



Tax Administration and Revenue Generation: A Perspective of Ogun State Internal Revenue Service

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ABSTRACT

This research work examined the relationship between tax administration and revenue generation from the perspective of Ogun State internal revenue service. It also determined the impact of evasion and tax avoidance on the revenue generation in Ogun State. In effect, the study provided information on tax administration, evasion, avoidance and revenue which in turn added to the existing knowledge. The study employed a survey research design. The population of the study was the entire staff of the Ogun State Internal Revenue Service which totalled 93 in number. A sample size of 70 staff was selected using a systematic sampling technique. A systematic sampling technique was used because of location of the internal revenue offices. A primary method of data collection was sought for in eliciting information from the respondents. The research instrument adopted was the use of a structured questionnaire. The collected data was analysed by both descriptive and inferential statistics. The result revealed that, in Ogun state, tax administration did not significantly relate with the amount of revenue generated ($r = 0.165$). Furthermore, this research work showed that tax evasion and avoidance significantly affected the revenue generation in Ogun State ($t = -2.474$, $\text{sig} < 0.05$). In view of the findings, the study concluded that there is no significant relationship between the tax administration and revenue generation in Ogun State. Therefore, it is recommended that the tax administration in Ogun State should be reviewed and all possible measures should be put in place to reduce tax evasion and avoidance.

Keywords: tax administration, revenue, tax evasion, tax avoidance, and tax payer

1.0 INTRODUCTION

Recently the revenue that accrues to state government is derived from two broad sources, viz: the external sources and the internal sources. The increasing cost of running government coupled with dwindling revenue has left various state governments in Nigeria with formulating strategies to improve the revenue base. More so, the near collapse of the national economy has created serious financial stress for all tiers of government. As a result of fall in the international price of oil and the collapse of the national economy, the direct allocation from federation account to the states has fallen. Despite the numerous sources of revenue available to the various tiers of government as specified in the Nigeria 1999 Constitution, since the 1970s till now, over 80% of the annual revenue of the 3 tiers of government come from petroleum. However, the serious decline in the price of oil in recent years has led to a decrease in the funds available for distribution to the states. The need for state and state governments to generate adequate revenue from internal sources has therefore become a matter of extreme urgency and importance (Raji, 2015). This urgent need for improvement in revenue generation has underscored the reason why revenue from tax has been the focus of state government in improving the revenue generation. The importance of taxation as a source of revenue to any government cannot be overemphasized. The study of the teachings of Christianity, Islamic and other prominent religions in the world shows that tax is a religious duty based on social and civil responsibilities (Agbetunde, 2004). The world over, taxes is one major source of government revenue, however, not every national government has been able to effectively exploit this great opportunity of revenue generation. This can be attributed to a number of reasons including the

system of taxation; tax legislation; tax administration and policy issues; over reliance on other sources of revenue (such as foreign aid and grants); corrupt practices in the system – especially as it relates to the system of tax collection and behaviour of citizens towards tax payment; and ease of tax payment (Akintoye and Tashie, 2013). Nigeria is richly endowed with natural resources chief of which is oil and gas. This oil and gas dominate the country's economy as it accounts for over 80% of the country's revenue thereby making government to lose its sense of reasoning in exploring other revenue sources. The overdependence on oil and gas has led to low GDP and economic retardation. According to Okoyeuzu (2013) taxes are the major tools required to overcome such and also to control other market imperfection, and achieve social justice by wealth redistribution. Due to the over reliance on oil, little effort has been made to generate sufficient revenue from taxation. Popoola (2009 cited in James Abiola) opines that Nigeria tax administration and practice be structured towards economic goal achievement since government budget for the year centres on the oil sector while decrying the low productivity of the Nigerian tax system. According to Jhingan (2008) to meet up with their numerous commitments and live up to their responsibilities, governments thus, require a substantial amount of funds; such funds are usually raised from various sources such as issuing of public debt, creation of money or levying of various types of taxes, fees, fines and specific charge. Ariyo (1997) opines that Nigeria's overdependence on oil revenue to the total neglect of other revenue sources was encouraged by the oil boom of 1973/1974. This was unsustainable due to frequent negative fluctuation in the price of oil in the world market; this fluctuation has led to low revenue from oil and resulting in budget deficit.

Financial resources are needed for the developmental goals of any successive and successful government to be achieved. Such goals may include provision of infrastructure, security of life and properties and maintenance of law and order. Fagbemi, Uadiale and Noah (2010) opine that government needs money to execute their social obligations which include provision of infrastructure and social services. Ogundele (1999) views taxation to be the process or machinery by which communities or groups of persons are made to contribute some agreed amount of money for the purpose of administration and development of society. Aguolu (2004) states that though taxation may not be the most important source of revenue to the government in terms of the magnitude of revenue derivable from taxation, however, taxation is the most important source of revenue to the government from the point of view of certainty and consistency of taxation.

Apart from the over reliance on oil, mismanagement of tax revenue has scared many honest payers away from performing their civic responsibility of paying tax. In many parts of Nigeria, citizens are opposed to the payment of any form of taxes and rates on the ground that government had been unfair in the provision of amenities for which tax is primarily collected. Evidence of wastage of public funds abound in the form of inflated contracts or in the criminal acts of using diverse methods and loopholes exhausts funds voted for ministries and government departments before the financial year runs out (Ovute and Eyisi, 2014). The cumulative effect thereby produced is the resolve of many honest tax payers never to pay their due taxes again or at most pay under compulsion (Kiabel and Nwokah, 2009 cited in Ovute and Eyisi, 2014).

If the tax administration is seen to be honest, fair, informative and helpful, acting as a service institution and thus treating tax payers as partners and not inferiors in a hierarchical relationship, tax payer have stronger incentive to pay taxes with honesty (Frey, 2003 as cited in Ovute and Eyisi, 2014).

1.1 Statement of research questions

The following research questions were stated:

- i. What relationship does tax administration have with revenue generation in Ogun State?
- ii. How have tax evasion and avoidance affected revenue generation in Ogun State?

1.2 Research Objectives

Specifically, the objectives of this research work are to:

- i. Examine the relationship between the tax administration and revenue generation in Ogun State.
- ii. Determine the effect of tax evasion and avoidance on revenue generation in Ogun State.

1.3 Statement of hypotheses

The following hypotheses were tested in order to put the work in right perspective:

H₀₁: tax administration does not significantly relate with revenue generation in Ogun State.

H₀₂: there is no significant effect of tax evasion and avoidance on revenue generation in Ogun State.

2.0 REVIEW OF RELATED LITERATURE

Concept of Tax Administration

Tax administration is centred on the implementation and enforcement of tax legislation and regulations. These activities include identification and registration of taxpayers, processing of tax returns and third-party information, examination of the completeness and correctness of tax returns, assessment of tax obligations, (enforced) collection of taxes and provision of services to taxpayers.

Tax administrations operate in societies that are rapidly changing and have to fulfil increasing demands and growing expectations from their stakeholders, including new demands from taxpayers for sophisticated government services. Tax Administrators must develop a contemporary vision. Rapid economic developments and ever-higher expectations on the part of taxpayers make it necessary for a Tax Administration to redefine its strategic course. Its relationship with taxpayers must be laid down in a system of rights and obligations.

Tax Legislation

Laws refer to a whole body of enacted acts of legislation. In the context of taxation, it is a codified system of order that describes the legal implications of taxation, i.e. government levies on economic transactions. Tax laws provide a well-defined legal backing to the administration of each tax type, States in clear terms the applicable rate, Tax laws stipulate what constitutes offence and the appropriate sanctions to each offence, they enshrine best practices in terms of ethical and professional conduct.

Tax Policy Reforms and Institutional Development

The need to address the problem of low tax returns motivated the Federal government to embark on a number of reforms to existing tax laws. According to Alli (2009) cited in Akintoye et al(2013), the objectives of tax reforms in Nigeria include: to bridge the gap between the national development needs and the funding of the needs; to ensure taxation, as a fiscal policy instrument, to achieving improved service delivery to the public; to improve on the level of tax derivable from non-oil activities, vis-à-vis revenue from oil activities; efforts at constantly reviewing the tax laws to reduce/manage tax evasion and avoidance; and to improve the tax administration to make it more responsive, reliable, skilful and taxpayers friendly and to achieve other fiscal objectives.

The Nigerian tax system has experienced series of reforms since 1904 to date. The effects of the various reforms in the country are as follows:

1. The introduction of income tax in Nigeria between 1904 and 1926.
2. The grant of autonomy to the Nigerian Inland Revenue in 1945.
3. The Raisman Fiscal Commission of 1957.
4. The formation of the Inland Revenue Board in 1958.
5. The promulgation of the Petroleum Profit Tax Ordinance No. 15 of 1959.
6. The promulgation of Income Tax Management Act 1961.
7. The establishment of the Lagos State Inland Revenue Department.
8. The promulgation of the Companies Income Tax Act (CITA) 1979.
9. The establishment of the Federal Board of Inland Revenue under CITA 1979.
10. The establishment of the Federal Inland Revenue Service between 1991 and 1992.
11. The tax policy and administration reforms amendment 2001 and 2004, and also the most current amendment of the Personal Income Tax Act, 2011.

Another reform embarked upon by the Nigerian government was instituting the Study Group on the Nigerian Tax System. This group was inaugurated on the 6th of August, 2002, to examine the tax system and make appropriate recommendations towards entrenching a better tax policy and improved tax administration in the country. This group consists of individuals from business, academia, and the government. There is also the Chartered Institute of Taxation of Nigeria (CITN), established in 1982 and Chartered by Act No. 76 of 1992 to regulate tax practice and administration in the country, and to this extent a major stakeholder in the Nigerian tax system.

To understand the importance of tax policy reforms, one needs to appreciate the urgency for such reforms. First, there is a compelling need to diversify the revenue portfolio for the country in order to safeguard against the volatility of crude oil prices and to promote fiscal sustainability and economic viability at lower tiers of government. Second, Nigeria operates on a cash budget system, where proposals for expenditure are always anchored to revenue projections. This facilitates determining the optimal tax rate for a given level of expenditure. Thus accuracy in revenue projection is vital for devising an appropriate framework for sustainable fiscal management, and this can be realized only if reforms are undertaken on existing tax policies in order to achieve some improvement.

Third, Nigerian tax system is concentrated on petroleum and trade taxes while direct and broad-based indirect taxes like the value-added (VAT) are neglected. This is a structural problem for the country's tax system. Although direct taxes and VAT have the potential for expansion, their impact is limited because of the dominance of the informal sector in the country. Furthermore, the limited formal sector is supported with strong unions that act as pressure groups to deter any appreciable tax increment from gross income. Fourth, the widening fiscal deficit that over the years has threatened macroeconomic stability and prospects for economic growth makes the prospect of tax reform very appealing. Nigeria's fiscal policy measures have been largely driven by the need to promote certain macroeconomic objectives as promoting rapid growth of the economy, generating employment, maintaining price levels and improving the balance-of-payment conditions of the country. Although policy measures change frequently, these objectives have remained relatively constant.

Problems of Tax Administration in Ogun State

Every system designed to achieve an objective is faced with a lot of challenges. The Tax administration in Nigeria is also faced with a lot of challenges which account for the reasons why enough revenue have not been generated from it. Tax administration in Ogun state is similar to what operates in other parts of the country. The tax administration problems encountered in Ogun State are also evident in other States of the Federation. The incessant review of revenue capacity of all revenue units is a major challenge which has impacted negatively on efficient collection of tax (Enahore et al, 2012). Naiyeju (2005) pointed out that most of the tax authorities in Lagos State Local Government lack the desired institutional capacity to administer tax system effectively; same applicable to Ogun state. Most of those who pay tax are those on government pay roll. Those in the private sector and informal sector hardly pay tax. Ekpo and Ndebbio (1998) were of the opinion that other problem of tax administration centres on inadequate personnel in terms of quantity and quality. Tax collectors in the state and local government are mostly non-accountants who do not understand tax practice. So also is the challenge of corruption on the part of the tax practitioners. There is high tendency for them to exonerate eligible payers from paying tax by collecting bribe from them. So also, some of the practitioners do not remit what they have collected as tax to do account of the state. The problem of over reliance on direct allocation, borrowing and grant by past governments has made the state to lose its sense of reasoning in exploring other sources of revenue generation. The Ayoola Commission also provided sufficient evidence to show that tax clerks live above their incomes and their ostensible livings have been found to be totally unrelated to their salaries and status (Naiyeju 2005).

Tax Evasion and Avoidance

Tax avoidance is a practice of using legal means to pay the least amount of tax possible. This is different to tax evasion which is the practice of using illegal methods to avoid paying tax. There is also a difference between avoidance and tax planning as paying minimal tax is not necessarily a sign of avoidance.

Tax avoidance is using the tax law to obtain a tax advantage that the government never intended. It frequently involves contrived, artificial transactions that serve no purpose other than to reduce tax liability. Tax planning involves using tax reliefs for the purpose for which they were intended.

Essentially, the difference between avoidance and evasion is legality. Tax avoidance is legally exploiting the tax system to reduce current or future tax liabilities by means not intended by parliament. It often involves artificial transactions that are contrived to produce a tax advantage.

Tax planning is conduct which reduces tax liabilities without going against Parliament, for instance, through gifts to charity or investments in certain assets which qualify for tax relief. Other examples of mitigation include saving in a tax-free ISA or paying into a pension scheme.

Tax evasion is to escape paying taxes illegally. This is usually when a person misrepresents or conceals the true state of their affairs to tax authorities, for example dishonest tax reporting.

National Tax Policy

The National Tax Policy is a document which sets broad parameters for taxation and ancillary matters connected with taxation. It is a clear statement on the principles governing tax administration and revenue collection. It therefore, provides a set of guidelines, rules and modus operandi that would regulate taxation in Nigeria

Objectives of National Tax Policy

The objectives of the National Tax Policy are to address the myriad of problems bedeviling the Nigerian tax system. It is aimed at creating a tax system that will contribute to the well-being of all Nigerians and taxes which are collected by Government, should directly Impact on the lives of the citizens. This can be accomplished through proper and judicious utilization of the revenues collected by government. The tax system, as envisaged by the National Tax Policy, is expected to meet the following objectives:

i To promote fiscal responsibility and accountability, to facilitate economic growth and development, to provide the government with stable resources for the provision of public goods and services, to address inequalities in income distribution, to provide economic stabilization, to pursue fairness and equity, to correct market failures.

The Policy document was launched and given credence to in April 2012. However, in a bid to give legal backing to tax policy, there is needed to fully crystalize its tenets into more tax laws enacted by the national assembly.

2.2 THEORETICAL REVIEW

Social political theory: this theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocated that a tax system should not be designed to serve individual, but should be used to cure the ills of society as a whole

Expedience theory: this theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with authorities in choosing a tax proposal. Economic and social objectives of the state should be the consideration while the effect of tax system should be irrelevant (Bhartia, 2009)

Benefit received theory: this theory proceeds on the assumption that there is basically an exchange relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Bhartia, 2009)

Cost of service theory: this theory is similar to the benefits received theory. it stresses the semi-commercial relationship between the state and the citizens to greater extent . This theory holds that the state provides services to the members of the society and recovers the cost of the service from them.

2.3 EMPIRICAL REVIEW

Sabian and oleka (2015) conducted a study on the effect of taxation on microeconomic growth in Nigeria; the implication of the findings showed that government earnings from taxation will affect consumer spending and boost output production level.

Okoi and omini (2014) carried out a study on tax innovation, administration and revenue generation in Nigeria: case of Cross River State; the result showed a significant degree of inefficiency in the administration of taxes.

Ogbon Appah (2011) investigated into Impact of tax reforms and Economic Growth of Nigeria: A Time Series Analysis; the study found that taxreforms is positively and significantly related to Economic Growth.

Obafemi (2014) carried out a study on An Empirical study of Tax Evasion and Tax Avoidance: A Critical Issues in Nigeria Economic Development. The study found that Tax Evasion and Tax Avoidance have adversely affected economic growth and development in Nigeria, and also, that lack of good governance and unpatriotic act of tax payer is the basis for which tax evasion and tax avoidance is perpetrated.

Saedikia, Totonchin and Nasab (2014) conducted a study on the evaluation of the impact of income tax on economic growth and development in the Islamic republic of Iran during 1971-2006; the study revealed that

Sabin, Oleka and Augustine (2014) conducted an empirical work on the effect of taxation on microeconomic growth in Nigeria from 2011 to 201. The findings revealed that government earnings from taxation will affect consumer spending and boost output production level.

Mungaya, Mbwambo and Tripathi (2012) carried out a study on study of tax system impact on the growth of small and medium (SMES): with reference to Shinyanga municipality, Tanzania; the findings indicated that majority of respondents perceived the adverse impact of the existing tax policies on the growth of SMEs and suggested for reforming the tax policies in the country.

Afubero, Demmis, Okoye and Emmanuel (2014) conducted a study on the impact of taxation on revenue generation in Nigeria: a study of federal capital territory and selected states: the research discovered among others that taxation has a significant contribution to revenue generation and taxation has a significant contribution to economic gross domestic product.

Abiola And Asiweh (2012) conducted A Study On Impact Of Tax Administration On Government Revenue in A Developing Economy: A Case Study Of Nigeria; The Study Found Among Other Things That Increasing Tax Revenue Is A Function Of Effective Enforcement Strategy Which Is The Pure Responsibility Of Tax Administration.

Raji (2015) conducted A study on Revenue Generation as a Major Source of Income for the State Government: An Empirical Analysis of Two Parastatals; the result revealed that revenue allocation in local government is hindered by corrupt practices also that efficient revenue generation enhances the performance of public sectors.

3.0 METHODOLOGY

Research design

This study adopted the survey research design. Hence, this design will enable the researcher gather valid and reliable information through the respondents to plan sequence of questions.

Population, sample size and sampling technique

The population of the study consisted of the entire staff of the Internal Revenue Service of Ogun State totaling 93. A sample size of seventy (70) staff was selected using a systematic sampling technique.

Sources of data

The data for this study were gathered from primary sources. The reason for using primary data is to ensure that there is control in which there is originality.

Research instrument

A total of 70 questionnaires were administered to tax officials in Ogun State Internal Revenue Service.

Techniques for Data Analysis

The 5-likert scale structured questionnaires were administered. The gathered data were analysed through the use of descriptive and inferential statistics

4.0 RESULTS AND DISCUSSION OF FINDINGS

Hypothesis one:

H₀: tax administration does not significantly relate with revenue generation in Ogun State.

H₁: tax administration significantly relates with revenue generation in Ogun State.

Descriptive Statistics

	Mean	Std. Deviation	N
Revenue generation in Ogun State is efficient	2.15	1.087	60
There are adequate structures to enhance efficiency of tax administration in Ogun state	2.23	1.240	60

Correlations

		Revenue generation is efficient	There are adequate structures to enhance efficiency of tax administration in Ogun state
Pearson Correlation	Revenue generation is efficient	1.000	-.165
	There are adequate structures to enhance efficiency of tax administration in Ogun state	.165	1.000
Sig. (1-tailed)	Revenue generation in Ogun State is efficient	.	.104
	There are adequate structures to enhance efficiency of tax administration in Ogun state	.104	.
N	Revenue generation in Ogun State is efficient	60	60
	There are adequate structures to enhance efficiency of tax administration in Ogun state	60	60

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	There are adequate structures to enhance efficiency of tax administration in Ogun state ^b	.	Enter

a. Dependent Variable: revenue generation is efficient

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.165 ^a	.027	.010	1.081	.027	1.619	1	58	.208

a. Predictors: (Constant), there are adequate structures to enhance efficiency of tax administration in Ogun State.

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.891	1	1.891	1.619	.208 ^b
1 Residual	67.759	58	1.168		
Total	69.650	59			

a. Dependent Variable: Revenue generation is efficient

b. Predictors: (Constant), there are adequate structures to enhance efficiency of tax administration in Ogun State

Coefficients^a

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
1 (Constant)	2.472	.289	8.546	.000
1 There are adequate structures to enhance efficiency of tax administration in Ogun state	-.144	.113	-1.272	.208

a. Dependent Variable: Revenue generation is efficient

Decision: From the above result, the null hypothesis was accepted while the alternative hypothesis rejected ($r = 0.165$; $t = -1.272$, $sig. > 0.05$). Therefore, there is no significant relationship between the tax administration and revenue generation in Ogun State.

Hypothesis two:

H₀: there is no significant effect of tax evasion and avoidance on revenue generation in Ogun State.

H₁: there is significant effect of tax evasion and avoidance on revenue generation in Ogun State.

Descriptive Statistics

	Mean	Std. Deviation	N
Revenue generation is efficient	2.15	1.087	60
People evade and avoid tax because of lack of awareness	2.57	1.267	60

Correlations

		Revenue generation is efficient	People evade and avoid tax because of lack of awareness
Pearson Correlation	Revenue generation is efficient	1.000	-.309
	People evade and avoid tax because of lack of awareness	-.309	1.000
Sig. (1-tailed)	Revenue generation is efficient	.	.008
	People evade and avoid tax because of lack of awareness	.008	.
N	Revenue generation is efficient	60	60
	People evade and avoid tax because of lack of awareness	60	60

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	People evade and avoid tax because of lack of awareness		Enter

a. Dependent Variable: Revenue generation is efficient

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.309 ^a	.095	.080	1.042	.095	6.123	1	58	.016

a. Predictors: (Constant), People evade and avoid tax because of lack of awareness

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	6.650	1	6.650	6.123	.016 ^b
Residual	63.000	58	1.086		
Total	69.650	59			

a. Dependent Variable: Revenue generation is efficient

b. Predictors: (Constant), People evade and avoid tax because of lack of awareness

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.830	.306		9.248	.000
People evade and avoid tax because of lack of awareness	-.265	.107	-.309	-2.474	.016

a. Dependent Variable: Revenue generation is efficient

Decision: From the above result, the alternative hypothesis was accepted while the null hypothesis rejected ($t = -2.474$, sig. < 0.05). Hence, there is significant effect of tax evasion and avoidance on revenue generation in Ogun State.

Discussion of findings

From the field of study the following findings were discovered:

The result revealed that tax administration, in Ogun State, had no significant relationship with the revenue generation. In view of this finding, it denotes that the administrative structures put in place by the government are leaking. This may be ascribed to many factors such as: lack of experienced personnel, inability to have good assessment methods, inability to create proper tax awareness, lack of follow-up mechanism etc. Therefore, the government needs to re-examine administrative structures in order to improve the internally generated revenue in Ogun State.

It was also found that tax evasion and avoidance significantly affected the revenue generation in Ogun State. The result conformed to the expected impression; therefore, it paves way for the government to put necessary machinery in place so as to forestall the loopholes of evasion and avoidance. By this, the government should be able to generate more money into its treasury

5.0 CONCLUSION

Having tested the hypotheses and discussed the findings, the study concluded that tax administration in Ogun State has no significant relationship with the revenue generation. It also emphasized that tax evasion and avoidance significantly affected revenue generation in Ogun State.

5.1 Recommendations

In view of the findings and conclusion, the following recommendations were made:

- i. The government in Ogun State should re-address its administrative structures.
- ii. Government should create public awareness for the tax payers.
- iii. The tax regulations should be redesigned so as to prevent evasion and avoidance.
- iv. The assessment mode should take care of the principles of a good tax.

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