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Optimizing Revenue Potentials in States' Internal Revenue Services: Challenges, Opportunities, and Strategies in Light of the Nigerian 2025 Tax Reform Acts

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Abstract:- This study examines the revenue mobilization and administration in Nigeria, with a focus on the challenges and opportunities facing internal revenue services across the country. The study employed a survey research design, with a questionnaire administered to 132 staff selected from the state internal revenue services of the 36 states of Nigeria and the Federal capital Territory (FCT), Abuja. Data was analyzed by using both descriptive and inferential statistics. The results show that the revenue generated by various revenue boards have not been sufficient to finance the various states' budgets. The study further reveals that despite increasing revenue generations across various states and the FCT, the services face significant challenges and that corruption, tax evasion, and bureaucratic bottlenecks are major challenges facing the various revenue mobilization and administration boards. The study also identifies opportunities for improvement, including the use of electronic tax collection methods, public awareness and education campaigns, and streamlining of tax laws and regulations. The study recommends training and capacity building for tax personnel, adoption of electronic tax collection methods, public awareness and education campaigns, reduction of political interference, and streamlining of tax laws and regulations. This study contributes to the existing body of knowledge on revenue mobilization and administration in Nigeria, and provides valuable insights for policymakers and stakeholders to enhance revenue generation nationwide.

Keywords: *Optimizing, Revenue Potentials, States' Internal Revenue Services, Challenges, Opportunities, Strategies, Nigerian 2025 Tax Reform Acts.*

1. Introduction

Revenue mobilization and administration are critical components of a Nigeria's fiscal sustainability and development, yet the country faces significant challenges in generating sufficient revenue to finance its budget. Despite all actions to improve tax collection, Nigeria's tax-to-GDP ratio remains relatively low, estimated at approximately 10.3% in 2024, below the African average of 15.6% and the global average of 19% (KPMG, 2025).

The Nigeria Revenue Service (NRS) has made According to KPMG (2025) report: "Over the years, Nigeria has faced persistent revenue shortfalls, rising debt obligations, and soaring inflation (which peaked at over 32% in 2024)". Nigeria operates an almost mono- economy heavily reliant on oil revenue, which has led to fiscal instability due to fluctuations in global oil prices. It also operates a dysfunctional federal system of government that unpleasantly led to a heavy reliance on federal allocations by states and the FCT, hindering their fiscal autonomy. Most states revenue services face significant challenges in generating sufficient revenue to finance states budget, with a reliance on federal allocations of over 70% (BudgIT, 2022). This dependence limits the states' abilities to provide essential services and infrastructure to their citizens.

For instance, despite efforts to improve revenue generation, Niger State's Internally Generated (IGR) has remained suboptimal, with a paltry N16.9 billion generated in 2022 (Olufemi, 2023). This is a far cry from the N651.2 billion and N172.8 billion generated by Lagos and Rivers states, respectively, in the same year (Olufemi, 2023). The state's IGR is even lower than that of neighbouring states like Kwara, Nasarawa, and Kogi, which generated N35.8 billion, N19.3 billion, and N18.2 billion, respectively, in 2022 (Olufemi, 2023).

The challenges facing revenue mobilization and administration in most Nigerian states are multifaceted. Inadequate tax laws, inefficient revenue collection systems, and a lack of transparency and accountability in revenue utilization are some of the problems bedevilling the states' revenue generation efforts (Adejoh et al., 2019; Onuigbo, 2021). Furthermore, the states' reliance on federal allocations has led to a lack of fiscal discipline, with limited efforts to explore alternative revenue sources (Samuel & Tyokoso, 2014).

Studies have also shown that corruption and tax evasion are significant challenges facing state revenue services (Adejoh et al., 2019; Onuigbo, 2021). Research has further highlighted the need for states to review and update tax laws and improve their revenue collection systems (Okon and Okon, 2012; Sokoh, 2023). In addition, research has emphasized the need for states to review and update their tax laws and regulations to improve revenue generation (Onuigbo, 2021; Ogbonna and Appah, 2016).

These studies on revenue mobilization and administration in Nigeria have limitations. Most have focused on specific aspects of revenue generation, such as taxation or public financial management, with limited attention to the broader challenges and opportunities facing most states (Adejoh et al., 2019; Onuigbo, 2021). Furthermore, the data used in these studies are often outdated, with limited relevance to the current economic realities facing most Nigerian states.

Finally, the 2025 Tax Reform Acts provide an opportunity for states to review and update their tax laws and regulations, enhance revenue, and promote accountability and transparency. New study is needed to explore the impact of these reforms on revenue mobilization and administration efforts in Nigeria's states.

This study aims to fill these gaps by providing a comprehensive analysis of revenue mobilization and administration in state revenue services across the federation, highlighting the challenges and opportunities facing the nation and providing recommendations for improving revenue generation and administration in light of the 2025 Tax Reform Acts. The study will use recent data and a multidisciplinary approach to provide a nuanced understanding of the states' revenue generation efforts, informing policies and strategies to improve fiscal sustainability and socioeconomic development in Nigeria.

The study attempted to answer the following research questions:

i. How adequate has the revenue generated by various states' Internal Revenue Services been able to effectively finance the states' budgets?
ii. What are the major challenges hindering States Internal Revenue Services in Nigeria?
iii. What are the measures that can be taken to address the challenges confronting States Internal Revenue Services in Nigeria to boost revenue generation and open up the states to opportunities?

This study is crucial for Nigeria's economic growth, as it thoroughly examines the opportunities and challenges related to internally generated revenue (IGR). By analyzing the IGR landscape, this study will contribute to financial stability, enabling more the effective resource allocation and reduced reliance on federal funds. It addresses fiscal autonomy, a vital aspect of financial independence in Nigeria's federal system. The study's findings will inform policymaking, providing insights into enhancing revenue collection and administration. These policy changes can improve the socioeconomic conditions of various State's residents, enhancing public services, infrastructure, and living standards.

This research also expands the knowledge base on revenue generation in sub-national entities, offering valuable insights into best practices and challenges in revenue mobilization. It sets the stage for future research in public finance, revenue management, and fiscal policy in Nigeria and similar regions.

Additionally, the study will enhance capacity building in revenue-generating agencies, promoting effective revenue administration practices. By promoting transparency and accountability in revenue processes, this research aligns with good governance principles, benefiting the nation and its citizens.

2. Literature Review and Theoretical Framework

This literature review provides a foundation for understanding the challenges and opportunities facing state internal revenue services in Nigeria and highlights the need for further research on optimizing revenue potentials in light of the 2025 Tax Reform Acts.

Federalism and Revenue Allocation in Nigeria

The history of revenue allocation in Nigeria has been marked by a series of reforms and changes, reflecting the country's evolving political and economic landscape. The journey began during the colonial era when revenue generated from Nigeria's resources primarily benefitted the British colonial administration. After gaining independence in 1960, Nigeria adopted various revenue allocation formulas, with the derivation principle being a central point of contention. The 1960 and 1963 constitutions emphasized revenue allocation based on regions, fostering competition and development among the regions. However, the discovery of oil in the 1970s dramatically shifted the revenue landscape, leading to a more centralized system with oil revenue dominating. The derivation principle was altered several times, sparking debates over equity and resource control. Over the years, Nigeria has witnessed different revenue allocation formulas, including the 1999 Constitution's 13% derivation for oil-producing states and the Niger Delta Development Commission (NDDC). These changes have been aimed at achieving a balance between equitable resource distribution and promoting development across the diverse states of Nigeria (Udoh, 2019).

According to Onyeka (2023), under the current sharing formula, the Federal Government gets 52.68% while the states and 774 local governments get 26.72% and 20.60% respectively. It is noteworthy that the 26.72% share for the states, is usually shared among all the thirty-six states of Nigeria. The implication of this, is that states having huge infrastructure deficit for example, may find it difficult to meet such high capital intensive developmental needs with their meagre share from the federal allocation. This therefore underscores the urgent need to expand internal revenue base of states to be able mobilize requisite resources with which to at least augment their share from the federation account to enable them provide critical and essential infrastructure and services to their people.

Sources of State Governments Revenue

State governments in Nigeria derive revenue from various sources to finance their operations and development projects. These revenue sources can be broadly categorized, according to Okon and Okon (2012) and Sokoh (2023), as follows:

1. Federation account allocation: The largest portion of revenue for state governments comes from the Federation Account. This account receives funds from the federal government, primarily generated from oil and gas exports. These funds are distributed among the states based on the Revenue Allocation Formula, which is periodically reviewed. This formula takes into account population, equality, and other factors, with some percentage reserved for oil-producing states through the derivation principle.
2. Internally Generated Revenue (IGR): States also generate revenue internally through taxes, fees, and levies. Common sources of IGR include personal income tax, corporate income tax, value-added tax

(VAT), land use charges, vehicle registration fees, and market dues. Improving IGR has been a focus for many states to reduce their dependence on federal allocations.

3. Agricultural and natural resources: Some states generate revenue from agricultural activities and the exploitation of natural resources like solid minerals, forestry, and fisheries. These revenues can come from agricultural produce sales, mining royalties, and timber sales, among others.
4. Investment income: State governments may earn income from investments in government bonds, stocks, and other financial instruments. These investments are typically managed by state-owned investment corporations.
5. Grants and donor funding: States may receive grants and funding from international development partners and donor agencies for specific projects or programs, particularly in areas like healthcare, education, and infrastructure development.
6. Licenses and permits: Revenue is generated from the issuance of licenses and permits for various activities, including business operations, building permits, and land use approvals.
7. Property and land revenues: States earn revenue from property taxes, land transactions, and land use charges. Property taxes are typically assessed on real estate holdings within the state.
8. Customary and traditional taxes: In some states, traditional authorities collect taxes from their communities, which are then shared with the state government.
9. Fees and charges: State governments may charge fees for services such as vehicle registration, driver's licenses, healthcare services, and educational admissions.
10. Special levies: States can impose special levies or surcharges on specific goods or services, such as hotel accommodation, alcohol, and tobacco products.
11. Environmental fees: States with a focus on environmental protection may impose fees related to waste disposal, pollution control, and environmental impact assessments.
12. Transportation revenues: Revenue can be generated from transportation-related sources, including vehicle registration fees, road taxes, and revenues from state-owned transport corporations.
13. Non-tax revenues: States may receive income from various non-tax sources, including sales of government assets, fines, penalties, and forfeitures.
14. Education and health fees: Some states charge fees for educational and healthcare services, including school fees, examination fees, and hospital charges.
15. Rental income: State governments may earn income from renting out state-owned properties and facilities.

These diverse revenue sources provide states with the financial means to fulfill their responsibilities, deliver public services, and implement developmental projects that benefit their citizens and communities (Okon and Okon, 2012; Sokoh, 2023).

Problems of revenue Mobilization in states in Nigeria

Ayodele and Gata (2023) and Igbokwe-Ibeto and Osakede (2023) identified problems militating against expanding internally generated revenue by states. These are:

1. Corruption, fraud and misappropriation of generated revenue: There is a high incidence of corruption, fraud and embezzlement among revenue officials. Some of these unscrupulous officers collect revenue for which they issue fake receipts to the payers, and the funds collected are not paid into the appropriate treasuries.

2. Lack of qualified and experienced revenue officers: Inadequate expertise can lead to errors in tax assessments, undermining taxpayer trust and compliance, thus resulting in revenue leakages, tax evasion, and reduced government income. Additionally, the absence of skilled personnel limits the government's ability to explore and implement innovative revenue generation strategies, hindering efforts to diversify income sources beyond oil.
3. Prevalence of informal economy: The absence of formal taxation in the informal economy limits the government's ability to redistribute wealth and fund essential public services, impacting socioeconomic development. Additionally, the informal sector's resistance to taxation often stems from a lack of trust in how tax funds are utilized, exacerbating tax evasion and avoidance.
4. Political interference in revenue generation: This have dire consequences on fiscal health and economic stability. When political considerations drive appointments and decision-making within revenue-generating agencies, it often leads to mismanagement, corruption, and a lack of transparency. These factors erode public trust in the tax system and discourage compliance among taxpayers and businesses.
5. Tax evasion: This is the deliberate and wilful practice of not disclosing full taxable income so as to pay less tax. It exacerbates income inequality as the burden of taxation falls more heavily on honest taxpayers, and it undermines economic development by hindering the government's ability to invest in growth-enhancing projects.
6. Tax avoidance: This is a situation whereby a person pays less tax than he ought to pay by taking advantage of loopholes in the tax law. This unwholesome practice deprives governments of essential funds needed to provide public services such as healthcare, education, and infrastructure development, which are crucial for citizens' well-being.
7. Non-adoption of technology: Manual processes are prone to errors, leading to revenue leakages and loss. The lack of data analytics and digital tracking mechanisms limits the ability to identify tax evaders and collect taxes owed. As a result, the failure to adopt technology not only constrains revenue generation but also hampers the overall financial sustainability and development prospects of Nigerian states in an increasingly digitized world.

The 2025 Tax Reform Acts in Nigeria

The Nigerian 2025 Tax Reform Acts aim to overhaul Nigeria's tax landscape by enhancing efficiency, simplifying compliance, and fostering economic growth. The reforms introduce streamlined legislation with clearer definitions, consolidated levies, harmonized compliance, and digital tax management and administration.

The key Laws and Provisions are:

i. Nigeria Tax Act (NTA): consolidates corporate tax, value-added tax, capital gains tax, and withholding tax into a single statute, thereby eliminating overlapping definitions and conflicting provisions.

ii. Nigeria Tax Administration Act (NTAA): Introduces a uniform, technology-driven framework for tax assessment, filing, and payment, including mandatory Taxpayer Identification Numbers (TINs) and electronic filing for all entities.

iii. Nigeria Revenue Service Act (NRSA): Establishes the Nigeria Revenue Service (NRS) as a more independent and professionally run body, replacing the Federal Inland Revenue Service (FIRS).

iv. Joint Revenue Board Act (JRBA): Addresses federal-state coordination, dispute resolution, and taxpayer rights, introducing a Tax ombudsman to protect taxpayer rights and a Tax Appeal Tribunal with powers similar to administrative courts.

Fundamental Changes in Tax Laws in Nigeria propelled by the Provisions of the 2025 Tax Reform Acts

1. Small Business Relief: Companies with Annual turnover of N100 million or less and fixed assets not exceeding N250 million are exempt from Companies Income Tax (CIT), Capital Gains Tax (CGT), and Development Levy.
2. Capital Gains Tax (CGT): Increased from 10% to 30% for corporate entities, while individuals are taxed under progressive CGT regimes based on personal income tax bands.
3. Value Added Tax (VAT): Zero-rating extended to essential goods, and services like basic food items, medical and pharmaceutical products, educational books, electricity generation and transmission, medical equipment, and healthcare services.
4. Development Levy: A 4% levy replaces multiple earmarked sectoral levies, thereby simplifying tax compliance.
5. Digital Assets and Transactions: Taxed in the same way as financial instruments, with gains subjected to Capital Gains Tax at 10%
6. Electronic Fiscal Systems: Mandatory deployment for e-invoicing and e-filing to ensure transaction integrity and prevent invoice manipulation.

Implications of the 2025 Tax Reforms Acts in Nigeria

1. Increased Tax Compliance: The 2025 Tax Reform Acts provisions in Nigeria make tax system fairer and simpler.
2. Support for Small and Medium-sized Enterprises (SMEs): Via significant exemptions and reliefs.
3. Modernization of Tax Administration: Using digital-first approaches.
4. Economic Growth: Via reducing the tax burden on productive sectors
5. Improved income Distribution: Via progressive taxation.

Theoretical Framework

This study is grounded on the theory of fiscal federalism (Oates, 1972). Fiscal federalism emphasizes the importance of decentralizing revenue generation and expenditure responsibilities to sub-national governments, while tax effort theory highlights the need for governments to optimize their revenue potential. The theory emphasizes the importance of fiscal decentralization and revenue sharing between different levels of government (Oates, 1972).

Additionally, the study is informed by the concept of New Public Management, which advocates for efficient and effective public sector management (Hood, 1991). The study's framework also incorporates the idea of revenue mobilization as a key driver of economic growth and development (Tanzi, 1992), which posits that effective revenue mobilization and administration are crucial for socioeconomic development (Musgrave, 1959).

The study's research questions and hypotheses are aligned with these theoretical frameworks, and the findings contribute to the existing body of knowledge on revenue mobilization and administration in Nigeria.

3. Methodology

This study employed a survey research design with a quantitative approach, collecting primary data through semi-structured questionnaires administered to 132 purposefully selected staff of the Niger State Internal Revenue Board and Ministry of Finance. The sample size was determined using the Taro Yamane formula. Data reliability was ensured through test-retest method, and face and content validity were ensured through expert review. Data analysis involved descriptive statistics (frequencies and percentages) and inferential statistics (correlation and regression analysis) using a four-point Likert Scale.

This methodology was chosen to provide a systematic and scientific approach to investigating the research questions and hypotheses, and to ensure the reliability and validity of the findings.

4. Data Presentation, Analysis and Interpretation

Major Challenges Hindering States Internal Revenue Services in Revenue Mobilization and Administration Drive in Nigeria

Table 2 shows that 23% and 34% of the respondents respectively strongly agreed and agreed that inadequate manpower is a major challenge hindering their state's revenue service while 22% and 20% of the respondents respectively disagreed and strongly disagreed that inadequate manpower is a major challenge hindering their state's revenue service. These results suggest that a substantial majority of respondents believe that there is a lack of adequate human resources to carry out the functions of the revenue service effectively. This underscores the potential staffing challenges faced by the various state revenue agencies, which could impact their abilities to meet their revenue generation goals and effectively serve the state. Olajide (2015) opines that tax collectors at state and local government levels are mostly non-accountants who do not understand tax practice. Hence, there is a high tendency for them to exonerate eligible tax payers by collecting bribes from them.

Table 2: Response on major challenges hindering States' Revenue Services in Nigeria

Statement	Strongly agree	Agree	Disagree	Strongly disagree	Decision
Inadequate manpower to effectively carry out mandate of NGSIRS	30 (23%)	46 (35%)	29 (22%)	27 (20%)	Accepted
Corruption and misappropriation of resources	51 (39%)	37 (28%)	19 (14%)	25 (19%)	Accepted
Tax evasion and tax avoidance	28 (21%)	42 (32%)	30 (23%)	32 (24%)	Accepted
Lack of adequate technology and resources	45 (34%)	37 (28%)	28 (21%)	22 (17%)	Accepted
Administrative bottlenecks and bureaucracy	40 (30%)	53 (40%)	21 (16%)	18 (14%)	Accepted

Source: **Field survey, 2025**

Majority (39%) of the respondents strongly agree that corruption and misappropriation of resources are major challenges hindering states' revenue services; 28% agreed, 14% disagreed while 19% strongly disagreed. This implies that the high percentage of agreement underscores the severity of corruption and misappropriation of resources which can have serious implications for the effective management of revenue generation and state finances. Addressing these perceived issues is crucial not only for improving trust and transparency but also for ensuring the efficient and ethical functioning of the agency. According to Olajide (2015), tax clerks live above their incomes and their ostensible are unrelated to their salaries and status. Also, some practitioners do not remit what they have collected as tax to the account of the state.

Results presented in Table 2 shows that 21% and 32% of the respondents respectively strongly agree and agree that tax evasion and tax avoidance is a major challenge hindering their state's revenue service while 23% and 24% of the respondents respectively disagree and strongly disagree. The high percentage of agreement implies that there is a prevailing belief that these practices are widespread, potentially affecting the state's revenue collection. Thus, addressing this issue is crucial not only for revenue generation but also for maintaining fairness and equity in the tax system. According to Felix and Uno (2018), the level of evasion of taxes and other charges by members of the public is due to the fact that public officials are fantastically very corrupt. They divert public funds for personal uses while neglecting the needs of the local people. Therefore, the best way to protest this decadence by the masses is to evade payment of taxes and other levies.

Lack of adequate technology and resources reflect a significant concern among the respondents as a combined 62% agree that it is a major challenge hindering their state's revenue service while a combined 39% disagree. Thus, majority of the respondents recognise that there is a deficiency in both technology and resources required for the effective functioning of their state's revenue service. These limitations impact the efficiency, accuracy, and effectiveness of revenue collection, administration, and management. This finding is in line with Adeogun (2012) who reported that rampant incidence of tax evasion and avoidance was a problem confronting Enugu State Board of Internal Revenue.

Furthermore, Table 2 shows that 30% and 40% respectively of the respondents strongly agree and agree that administrative bottlenecks and bureaucracy is a major challenge hindering their state's revenue service while 16% and 14% respectively disagree and strongly disagree that administrative bottlenecks and bureaucracy is a major challenge hindering their revenue service. The high degree of agreement suggests that these issues are perceived as substantial barriers to the agencies' operations, which affects their efficiency and effectiveness in revenue generation for the state governments.

Measures to Be Taken to Address Challenges Faced by States Revenue Services

As regards training of tax personnel as a measure to address challenges faced by states revenue services, results presented in Table 3 indicate that a combined 82% of the respondents agreed, with 33% strongly agreeing and 49% agreeing. In contrast, only 16% disagreed and 2% strongly disagreed that training of tax personnel as a measure to address challenges faced by States' revenue services. Effective training will lead to more knowledgeable and competent tax personnel, which, in turn, will enhance the agency's capacity to administer tax policies, improve compliance, and generate more revenue. This result agrees with Adesoji and Chike (2013) who found out that 50 percent and 45.5 percent of respondents respectively agree and strongly agree that training of tax personnel is the only effective and lasting solution to the problem of revenue generation. According to Odoemene (2020), deployment of the right kind of staff in the revenue generation and finance departments of states and LGAs would definitely enhance the revenue base of governments.

Moreover, Table 3 shows that 41% and 45% respectively of the respondents strongly agree and agree that use of electronic means of tax collection is a measure to address challenges faced by their state's revenue service while 16% and 14% respectively disagree and strongly disagree. The remarkable percentage of agreement suggests that the respondents view the use of technology in revenue generation as an essential and efficient approach that can lead to improved collection, reduced paperwork, and enhanced convenience for both taxpayers and the tax administration. This finding is in line with Odoemene (2020). Technology in this context may include the computerization of payment systems and the use of fraud resistant receipting, among others in the drive for internal revenue.

Table 3: Response on measures to be taken to address challenges facing States Revenue Services

Statement	Strongly agree	Agree	Disagree	Strongly disagree	Decision
Training of tax personnel	44 (33%)	64 (49%)	21 (16%)	3 (2%)	Accepted
Use of electronic means of tax collection	54 (41%)	59 (45%)	17 (13%)	2 (1%)	Accepted
Increasing public awareness and education about tax compliance	37 (28%)	67 (51%)	19 (14%)	9 (7%)	Accepted
Reducing political interference in revenue service operations	20 (15%)	50 (38%)	44 (33%)	18 (14%)	Accepted
Updating and streamlining tax laws and regulations	22 (17%)	59 (45%)	34 (26%)	17 (13%)	Accepted

Source: Field survey, 2025

Results presented in Table 3 shows that 28% and 51% of the respondents, respectively, strongly agree and agree that increasing public awareness and education about tax compliance is a measure to address challenges faced by their state revenue service while 14% and 7% of the respondents respectively disagree and strongly disagree. These findings reflect a widespread belief on the importance of enhancing public awareness and education regarding tax compliance A well-informed public is more likely to understand the tax system, its benefits, and their responsibilities, which will lead to higher compliance rates and, subsequently, better resource allocation for government projects. This finding is in line with Braimoh and Onuoha (2022) and Adeogun (2012).

Majority (38%) of the respondents agree that reducing political interference in revenue service operations is a measure to address challenges facing states' revenue services; 15% strongly agreed, 33% disagreed while 14% strongly disagreed. The combined proportion of agreement (53%) underscores the opinion that political influence negatively impacts the effectiveness of revenue generation and administration. Reducing such interference will improve independence, efficiency, and credibility of state revenue services in Nigeria. However, the presence of disagreement suggests that not all respondents share these concerns.

A combined 62% of the respondents agreed that updating and streamlining tax laws and regulations is a measure to address challenges faced by revenue services with 17% strongly agreeing and 45% agreeing as shown in Table 3. In contrast, 26% of the respondents disagreed while 13% strongly disagreed. Revolutionizing tax laws and regulations will lead to a more streamlined tax administration, improved compliance, and a fairer distribution of the tax burden. This finding is in tandem with Onuigbo (2021) and Ogbonna and Appah (2016).

Tests of Hypotheses

Hypothesis 1: The revenue generated by States Internal Revenue Services have not been able to effectively finance the states' budgets

Correlation coefficient (r = 0.876) suggests that there exists a strong positive correlation between the various states and the revenue generated by their internal revenue services as shown in Table 4. In other words, as the budget increases, IGR also increases within the period under review. Also, the p-value of 0.124 is greater than the chosen significance level of 0.05, thus the null hypothesis is accepted. This implies that revenue generated by NGSIRS has not been able to effectively finance the states' budgets.

Table 4: Correlation analysis result of relationship between budget and IGR (2019 – 2022)

		Budget	IGR
Budget	Pearson Correlation	1	0.876
	Sig. (2-tailed)		0.124
IGR	Pearson Correlation	0.876	1
	Sig. (2-tailed)	0.124	

Source: **Field survey, 2025**

Similarly, regression analysis result presented in Table 5 shows that there is no statistical relationship between IGR and the budget of various states within the period under review given that the p-value of IGR is 0.300 which is above the chosen significant level of 0.05.

Table 5: Regression analysis result of relationship between budget and IGR (2019 – 2022)

Variables	Parameters	Coefficient	Standard error	T-test	p-value
Constant	x_0	69.686	71.820	0.970	0.434
IGR	x_1	6.997	5.043	1.387	0.300

Source: Field survey, 2025

Hypothesis 2: There are no major challenges hindering the States' Internal Revenue Services

Table 6 shows that the correlation coefficient of -0.698 was statistically significant at 5%. The p-value of 0.037 is less than the chosen significant level of 0.05, thus the null hypothesis is rejected. This implies that there are major challenges hindering the smooth operation of the states' internal revenue services; which include corruption and misappropriation, inadequate manpower, as well as tax evasion and avoidance.

Table 6: Correlation analysis result of major challenges hindering States' Internal Revenue Services in Nigeria

		Challenges SA+A	Challenges D+SD
Challenges (Strongly agree + Agree)	Pearson Correlation	1	-0.698*
	Sig. (2-tailed)		0.037
Challenges (Disagree + Strongly disagree)	Pearson Correlation	-0.698*	1
	Sig. (2-tailed)	0.037	

* Significant at 0.05 level

Source: **Field survey, 2025**

Hypothesis 3: There are no measures that can be taken to address the challenges confronting the States' Internal Revenue Services to boost revenue generation

Result of correlation analysis in Table 7 shows that the correlation coefficient of -0.904 was statistically significant at 1%. The p-value of 0.000 is less than the chosen significant level of 0.05, thus the null hypothesis is rejected. This suggests that measures can be taken to address the challenges confronting the states' internal revenue services in Nigeria; which include training of tax personnel, use of electronic means of tax collection as well as updating and streamlining tax laws.

Table 7: Correlation analysis result of measures taken to address challenges

		Solutions SA+A	Solutions D+SD
Solutions (Strongly agree + Agree)	Pearson Correlation	1	-0.904**
	Sig. (2-tailed)		0.000
Solutions (Disagree + Strongly disagree)	Pearson Correlation	-0.904**	1
	Sig. (2-tailed)	0.000	

** Significant at 0.01 level

Source: Field survey, 2025

Discussion of Findings

The findings of this study indicate a combination of prospects and problems or challenges. Concerns exist regarding the ability of states internal revenue services in Nigeria to consistently meet budgetary targets and adequately support financing of key state projects, with issues such as corruption, tax evasion, and bureaucratic bottlenecks being prevalent challenges. Nevertheless, the findings also underscore the importance of public awareness and education about tax compliance, the effectiveness of training for tax personnel, and the positive impact of using electronic means for tax collection.

While the concerns raised by the findings are significant, they provide valuable insights for policymakers to address these issues, enhance the efficiency of revenue administration, and improve transparency and compliance. It is clear that a balanced approach is required to tackle these challenges and harness the prospects for growth and development in various states in Nigeria through internally generated revenue. The findings also emphasise the need for continuous efforts to streamline tax laws, combat corruption, and enhance the capacity of various states in Nigeria to meet budgetary targets. Additionally, the positive aspects identified, such as tax education and technology adoption, will serve as promising pillars for future revenue generation and administration strategies.

5. Conclusion and Recommendation

Conclusion

The study examined the challenges and opportunities facing state internal revenue services in Nigeria, highlighting the need for optimizing revenue potentials in light of the 2025 Tax Reform Acts. The findings of the study show that despite increasing revenue generation, the various states services face significant challenges, including corruption, tax evasion, inadequate tax laws, and inefficient revenue collection systems occasioned by bureaucratic bottlenecks. However, the study has also identified opportunities for improvement, including the use of electronic tax collection, public awareness and education, and streamlining tax laws and regulations.

Recommendations

In line with the findings of the study, the following recommendations are advanced:

The challenge of tax evasion and avoidance as well as corruption can be tackled by adopting the use of technology in revenue collection. This includes creating a verifiable database of all tax eligible entities and a user-friendly online tax payment platform that will facilitate seamless payment and reporting.

Given the significant agreement on administrative bottlenecks and bureaucracy, the states internal revenue services should streamline its administrative processes, reduce unnecessary paperwork, and enhance the efficiency of internal operations.

To address concerns about political interference in operations of the states' internal revenue service, there should be efforts to depoliticize revenue administration in the various states. This will ensure that decisions and actions are guided by professional expertise and adherence to tax laws rather than fulfilling the yearnings of a partisan individual or group.

To enhance public trust and cooperation, NGSIRS should engage with stakeholders, including business owners, in the development of tax policies and strategies. This will lead to more equitable, effective and robust tax system.

Finally, state governments in Nigeria should leverage the 2025 Tax Reform Acts to review and update their tax laws and regulations, improve revenue generation, and promote accountability and transparency.

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