a positive significant relationship between Personal Income Tax and internally generated revenue of Osun State" is discarded. This finding aligns with literature of Fasina, Adegbite and Alabi (2018).

Hypothesis Two ($H0_2$)

Testing for the second hypothesis that state thus; 'Personal Income Tax does not have a significant effect on the Internally Generated Revenue (IGR) of Osun State'. This study relies on Ordinary Least Squares (OLS) regression output provided. Regression analysis examines the impact of several components of Personal Income Tax such as PAYE, Earnings and Sales, Rent on Government Property on IGR, Direct Assessment, and Fines and Fees. The statistical significance of each variable is primarily assessed through its p-value. In this analysis, the PAYE variable, which represents Pay-As-You-Earn tax, main source of personal income tax revenue has a p-value of 0.0003. This value is very beneath the conventional 5% significance level, indicating a strong and statistically significant positive effect on IGR. Similarly, Fines and Fees ($p = 0.0008$) and Rent on Government Property ($p = 0.0020$) also show statistically significant contributions to IGR. While Direct Assessment and Earnings and Sales have higher p-values and do not individually reach statistical significance at the 5% level, their inclusion in the model supports a broader assessment of how personal income tax revenues influence IGR. The rejection of the null hypothesis is further supported by the regression models overall strength and reliability. The R^2 value of the model is 0.9992, suggesting that the explanatory variables account for more than 99% of the variation in IGR. Additionally, F-statistic of the result is extremely high (1033.91) having matching p-value of 0.000003, which validates the model's joint significance and implies that the independent variables, taken together, meaningfully explain variations in IGR.

Given this evidence, particularly the statistical significance of PAYE and other related revenue sources, as well as the strong performance of the overall model, there is a robust basis for rejecting the null hypothesis. On the basis of the regression results, the alternative hypothesis was acknowledged and accepted while the null hypothesis was discarded. Thus, it was resolved that PIT had a statistically significant influence on Osun State IGR. The importance of personal income tax administration as a critical instrument for enhancing the fiscal capacity of the state is underscored by this finding.

Table 7: Pearson Product Moment Correlation (PPMC) Results on the Relationship between Personal Income Tax and IGR of Osun State.

Variables	Correlation Coefficient	Remark
PAYE	0.937504	Positive and Strongly Correlated
Direct Assessment	-0.145898	Negative and Very Weakly Correlated
Fines & Fees	0.917759	Positive and Strongly Correlated
Earnings & Sales	0.875123	Positive and Strongly Correlated
Rent on Government Property	0.331095	Positive and Weakly Correlated

Source: Author's Computation, 2025

4.7 Discussion of Findings

The results from the factor analysis make available valuable perceptions into the significant determinants affecting personal income tax compliance in Osun State. The communalities derived indicate the extent to which each variable is explained by the identified factors. Higher extraction values reflect a stronger association with latent constructs, while lower values suggest weaker relevance within the factor structure. Notably, variables such as tax rate, tax policies and laws, and penalty rate exhibit high communalities, indicating their significant contribution to the underlying factors. These findings suggest that well-structured tax rates, clear policies, and effective penalty enforcement play crucial roles in shaping tax compliance. Similarly, employment status and income level of taxpayers show strong associations with the extracted factors, highlighting the economic conditions of individuals as a major determinant of tax adherence. Public confidence in government and tax audit frequency display moderate communalities, suggesting their moderate influence on tax compliance behavior. While these factors contribute to tax compliance, their impact is not as pronounced as economic or policy-driven elements. Conversely, tax enforcement exhibits a relatively low communality, implying that its role in influencing personal income tax is less effectively captured by the identified factors. This could be due to systemic inefficiencies or external variables beyond the scope of the analysis.

Other notable factors include taxpayers' attitudes, poor tax collection methods, and lack of accountability and transparency, all of which highlight behavioral and administrative challenges in the tax system. Furthermore, government spending habits and tax knowledge and awareness reinforce the significance of fiscal policies and public perception in shaping tax compliance tendencies. These findings emphasize the multifaceted nature of tax compliance, involving economic, policy-related, administrative, and behavioral elements. The total variance clarified by the factor analysis underscores the significance of the identified components in influencing personal income tax compliance in Osun State. Findings revealed the first four factors have eigenvalues greater than 1, collectively accounting for a substantial portion of the total variance. This indicates that these factors capture a significant share of the determinants of tax compliance and administration. First factor alone emerges as the most dominant determinant of tax-related behaviors and policies. The second and third factors also contribute notably, reinforcing their importance in explaining tax compliance variations. The fourth factor, though slightly weaker, still ensures that significant influences on tax compliance are adequately represented. Beyond these four principal components, the remaining factors exhibit limited explanatory power. While additional factors contribute marginally to the total variance, they do not introduce substantial new insights into the underlying structure of tax compliance determinants.

The results of this research showed significant relationships between various tax components and IGR in Osun State. Results indicate that PAYE plays a dominant function in revenue generation, suggesting that its structured collection method ensures a steady and reliable income stream for the government. This underscores the importance of strengthening PAYE compliance and administration to maximize revenue potential. Fines and fees also emerge as a major contributor to IGR, highlighting the role of administrative charges and penalties in boosting state revenue. This suggests that enforcing regulatory fines and optimizing service charges could enhance revenue performance. Similarly, earnings and sales contribute significantly to IGR, reinforcing the importance of commercial activities and government-owned enterprises in strengthening the state's financial position. Expanding government investments and improving efficiency in these revenue-generating sectors could further increase their impact. While rent from government property contributes positively to IGR, its influence appears to be relatively modest. This suggests that revenue from leasing and managing government-owned assets could be optimized further through improved property valuation and strategic utilization.

In contrast, direct assessment tax shows a weaker and less consistent impact on IGR. This could be attributed to challenges in tax collection, lower compliance levels among self-employed individuals, and difficulties in capturing revenue from the informal sector. The findings suggest that enhancing enforcement mechanisms and broadening the tax base for direct assessment could improve its contribution to overall revenue. Additionally, the results indicate that tax revenues from PAYE, fines and fees, and earnings and sales are interconnected, suggesting that regions or economic sectors contributing significantly to one revenue stream are likely to impact others as well. This interdependence underscores the significance of a holistic method to revenue generation, ensuring improvements in one area complement efforts in other sectors.

Regression analysis offers comprehensive understanding of the structural dynamics and performance of IGR at sub-national level in Nigeria over the ten-year period from 2014 to 2023. This study successfully identifies and quantifies the key determinants of IGR, providing valuable implications for fiscal policy, tax administration, and public financial management. As reflected in the R^2 value of 0.9992 and the adjusted R^2 of 0.9983, one of the most striking features of the model is its exceptional explanatory power, as. This indicates that almost all the variation in IGR can be further clarified by the independent variables included in the model. Such a high level of goodness-of-fit suggests that the selected revenue components—PAYE, Earnings and Sales, Direct Assessment, Fines and Fees, and Rent on Government Property—are not only relevant but deeply intertwined with the actual revenue performance of state governments. The minimal gap between adjusted R^2 and R^2 also confirms that the model is not overfitted, enhancing its reliability and generalizability.

The significance of the model is more established with the high F-statistic (1033.91) and its accompanying p-value (0.000003), which confirm that the explanatory variables collectively exert a statistically meaningful influence on IGR. Moreover, the Durbin-Watson statistic of 2.08 implies that the residuals from the regression are not serially correlated, thereby validating the model's assumptions and reinforcing the credibility of its inferences.

Individually, nuanced understanding of the efficacy of various revenue streams is being given by the coefficients of independent variables. PAYE emerges as the most robust and significant contributor to IGR. Its positive and statistically significant coefficient emphasizes on the crucial role that personal income tax plays in sustaining sub-national revenue. This discovery supports the existing literature which suggests that PAYE, due to its formalized and structured nature, is relatively easier to collect and enforce compared to other forms of taxation.

Similarly, Fines and Fees demonstrate a strong and statistically significant positive impact on IGR. This indicates that administrative charges, levies, and enforcement-related penalties serve as viable tools for boosting internal revenue. This may be reflective of improved regulatory frameworks, digitization of payments, and better compliance mechanisms in recent years.

The contribution of Rent on Government Property also stands out as significant and positive. This points to the latent potential in government-owned assets and the need for more strategic management and commercialization of public properties. Efficient use and monetization of these assets can serve as a sustainable revenue source, reducing overdependence on statutory allocations.

Earnings and Sales show a moderate but positive relationship with IGR. The coefficient direction supports the argument that income from government enterprises and commercial services can support fiscal outcomes while the p-value is marginally above the 5% threshold ($p = 0.0578$),. The slightly weaker statistical strength may be attributed to market volatility, inconsistent service delivery, or fluctuating consumer demand.

Contrarily, Direct Assessment exhibits a negative and statistically insignificant relationship with IGR. This finding raises critical concerns about the effectiveness of this revenue channel, possibly due to issues such as outdated assessment techniques, lack of taxpayer enumeration, and widespread non-compliance. The result suggests that without significant reforms in how direct taxes are assessed, monitored, and enforced, this source will continue to underperform and contribute little to the revenue base.

Overall, the study highlights the multidimensional nature of internal revenue mobilization. It suggests that while certain revenue components are performing well and contributing meaningfully to IGR, others require substantial institutional, technological, and administrative reform. The findings advocate on behalf of a more targeted and data-driven method to revenue generation, one that prioritizes efficient tax administration, the digitization of payments, enforcement of compliance, and optimal asset utilization.

From a policy standpoint, the evidence supports scaling up successful revenue resources like Fines & Fees and PAYE, while also improving frameworks for underperforming streams like Direct Assessment. Such reforms could include taxpayer education, improved record-keeping, adoption of digital tax platforms, and strengthened legal frameworks for compliance.

In conclusion, the study provides a statistically rigorous and policy-relevant framework for understanding the drivers of IGR. The robust model not only aids in identifying key areas of strength and weakness but also lays the foundation for future study and strategic planning targeted at achieving fiscal sustainability and independence at the sub-national level in Nigeria.

5.0 CONCLUSION

This research construes that PAYE tax serves as the backbone of Osun State's IGR, emphasizing the structured nature of its collection. Other revenue sources, including earnings and sales, rent from government property and fines & fees, also significantly contribute to revenue generation, indicating the need for optimized revenue collection strategies. However, the weaker impact of direct assessment tax suggests challenges in enforcement and compliance, particularly among self-employed individuals and the informal sector. The findings reinforce the importance of a well-regulated tax system, effective enforcement mechanisms, and public confidence in government for improving and enhancing tax compliance and revenue generation. Strengthening tax policies and broadening the tax base will enhance Osun State's fiscal sustainability.

RECOMMENDATIONS

It was therefore essential to recommend the following to Osun State government as a result of the findings of this research:

1. Strengthen PAYE Tax Administration: Implement stricter enforcement mechanisms, conduct regular audits, and improve employer compliance to maximize PAYE revenue.
2. Improve Direct Assessment Tax Collection: Expand the tax base in the informal establishment through digital tax systems, public awareness campaigns, and incentives for voluntary compliance.
3. Optimize Collection of Fines and Fees: Strengthen regulatory enforcement and automate the collection of administrative charges to reduce leakages and increase efficiency.

Enhance Public Trust and Compliance: Increase transparency in government spending and tax administration to build taxpayer confidence and encourage voluntary compliance.

REFERENCES

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

Adedeji A. O. and Akindele, A. A. (2018). The Effects of Personal Income Tax on Revenue generation in Ondo State. *International Journal of Social Sciences and Conflict Management*, 3(1), pp 53-62

Adegbite, T. A. (2017). Personal income tax and government revenue: Evidence from Oyo State. *International Journal of Social and Administrative Sciences.* 2(2), pp 46-50.

Adegbite T. A. (2020). An Investigation on the Influence of Taxation on Economic Growth in Nigeria. *Academic Journal of Economic Studies*, 6(2), pp 12–18

Adegbite, T.A. and Bojuwon M. (2019). Corporate Tax Avoidance Practices: An Empirical Evidence from Nigerian Firms. *Studia Universitatis Babeș-Bolyai Oeconomica*, 64 (3), pp 36-52.

Adegbite, T. A., Ibrahim, T. A., and Akinade, A. A. (2022). Connection amidst Personal Income Tax and Revenue Generation in North Central States, Nigeria. *JRAMB*, 8(2), pp 144-146.

Adejoh, M. O., Ekeyi S. and Mary S. J. (2019). Internally Generated Revenue (IGR) and Fiscal Viability of State Governments in Nigeria. *Lafia Journal of Economics and Management Sciences (LAJEMS)*, 4 (1), pp 143-145.

Adekoya, A. A., Agbetunde, L. A. and Akinrinola, A. O. (2021). COVID-19 Pandemic and Internally Generated Revenue in Local Governments: Nigeria experience. *International Journal of Applied Economics, Finance and Accounting*. 9(2), pp 63-70.

Adekoya, A. A., Olayinka, I. M. and Aina, G. O. (2023). The Impact of State Internally Generated Revenues on Total State Revenues and Financial Viability: A Case Study of Lagos State, Nigeria. *Asian Journal of Economics, Business and Accounting*, 23(23), pp. 103-105.

Aderemi, O. A., Adewumi, Z. A. and Olatunji, O. O. (2022). Tax Administration and Revenue Generation: A Perspective of Osun Internal Revenue Service *Business Administration and Business Economics*, 1(41), pp 112-115.

Adeyemi, A. A. and Mieseigha E. G. (2019). Personal Income Tax (PIT) and Economic Growth in Nigeria: A Vector Autoregression (VAR) Analysis. *Trends Economics and Management*, 33(1), pp 9–10.

Ajiteru, W. O., Adaranijo, L. O. and Bakare, L. A. (2018). Tax Revenue and Infrastructural Development in Osun State. *International Journal of Innovative Finance and Economics Research*, 6(2), pp 50-53.

Akinleye, G. T., Olaoye, F. O. and Ogunmakin, A. A. (2019). Effect of Tax Identification Number on Revenue Generation in Southwest Nigeria. *Journal of Accounting and Taxation*, 11(9), pp 171-173.

Akintoye, I. R., Adegbie, F. F. and Awotomilusi, N. S. (2019). Determinants of Tax Revenue: A Case of Nigeria. The *International Journal of Business & Management*, 7(4), pp 23-25.

Alhasan, U., Birat, S. G. and Bilkisu, I. J. (2023). Determinants of Personal Income Tax Compliance Behaviour in Kaduna State, Nigeria: Slippery Theory Approach. *Global Journal of Accounting*, 9(1), pp 20-21.

Alm, J., Jackson, B. and Mckee, M. (1992). Institutional uncertainty and Taxpayers' compliance. *American Economic Review*, 82(4), pp 1018-1020.

Alm, J. and Torgler, B. (2011). Do Ethics Matter? Tax Compliance and Morality. *Journal of Business Ethics*, 101, pp 635-650.

Amahalu, N. N., Obi, J. C., Okudo, C. L. and Okafor, O. O. (2022), Effect of 2011 Personal Income Tax (Amendment) On

Revenue Generation in Anambra State. *International Journal of Business Marketing and Management (IJBMM)* 7 (5), pp 138-141.

Angahar, J. S. and Olalere, V. D. (2023). Internally Generated Revenue (IGR) and the Economic Viability of States in Nigeria. *Finance & Economics Review*, 5(1), pp 27-28.

Aregbesola, O. D., Owosekun, A. O. and Salawu, R. O. (2020). Marital Status and Educational Background as Determinants of Tax Compliance in Nigeria. *International Journal of Research and Innovation in Social Science (IJRISS)*, 4(8), pp 777-778.

Ashiedu, I. P., Okafor, T. G., Amahalu, N. N. and Obi, J. C. (2022). Effect of Tax Revenue on National Development of Nigeria. *International Journal of Advanced Academic Research*, 8(1), pp 50-60.

Augustine, A. A, Olayinka, I. M. and Aina, G. O. (2023). The Impact of State Internally Generated Revenues on Total State Revenues and Financial Viability: A Case Study of Lagos State, Nigeria. *Asian Journal of Economics, Business and Accounting*, 23(23), pp 103–105.

Bala, A., Enoch, E. Y. and Yakubu, S. (2018). The Problems of Personal Income Tax on Revenue Generation in Gombe State. *International Journal of Business and Management Invention, (IJBMI)*, 7(7), pp 21-27.

Benedek, D., Benitez, J. C. and Vellutini, C., (2022). Progress of the Personal Income Tax in Emerging and Developing Countries. IMF Working Papers, 2022/020.

Chijioke, N., Leonard, I., Bossco, E. and Henry, C. (2018). Impact of E–Taxation on Nigeria's Revenue and Economic Growth: A Pre – Post Analysis. *International Journal of Finance and Accounting,* 7(2), pp. 19-56.

Douglas, H. (2015). Equity theory of motivation in management: http://study.com/academy/lesson/equity- theory-of- management- definition-examples-quiz.html.

El-Maude, J. G., Zephaniah, L., Akilahyel, H. M. and Abu-Saeed, M. (2023). Effect of Internally Generated Revenue Strategy on Personal Income Tax Administration in Adamawa State, Nigeria. *Journal of Economics, Management and Trade,* 29(10), pp 62-63.

Emmanuel, J. K. (2021). What Derives Economic Growth at State Level? The Role of Personal Income Tax, VAT, Federal Allocation and Debt. *International Journal of Trends in Accounting Research*, 2(2), pp 140-143.

Enache, C., (2020). OECD Report: Tax Revenue in African Countries. http:/taxfoundation.org

Fasina, H. T., Adegbite, T. A. and Alabi, W.O. (2018). The Evaluation of the Effect of Personal Income Tax on Revenue Profile of Ekiti State Government. *International Journal of Research in Economics and Social Sciences*, 8(7): pp 2-10

Fatile, J. O. and Ejalonibu, G. L. (2018). Improved Internally Generated Revenue and Sustainable Budget Implementation: A Comparative Study of Lagos and Oyo States. *Governance and Management Review*, 3(1), pp. 29-31.

Fjeldstad, O. H., Collette, S. and Ingrid, H. S. (2012). Peoples' views of Taxation in Africa: A Review of Research on Determinants of Tax Compliance. International Centre for Tax and Development (ICTD), pp 1-30.

Ganyam, A. I., Ivungu, J. A. and Anongo, E. T. (2019). Effect of Tax Administration on Revenue Generation in Nigeria: Evidence from Benue State Tax Administration (2015-2018). *International Journal of Economics, Commerce and Management*, 7(7), pp 395-412

Ibrahim, A., (2022). Impact of Tax Revenue on Economic development of Nigeria. *Journal of Accounting* 4(1), 16-22

Igbinigie, O. O. (2018). Internally Generated Revenue in Edo state: The Problems and Prospects (Doctoral Dissertation). College of Business and Management Studies, Department of Business Administration, Igbinedion University, Okada, Nigeria.

Igwegbe, I. C. and Eneh, O. M. (2024). Personal Income Tax Reforms and Revenue Generation in Anambra State. *Journal of Global Accounting*, 10(1), pp 295 – 303.

Ihedinihu, J. U., Ebieri, J. and Ibanichuka, E. A. (2014). Assessment of the Long-Run Equilibrium Relationship between Tax revenue and Economic Growth in Nigeria. *The Standard International Journal*, 2(2); pp 39-46.

Ikeokwu, Q. C. and Micah, L. C. (2019). Indirect Taxes and Economic Growth in Nigeria. *Advance Journal of Management Accounting and Finance,* 4(4), pp 13-27.

Kwame, A. (2019). Impact of Tax Evasion on Ashanti Region Development. *Global Journal of Accounting and Taxation*, 7 (3), pp 121-122.

Muojekwu, H. O. and Udeh, F. N. (2023). Effect of Tax Revenue on Infrastructural Development in Nigeria, *Journal of Global Accounting*, 9(1), pp 164-170.

Musa, S. J., Anaja, B. and Ejura, S. B. (2017). Effect of Personal Income Tax on Internally Generated Revenue in Kogi State, *Lafia Journal of Economics and Management science*, pp 1–7.

Musgrave, R. A. (1959). *The Theory of Public Finance*, New York McGraw-Hill.

Nasir, G. (2022). Tax Evasion and Tax Revenue in Nigeria. *Asian Journal of Social and Management Sciences* (8) (3), pp 112-114.

Nivakan, S., Sahari, S. and Sharon, C. C. (2020). How Social Factor Determine Individual Taxpayers' Tax Compliance Behaviour In Malaysia? *International Journal of Business and Society*, 21(3), pp 1444-1445.

Oladejo, M. O. and Babatope, A. J. (2017). Internally Generated Revenue and the revenue profile of selected South Western state governments in Nigeria. *International Journal of Research in Business Management,* 5(12), pp 13-28.

Olajide, R. (2015). Revenue Generation as a Major Source of Income for the State Government: An Empirical Analysis of

Two Parastatals. *International Journal of Economics, Commerce and Management*, 3(6), pp 1347-1365.

Olalekan, O. and Irewole, P. (2019). Internally Generated Revenue and Infrastructural Development: Of what relevance to Lagos? *Journal of Economics and Finance (IOSR-JEF)*, 10(4), pp 59-72.

Olayode, R. A. and Omodero, C. O. (2021). Personal Income Tax and Human Development, *Business Administration and Business Economics*, 2(40), pp 64-66.

Olugbade, J. A. and Adegbie, F. F. (2020). Personal Income Tax and Infrastructural Development in Lagos State, Nigeria. *Journal of Finance and Accounting*, 8(6), pp 278-280.

Olugbade, J. A., Akinlade, O. O. and Hassan, A. K. (2023). Personal Income Tax and Provisions of Education and Road Infrastructures in Lagos State, Nigeria. *Journal of Economics, Finance and Management Studies*, 6(10), pp 4806-4812.

Oluyombo, O. O. and Olayinka, O. M. (2018). Tax Compliance and Government Revenue Growth in Nigeria. *Lapai International Journal of Administration*, 1(2), pp 245-252.

Omodero, O. C., Ekwe, C. M. and Ihendinihu, J. (2018). Impact of Internally Generated Revenue on Economic Development in Nigeria. *Accounting and Finance Research*, 7(2), 103-114.

Osho, A., Ogunyakin, E. and Fadakinte, B. (2020). The Effect of Pay As You Earn on Social and Economic Development in Nigeria. *Journal of Business and Management (IOSR-JBM0)*, 22(1), pp 58-62.

Oyedokun, G. E. (2020) Tax Management and Compliance in Nigeria: Overview of Taxation and Nigerian Tax System. *OGE Business School*, pp 1-53.

Simon, E. S. and Gbegi, D. O. (2021). Effect of Internally Generated Revenue on the Economy Growth of Plateau State. *International Journal of Accounting Business and Entrepreneurship (IJABE)*, 1(1), pp 65-68.

Sokoh, G. C. (2023). Internally Generated Revenue (IGR) in Delta State: A Tool for Infrastructural Development. *Journal of Public Policy and Administration*, 8(1), pp 64-67.

Spilker, B., Ayers, B., Barrick, J., Outsley, E., Robinson, J., Weaver, C. and Worsham, R. (2019). Taxation of Individual and Business Entities. McGraw-Hill's New York.

Suberu, A. Y. (2020) An Impact of Personal Income Tax Revenue on Kogi State Government Expenditure - Being M.Sc Unpublished Thesis submitted to Department of Management Sciences, Salem University, Lokoja.

Syadullah, M. and Wibowo, T. (2015). Governance and Tax Revenue in Asian Countries. *Journal of Social and Development Sciences*, 6(2), pp 76-88.

Tanko, M. (2015). The Impact of Personal Income Tax on State Governments Revenue Profile in Nigeria. *SSRN Electronic Journal*, pp1-2.

Tyoakosu, S. A. and Awuhe, P. O. (2017). Personal Income Tax and the Performance of Internally Generated Revenue in Benue State, Nigeria. *Nigerian Journal of Management Sciences*, 6(1); pp 129-133.

Usman, A. (2018). An Examination of the Size of Personal Income Tax Gap in Kaduna State, Nigeria. *IOSR Journal of Humanities and Social Sciences*, 23(10) (2), pp 34-38.

Verboon, P., and Van Djike, M. (2011). When Do Severe Sanction enhance Compliance? The Role of Procedural Fairness. *Journal of Economic Psychology*, 32(1), pp 121-129.

Zhou, G. and Madhikani, A. (2013). Systems, Processes and Challenges of Public Revenue Collection in Zimbabwe. *American International Journal of Contemporary Research*, 3(2), pp 49-60.