Effect of Tax Rate Regimes on Personal Income Tax Yield in Cross River State

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Abstract
Revenue generation is the nucleus and the path to modern development. Thus, this study assessed the effect of tax rate regimes on personal income tax yield in Cross River state. In order to achieve the objectives of the study, the ex-post facto research design was adopted and secondary data for the period 1993-2017 from the annual revenue report of the Cross River Internal Revenue Service and National Bureau of Statistics (NBS) portal were used. The testing of hypotheses of the study was done using multiple regression analysis computed with the aid of SPSS (Version 20). Findings from the study revealed that although the tax rate regimes altogether have a significant effect on revenue generated, the fourth tax rate regime was seen to have the most positive and significant effect on the revenue generated by the state. It was therefore concluded that the tax rate regimes have significant effect on personal income tax yield in Cross River state. The study thus, recommended among others that government should be considerate when deciding on the tax rates as lower tax rates would encourage compliance whereas higher tax rates would discourage the taxpayers to pay tax thereby affecting the revenue generated by the state.

Keywords: Earned income, Tax rate, Tax Rate Regime, Tax Yield, Unearned income

1.0 Introduction
1.1   Background to the Study
The desire to uplift one's society is the first desire of every patriotic citizen (Allingham & Sadmo, 1972). Tax payment is a demonstration of such a desire. The payment of tax is a civic duty and an imposed contribution by government on her subjects and companies to enable her finance or run public utilities and perform other social responsibilities. Taxation thus, constitutes the principal source of government revenue. Income tax is a tool to achieve economic growth in any country. It is accepted not only as a means of raising the required public revenue, but also as an essential fiscal instrument for managing the economy. Of all the taxing system, income tax plays a major role in generation of revenue and distribution of income in any country. If income taxation is poorly designed, it may lead to fiscal imbalance, insufficient tax revenue and distortion in resource allocation that can reduce economic welfare and growth (World Bank, 1991). Hence, an ideal tax system would achieve a balance between resource allocation, income distribution and economic stabilization (Lewis, 1984).

An optimal tax rate has to compromise between the state's revenue and its economic development. A high tax rate would deter savings and development, while a lower tax rate would lead to less revenue to the state. World Bank periodically relates that economic development is directly correlated to the level of taxation, more so in developing nations where the lower marginal tax rates have higher economic growth. In addition, policy makers in these

countries have a keen interest in the elasticity of economic activity with respect to taxes, suggesting that states and regions are interested in manipulating their tax systems in an attempt to attract businesses or to foster growth (Wasylenko, 1997 as cited by Bonu & Pedro, 2009). On the other hand, income tax rates are increased due to factors such as enormous reduction in the purchasing power of money, heavy tax erosion, urgent need for yield and dynamic public expenditure (Fossati, 1992).

A tax directly influences the savings of individuals and companies; it is a double edged sword used to curtail consumption activity and at the same time, allows the taxpayer to save money in different development activities (Swami, 1995). The financing of the social security benefits such as health, security and provision of utilities draws heavily upon income that otherwise would have been saved. Instead of accumulating capital, this income goes to social security transfers which are probably consumed (Boadway, 1982). Under direct personal taxation as practiced in Nigeria, the major problems lies in the collection of taxes especially from the self-employed such as the businessmen, contractors, professional practitioners like lawyers, doctors, accountants, architects and traders in shops among others (Adebisi & Gbegi, 2013). As observed by Ayua (1999), these persons blatantly refuse to pay tax by reporting losses every fiscal year end. According to him, many of these professionals live a lifestyle inconsistent with reported income which is usually unrealistically low for the nature of their businesses. Civil servants and their salaried workers are the only class of people that actually pay tax in Nigeria. However, even among the salaried workers, he added, many have turned the statutory personal allowances and reliefs into a fertile ground for tax evasion.

Income tax rates no doubt play a vital role in revenue generation and to a large extent, determines the tax revenue generated by any state. This brings about a gap between the potential and actual tax collection. This study is thus, aimed at bridging this gap.

1.2   Statement of the Problem

Taxation besides being a major source of revenue to the government, also serves as the means by which government actualize macro-economic objectives in areas of monetary and fiscal policies. It is therefore, a major tool used by government to promote economic growth and development. These functions however, have been greatly impaired due to highly unfavourable tax rates, unethical behaviours by tax officials and the menace of tax evasion and avoidance.

Income tax rates are increased due to factors such as enormous reduction in the purchasing power of money (i.e. inflation), heavy tax erosion, urgent need for yield and dynamic public expenditure (Fossati, 1992). A high tax rate deters savings and development while a lower tax rate leads to less revenue to the state but compliance by the taxpayers. Taxation could have a positive or negative effect on both the individual, company and on government. To the individual or company, low income tax rate constitutes an incentive to work or save, while high income tax rate represents a disincentive to work or save. To the government, high tax rates provides the most reliable, important and dominant source of government revenue, for promoting the economic development of the nation. Also, the tax rate is often a major consideration in the choice of organizational form of business and may also be associated with varying levels of foreign direct investment.

One of the greatest problems facing Nigerian tax system as well as Africa is the problem of tax evasion and tax avoidance (Adebisi & Gbegi, 2013). These twin devils have created a great gap between actual and potential revenue. The government has for a number of times complained of the widespread incidence of tax evasion and avoidance in the state as companies and other taxable persons employ various tax avoidance devices to escape or minimize their tax liability altogether sometimes with the active connivance of the tax officials. As observed

by Kiabel (2001), some businessmen do not see any reason why they should pay tax irrespective of the fabulous profits made. This is the direct display of the spirit of unpatriotism. Such people take the stand that no matter the income or revenue that was acquired during the year, nothing will be paid as tax or they may prepare their accounts in such a way that a loss will be reflected.

It is however, the potential defect to government monetary and fiscal policies and the unsatisfactorily small contribution of tax revenue to government coffers that inspired the current study to investigate the effect of the tax rate regimes on personal income tax yield in Cross River state.

1.3   Objectives of the Study
The main objectives of this study include:
(i)   To determine the effect that the tax rate regimes have on personal income tax yield in Cross River state.
(ii)   To identify the relationship between changes in income tax bands/rates with that of personal income tax yield in Cross River state.

1.4   Research Questions
For the purpose of achieving great success, the following questions were relevant to this research work:
(i)   Do the tax rate regimes have an effect on personal income tax yield in cross river state?
(ii)   Does a change in income tax bands/rates bring about a change in personal income tax yield in cross river state?

1.5   Research Hypotheses
The following research hypotheses were formulated for the study and all stated in the null form:
H_{01}:   The tax rate regimes do not have significant effect on personal income tax yield in Cross River state.
H_{02}:   There is no significant relationship between changes in income tax bands/rates with that of personal income tax yield in Cross River state.

1.6   Scope of the Study
Though the study is intended for all states in the country, the researcher centred himself to Cross River state as a sample for the entire country. The study focused on the effect of tax rate regimes on personal income tax yield in Cross River state with the Cross River State Internal Revenue Service as the study area. The study covered a period of twenty five (25) years spanning from 1993-2017 (i.e. the effective date of the personal income tax Act of 1993) and this time frame was due to the availability of data.

1.7   Significance of the Study
This research work is expected to be of benefit to revenue officials who are saddled with the responsibility of ensuring that taxpayers are not negligent in paying their taxes. The outcome of this research will enable them (tax officials) to have a better understanding of the role the tax rates play in the personal income tax yield in the state. It is believed that only when this point is adequately appraised, that it will in turn translate to the provision of necessary infrastructure for the society when the resources are judiciously utilized. This research is also expected to be of benefit to researchers and students of the accounting profession since it is an important aspect of taxation and as well, serve as a reference point for policy makers.

2.0 Literature Review
2.1   Theoretical Framework

According to Evans, (2009), taxation has continuously been a matter of discussion between the taxpayers and the government identically since the early years of mankind civilization. The concept of taxation has created a lot of dispute and severe political struggles over a long period of time. Accordingly to its importance, several economic theories have been suggested to manage an effective and clear tax system. Taxation is therefore, generally classified or categorized under the following theories as given: Laffer curve theory, Benefit theory or Utility approach, Ibn Khaldrun theory, Ability to pay theory and Equal Distribution theory. These theories are discussed as follows:

2.1.1   Laffer Curve theory (Laffer, 2009)

This theory was developed by Prof. Arthur Laffer in 2009. It is a theoretical representation of the relationship between government revenue raised by taxation and all possible rates of taxation. It considered the amount of tax revenue raised at the extreme tax rates of 0% and 100%. The theory concludes that a 100% tax rate raises no revenue in the same way that a 0% tax rate raises no revenue. This is because at 100% rate, there is no longer incentive for a rational tax payer to earn any income, thus, the revenue raised will be 100% of nothing. It therefore follows that there must exist at least one rate in between where tax revenue would be a maximum. One potential result of this theory is that increasing tax rate beyond a certain point will become counter-productive for raising further tax revenue because of diminishing returns (Laffer, 2009).

2.1.2   Benefit Theory or Utility Approach (Erik Lindahl, 1919)

This theory was developed by Erik Lindahl and has a modern version known as "voluntary exchange" theory. According to this theory about taxation, individuals may be asked to submit their taxes in proportion to the benefit/utility they are enjoying from the services provided by the government. This should be based on the assumption that there is an interchange relationship between the taxpayer and the government. Government deliberates some benefits to the taxpayers by providing different services and other so-called social goods. Moreover, this theory profess and advocate that equity or fairness in taxation stresses that an individual would be asked to submit a tax proportionate to the welfares he receive in return from the services provided by the government. Despite that the theory is viewed as interchange relationship between taxpayers and the government, many difficulties was identified in applying the theory. The most serious problems confronting this theory is how to quantify and measure the received (enjoyed) benefit by taxpayer from the services provided by the government. For example, on which scale taxpayers benefit would be measured for enjoying national security and education, maintaining law and order and other social infrastructures all provided by government. Furthermore, various expenditures incurred by government in providing services, the benefits are indivisible which cause the expenditure also not possible to be divided. This could only show that people are always encouraged by paying taxes to the government for the continuity of the community prosperity. However, the theory can only be really applied in a situation where the beneficiaries are easily and clearly traceable. For instance, it can be applied to the road taxes collected from owners of vehicles. Also the principle of benefit theory can be applied to the workers who have a network of social security program. This principle can only render therefore, restricted solution to the issue of equity and fairness in the domain of taxation.

2.1.3 Ibn Khaldrun theory (Islahi, 2006)

Ibn Khaldrun theory of taxation is presented in Islahi's (2006) work. This theory was explained in term of two different effects that is, the arithmetic effect and the economic effect which the tax rates have on revenues. The two effects have opposite results on revenue in case the rates are increased or decreased. According to the arithmetic effect, if tax rates are lowered, tax revenues will be lowered by the amount of the decrease in the rate. The reverse is true for an increase in tax rates. The economic effect however recognized the positive impact that lower tax rate have on work, output and employment and thereby the tax rate base used in providing incentives to increase these activities. Whereas raising tax rates here, the opposite economic effect is used by penalizing participation in the taxed activities. At a very high tax rate, negative economic effect dominates positive arithmetic effect, thereby, the tax revenue declines (Islahi, 2006).

2.1.4 Ability to pay theory

As the name suggests, it says that taxation should be levied according to an individual's ability to pay base on his/her earnings. It advocates that public expenditures should come from "him that hath" instead of from "him that hath not". This theory originated since the sixteenth century and was scientifically extended by the seventeenth century Swiss philosopher Jean Jacques Rousseau (1712-1778), and then the French political economist named Jean-Baptiste Say (1767-1832) and lastly, the English economist John Stuart Mill (1806-1873). This is indeed the basis of 'progressive tax', as the tax rate increases then the taxable amount is expected to increase also. This principle is indeed the most equitable tax system, and has been widely used in industrialized economies. The usual and most supported justification of ability to pay theory is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrenders money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as:

(i) Each taxpayer surrenders the same absolute degree of utility that he/she obtains from his/her income;
(ii) Each sacrifice the same proportion of utility she/he obtains from her/his income;
(iii) Each gives up the same utility for the last unit of income; respectively.

2.1.5 Equal Distribution theory

According to this theory, tax liability should be so distributed between different persons such that bordering cost of utility of each individual who are disbursing the tax should be the same. This method seeks to reduce the total sacrifice of the people as a whole. When many individuals pay ample tax that means their marginal sacrifice of benefit should be the same, as such the total utility loss of the society will be lowest. The theory of equal distribution therefore, looks at the problem of apportioning the tax liability from the idea of view of benefit of the whole society. The social philosophy causal to the principle is that the entire sacrifice levied by taxation on the public has to be smallest. Thus, the equal distribution principle endorses a highly progressive tax structure. This taxation theory has been suggested among the scholars such as Edge worth, Musgrave and Pigou who contemplate this as the crucial principle of taxation. It is said that Edge worth who is the elevator of this principle suggests that minimum submission is the supreme principle of taxation. The smaller the amount of the cumulative tax sacrifice, the more improved sharing of tax liability in the community and then the more Government continues to exist and maximize human welfare.

2.2   Concept of Personal Income Tax

This is a tax levied on employment income and any other income received by individuals. Individuals here being those in paid employment and those in self-employment, i.e. those engaged in a trade, business, profession or vocation such as lawyers, accountants, doctors, traders in shops etc. The assessment and collection of this tax in Nigeria is regulated by the Personal Income Tax Act No.104 LFN, 1993. It is this law that gives the necessary procedures and administrative powers to impose and collect taxes from persons, individuals, partnerships, executors, trustees, family or communities, corporation sole or body of individuals. Personal income tax is collected by the various state governments through the State Board of Internal Revenue (SBIR) from individuals resident in the tax territory. Taxes from certain categories of individuals - members of the Armed Forces, the Nigerian police, FCT residents, External Affairs Officials and non-resident individuals are collected by the Federal Government via the Federal Board of Inland Revenue (FBIR).

2.3   Personal Income Tax Rate Regimes

Personal income tax is a direct tax charged on the income of a person. In the context of personal income tax, a person means an individual, a sole proprietorship (non-juristic person), communities and families and on executors and trustees (of an undivided estate). The rate of personal income tax payable is dependent on the amount of taxable income which the person is liable for. Taxable income refers to the base upon which the income tax system imposes and decides on how much tax a person is to pay in a given calendar year. Generally, it includes some or all items of income less expenses and other deductions. Therefore, in determining the tax rate, a simplified calculation would be:

Taxable income = Income – Expenses and deductions

$$\text{Tax Due} = \frac{\text{Taxable income}}{\text{Tax rate}}$$

Under the personal income tax laws, the following regimes are associated with the personal income tax rates from 1993 to date:

2.3.1   Regime One (1993 to 1997)

This regime spans from between 1993 and 1997. The individual's income liable to personal income tax is graduated at an average rate of between 5% to 25% of the individual's annual income. The graduated tax bands and rates are as given below:

	Tax bands		Tax rates
First	₦10,000	at	5%
Next	₦10,000	at	10%
Next	₦20,000	at	15%
Next	₦20,000	at	20%
Above	₦60,000	at	25%

2.3.2   Regime Two (1998 to 2000)

With a minimum tax rate of 0.5% of the individual's gross income, runs from the period 1998 to 2000. The personal income tax rate is graduated at an average rate of between 5% to 25% of the individual's annual income. The difference in this regime is seen in the adjustment of the tax bands and is given thus:

	Tax bands		Tax rates
First	N20,000	at	5%
Next	N20,000	at	10%
Next	N40,000	at	15%

Next	N40,000	at	20%
Above	N120,000	at	25%

2.3.3 Regime Three (2001 to 2010)

This regime spans from 2001 to 2010 and allows a minimum tax of 0.5%. The individual's income liable to personal income tax is at an average rate graduated between 5% to 25% of the individual's annual income. The revised graduated tax bands are as shown below:

	Tax bands		Tax rates
First	₦30,000	at	5%
Next	₦30,000	at	10%
Next	₦50,000	at	15%
Next	₦50,000	at	20%
Above	₦160,000	at	25%

2.3.4 Regime Four (2011 to date)

Under the personal income tax laws as contained in the Personal Income Tax (Amendment) Act, 2011, all taxable persons are entitled to a consolidated relief allowance of 20% of gross income plus higher of 1% of gross income or ₦200,000. This regime allows a minimum tax rate of 1% of gross income below ₦300,000 and runs from 2011 to date. After the deduction of the consolidated relief allowance (CRA) from the individual's annual income, the residue or remainder is liable to personal income tax at an average graduating rate of between 7% to 24% of the individual's annual income. Thus, a higher personal income tax rate is reserved for people earning above ₦1.6Million and ₦3.2Million per annum after making provision for consolidated relief allowance. The revised graduated tax bands and rates are as given below:

	Tax bands		Tax rates
First	₦300,000	at	7%
Next	₦300,000	at	11%
Next	₦500,000	at	15%
Next	₦500,000	at	19%
Next	₦1,600,000	at	21%
Above	₦3,200,000	at	24%

In computing the gross emoluments of all employees, the employees' wages, salaries, allowances (including his/her benefits-in-kind), gratuities, superannuation and any other income derived by reason of employment shall be computed for the purpose of arriving at the employees' payee tax that will be remitted to the revenue authorities.

2.4 Classification of Personal Income Tax

As contained in the provisions of the Approved list for Collection Decree (Decree No. 21 of 1998), the personal income tax is classified as: Pay-as-you-earn (PAYE), Direct Assessment and Withholding tax. They are discussed below:

1. Pay As You Earn (PAYE)

This is the system or method of collecting personal income tax due on employment income including persons. In this system, the employee pays tax on whatever income he/she earns from employment in any particular month or at the end of each month. The total amount deducted by the employer from the employees' earnings at the end of every month is then remitted to the relevant tax authority. Under this scheme, the employer of a taxpayer is an unpaid agent of the Revenue service. It is the duty of any employer in accordance with the directives of the revenue office to deduct income tax from the total income of his employees. The pay-as-you-earn (PAYE) system seems to be the most effective system of enhancing

payment of tax (from employment) since tax is deducted at source. The question of tax evasion is completely out in respect of employees' income denial from employment tax. Tax evasion is the general term for efforts not to pay taxes by illegal means (Sharma & Dang, 2011 as cited by Mohammed & Mohammed, 2012).

2. Direct (Sell and Government) Assessment

The direct assessment system of personal income tax is used for assessment of the income tax of self-employed individuals. The self-employed persons include professionals, sole traders and partnerships, emerging contractors and commission agents (Ogolo, 1985). The assessment section assesses the individual taxpayer and sends it to the collecting and accounting section. Payments on direct assessments are to the cashiers who issue receipts for monies collected. In contrast to their relevant tax contribution, tax payers subject to direct assessment own significantly greater proportion of the wealth of the country. Tax revenue from direct assessment has been discouraging as a result of significant cases whereby taxpayers in this category conceal their various sources of income due to lack of proper and reliable accounting records.

2.5 Limitations of Personal Income Tax Assessment and Collection

The Board of Internal Revenue in the state and the Federal Inland Revenue at the federal level are the main tax administration body in the country. They have offices located at each major settlement areas and local government areas with tax collecting agents. The board of Internal Revenue has agents/representatives in all the hamlets, Quarters and villages in Nigeria for easier assessment and collection of taxes. All these notwithstanding, there still exist, high rate of tax evasion which is to a good extent contribution to the problems of tax administration machinery in Nigeria (Sylvester, 2016).

2.6 Income Tax Compliance

Tax is generally looked at as a compulsory ley by government on the earnings and consumption of persons including corporate bodies. Although it is compulsory, it still requires some degree of compliance by the payers. Compliance simply means obedience to a tendency to carry out a demand or perform a function. Tax compliance therefore, is the tendency for a tax payer to conform to the demands or guidelines for payment of taxes. There are basically four parties to tax compliance, namely:
(i) The tax payer who is liable to the payment of taxes.
(ii) The tax administrator or tax authority who is vested with the authority to assess, collect, account and report on tax collection.
(iii) The tax practitioner who advices the tax payers and liaises with the tax authority.
(iv) The law enforcement agencies that compel relational taxpayers to comply with the demand for taxes.

In Nigeria today, most residents are not very aware of the need for them to pay their taxes, why they should pay taxes, who they should pay their taxes to and how to pay such taxes. Tax compliance simply means paying the right tax at the right time and in their right form. Tax compliance is of two types, namely:
a. Voluntary Compliance
Compliance is said to be voluntary when taxpayers file all tax returns, obtain his assessment, settle all tax liabilities and clears all outstanding tax issues concerning him before the expiration of the statutory deadline.

b. Forced or Compelled Compliance

Compliance is considered to be forced or compelled when the taxpayer is coerced into compliance by the instrumentality of law. All taxes are products of enabling legislations; failure to comply with the legislations makes the defaulter liable to a criminal charge. In deciding with tax crimes unlike all other criminal laws, the defaulter is deemed guilty until he proves himself innocent.

Many taxpayers evade taxes because they believe or assume that tax proceeds will not be spent judiciously. However, improper application or utilization of taxpayers' money is not an excuse for tax evasion. It is proper to pay appropriate taxes and demand accountability from the government. It is mandatory for every citizen to perform his/her civic responsibility primarily among which is the payment of taxes.

2.7   Economic and Social Effects of Taxation

Orji (2001) as cited by Eze (2012), enumerated the following to include the economic and social effects of taxation:

(i)   Effects on supply of Resources: If savings are taxed, investors would naturally be able to have smaller volume of savings and the overall level of investment will decline. When the government taxes earnings from investment, it might become a problem for firms to raise adequate capital in the financial market.

(ii)   Effects on Retained Profits: When retained profits are taxed, firms fail to depend on their internal resources for expansion but resort to borrowing if they can obtain such loans. Thus, the internal capacity to invest is likely to decrease as retained profits are taxed.

(iii)   Effects on corporate profit: Taxation has the effect of reducing the net profit after tax available to the shareholders. If the tax rate is high, the net profit of the firm will be low and therefore, hampers ability of the firm to raise money internally.

(iv)   Effects on Inflation: During periods of rapid and unsustainable economic depression especially when such expansion has inflationary consequences, the government may attempt to dampen the level of economic activities by increasing tax rate. When tax rates are raised, both personal disposable incomes and corporate profits after tax are reduced, this reduces the purchasing power of both firms and individuals and their demand falls and prices consequently fall as well.

(v)   Effects on dividends: When dividends are taxed very heavily, the shareholders would prefer to capitalize their earnings instead of receiving it as cash dividend. However, those investors who are dependent on cash dividend for their viewing will no longer invest in shares and the implication for the firm would be a fall in available resources.

2.8   Effect of Tax Rate Regimes on Personal Income Tax Yield

The tax rate regimes no doubt have both favourable and adverse effect on government revenue. Basically, the overall effect of tax rate regimes on revenue generation is positive and significant but however, in the light of the findings the fourth tax rate regime appeared to have the most positive significant effect on government revenue compared to other regimes. It is assumed that a higher income tax rate leads to a higher tax revenue collection which in turn will enhance the economic development of any country especially in developed nations as compared to developing or under-developed nations (Slemord, 2003). This then influences the savings of individuals and companies which in turn results to tax evasion. As observed by Toby (1983), the taxpayer indulges in evasion by resorting to various practices. These practices erode moral values and build up inflationary pressures.

The above point can be buttressed with the fact that because of the evasion of tax, individuals and companies have a lot of money at their disposal. Companies declare higher

dividends and individuals have a high take-home profit. This increases the quantity of money in circulation but without a corresponding increase in the goods and services which then builds up what is known as "inflationary trends" where large money chases few goods. Hence, a higher tax rate is imperative to help curb these inflationary pressures thereby resulting to an increase in personal income tax yield. A lower tax rate on the other hand, would however lead to less revenue to the state but will to a large extent help reduce the menace of tax evasion.

2.9   Empirical Review

Considering the importance of revenue generation, the empirical approach adopted follows a large strand of the established literatures on Personal income tax and revenue generation. In these literatures, data collected were used to estimate the relationship between personal income tax and revenue generation.

Adebisi & Gbegi (2013) examined the effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. The study made use of primary and secondary data and tables and percentages were used for the analysis. The Analysis of Variance (ANOVA) was used to test the hypotheses. The research findings disclosed that enlightenment and adequate utilization of tax revenue on public goods will discourage tax avoidance and tax evasion, high tax rates encourage tax avoidance and tax evasion, personal income tax generation has not been impressive and personal income tax rates are too high. They therefore concluded that there is a direct and positive relationship between tax avoidance, tax evasion, tax rates and personal income tax administration in Nigeria. Hence recommended that tax officials should be constantly trained and retrained on the job, a deliberate and more aggressive public enlightenment campaign should be embarked upon by government and the reduction in tax rates for the poor.

Ifere & Eko (2014) investigated the effect of tax innovation and administration on revenue generation in Nigeria with Cross River state as the study area. The study employed the Pearson product moment correlation to analyze the relationship existing between the study variables and found that tax rates and other determinants affect the level of tax revenue generated. The study also found incomparability between the infrastructural development, social services provided and the tax revenue generated. The study recommended therefore, constant review of tax policies, tax rate that would discourage tax evasion and avoidance, upgrading of the process employed in assessing and collecting taxes and improving the wages and salaries of tax officials. All these, according to the study would result in better tax administration in the state.

Adegbite (2017) examined the effect of personal income tax on revenue generation in Oyo state. Data obtained spanned from 1990 to 2015 and the study employed the Pearson product moment correlation and Multiple Regression to analyze the relationship between revenue generation and the components of personal income tax (PAYE, capital gains tax, road tax and other taxes). The study found that there is a positively significant effect of PAYE and all other variables on government revenue in Oyo state with the exception however of capital gains tax which had a negative effect. It was therefore, recommended that the state government should look inward on how more internal revenue can be generated in the state in order to achieve micro objectives of the government and to eradicate the scarcity of government revenue.

Similarly, Nassar & Fasina (2005) examined the impact of personal income tax on internally generated revenue performance in Oyo state. Using data spanning from 2000 to 2005 and stepwise regression technique to select the revenue source that had the greatest impact on internally generated revenue in the state, they found that personal income taxes have the highest

contribution of 68.4% effect on internally generated revenue in Oyo state. Both taxes and licenses jointly accounted for 68.8% variation in internally generated revenue in the state. Hence, any improved strategy on taxes will boost the state's internally generated revenue.

Saibu & Olatunbosun (2013) studied the different macroeconomic determinants of tax revenue in Nigeria using time series data over the period of 1970 to 2011 and adopting error correction mechanism to establish both the long-run and short-run relationship among the study variables. The main findings of the empirical analysis showed that tax revenue tends to be significantly responsive to changes in income level, tax rates, exchange rates and inflation rates. They therefore, concluded that macroeconomic instability and level of economic activities are the main drivers of tax buoyancy and tax effort in Nigeria.

Olabisi (2010), in his study on Assessment of tax evasion and tax avoidance in Lagos state using SPSS for analysis and Chi-square for testing the hypothesis, found that the tax administration in Lagos state is very inefficient and ineffective, and that there is no adequate information on the taxpayers in the state, hence, some people can hide from their tax liabilities. He concluded that there is a significant relationship between tax evasion and avoidance and the tax rate on the revenue of government and therefore, recommended a complete overhaul of the Nigerian tax system so as to prevent tax evasion and avoidance and encourage compliance.

Olusola (2011) also investigated the impact internal sources of revenue have on total revenue in Ogun state. The Multiple Regression was used for analysis and panel data regression method was adopted in testing the fixed and random effect at 1% significance level. It was discovered that tax rates, fines, fees, licenses and rents were significant taxes impacting on internally generated revenue at the local government level in Ogun state.

Mohammed (2008), in her study on Assessment of personal income tax in Kaduna state using Chi-square for analysis, showed that direct assessment tax is not effective with respect to revenue generation and that factors such as tax rate and inflation rate affect the revenue due the state government. The study recommended among other things, holistic reshuffling of the staff of the Board, computerizing the system and ensuring that there are proper and up-to-date data on direct assessment taxpayers in the state.

As can be seen from the empirical literature, the previous studies have done much in the area of personal income tax and revenue generation but failed to consider the relationship between the tax rate regimes and personal income tax returns (yield) which this study seeks to cover the gap.

3.0 Research Methods
3.1 Research design

The research design adopted for this study was the ex-post facto design to obtain data and it involved investigating the relationship between two or more variables based on past events with the intention of establishing whether an effect or the lack of effect exists between the variables under study. The population of the study comprised a time frame/period of thirty (30) years starting from 1987 when the present Akwa Ibom state was excised from Cross River state. The basis for this time frame was based on the availability of data and the fact that the data for this study were all secondary data. The sample size refers to the portion of the total population which the researcher used for the study. The study used a time period of twenty-five (25) years Annual revenue reports of the Cross River state Internal Revenue Service as the sample for analysis purpose. This sample size was determined based on the researcher's judgment and it was for the period 1993 to 2017 (that is, from the effective date of the Personal Income Tax Act of 1993).

3.2   Method of Data Collection and Data Sources

This study used secondary data sources and the method used in collecting these data was documentation. Data extracted were from the annual revenue reports of the Cross River State Internal Revenue Service and National Bureau of Statistics (NBS) portal. The use of secondary data is appropriate because the study is correlational in nature and is conducted to try to establish an effect or lack of effect on the study variables.

3.3   Model Specification

The multiple regression model adopted for this study is presented below:

$$PITY = f(TRR_1, TRR_2, TRR_3, TRR_4)\ldots\ldots\ldots\ldots\ldots.\text{Equ. 1}$$

Econometrically, the model is stated giving consideration to the different tax rate regimes as:

$$PITY_1 = a + b\ TRR_1 + Ut\ldots\ldots\ldots\ldots\ldots\ldots..\ldots\ldots\text{Equ. 2}$$
$$PITY_2 = a + b\ TRR_2 + Ut\ldots\ldots\ldots\ldots\ldots\ldots..\ldots\ldots\text{Equ. 3}$$
$$PITY_3 = a + b\ TRR_3 + Ut\ldots\ldots\ldots\ldots\ldots\ldots..\ldots\ldots\text{Equ. 4}$$
$$PITY_4 = a + b\ TRR_4 + Ut\ldots\ldots\ldots\ldots\ldots\ldots..\ldots\ldots\text{Equ. 5}$$

The above equations can be summarized thus:

$$PITY = a + b_1 TRR_1 + b_2 TRR_2 + b_3 TRR_3 + b_4 TRR_4 + Ut\ldots\ldots.\text{Equ. 6}$$

Where:

TRR_1 to TRR_4 = Tax Rate Regimes

PITY = Personal Income Tax Yield

a = Constant (Intercept)

b = Coefficient of the independent variables

Ut = Stochastic Error Term

3.4   Data Analysis Technique

The data analysis technique that was adopted for this study was the Multiple Linear Regression using ordinary least square method of estimation (OLS). The technique consists of dependent variable PITY, and independent variables TRR_1 to TRR_4. To test for significance of the relationship of the variables under study, the T-test at n-2 degree of freedom and the F-test at k:n-(k+1) degree of freedom were necessary so as to determine the relative magnitude of the sum of square due to the regression and the error sum of square with their appropriate degrees of freedom. This was carried out at 5 percent significance level.

4.0 Data Presentation, Analysis and Findings

4.1   Presentation of Data

This section is concerned specifically with the presentation of data collected from the National Bureau of Statistics portal and the annual revenue reports of the Cross River State Internal Revenue Service for the periods 1993-2017. This information is presented in the tables below:

Table 4.1: Transformed Data for tax yield and tax rate regimes for the periods 1993-2017

YEARS	PITY	TRR_1	TRR_2	TRR_3	TRR_4
1993	8.86	15.0	0	0	0
1994	8.99	15.0	0	0	0
1995	9.06	15.0	0	0	0
1996	9.22	15.0	0	0	0
1997	9.25	15.0	0	0	0
1998	9.30	0	15.0	0	0
1999	9.35	0	15.0	0	0
2000	9.26	0	15.0	0	0
2001	9.14	0	0	15.0	0
2002	9.22	0	0	15.0	0
2003	9.32	0	0	15.0	0
2004	9.31	0	0	15.0	0
2005	9.27	0	0	15.0	0
2006	9.37	0	0	15.0	0
2007	9.42	0	0	15.0	0
2008	9.47	0	0	15.0	0
2009	9.61	0	0	15.0	0
2010	9.59	0	0	15.0	0
2011	9.71	0	0	0	16.2
2012	9.82	0	0	0	16.2
2013	9.67	0	0	0	16.2
2014	9.72	0	0	0	16.2
2015	9.64	0	0	0	16.2
2016	9.67	0	0	0	16.2
2017	9.74	0	0	0	16.2

Source: Researcher's compilation, 2018

Table 4.2: Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	TRR_4, TRR_2, TRR_1[b]	.	Enter

a. Dependent Variable: PITY
b. Tolerance = .000 limits reached.

Source: IBM SPSS Statistics 20 Output Based on data in table 4.1

Table 4.3: Excluded Variables[a]

Model		Beta In	T	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	TRR_3	.[b]	.	.	.	.000

a. Dependent Variable: PITY
b. Predictors in the Model: (Constant), TRR_4, TRR_2, TRR_1
Source: IBM SPSS Statistics 20 Output

Table 4.4: Least square regression Estimation results for the model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.373	.040		232.317	.000
	TRR_1	-.020	.005	-.471	-4.214	.000
	TRR_2	-.005	.006	-.092	-.841	.410
	TRR_4	.021	.004	.604	5.350	.000

R = 0.884
R-Square = 0.781
Adjusted R-Square = 0.750
Standard error of regression = 0.12758
F-statistic = 25.033

a. Dependent Variable: PITY
b. Predictors: (Constant), TRR_4, TRR_2, TRR_1
Source: IBM SPSS Statistics 20 Output

4.2   Data Analysis

The regression analysis was conducted to show the effect of the independent variables on personal income tax yield. The Least Square multiple regression was adopted in the study because of its efficiency in the presence of outliers. The main statistics of interest were the coefficient estimates and their corresponding significance. The analysis began with table 4.1 which showed how the data in their transformed state were presented. Personal income tax yield was represented by PITY while the four tax rate regimes considered were represented by TRR_1 to TRR_4. At TRR_1 to TRR_3 the tax rates were constant; the change was in the tax bands. However, it was at TRR_4 that there was both a change in the tax bands and also a change in the tax rates. The effect of changes in the tax bands of TRR_1 to TRR_3 was therefore evidenced in the revenue generated owing to the fact that a lower tax band brings about a tax yield that would be lower at the given tax rates as compared with a change to a higher tax band given the same rates.

Table 4.2 showed the levels at which the variables were entered and removed. The variables were entered at 0.05 level of significance and removed at 0.10 level of significance. However, it was not all desired variables entered that were adopted, one (TRR_3) was excluded as shown in table 4.3. This was based on the assumption that the variance in predictor TRR_3 is already contained in or is redundant with the other predictors. This implies that it can perfectly be predicted from one or more of the other independent variables hence, its exclusion from the model (this can be called perfect multicollinearity).

From table 4.4 above, it can be seen that the constant (a = 9.373) indicated that if TRR_1, TRR_2 and TRR_4 are held constant, PITY is subject to vary by 9.373. This account for the influence of other variables not built in the model. The coefficient of TRR_1 (b_1 = -0.020) is negative but indicates a significant relationship with PITY (since the probability of its t-values is less than 0.05). The general implication of this is that a percentage increase in TRR_1 (tax bands/rates), results to a decrease in PITY (personal income tax yield) by 0.020 points. Hence, the first tax rate regime passed the significance test and therefore contributes significantly to personal income tax yield in Cross River state but however, in a negative manner. The coefficient of TRR_2 (b_2 = -0.005) is also negative and indicates an insignificant relationship with PITY (since the probability of its t-values is more than 0.05). The general implication of this is that a percentage increase in TRR_2 (tax bands/rates), brings about a decrease in PITY (personal income tax yield) by 0.005 units. Hence, the second tax rate regime did not pass the significance test and therefore contributes negatively to personal income tax yield in Cross River state but however, to an insignificant extent. The coefficient of TRR_4 (b_4 = 0.021) is positive and significant at less than 5 percent level (since the probability of its t-values is less than 0.05). The general implication of this is that a percentage increase in TRR_4 (tax bands/rates), would result to an increase in PITY (personal income tax yield) by 0.021 points. Hence, the fourth tax rate regime passed the significance test and therefore, contributes positively to the personal income tax yield in Cross River state.

The correlation coefficient R (0.884) indicated that there is strong positive relationship amongst the variables under study. The coefficient of determination R^2 (0.781) indicated that the independent variables (TRR_1, TRR_2 and TRR_4) captured approximately 78.1% of the total variation (100%) in the dependent variable (PITY). That is to say that the independent variables explained 78.1% out of the 100% variation that occurred in the dependent variable. The remaining 21.9% percent represented the unexplained percentage which could result to other independent variables not built in the model. In addition to the coefficient of determination in assessing the goodness of fit is the adjusted R^2 (0.750). This means that the coefficient of determination R^2 when adjusted reduces from 78.1% to 75% which is still strong meaning also that 75% of the variations in PITY can still be explained by the explanatory variables. This simply indicates that the regression model is best line of fit. The standard error of the estimate (0.12758) is low and therefore, is desirable.

4.3   Test of Hypotheses

There is need to test for significance of the independent variables TRR_1, TRR_2 and TRR_4 on the dependent variable PITY (personal income tax yield in Cross River state). In doing this, a 5% level of significance was adopted. To test for significant relationship of the independent variables, the F-statistics and T-statistics at k:n-(n+1) and n-2 degrees of freedom were used. The decision rule was that if F and T-calculated value was less than the F and T-tabulated value, then the null hypothesis should be accepted otherwise rejected and the alternative hypothesis accepted.

Hypothesis One:

H_0:   The tax rate regimes do not have significant effect on personal income tax yield in Cross River state.

H_A: The tax rate regimes have significant effect on personal income tax yield in Cross River state.

The F- statistics and probability confirmed the significance of the model. This hypothesis is to test whether or not there is significant effect of tax rate regimes on Personal income tax yield in Cross River state. The F-calculated value from the result was 25.033 while

the F-table value (3.070) was ascertained using the degree of freedom k:n-(k+1) which was at 3:21 degrees of freedom. The high significance of the F-value (25.033) confirmed that the high explanatory power of the model did not occur by chance; it actually confirmed that the model fits the data well. From the decision rule above, because the calculated value was more than the table value and p-value for the alternative hypothesis equals 0.000 which is less than 0.05, therefore the null hypothesis was rejected while the alternative hypothesis was accepted. Therefore, it was concluded that the tax rate regimes have significant effect on personal income tax revenue generated by Cross River state.

Hypothesis Two:

H_0: There is no significant relationship between changes in income tax bands/rates with that of personal income tax yield in Cross River state.

H_A: There is significant relationship between changes in income tax bands/rates with that of personal income tax yield in Cross River state.

The T-statistics was used to determine the effect of changes in personal income tax bands/rates and revenue generated in Cross River state at 5% level of significance and n-2 degree of freedom. The table value for the regression result was 2.069 while the calculated values for TRR_1, TRR_2, and TRR_4 were 4.214, 0.841 and 5.350 respectively. From the decision rule above, because the calculated value for TRR_1 (4.214) is more than the table value (2.069) with a p-value (0.000) less than 0.05, the null hypothesis was rejected and the alternative hypothesis was accepted that there is significant relationship between a change in the tax bands/rates of regime one (TRR_1) and PITY (Personal income tax yield). Also for TRR_2 (0.841), since the calculated value is less than the table value (2.069) with a p-value more than 0.05, the null hypothesis was accepted while the alternative was rejected. Hence, it was accepted that there is no significant relationship between a change in the tax bands/rates of regime two (TRR_2) and personal income tax yield (PITY) in Cross River state. Finally, the decision rule for TRR_4 was to reject the null hypothesis and accept the alternative hypothesis since the calculated value (5.350) was more than the table value (2.069) and the p-value for the alternative hypothesis was 0.000 which is less than 0.05. Hence, at the first (TRR_1) a change in the tax rates/bands resulted to a significant negative change in personal income tax yield in Cross River state while a change to the second (TRR_2) tax rate regime, resulted also to a negative but insignificant change in personal income tax yield in Cross River state. However, a change to the fourth (TRR_4) tax rate regime brought about a significant positive change in the personal income tax yield in Cross River state. Therefore, it was concluded that the fourth tax rate regime contributed significantly to the personal income tax yield in Cross River state since it depicted a positive relationship between changes in tax bands/rates and revenue generated in the state.

4.4 Discussion of Findings

This study examined the effect of tax rate regimes on personal income tax yield in Cross River state using four tax rate regimes as determinants of personal income tax yield. The empirical analysis showed the following relationships:

4.4.1 Tax rate regimes and personal income tax yield

According to the findings of the above analysis, there is a strong positive and significant relationship between the tax rate regimes and the revenue generated in respect of personal income tax in Cross River state. This implies that the tax rates prevalent in a particular regime, determines to a large extent the revenue that would be generated by the state. Therefore, the total effect of the tax rate regimes indicated a significant contribution to the revenue base of Cross River state. This finding is in agreement with the works of Adebibi & Gbegi (2013),

Ifere & Eko (2014), Olabisi (2010), Olusola (2011) and Mohammed (2008) who all found significant relationship between tax rates and personal income tax yield.

4.4.2 Changes in income tax bands/rates and personal income tax yield

According to this finding, there is significant negative relationship between tax rate regime one (TRR$_1$) and personal income tax yield while there is an insignificant negative relationship between the second tax rate regime and personal income tax yield. There existed a positive and significant relationship between tax rate regime four and personal income tax yield. This implies that a change in the tax bands/rates from regime one to regime two did not contribute significantly to the revenue base of Cross River state but rather resulted to a decrease in the revenue generated while a change to the fourth regime brought about a significant contribution to the revenue base of the state. This finding is in tandem with the findings of Saibu & Olatunbosun (2013) who in their study examined the macroeconomic determinants of tax revenue in Nigeria, and found that tax revenue tends to be significantly responsive to changes in tax rates, income level and inflation rate.

5.0 Conclusion and Recommendations
5.1 Conclusion

This study was set out to explore the effect the different tax rate regimes have on personal income tax yield in Cross River state using data for the period of twenty five (25) years spanning from 1993 to 2017. According to the findings, although the tax rate regimes altogether have significant effect on revenue generated, the fourth tax rate regime was seen to have the most positive and significant effect on revenue generated by Cross River state as compared with the first and second regimes which both had a negative effect. This implies that at the different tax bands/rates, the fourth regime contributed most significantly to the revenue base of the state in terms of personal income tax yield. In conclusion therefore, the fourth tax rate regime has significant and positive effect on personal income tax yield in Cross River state hence, efforts should be directed towards this regime so as to enable the state government generate more revenue to carry out its developmental projects for the benefit of the state.

5.2 Recommendations

The following recommendations were proffered based on the analysis of data and findings of this research:

1. There is the need for all state governments to clearly state the basic objectives of its tax system and the relationship between these objectives. This will assist to give the tax administrators a sense of direction and make the tax payer see clearly the reasons why he/she should pay his/her tax as at when due.
2. Well-equipped database on tax payers should be established by the federal, state and local governments with the aim of identifying all possible sources of income of tax payers for tax purpose. It is possible to track down those who are evading tax with the establishment of the well-equipped database.
3. Judicious use of tax payers' money should be made and be seen to have been properly utilized; this will encourage tax payers to continue to pay taxes.
4. Government should embark on more tax education/awareness, so that the tax payers will in no doubt appreciate the need for tax payment.
5. Government should introduce a threatening penalty to be meted on those found guilty of tax evasion and avoidance.
6. The assessment and collection procedures should be properly reviewed and evaluated by the tax authority so as to encourage compliance on the part of the tax payers.

7. Since majority of the people are poor, tax evasion becomes inevitable. Government should therefore, aggressively tackle the inflationary trends and also ensure that the poor pay very minimal tax.

8. Whenever there is a change in tax policy, the government should do well to enlighten the tax payers about such change.

9. The government should be considerate when deciding on the tax rates as lower tax rates would encourage compliance whereas higher tax rates would discourage the tax payers to pay tax.

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