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Tax Implication on Recurrent Expenditure and Internally Generated Revenue: Analysis on Southwestern States, Nigeria

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ABSTRACT

Purpose: This study examined internally generated revenue impact on recurrent expenditure performance in Southwest Nigeria. Internally generated revenue was captured with the aggregation of personal income tax, road tax and direct assessment tax while recurrent expenditure performance was proxied with expenditures expended on recurrent expenditure.

Design/Methodology/Approach: Data realized from published annual bulletins of all the States' Board of Internal Revenue and Statistical Year-Book in Southwestern Nigeria were analyzed using Panel data analysis.

Findings: Panel data outcomes showed that personal income tax has a positive but insignificant effect on recurrent expenditure, but the direct assessment has a positive and significant effect on recurrent expenditure. Also, road tax was found to exert a positive but insignificant effect on recurrent expenditure in Southwest, Nigeria. Conclusively, it was established that there was a statistically significant effect of internally generated revenue on recurrent expenditure in Southwestern states, Nigeria.

Originality: Having reviewed extant literature, it has been discovered that the existing literature was either restricted to one state or local government in a single state. Also, the methodology employed by the extant literature collecting and analyzing the data were primary data and regressions respectively. Therefore, this study extended its projection to all six southwestern states in Nigeria for effective determination of the impact of IGR on recurrent expenditure. Also, this study involved all components of panel data analysis to deep out the effect of IGR on recurrent expenditure which jointly ignited research gaps in the study as against the extant literature.

KEYWORDS

Expenditure, Income Tax, PAYE, Recurrent Internal Revenue, Road Tax

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CLASSIFICATION

H20, H270, H500

I. Introduction

It is important for all the state to mobilize adequate revenue internally because of dwindling revenue from the side of the federal government in order to provide certain and vital responsibilities to their people in the state. The provision of health care services in terms of drug procurement, salaries of nurses, doctors and other administrative officers in the hospital, teachers' salaries, ministries staff salaries and day to day running of affairs of the government are vital responsibilities of the government. The inadequate provision of the

aforementioned can lead to chaos in society. These can be provided apart from federal allocation with internally generated revenue (IGR). IGR impact is imperative as a result of declining statutory allocation from the federal government and related difficulties.

According to Siyanbola et al. (2014) state government sources for IGR in order to circumvent disappointment or embarrassment from regular and deliberate delays monthly allocation by the Federal government before fulfilling recurrent expenditure in the state. The vital disposition of any responsive government in this era is to

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embrace to promote sustainable and inclusive industrialization, construct resilient infrastructure, economic growth, foster innovation, and development which can mainly be implemented through effective IGR collection in their respective state. However, it has shown that the incomes needed to actualize government expenditures are inadequate and the revenues available are mismanaged. Mismanagement of resources has become a significant discussion coupled with the construction of capital-intensive projects which are less priority to the populace (Cordelia, Michael, & John, 2018).

Government participation in the state economic operations and the consequences of such involvement have long been disputed and underestimated. There is a belief that effective payment of salaries regularly for their workers' increases and boost the economy of the state tremendously, and prompt response to drug procurement in all the state hospital increases the morale of the workers thereby invariably enhancing productivity in the state (Adegbite & Shittu, 2018). These costs are incurred by the government for the provision, supply and sustenance of the governance, the economy and the society through effective IGR.

This displayed the significant impact of the IGR in the state. Despite the effort of government in mobilizing IGR through PAYE, direct assessment and road taxes collection, the majority of the workers including health sectors, teachers and other sectors within the state are always calling for a strike because of nonpayment of their salaries, and shortage of drugs in the hospital as well as nonchalant attitude of the government to other social activities for the benefits of the citizenry in the state. This prompts the study to intentionally examine the effect of IGR collection on the recurrent expenditure fulfilment in all the states in southwestern, Nigeria.

Having reviewed extant literature, it has been discovered that the existing literature was either restricted to one state or local government in a single state. Also, the

methodology employed by the extant literature in collecting and analyzing the data were mainly primary data and regressions respectively. Therefore, this study extended its projection to all six southwestern states in Nigeria for effective determination of the impact of IGR on recurrent expenditure. Also, this study involved all components of panel data analysis to deep out the effect of IGR on recurrent expenditure which jointly ignited research gaps in the study as against the extant literature.

This study is ordered as follows: apart from the introduction, which is sectionalized to section one, the literature review is embedded in section two, while methodology, the analysis of data, is contained in Section three. The results and discussion are in section four, while the conclusion is presented in the last section.

II. Literature Review

Wagner (1883) emphasized the importance of government involvement in a state in Wagner Law of Increasing State Activities (WLISA). The theory further asserted that there is a need for government to increase their expenditures and budgets if the economy is to grow and develop. This theory proposes that an increase in government spending is due to the demand of social progress. Wagner (1883) opined that there is a continuous effort in relation to a narrow and a general rise in the business and responsibility of the state. This view tries to clarify the relationship between economic growth and government responsibility on expenditure. It can be agreed, according to WLISA, that the country must plan on how much expenditure or how much expenses is willingly to incur with reference to internally generated revenue of the state. Presumably, the more a country grows, the more activities are planned, and these activities need resources for adequate implementation. It is advocated by the theory that government looks inward for resources to fulfil all righteousness in terms of recurrent

expenditure. Therefore, this study ultimately depends on this vital theory because of its relevance to the study.

Internally Generated Revenue (IGR)

Revenue is required by government to run the public offices attained for a given period. The earnings generated by the government to fund its development projects and operations are known as revenue (Tracy & Vester, 2019). It is a vital instrument of the government fiscal policy as it facilitates government spending. Governments at all parastatals need to carry out various tasks on the ground of economic, social and political activities to actualize economic and social welfare as fulfilling promises on fiscal responsibilities. To carry out these enormous tasks, government requires large amount of resources. These resources are called Public Income. Government revenue entails taxes, income from administrative functions such as fees, fines, grants and gifts. According to Craig (2020), IGR denotes the aggregated funds generated by the government basically from internal sources which is devoid of federal allocation. It also refers as the social contract nerve centre which triggers the government to be more responsive and responsible to the prompt needs of the populace. It also represents as a vital instrument for economic development. IGR, according to Oladejo and Alade (2017), is a significant consideration in savings, investment, and fiscal planning for a productive economy which is expected to influence recurrent expenditure in the state.

Personal Income Tax (PIT)

PIT is bifurcated into PAYE and direct assessment. PAYE, according to Ogundana, Ibidunni and Adetoyinbo (2017), is defined as the revenue that is gotten from citizens in the formal sectors. PIT is gotten from employees who receive salaries from both private and public sectors. The direct taxpayers comprise those employed in ministries, educational institutions, agencies, departments, state hospitals, and other formal institutions. PAYE refers to the most commonly categorized tax revenue achieved by governments which is majorly levied on

individual incomes or profits but not levied on services or goods. It is a vital revenue channel, and its burden cannot be borne by anybody except the payer (Bâzgan, 2018). This dispensed that PAYE's incidence and burden are borne alone by the taxpayer. More so, PAYE is directly paid state government's account for proper and effective monitoring. Therefore, PAYE is projected to significantly impact revenue generated positively. The hypothesis is underneath states as:

HO₁: PAYE is insignificant to recurrent Expenditure in Southwest states, Nigeria

Road Tax (RDT)

This tax is under the purview of Motor licensing authority which are saddled with responsibilities of all taxes imposed on motorists, vehicles, and other users of public roads. Consequently, road tax is tax unavoidably imposed on cars, motorists, and lorries, as well as other vehicles that actualize public roads (Adegbite & Azeez, 2021). It is commonly levied compulsory according to the capacities of the vehicles. This is enforced by security men checking vehicles on the road requesting for plate registration, driver's license, learner's permit and vehicle license for compliance. Road tax if properly monitored yielded enormous revenue for state government to effective offset recurrent expenditure in the state. This tax, according to Adegbite and Azeez, (2021) has been underestimated because other revenue sources in the state. Therefore, its hypothesis below stated:

HO₂: Road Tax is insignificant to recurrent Expenditure in Southwest states, Nigeria

Direct Assessment (DAT)

In any economy, direct assessment is subdivided into formal and informal sector. The sectors which have regulated measures and are easily monitored are denoted as formal sector. But the informal sectors are enormous and did not possess stringent measures and procedures to monitor its operations. In most underdeveloped and developing countries, informal sector is mostly active, vibrant and accommodate

many people because its entry is easy and convenient. Despite the fact that the informal sectors do not have severe rules to monitor its operations and activities, people engaged in the sector are absolutely paying taxes. The fulfilment of this tax paid is denoted as direct assessment. Most of the taxpayers in this category are self-employed people who devised their inventiveness to get something done. Tax authority faces enormous problems in collecting tax from this set of categorized taxpayers. It is not easy to be moving from market to market by the tax authority, from street to street for tax collection from unregistered businesses, which are informal sectors (Efuntade, Efuntade, & Akinola., 2020). There are many tax leakages in informal sectors because of unavoidable issues in the registration of the sector. Formidable measures have been devised to curtail tax evasion well as tax avoidance by the tax authority in the direct assessment category, but prove abortive because there is absence of proper records for their turnover and profits which are subjected to tax. Nevertheless, it is expected that if leakages are properly monitored, direct assessment will display enormous revenues. The hypothesis is stated as follows:

HO₃: Direct Assessment is insignificant to recurrent Expenditure in Southwest states, Nigeria

Recurrent Expenditure (REX)

Recurrent expenditure aids the government in developing the economy and implementing some administrative functions. According to Adegbite (2021), recurrent expenditure refers to those expenditures that occur repetitively on a daily, and monthly basis. This shows that it is a periodic spending on items consumed, and only stays for a certain timeframe. Recurrent expenditure, according to Osho, Olemija, and Falade (2019), refers to all government spending on the acquisition of goods and services, the settlement of wages and salaries, and the consumption of fixed capital that does not result in the creation of fixed assets. This is, according to Adegbite (2017), an outlay is necessary for day-to-day

operation of government consumer expenditure. This implies that recurring expenditure refers to the income spent by the government on procurement of drugs, salaries, wages, electricity bills, rent paid, pensions, provision, and other day to day governance ingredients on the part of the government. This expenditure has been seen as the yardstick for measuring the performance of the respective state government in Nigeria. the prompt and regular payment of the state workers' salaries soiling the bad governance of the government. Also, procurement of drugs into the state hospital reduces absolutely the death rate but geometrically increases infant rate, boost workers' morale thereby enhancing productivity in the state.

Empirical Review of Related Studies

Amoh and Adom (2017) conducted a study to assess the effect of internally generated revenue determinants on Germany public expenditure (1990-2015). The estimated IGR was found to be positive and significant on the public expenditure in Germany. The methods of data analysis adopted was econometric techniques such as ADF, the Phillip-Peron (PP) and ARDL tests. The study under review was conducted in Germany but not in Nigeria. With the use of Pesaran CCE Mean Group estimator, Tagem (2017) examined the impact of IGR on government spending on selected five developed countries from 1980 to 2017, employing dynamic fiscal data, and heterogeneity on examination of cross-sectional dependence. The findings provided robust evidence of a positive long-run in addition to short-run association amidst IGR and government spending. The current study examines the nitty-gritty of IGR and government expenditure in South-west, Nigeria.

Felix (2018) examined the nexus between internally generated revenue and Kenya government expenditure from 1960 to 2015. Augmented Dickey-Fuller in addition to Philips Perron unit root tests were employed to launch the stationary amidst the variables

employed. Also, Co-integration method was engaged to establish the long run validity. The study established that a significant positive nexus exists between IGR and Kenya government expenditure. The study was researched in Kenya as against this study which is majorly in Nigeria. Therefore, Kenya predictions are not relevant in Nigeria.

Roshaiza and Nanthakumar (2018) examined the causality amid tax revenue and Malaysia government spending for 36 years with the application of econometrics model. Based on the generated, long-run nexus existed amid tax revenues and Malaysia government spending in addition to bidirectional causality amid the variable sampled. The current study intends to use panel regression analysis method to analyze the data set while the study under review used VAR analysis method. In related study by Abiola and Ehigiamusoe (2015) which looked at the growth rate of state IGR between 1999 and 2011 in Nigeria. It also examined the potential of IGR to support state government expenditures, and contrasts the pace of increase of IGR in urban and rural states. The urban states IGR financed massive share of recurrent and total expenditures of the states than the rural states IGR according to the outcome descriptive statistical methods. The growth rates of IGR and capital expenditures were discovered to have a direct link with each other. The study was limited to years 2011 as against the current study which its coverage is extended to 2020.

Mohammed, Ahmed, and Salihu, (2015) evaluated the link between expenditure of local government and Adamawa State IGR in Nigeria. Panel data which were sourced from ten-year published financial records of local government from 2003-2012 were analyzed using pooled regression. The outcome discovered a strong link between government spending and income realized domestically. Adamawa state IGR had positive influence on recurring expenditure of agriculture, rural electrification, natural resources, market growth, and highways. The outcome of the study was restricted to Adamawa state but its

policy projection cannot be implemented in southwest, Nigeria.

Onodugo, Vincent, Benjamin, Asogwa, and Anyadike (2015) examined several methods for increasing IGR in Abia state. The study's instruments were questionnaires and statistical data. The statistical tools employed in the analysis were descriptive and inferential statistics which involved the usage of simple percentages. The findings revealed that the numerous strategies of realizing internal income included tax enforcement, donation, and public awareness campaigns. The study's findings, on the other hand, revealed that revenue administration agencies need to be retrained in order for the government to collect more income from this sector. The study also demonstrated that various factors impeding IGR, and the generating system need urgent action to address and curb the impediments. However, the study under review employed primary data in their analysis but the current study engaged secondary data set spanning from 2001-2020 for effective realization of the study motive.

Tunji, Olajide, and Olusola (2016) investigated IGR influence on overall spending by Nigerian state governments. The data were analyzed using regression approach. The study discovered a favourable link between IGR and state government total spending. The present study utilizes the panel regression analysis approach, whereas the previous study employed the OLS analysis method. More so, in Edo state, Igbinigie (2020) investigated the strategies for collecting IGR effectively in the state. Both parametric and nonparametric estimate approaches employed were descriptive statistical tools to evaluate data and test research hypotheses. The coefficients of penalties, incomes, and rates were positive for IGR in Edo State, but the coefficients of rentals and license were negative. In terms of empirical findings on the techniques of collecting IGR and the development of grass roots, revenue collection centers are considered important in Edo State's internal

generated revenue for effective realization of enormous revenue. However, the study was lunched in Edo state which was not belong to the component of South west states, Nigeria.

Omodero et al., (2018) employed t-test and multi-regression to analyze the data collected through Central Bank of Nigeria (CBN) Statistical Bulletin in order to investigate IGR impact on Nigeria economic development from 1981 to 2016. The study's findings revealed that total IGR, States IGR and Local IGR dispensed significant and positive impact on economic development. The study invariably concluded that IGR possessed positive significant impact on economic development. Omodero et al., (2018) Omodero, Ekwe and Ihendinihu (2018) recommended that corrupt government official should be ejected out of the system in order to achieve economic development. This study, however, was limited to economic development of the whole Nigeria as against the current study.

Osinimu and Olayiwola, (2022) examined internally generated revenue (IGR) influence on Osun State capital budget performance. This study embraced expo-facto research design to gather data from Osun State Internal Revenue Service Board, Ministry of Budget, and Economic planning from 2010 to 2020. OLS-Multiple regression and Descriptive statistics were applied to examine internally generated revenue influence on Osun State capital budget performance. The Findings' outcomes showed that withholding tax, direct assessment and PAYE had no significant influence on capital budget performance. The study invariably concluded that IGR had no impact on Osun State capital budget performance. This study is restrained to Osun state which is one of the states in southwestern states,

Having reviewed extant literatures, it has been discovered that the existing literature were either restricted to one state or local government in a single state. Also, the methodology employed by the extant literatures in collecting and analyzing the

data were majorly primary data and regressions respectively. Therefore, this study extended its projection to all six south western states in Nigeria for effective determination of the impact of IGR on recurrent expenditure. Also, this study involved all components of panel data analysis to deep out the effect of IGR on recurrent expenditure which jointly ignited research gaps in the study as against the extant literatures.

III. Methodology

Population, Sample and Data

The study gathered data of respective state's Board of Internal Revenue, and Federal Bureau of Statistics' Statistical Year Book. This study covered all states in South western, Nigeria. The states covered are Lagos state, Ondo state, Oyo state, Ogun state, Osun state, and Ekiti state from year 2001 to 2020. Data gathered for this study were analyzed based on quantitative econometric techniques such as Pearson correlation, panel regression analysis, Feasible Generalized Least Squares (FGLS), and other post estimation tests like autocorrelation and heteroskedasticity test.

Model specification

This study engaged the theory used by Mohammed and Kanu (2019) to examine IGR impacts on total government expenditure in South Western States. To scrutinize IGR effect on recurrent expenditure in southwest Nigeria. Internally Generated Revenue (IGR) was captured as an aggregation of PAYE, road taxes, direct assessment tax. In relation to the formulated hypotheses, the relevant models are specified thus and they are controlled by total number of civil servant. That is IGR components such as PIT DAT and ROT are the independent variables while REX is dependent variable but total of civil servants (TCV) are the control variable. The econometric model is stated below:

$$\text{REX} = f(\text{IGR})$$

$$\text{REX} = f(\text{PIT}, \text{DAT}, \text{RDT}, \text{TCV}, \mu_2) \quad (1)$$

$$\text{REX} = \beta_0 + \beta_1 \text{PIT}_{it} + \beta_2 \text{DAT}_{it} + \beta_3 \text{RDT}_{it} + \beta_4 \text{TCV}_{it} + \varepsilon_{it} \quad (2)$$

$$\text{REX} = \beta_0 + \beta_1 \text{PIT}_{it} + \beta_2 \text{DAT}_{it} + \beta_3 \text{RDT}_{it} + \beta_4 \text{TCV}_{it} + \varepsilon_{it} \quad (3)$$

Where as

REX	-	Recurrent Expenditure
PIT	-	Personal Income Tax
DAT	-	Direct Assessment Tax
RDT	-	Road taxes
TCV	-	Total number of Civil
Servant	-	
β_1 - - - - - β_4	-	parameters
i	-	cross sectional variable
t	-	time series variable

IV. Findings and Discussion

Recurrent Expenditure by Each State in the Southwest of Nigeria

According to Fig. 1 from the base year, 2010, recurrent expenditure Ekiti, Ondo, Osun and Oyo maintained a parallel trend to 2019, while the recurrent expenditure of Oyo State and Ondo State trended up gently from 2015 to 2019. Though, the recurrent expenditure of Ondo State trended down from 2017 to 2019. The recurrent expenditure of Ogun State trended inconsistently from 2010 to 2019, but the recurrent expenditure of Lagos State trended up above all other states in the Southwest region, followed by Ogun State for all the years under consideration. The difference in the cost incurred on recurrent expenditure could be a result of the difference in the civil servants, enormous population, and commercialization as well as tremendous IGR realized in each states.

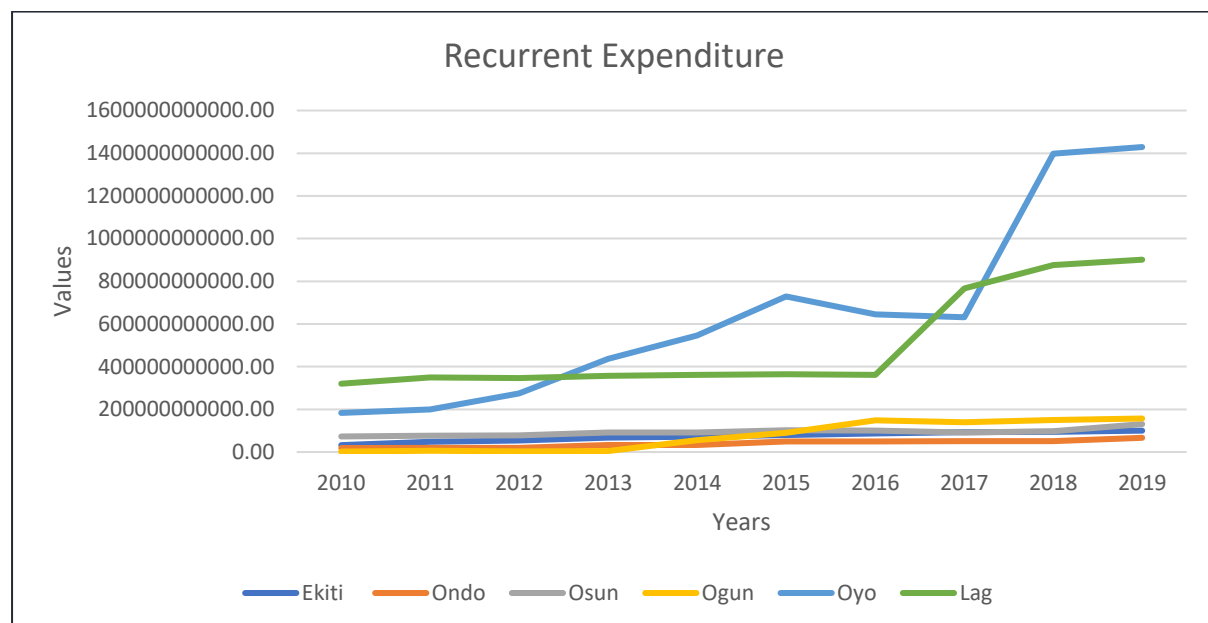


Figure 1. Recurrent Expenditure by Each State in the Southwest of Nigeria

Correlation Analysis

Table 1 reveals that all the predictors have a positive relationship with LREX, that is LREX has a positive relationship with LPIT, LDAT, LRDT and TCV with their coefficient values of 0.4954, 0.4295, 0.4500 and 0.5556 respectively. This stipulates that all the variables move in the same direction. Also, a positive correlation exists among LPIT, LDAT, LRDT and TCV with the value of

0.6199 for LDAT, 0.6444 for LRDT and 0.6204 for TCV. A positive correlation equally exists among LDAT, LRDT and TCV to the tune of 0.6158 for LRDT and 0.5702 for TCV. More so, positive relationship exists amid LRDT and TCV with the coefficient value 0.4953. Finally, it is shown that the relationship amid LREX and other variables were positive. Thus, it

connotes that there is no issue of multicollinearity among the variables.

Table 1. Correlation Matrix

Var.	LREX	LPIT	LDAT	LRDT	TCV
LREX	1				
LPIT	0.4954***	1			
LDAT	0.4295***	0.6199***	1		
LRDT	0.4500***	0.6444***	0.6158***	1	
TCV	0.5556***	0.6204***	0.5702***	0.4953***	1

Source: Researchers' Analysis Results, (2022)

Multicollinearity Test

A multicollinearity test was engaged to decide the presence or absence of multicollinearity that are likely emit bias in regression results.

Once all the **VIF** factors are less than 10, being the acceptable standard, it predicts that heteroskedasticity issue are absence, and the regression results can be relied upon.

Table 2. Variance Inflation Factor Test

Variable	VIF	1/VIF
LPIT	4.09	0.24
LDAT	3.86	0.26
LRDT	3.26	0.31
TCV	3.07	0.33

Source: Researchers' Analysis Results, (2022)

Table 3. Analysis of the Effect of IGR (personal income tax, road tax, direct assessment tax on recurrent expenditure in Southwest, Nigeria

Dependent Variable: LREX

VARIABLES	(1) Pooled	(2) Fixed Effect	(3) Random Effect	(4) FGLS
LPIT	0.0940384 (0.1639328)	0.4500671*** (0.122347)	.6385811*** (.153076)	.0626832 (.1026105)
LDAT	0.1381964 (0.1892856)	.3298663** (.1436682)	2113517 (1835487)	.2190691** (.074765)
LRDT	0.2928839 (0.2819244)	.354878** (.1677784)	5395711** (.2176091)	.0551401 (.1194951)
TCV	0.000021** (0.0000102)	.0000362*** (6.97e-06)	.0000219** (8.80e-06)	7.59e-06 (3.74e-06)
Constant	18.51759*** (4.528828)	18.65516*** (3.559922)	21.72775*** (4.505138)	17.83179*** (2.037569)
Observations	60	60	60	60
R-squared	0.3269	0.6343	0.7471	
Adj. R-Squared	0.2779	0.1216	0.6473	
F-Stat	F(4,55) = 6.68 Prob > F = 0.00	F(4,50) = 21.68 Prob > F = 0.000	Wald chi ² (4) = 42.03 Prob>chi ² = 0.0000	Wald chi ² (4) = 48.70 Prob>chi ² = 0.0000
Pesaran CD Test	-	2.004 {0.0451}	-	-
Hausman Test	-	-	Chi2(3) = 3.45 Prob>chi ² = 0.3276	-
Breusch-Pagan LM	-	-	chi ² ₍₀₁₎ = 57.05	-

Test		Prob>chi ² = 0.000	
Modified Wald Test for Heteroskedasticity	-	chi ² (6)= 92.65 Prob>chi ² = 0.000	-
Woodridge Test for Autocorrelation	-	F _(1,5) = 95.937 Prob > F= 0.0002	AR (1) = 0.7914

Note: Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The Hausman test was used to assess the estimating approach that was best for this hypothesis. With a probability value of 0.3276, the test favours the random effect estimates over the fixed effect estimate. To choose between random and Pooled OLS, the Breusch – Pagan LM test was used, and the probability value of 0.000 corresponds with the Hausman test result. As a result, both results favour estimate of the random impact. The random effect is relevant for this hypothesis. Serial correlation in addition to cross-sectional dependency has been discovered as probable difficulty associated with panel data. Parkers' Feasible Generalized Least Squares (FGLS) is appropriate to deal with the probable difficulty. As a result, FGLS estimator is engaged to analyse this hypothesis. LPIT, LDAT, and LRDT have a favourable influence on recurrent spending in Southwest Nigeria, according to the FGLS data. The positive effect of direct assessment tax is considerably favoured and significant to recurrent expenditure as compared to the insignificant positive effects of personal income tax and road tax.

Discussion of Findings

This study revealed the connection between internally generated revenue and recurrent expenditure in Southwest, Nigeria. Several analyses were carried out however, the discussion of findings was strictly based on trend analysis and FGLS estimation results being the most consistent, efficient, and appropriate estimator. The first discovery is that Lagos State's direct assessment tax, road tax and personal income tax trended higher than the other States in Southwest, Nigeria. This may be ascribed to Lagos State's enormous population, civil servants, efficient economic operations as well as the efficacy

and efficiency of the tax officials. Also, the Lagos State Government's effectiveness in forcefully mandating motorists to pay their dues on time. However, the fall in the IGR of other Southwest states inform of direct assessment tax, road tax and personal income tax could be attributed to a high level of corrupt practices among the tax officials, tax income leakages, and unproductive taxation system for the benefit of the citizens.

Secondly, personal income tax has a positive but insignificant effect on recurrent expenditure with the coefficient and P-value 0.0626 ($p=0.541 > 0.05$). This stipulates that with just a 1% increase in personal income tax, recurrent expenditure increases by 0.0626 insignificantly. This discovery implies that personal income tax cannot independently improve recurrent expenditure significantly in Southwest, Nigeria. The positive effect might be due to the efficiency of the tax officials to boost the revenue pool. However, the insignificant effect could be attributed to the failure of the government to judiciously utilize personal income tax towards the provision of both the recurrent needs of the populace across the sampled states. This outcome gave credence to the findings of Samuel and Gabriel (2016) and Jonathan and Louls (2020) that the contribution of PIT on government expenditure is very low. However, it negated the outcome of Amoh and Adom (2017), Tagem (2017), and Craig (2020) that a positively significant relationship exists between PIT and recurrent expenditure.

Furthermore, it was revealed that direct assessment tax has a positive and significant effect on recurrent expenditure to the tune of 0.2190 ($p=0.003 < 0.05$). The inference of this discovery is that a 1% increase in direct assessment tax in Southwest, Nigeria, equally

increase recurrent expenditure by 21.91% significantly. This outcome is in support of the tenets of fiscal federalism theory which opined that IGR should be able to adequately supply for the demands of the recurrent expenditure. This may be attributable to state governments' efforts to strengthen their income base via domestically generated revenue when the anticipated federal allocation was drastically reduced. This finding implies that direct assessment tax may lead to an increase in real government spending on recurrent in southwest Nigeria. This outcome supported the findings of Abiola and Ehigiamusoe (2015), Mohammed, Ahmed, and Salihu (2015), Adegbite (2017), Felix (2018), Roshaiza and Nanthakumar (2018), Fasina, Adegbite and Alabi (2018), Eneji, Eneji, Odey, Haruna, & Adikaba, (2020), and Ajike, Ariguzo, Akinyosoye, Nwankwere and Oyedeji (2020) that the relationship between internally generated revenue and recurrent expenditure is statistically significant and positive but rejected the discovery of Olalekan and Irewole (2019) that income taxes have no significant effect on government spending.

Finally, it was discovered that road tax was found to exert a positive but insignificant effect on recurrent expenditure in Southwest, Nigeria with the coefficient of 0.0551401 ($p=0.644>0.05$). This reflects that recurrent expenditure increases by 5.5% whenever there is an increase in road tax by 1%. The positive effects may be credited to the fact that road tax contributes positively to the government's internally generated revenue. However, the insignificant effect might be a result of the high level of corrupt practices among the tax officials charged with the collection of road tax, and other leakages in tax income. Also, the minimal impact of road tax on government spending may be attributable to the duplication of government offices across the Southwest States. This finding implies that road may not substantially boost real government spending in southwest Nigeria. This outcome failed to corroborate the findings of Adegbite and Azeez, (2021).

V. Conclusion

This study examined IGR impacts on recurrent expenditure performance in Southwest Nigeria. Internally generated revenue was captured with PIT, direct assessment tax and road tax while recurrent expenditure performance was proxied with expenditures expended on recurrent expenditure. PIT has a positive but insignificant effect on recurrent expenditure while direct assessment tax has a positive and significant effect on recurrent expenditure. In addition, road tax was established to exert a positive but insignificant effect on recurrent expenditure in Southwest, Nigeria. Conclusively, it was established that there was a statistically significant effect of internally generated revenue on recurrent expenditure in Southwestern states, Nigeria. Therefore, with regards to the personal income tax which was statistically insignificant on recurrent expenditure performance, it is recommended that government should ensure specific targets are given to the tax agencies which must be supported by strong and viable reinforcement for the achievers and defaulters of revenue targets. This could be achieved by using promotions such as carrot and stick approach for tax officials for targets achievement. Strict enforcement is promptly needed on road tax collection in order to trigger compliance among road users. Lastly, government should put in place effective and efficient management of the tax revenue for effective maximization of recurrent expenditure performance in Southwest states, Nigeria. This research is confined to numerous limitation, such as the attitude of the tax authority on prompt release of the needed data at appropriate time because of the confidentiality attached to the data. Secondly, due to the unavailable data, this research could not cover all the states in Nigeria which made the policy implication confined only to Southwestern states, Nigeria. Further studies can therefore be conducted in Northern states, Nigeria on the

impact of taxation on recurrent expenditure to deeply examine the regional impact of taxation on recurrent expenditure for comparison between Southwestern states and Northern states, Nigeria.

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