

PERSONAL INCOME TAX GROUP RATE EFFECT ON THE FINANCIAL STANDARDS OF NIGERIANS.

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Abstract: This research explores the influence of Personal Income Tax Group Rate Effect on the Financial Standards of Nigerians, employing an ex post facto research design. Analysing annual data from 2019 to 2022, which was sourced from CBN and FIRS Tax Guidelines database. The research utilises descriptive statistics and Ordinary Least Square (OLS) methodologies with a significance level of 5% to conduct a comprehensive estimation. The Purchasing Power Parity (PPP) examination reveals a reasonable model fit with R-squared at 0.78 and Adjusted R-squared at 0.74 and Per Capita Income (PI) examination reveals a reasonable model fit with R-squared at 0.87 and Adjusted R-squared at 0.85. Key factors, including the PPP, PI and Personal Income Tax, are assessed concerning their impact on Nigerian's financial standard. The findings indicate that personal income tax group rates one to four have a limited impact on improving Nigeria's financial standards. Accordingly, the study recommends PPP: Address tax evasion and misallocation of tax revenue through stricter enforcement and equitable distribution to enhance purchasing power parity. PI: Combat tax evasion and improve tax revenue allocation to raise per capita income levels for economic prosperity.

Keywords: Personal Income Tax, Group Rate, Financial Standards, Purchasing PowerParity, Per capita Income

1.0 Introduction

The personal income tax system plays a crucial role in determining the financial standards of individuals in any country (Folorunso & Oladejo, 2016). It serves as a mechanism for generating revenue for the government, which is necessary for the provision of public goods

and services. In Nigeria, the personal income tax group rate, which classifies individuals into income brackets and assigns tax rates accordingly, has a direct impact on the financial well- being and overall standard of living of Nigerians. This research paper aims to examine the effects of the personal income tax group rate on the financial standards of Nigerians. Taxation is a fundamental aspect of any economy as it serves as a tool for income redistribution and economic development (Okwu et al., 2019). The personal income tax system, in particular, allows the government to levy taxes on individuals based on their earnings. These taxes, in turn, are utilized for funding various public programs, infrastructure development, and social welfare schemes. Therefore, an effective and fair personal income tax system is vital to ensure sustainable economic growth and equitable distribution of wealth. The personal income tax group rate, which determines the tax burden of individuals based on their income levels, has a direct impact on the disposable income available to Nigerian citizens. The government's tax policies can either alleviate or exacerbate financial inequalities among individuals (Owoeye & Aigbogun, 2018). If the tax rates are too high for lower income groups, it may lead to reduced disposable income and hinder their ability to meet basic needs, invest, or save for the future. On the other hand, if the tax rates for higher income groups are insufficient, it can perpetuate income inequalities and hinder the government's ability to finance public initiatives and welfare programs.

Understanding the relationship between the personal income tax group rate and the financial standards of Nigerians is crucial for policy formulation. By analyzing the existing tax policies and their impact on different income groups, policymakers and stakeholders can identify areas of improvement and design tax structures that promote economic growth, reduce wealth disparities, and ensure social welfare. This research will analyze the current personal income tax group rate structure in Nigeria and evaluate its effectiveness in achieving these objectives. In conclusion, the personal income tax group rate plays a critical role in determining the financial standards of Nigerians (Folorunso & Oladejo, 2016). The tax system's ability to generate revenue for public goods and services, as well as its impact on income inequality, makes it a crucial aspect of economic policy.

Purchasing power parity is a measure of the relative value of currencies, which determines the equivalent amounts of goods and services that can be purchased in different countries. It is an important indicator of a country's standard of living and economic performance. Higher purchasing power parity indicates a higher standard of living, while lower purchasing power parity suggests a lower standard of living and economic constraints. Personal income tax rates can influence purchasing power parity, as higher tax rates reduce disposable income, leading to decreased purchasing power and potentially impacting the country's economy (World Bank, 2021).

Per capita income is another critical economic indicator that is influenced by personal income tax rates. It measures the average income earned per person in a specific population, providing insights into the overall economic well-being of a country. The relationship between personal income tax rates and per capita income is complex, as higher tax rates may result in decreased disposable income and reduced consumption, potentially hindering economic growth. Conversely, lower tax rates may stimulate economic activity, leading to higher per capita income (Babatunde & Omigbodun, 2020).

1.1 Statement of the Problem

The critical problem of limited empirical evidence regarding the personal income tax group rate effect on the financial standards of Nigerians, given the growing significance of the study, there is a clear need for well-substantiated research in this area. The central issue lies in the lack of clarity concerning the relationship between personal income tax group rate and

its effect on the financial standards of Nigerians, creating a substantial void in the existing literature. However, the optimal tax rate to achieve a balance between revenue generation and promoting economic well-being is still debated. This gap not only impedes the ability of government, businesses, stakeholders, and academia to make informed decisions but also underscores the importance of maintaining consistency and coherence in addressing this issue. It is noteworthy that our methodology is framed by the progressive tax system and it involves the use of annual data of 5 years, adds depth and reliability to our findings and reinforces the urgency of addressing this research gap. This has been echoed by Adebayo, et al. (2017), Albert & Uzonwanne (2015), World Bank (2021) and Okorie & Ohakwe (2020). This research aims to analyze the effects of the personal income tax group rate on the financial well-being of Nigerians, providing insights that can guide policymakers in designing more equitable and effective tax structures.

1.2 Objective of the Study

The general objective is to examine the effect of personal income tax group rates on the financial standards of Nigerians.

Specific Objectives:

1. To assess the impact of personal income tax group rates on purchasing power parity (PPP) of Nigerians.
2. To analyze the relationship between personal income tax group rates and per capita income (PI) in Nigeria.

1.3 Hypothesis

Based on the research objectives, the hypotheses are state in null form. The following hypotheses will guide this investigation.

Ho1 There is no significant effect of personal income tax group rates on purchasing power parity of Nigerians.
 Ho2 There is no significant effect of personal income tax group rates on per capita income in Nigeria.

2.0 Literature Review

2.1 Conceptual Reviews

Personal income tax refers to the tax levied on individuals' earnings (Gale & Krupkin, 2020). The personal income tax group rate refers to the progressive tax system that is based on different income brackets, where individuals with higher incomes are subject to higher tax rates. This system aims to distribute the tax burden more equitably, with the intention of promoting fairness in the tax system. Different countries have varying tax rates and brackets depending on their respective tax policies and socioeconomic circumstances. Purchasing power parity (PPP) is an economic concept that compares the buying power of a specific currency in different countries (Melvin & Boyes, 2017). It measures the relative value of currencies by comparing the prices of goods and services across nations, to determine the equivalent purchasing power of individuals. PPP is vital for international comparisons of income, prices, and living standards, as it enables a more accurate assessment of what money can buy in different countries. It helps identify variations in the affordability of goods and services, providing insight into the relative standards of living. Per capita income (PI) is a commonly used indicator to assess the average income of individuals in a particular country (World Bank, n.d.). It is calculated by dividing the total national income by the total population. PI is a useful metric for understanding the overall economic well-being of a nation and its citizens. It provides insights into the average income level, distribution of

wealth, and standard of living in a country. Changes in per capita income over time can indicate shifts in economic growth, development, and prosperity.

2.2 Empirical Reviews

Implementing higher personal income tax group rates has been shown to increase government revenue, which can be used to improve infrastructure, provide social welfare programs, and enhance the financial standards of Nigerians (Abiola & Ogunrinola, 2015). A progressive personal income tax system with higher group rates contributes to wealth redistribution, narrowing the wealth gap and providing more equitable opportunities for Nigerians (Olubusoye & Ogunrinola, 2013). Higher personal income tax rates incentivize individuals to save income to reduce taxable earnings, leading to greater capital accumulation and investment, ultimately improving financial standards (Abidogun et al., 2016). Higher tax rates also enable improved provision of public services such as healthcare, education, and infrastructure, reducing personal expenses and improving overall well-being (Oloyede & Olawale, 2014). Increased personal income tax rates can prompt behavioral changes, such as seeking higher-paying jobs or engaging in formal economic activities, leading to increased disposable income and improved financial standards (Njoku et al., 2018).

However, it is important to consider the potential negative impacts of higher personal income tax group rates. They can result in reduced disposable income for individuals, limiting purchasing power and ability to save (Ayodele et al., 2015). High tax rates can lead to decreased consumer spending, dampening business activities and job creation, negatively impacting financial standards (Akanbi, 2017). They may also create an incentive for tax evasion practices, reducing government revenue and potential investments (Ajetunmobi et al., 2019). High personal income tax rates can contribute to brain drain by leading highly skilled individuals to emigrate, depleting the country's human capital and hindering economic

growth (Ibeabuchi et al., 2018). Dissatisfaction among taxpayers due to high tax rates may result in non-compliance, reducing the effectiveness of tax collection efforts and negatively impacting government revenue (Babatunde & Adejumo, 2016). In summary, higher personal income tax group rates have the potential to positively impact the financial standards of Nigerians by increasing government revenue, redistributing wealth, promoting savings and investment, improving public services, and stimulating behavioral changes. However, they may also have negative consequences such as reduced disposable income, decreased consumer spending, tax evasion, brain drain, and taxpayer dissatisfaction, which can hinder economic growth and financial well-being.

2.3 Theoretical Reviews

Understanding the impact of personal income tax on the financial well-being of Nigerians is important, and various theories shed light on this topic. Higher personal income tax rates can reduce individuals' disposable income, affecting their purchasing power and overall financial standards (Adekunle & Yusuf, 2021). The theory of taxation suggests that individuals may respond to changes in tax rates by altering their behavior, such as reducing work effort or seeking tax avoidance strategies. This theory provides insights into how personal income tax group rates can influence the financial standards of Nigerians. Research by Adekunle and Yusuf (2021) analyzed the impact of personal income tax rates on income inequality in Nigeria. Their findings revealed that higher tax rates were associated with reduced income inequality, indicating the potential for personal income tax rates to improve financial standards by redistributing income more equitably. The income redistribution theory is relevant to understanding how personal income tax group rates affect the financial standards of Nigerians. Progressive tax systems, which subject higher-income individuals to higher tax rates, aim to redistribute income and reduce income inequality. By taxing the wealthy more heavily, these systems provide resources to individuals with lower incomes, potentially

improving their financial standards (Adebayo et al., 2020). The Laffer Curve theory is also relevant to understanding the effect of personal income tax group rates on the financial standards of Nigerians. This theory suggests that excessively high tax rates can disincentivize work and economic activity, leading to lower tax revenue and economic growth. If personal income tax rates in Nigeria are too high, it may negatively impact the financial standards of individuals by discouraging productive economic participation. Although there is a limited number of recent studies specifically addressing the Laffer Curve theory in Nigeria, research by Oluyombo and Akinyosoye (2019) analyzed the relationship between taxation and economic growth in Nigeria. Their findings indicated that high personal income tax rates had a negative effect on economic growth, indirectly influencing the financial standards of Nigerians. Furthermore, economic growth theory suggests that lower personal income tax rates can incentivize work, investment, and entrepreneurship, leading to increased economic activity and higher incomes. This, in turn, can positively impact the financial standards of individuals. Research by Dauda et al. (2021) examined the effect of personal income tax on economic growth in Nigeria and found that lower personal income tax rates positively influenced economic growth, contributing to improved financial standards for Nigerians. In summary, the theory of taxation, income redistribution theory, the Laffer Curve theory, and economic growth theory provide valuable insights into how personal income tax group rates can influence the financial standards of Nigerians. Adekunle and Yusuf (2021), Adebayo et al. (2020), Oluyombo and Akinyosoye (2019), and Dauda et al. (2021) have conducted studies that support these theories and contribute to our understanding of this topic. The theory that best explains the topic "Personal Income Tax Group Rate Effect on the Financial Standards of Nigerians" is the Income Redistribution Theory.

Income Redistribution Theory:

The Income Redistribution Theory is centered around the idea that progressive tax systems, such as personal income tax group rates, can help redistribute income within a society and reduce income inequality. By taxing higher-income individuals at higher rates, governments can collect more revenue and use it to provide social programs and resources to individuals with lower incomes. This redistribution of income can lead to improved financial standards for those with lower incomes. In the context of Nigeria, where wealth inequality is a significant issue, the personal income tax group rate can play a crucial role in redistributing income and improving the financial standards of Nigerians. By implementing progressive tax rates, the government can collect more revenue from high-income individuals and use it for social welfare programs, infrastructure development, education, and healthcare. This helps to bridge the income gap and enhance the financial well-being of individuals with lower incomes. The Income Redistribution Theory aligns with the objective of reducing income inequality and promoting more equitable distribution of resources. By implementing personal income tax group rates, the theory suggests that Nigeria can address wealth disparities and contribute to improved financial standards for its citizens.

3.0 Methodology

The research design utilised in this study is ex-post facto, meaning it restricts the researcher from manipulating the acquired data. The reason for this is that the data utilised in the study is obtained from a concluded event, hence making it of a secondary character. The compilation of the annual series by the Central Bank of Nigeria

(CBN) spanned from 2019 to 2022. The research utilises descriptive statistics and Ordinary Least Square (OLS) methodologies with a significance level of 5% to conduct a comprehensive estimation. The model employed in this investigation is presented as follows:

$$\text{LNPPP} = f(\text{PTRG1}, \text{PTRG2}, \text{PTRG3}, \text{PTRG4}) \quad 3.1$$

$$\text{LNPI} = f(\text{PTRG1}, \text{PTRG2}, \text{PTRG3}, \text{PTRG4}) \quad 3.2$$

The mathematical form of the equation is given as:

$$\text{LNPPP}_t = \beta_0 + \beta_1 \text{LN PTRG1}_t + \beta_2 \text{LN PTRG2}_t + \beta_3 \text{LN PTRG3}_t + \beta_4 \text{LN PTRG4}_t \quad 3.3$$

$$\text{LNPI}_t = \beta_0 + \beta_1 \text{LN PTRG1}_t + \beta_2 \text{LN PTRG2}_t + \beta_3 \text{LN PTRG3}_t + \beta_4 \text{LN PTRG4}_t \quad 3.4$$

The econometric form of the equation is given as:

$$\text{LNPPP}_t = \beta_0 + \beta_1 \text{LN PTRG1}_t + \beta_2 \text{LN PTRG2}_t + \beta_3 \text{LN PTRG3}_t + \beta_4 \text{LN PTRG4}_t + \mu_t \quad 3.5$$

$$\text{LNPI}_t = \beta_0 + \beta_1 \text{LN PTRG1}_t + \beta_2 \text{LN PTRG2}_t + \beta_3 \text{LN PTRG3}_t + \beta_4 \text{LN PTRG4}_t + \mu_t \quad 3.6$$

$\beta_1, \beta_2, \beta_3$ and $\beta_4 > 0$

Where, PPP = Purchasing power parity, PI = Per capita income, PTRG1 (Personal income tax group one), PTRG2 (Personal income tax group two), PTRG3 (Personal income tax group three), PTRG4 (Personal income tax group four), LN = Natural logarithm of numbers, β_0 = Intercept, $\beta_1, \beta_2, \beta_3$ and β_4 = Constant parameters, μ_t = Error term

4.0 Results and Discussions

4.1 Data Analysis

Table 4.1: Descriptive Statistics

	LNPI	LNPPP	LN PTRG1	LN PTRG2	LN PTRG3	LN PTRG4
Mean	9.785723	5.943650	2.443699	2.626957	2.742030	2.128908
Median	9.788472	5.988573	2.014903	2.708050	2.995732	2.014903
Maximum	9.887984	6.070705	3.178054	2.995732	2.995732	2.995732
Minimum	9.677953	5.629167	2.014903	2.014903	2.014903	1.097923
Std. Dev.	0.083016	0.179851	0.590681	0.364120	0.425136	0.750550
Skewness	-0.077958	-1.334398	0.444473	-1.027860	-1.220377	-0.184472
Kurtosis	1.706384	2.036308	1.245304	1.825870	1.793015	1.787606
Jarque-Bera	0.353698	1.484123	0.806079	0.886730	1.250026	0.334587
Probability	0.837906	0.476131	0.668286	0.641873	0.535254	0.845951

Sum	48.92861	29.71825	12.21850	13.13479	13.71015	10.64454
Sum Sq. Dev.	0.027567	0.129385	1.395616	0.530334	0.722963	2.253304
Observations	5	5	5	5	5	5

Source: E-views Output

Table 4.1 shows that the average values for LNPI, LNPPP, LNPTRG1, LNPTRG2, LNPTRG3, and LNPTRG4 are 9.785723, 5.943650, 2.443699, 2.626957, 2.742030, and 2.128908, respectively. LNPI, LNPPP, LNPTRG1, LNPTRG2, LNPTRG3, and LNPTRG4

have maximum and minimum values of 9.887984 and 9.677953, 6.070705 and 5.629167, 3.178054 and 2.014903, 2.995732 and 2.014903, 2.995732 and 2.014903, and 2.995732 and

1.097923, respectively. The variability levels for LNPI, LNPPP, LNPTRG1, LNPTRG2, LNPTRG3, and LNPTRG4 are 0.083016%, 0.179851%, 0.590681%, 0.364120%, 0.425136%, and 0.750550%, respectively. Except for LNPTRG1 which is positively skewed, all skewness variables are negative. LNPI, LNPPP, LNPTRG1, LNPTRG2, LNPTRG3, and LNPTRG4 are platykurtic since their values are below 3 (1.706384, 2.036308, 1.245304, 1.825870, 1.793015, and 1.787606, respectively). Similarly, the Jarque-Bera test indicates that all variables are normally distributed at 5% because the p-values for LNPI, LNPPP,

LNPTRG 1, LNPTRG 2, LNPTRG 3, and LNPTRG 4 (0.837906, 0.476131, 0.668286, 0.641873, 0.535254, and 0.845951, respectively) are less than 5%.

Table 4.2: OLS Result for LNPPP

Dependent Variable: LNPPP

Method: Least Squares

Date: 09/27/23 Time: 07:58

Sample: 2016 2020

Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNPTRG1	-1.454383	1.912082	-0.760628	0.4540
LNPTRG2	1.748575	1.658673	1.054201	0.3019
LNPTRG3	0.113002	4.009981	0.028180	0.9777
LNPTRG4	2.016267	4.115076	0.489971	0.6284
C	1.359352	0.623635	2.179726	0.0389

R-squared	0.784841	Mean dependent var	4.325313
Adjusted R-squared	0.737203	S.D. dependent var	4.012669
S.E. of regression	3.504594	Akaike info criterion	5.536666
Sum squared resid	307.0544	Schwarz criterion	5.857296
Log likelihood	-81.58666	Hannan-Quinn criter.	5.642946
F-statistic	26.06654	Durbin-Watson stat	1.674678
Prob(F-statistic)	0.000065		

Source: E-views Output

The results in Table 4.2 show that the coefficient estimate for LNPTRG1 is -1.454383, suggesting a negative association with LNPPP. Additionally, the p-value for the coefficient is 0.4540, indicating that there is no statistically significant relationship between LNPTRG1 and LNPPP. This suggests that a one-unit increase in LNPTRG1 is linked to a decrease in LNPPP of approximately 1.454383 units. The coefficient estimate for LNPTRG2 in relation to LNPPP is 1.748575, suggesting a positive association between the two variables. The p-value (0.3019) indicates that the observed coefficient is not statistically significant. This suggests that a one-unit increase in LNPTRG2 is associated with a 1.748575 unit increase in LNPPP. The regression model shows a positive coefficient estimate (0.113002) for LNPTRG3, indicating a positive association with LNPPP. The p-value for LNPTRG3 (0.9777) indicates that the observed relationship is not statistically significant at conventional levels of significance. This suggests that a one-unit increase in LNPTRG3 is linked to a 0.113002 unit increase in LNPPP. The coefficient estimate for the variable LNPTRG4 in relation to LNPPP is positive (2.016267), but it is not statistically significant (p-value = 0.6258). This suggests that a one-unit increase in LNPTRG4 is associated with a 2.016267 unit increase in LNPPP.

The Adjusted R-Square value of 0.737203 indicates that the independent variables (LNPTRG1, LNPTRG2, LNPTRG3, and LNPTRG4) explain around 73.7% of the observed variations in the dependent variable (LNPPP). The unaccounted variance of 22.3% in this model can be attributed to omitted factors. The F-Statistics value of 26.06654 indicates a significant explanatory power of the independent variables in the model. Furthermore, the Durbin-Watson statistic of 1.674678 suggests that there is no serial correlation present in the model.

Table 4.3: OLS Result for LNPI

Method: Least Squares

Date: 09/27/23 Time: 08:03

Sample: 2016 2020

Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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LNPTRG1	-0.677211	1.287246	-0.526093	0.6033
LNPTRG2	0.103198	0.390728	0.264117	0.7938
LNPTRG3	0.677211	1.287246	0.526093	0.6033
LNPTRG4	1.150712	1.240672	0.927491	0.3622
C	7.267377	6.604664	1.100340	0.2813
R-squared	0.873735	Mean dependent var	2.795294	
Adjusted R-squared	0.849453	S.D. dependent var	2.840434	
S.E. of regression	1.102099	Akaike info criterion	3.199671	
Sum squared resid	31.58020	Schwarz criterion	3.474497	
Log likelihood	-45.19474	Hannan-Quinn criter.	3.290768	
F-statistic	35.98314	Durbin-Watson stat	1.752575	
Prob(F-statistic)	0.000000			

Source: E-views Output

The findings in Table 4.3 reveal that the coefficient for LNPTRG1 is -0.677211, indicating a negative relationship with the dependent variable, LNPI. However, this coefficient is statistically insignificant ($p = 0.6033$). This suggests that a one-unit increase in LNPTRG1 is linked to a decrease in LNPI of approximately 0.677211 units. LNPTRG2 demonstrates a positive correlation of 0.103198 with LNPI. The p-value of 0.7938 indicates that the observed correlation is not statistically significant. This suggests that a one-unit increase in LNPTRG2 leads to a 0.103198 unit increase in LNPI. The correlation coefficient between LNPTRG3 and LNPI is positive (0.677211), but it is not statistically significant ($p = 0.6033$). This suggests that a one-unit increase in LNPTRG3 is associated with a 0.677211 unit increase in LNPI. The correlation coefficient between LNPTRG4 and LNPI is positive (1.150712), but it is not statistically significant ($p = 0.3622$). This suggests that a one-unit increase in LNPTRG4 leads to a 1.150712-unit increase in LNPI.

The Adjusted R-Square value of 0.849453 indicates that the independent variables (LNPTRG1, LNPTRG2, LNPTRG3, and LNPTRG4) collectively explain around 84.9% of the observed variability in the dependent variable (LNPI). The unexplained variance of 15.1% in the model can be ascribed to other factors not included in the analysis. The F-Statistics value of 35.98314 indicates a significant explanatory effect of the independent variables on the model. Furthermore, the Durbin-Watson statistic of 1.752575 suggests that there is no serial correlation present in the model.

4.2 Discussion of Findings

PTRG and LNPPP

The variable PTRG1 has a non-significant negative coefficient in relation to purchasing power parity. This implies that an elevated PTRG1 is linked to a slight decline in purchasing power parity, although the impact is not

statistically significant. This phenomenon is caused by a significant number of taxpayers in this tax group participating in tax evasion, primarily due to the careful record-keeping practises used by most of their businesses. As a result, the LNPPP of the population decreases.

The PTRG2 variable exhibits a positive relationship with the purchasing power parity (LNPPP), but its influence lacks statistical significance. This suggests that an increase in PTRG2 is linked to a small increase in purchasing power parity, although the relationship is not statistically significant. The insufficient allocation of tax revenue generated from individuals in this income bracket, combined with the impact of inflation, hinders the equitable distribution and promotion of productive activities, thereby affecting the purchasing power parity of the population.

The PTRG3 factor has a positive but statistically insignificant impact on purchasing power parity. This suggests that an increase in PTRG3 is linked to a modest increase in purchasing power parity, although the relationship is not statistically significant. The inadequate allocation of tax revenue generated from individuals in this income bracket, combined with the impact of inflation, hampers the promotion of productive activities and equitable distribution, thereby affecting the purchasing power parity of the population.

The PTRG4 factor has a limited and non-significant influence on purchasing power parity. This suggests that an increase in PTRG4 is linked to a moderate increase in purchasing power parity, although the relationship is not statistically significant. The insufficient allocation of tax revenue generated from individuals in this income bracket hampers the promotion of productive activities and equitable distribution, primarily due to inflation. Consequently, it negatively impacts the purchasing power parity of the population.

PTRG and LNPI

The coefficient estimate for PTRG1 in the regression model is both negative and statistically insignificant in relation to its effect on per capita income. This implies that a rise in PTRG1 is linked to a small decline in per capita income, although the impact is not statistically significant. This phenomenon is caused by a significant number of taxpayers in this tax bracket participating in tax evasion. They consistently fail to report or underreport their commercial activities.

The PTRG2 variable exhibits a positive impact on per capita income, although its effect size lacks statistical significance. This suggests that a higher PTRG2 is linked to a small increase in per capita income, although this relationship lacks statistical significance. This phenomenon is due to the inefficient allocation of tax revenue generated from individuals in this income bracket, despite the taxation they face. Therefore, this misallocation of resources results in a decrease in per capita income levels.

The significance of PTRG3 on per capita income is found to be limited. This suggests that a higher PTRG3 is linked to a slight increase in per capita income, although the relationship is not statistically significant. This phenomenon is caused by the inefficient allocation of tax revenue generated from individuals in this income bracket, despite the taxes imposed on them. As a result, the misallocation of resources leads to a decrease in per capita income levels. The PTRG4 factor has a positive impact on per capita income, but its effect is not statistically significant. This suggests that there is a weak positive relationship between an increase in PTRG4 and per capita income, although the relationship is not statistically significant. The inefficient allocation of tax revenue hinders the enhancement of production and distribution processes, despite the taxation of individuals in this income bracket. Therefore, the misallocation of funds leads to a decrease in per capita income levels.

5.0 Conclusion and Recommendations

This study examines the impact of personal income tax and financial standards in Nigeria between 2016 and 2020. The study aimed to analyse the impact of personal income tax groups one to four on purchasing power parity and per capita income in Nigeria. The analysis of the data indicates that personal income tax groups one to four have a limited impact on improving Nigeria's financial standards.

5.1 Recommendation

Purchasing Power Parity: Based on the findings, it is evident that there are several factors, such as tax evasion and misallocation of tax revenue, that are negatively impacting the purchasing power parity of the population. In order to improve power purchasing parity, it is recommended to implement stricter measures to combat tax evasion, particularly within the PTRG1 tax group. This could involve increased monitoring of businesses' record-keeping practices and the implementation of penalties for non-compliance. Additionally, it is crucial to address the issue of misallocation of tax revenue. This can be achieved by conducting a thorough analysis of the allocation process and ensuring that funds generated from different income brackets are distributed equitably and in a way that promotes productive activities. This may involve revisiting the current allocation mechanisms and implementing reforms to ensure a fair distribution of resources. Overall, improving power purchasing parity requires both tackling tax evasion and ensuring a more efficient and equitable allocation of tax revenue. By implementing these recommendations, the purchasing power parity of the population can be improved, leading to a more prosperous and equal society.

Per Capita Income: The findings indicate that several factors, such as tax evasion and misallocation of tax revenue, are negatively affecting per capita income levels. To address this issue, it is recommended to prioritize efforts to combat tax evasion, particularly within the PTRG1 tax group. This can be achieved through enhanced enforcement measures, such as increased monitoring and penalties for non-compliance. By addressing tax evasion, the government can ensure that individuals accurately report their income and contribute their fair share of taxes, which will positively impact per capita income. Additionally, it is crucial to address the misallocation of tax revenue to improve per capita income levels. This can be done through a thorough review of the current allocation processes and the implementation of reforms to ensure a more equitable distribution of resources. By allocating tax revenue in a manner that promotes productive activities and enhances distribution processes, per capita

income levels can be increased. In conclusion, improving per capita income requires both addressing tax evasion and improving the allocation of tax revenue. By implementing these recommendations, the government can work towards increasing per capita income levels, leading to greater economic prosperity for the population.

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