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POLICE TRUST FUND TAX AND NET INVESTMENT OF LISTED COMMUNICATION FIRMS IN NIGERIA

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ABSTRACT

This study examined the effect of police trust fund tax on net investment of listed Communication firms in Nigeria for eleven (11) year period spanning from 2012-2022. Panel data were used in this study, which were obtained from the annual reports and accounts of ten (10) listed Communication companies for the periods 2012-2022. Ex-Post Facto research design was employed. Inferential statistics using Pearson correlation coefficient, Panel least square regression analysis and Hausman test were employed to test the hypothesis of the study. Conclusively, the results of the tested hypotheses revealed that Police Trust Fund Tax has a negative and non significant effect on Net Investment (β_1 = -1.403370; p-value = 0.1746 > 0.05) of listed Communication firms in Nigeria at 5% level of significance respectively. The study recommended amongst others that Government should implement policies that would provide the critical needs of the Nigeria Police Force and its institutions in order to ensure the overall improvement and efficient discharge of their duties and responsibilities, in order to build a well-trained, equipped and motivated Nigerian Police Force that is Proactive, Prompt and Responsive to security challenges effectively.

1. INTRODUCTION

The collection of taxes and fees is a key development priority. It is essential to finance investments in human capital, infrastructure and the provision of services for citizens and businesses, as well as to set the right price incentives for sustainable private-sector investment. Making it easier to pay taxes improves competitiveness. Tax is a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions (Okeke, Mbonu & Amahalu, 2018a;

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Amahalu, Obi, Okudo, & Okafor, 2022). Tax is an amount of money that a government requires people to pay according to their income, the value of their property that is used to pay for the things done by the government (Amahalu & Okafor, 2023; Nwoye, Obiorah, & Chidiebere, 2023). The interaction between investment and financing decisions is arguably the central issue in corporate world. It is well established that a firm's financing choices may affect its investment decisions because taxes, issuance costs, agency conflicts, and information problems associated with debt and equity will affect the firm's cost of capital, drive a wedge between the cost of internal and external funds, and alter managers' incentives to take different types of projects. An issue that has received particular attention is the sensitivity of investment to internally generated cash flow. Taxes (such as information communication tax, education tax, value added tax, company income tax, police trust fund tax and so on) can affect investment decisions of a company because it is the amount taken from the profit of the company (Aruna, Oshiole, & Ndubuisi, 2020; Amahalu & Obi, 2020a).

Taxes impinge directly on the incentive to accumulate capital and to perform research. In view of this, Amahalu and Obi (2020b); Aniefor & Ndubuisi (2022), reported a negative relationship between tax and economic growth. Conversely, a positive relationship was found between tax and economic growth (Ashiedu, Okafor, Amahalu & Obi, 2022; Bennee, Okoye & Ndubuisi, 2021a) , while Ezechukwu, Ndubuisi, and Okudo (2022) documented a non-significant relationship between tax and net investment.

1.1 Objective of the Study

The inconclusive nature of previous related literature ranging from negative to positive and non- significant relationship has led to gap in literature, which this study sought to fill be determining the effect of Police Trust Fund Tax on Net Investment of listed Communication firms in Nigeria.

1.2 Hypothesis

H_{o1}: Police Trust Fund Tax has no significant effect on Net Investment of listed Communication firms in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Police Trust Fund Tax

The Nigeria Police Trust Fund (Establishment) Act (The Act) was signed into Law by the President of Nigeria. The Act, which came into force on 24th of June 2019, creates the Nigeria Police Trust Fund (Trust Fund), which is a body corporate with a common seal. The objective of the Act is to provide a legal framework for the management and control of a special intervention fund for training and retraining of personnel of the Nigeria Police Force and for the provision of state-of-the-art security equipment, and other related facilities for the enhancement of the skills of the officers of the Nigeria Police Force.

2.1.2 Net Investment

Net investment is the difference between the total amount of money a company spends on capital assets and the cost of depreciation of those assets (Mba, Mbonu & Amahalu, 2023). It indicates how much a company is spending to maintain and also improve its operations. A positive value indicates that the business operations are leading to expansion. In contrast, a negative value indicates that the business operations are shrinking (Amahalu, Ezenwaka, Obi & Okudo, 2022). Net investment is a good indication of how much is being invested in the productive capacity of a company, especially if it is a very capital-intensive business.

Net investment = Capital Expenditures – Depreciation

2.1.3 Police Trust Fund Tax and Net Investment

Tax policy and administrative measures that mobilize revenues, reduce economic distortions, improve resource allocation, and lift productivity and growth prospects are widely seen as policy priorities for many countries (Bennee, Okoye, & Ndubuisi, 2021b; Dim, Okafor, Eneh, & Amahalu, 2022). Recent studies have investigated the relationship between tax capacity and subsequent economic growth and development (Ndubuisi, Obi, Okudo, & Okafor, 2022). Joseph Goldstein argued that the law enforcement function of the police cannot be properly understood when considered solely in terms of principles of pure legality (Okonkwo, Amahalu & Obi, 2022). Far from merely applying legal maxims in a ministerial manner, police employ discretion in invoking the law. Thus, police in effect draw the outer perimeter of law enforcement, a power that is certainly not officially assigned to them. Because policemen often make decisions that are essentially "invisible" and subject to no review, especially when they decide not to make arrests, Goldstein concluded that they should be brought under the control of some subsidiary rules, compliance with which would be insured by the scrutiny of an officia1 agency. Contrary to the belief of many jurists, new rules do not restrict discretion but merely shift its locus (Koumpias, Leonardo & Martinez-Vazquez, 2021. Okeke, Mbonu, & Amahalu, 2018). Essentially, the Trust Fund is designed to provide funds for the training and retraining of the personnel of the Nigeria Police Force.

2.2 Theoretical Review

2.2.1 Free Cash Flow (FCF) Theory

Free cash flow to firm (FCFF) is a way of looking at a business's cash flow to see what is available for distribution among all the securities holders of a corporate entity. This may be useful to parties such as equity holders, debt holders, preferred stock holders, and convertible security holders when they want to see how much cash can be extracted from a company without causing issues to its operations. According to Jensen's (1976) Free Cash Flow theory, debt may play an important role in reducing the agency costs. Debt holders have no voice in the operations of the company unless the debt needs renewing, or the firm fails to meet the contract. Still, debt is a strong form of commitment: it is a contract that might include collateral, and constrains managers to meet payment terms. Managers are thus forced to make wise investments.

2.3 Empirical Review

Oraka, Okegbe and Ezejiofor (2017) determined the extent to which value added tax has affected the Nigerian economy. Ex post facto research design was adopted for the study. In measuring Nigerian economy, Gross Domestic Product (GDP), Per Capital Income (PCI) and Total Revenue (TR) were used in the study for the period 2003 to 2015. Secondary data method was adopted in obtaining data on value added tax, gross domestic product, per capital income and total revenue. The data were obtained from CBN statistical bulletin, Federal Inland Revenue Services federal ministry of finance, and journals. The data obtained were analyzed using Simple regression analysis. Finding showed that value added tax has not significantly affected Gross Domestic Product of Nigeria economy. It was also discovered that VAT has a negative relationship with per capital income. Finally, it was found that VAT has a positive relationship with total revenue generation of Federal government of Nigeria.

Okeke, Mbonu and Amahalu (2018) ascertained the relationship between tax revenue and economic development in Nigeria during the period 1994 -2016. Data were obtained from the Central Bank of Nigeria, Office of the Federal Inland Revenue Service and Annual Abstract of statistics of the National Bureau of Statistics. The study was based on time series data. The Augmented Dickey Fuller test, Multple linear regression, Multicollinearity test, Granger Causality test, Johansen cointegration test and Error correction model were employed in the analysis of the data. The findings of this study showed that tax revenue has a statistically significant relationship with infant mortality, labour force and gross fixed capital formation in Nigeria at 5% level of significance respectively. On the basis of the findings, it was recommended among others that since tax revenue has been proven to contribute to economic development in Nigeria, Government needs to increase its allocation to the priority sectors of the economy such as agriculture and industry in order improve on the welfare of the citizenry

Adekanmbi, Shallie and Olaniyi (2022) investigated the impact of tax components in achieving sustainable growth in Nigeria using time series data from 1987-2019 using the ARDL bound testing approach to cointegration to ascertain the long run and the speed of adjustment (Short run) in analyzing the relationship. The result revealed that Petroleum Profit Tax, Company Tax, Value Added Tax and Personal Income Tax have a positive short-run relationship with economic growth (GDP) while Custom and Excise Duties and Personal Income Tax exhibited a negative relationship in the short and long run.

Osamor, Omoregbee, Ajasa-Adeoye and Olumuyiwa-Loko (2023) empirically examined the effect of tax revenue on economic growth in Nigeria. Tax revenue was a proxy with petroleum profit tax (PPT), company income tax (CIT), value added tax (VAT) and customs and excise duties (CTD), while economic growth was proxy with GDP. Ex post facto research design was employed, while time series quarterly data were collected from the statistical bulletins of CBN and FIRS for 10 years (2011-2020). Data collated were analyzed using descriptive analysis, unit root test, bounds cointegration test and ARDL. The findings revealed that PPT, CIT, VAT and CTD had positive insignificant effects on economic growth. The study concluded that tax revenue had insignificant effects on the economic growth of Nigeria

3. MATERIAL AND METHOD

The study employed the ex-post facto research design. The population and sample size of this study consisted of all the ten (10) Communication companies trading on the floor of Nigerian Exchange (NGX) Group as at 31st December, 2022. They include; Chams Plc, Courtville Business Solutions Plc, Computer Warehouse Group Plc, E-Tranzact International Plc, Mass Telecommunication Innovations Plc, MTECH Communications Plc, NCR (Nigeria) Plc, Omatek Ventures Plc, Tripple Gee and Company Plc and IHS Plc. This study made use of secondary data precisely. The data set were sourced from publications of the Nigerian Exchange Group (NGX), fact books and the annual report and accounts of the sampled listed Communication companies from 2012 – 2022.

Table 1: Operationalisation of Variables

Variables (code)	**Operational Definitions**
Dependent Variable (Net Investment)	
Net Investment (NI)	Capital Expenditures – Depreciation
Independent Variable (Taxes)	
Proxies:	

Police Trust Fund Tax (PTFT)	0.005% of Net Profit

$NI_{it} = \beta_o + \beta_1 PTFT_{it} + \mu_{it}$ ……………..eqn 1

Where:

βo stands for the intercept term.

$\mu_{i,t}$= component of unobserved error term of firm *i* in period *t*

β_1 = Slope (coefficient) to be estimated of firm *i* in period *t*

NI_{it} = Net Investment of firm í for period t

$PTFT_{it}$ = Police Trust Fund Tax of firm í for period t

í= firm identifier (10 firms)

t= time variable (2012, 2013…2022) – (Eleven Years)

4. RESULT AND DISCUSSIONS

4.1 Test of Hypotheses

Table 2 Panel Least Square Regression Analysis testing the effect of PTFT on Net Investment

Dependent Variable: NI

Method: Panel Least Squares

Date: 02/10/24 Time: 17:14

Sample: 2012 2022

Periods included: 11

Cross-sections included: 10

Total panel (balanced) observations: 110

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.648861	0.046748	13.88005	0.0000
PTFT	-1.403370	1.026885	-1.366629	0.1746

R-squared	0.116999	Mean dependent var	0.589056
Adjusted R-squared	0.107897	S.D. dependent var	0.173128
S.E. of regression	0.172443	Akaike info criterion	-0.659483
Sum squared resid	3.211559	Schwarz criterion	-0.610384
Log likelihood	38.27157	Hannan-Quinn criter.	-0.639568
F-statistic	1.867674	Durbin-Watson stat	1.184724
Prob(F-statistic)	0.174580		

Source: E-Views 10 Regression Output, 2024

4.2.1 Regression Output

Table 2 shows the panel regression output of the effect of PTFT on Net Investment as:

$NI_{it} = 0.648861 - 1.403370PTFT + \mu_{it}$

The model infers that 1% increase in PTFT will exert 140.33% reduction on net investment of sampled communication firms in Nigeria respectively. The regression result also shows that PTFT (β_1=-1.403370) has a negative relationship towards NI. The slope coefficient reveals that; P(x_1=0.1746>0.05). The model shows that at 95% confidence level, there is a non-significant and negative relationship between PTFT and NI. The Durbin-Watson Value of 1.184724 buttressed the fact that the model does not contain auto-correlation, since the value is less than 2 approximately, thereby making the regression fit for prediction purpose. The R-Squared of 0.116999 shows that 11.70% of the systematic variation in NI could be explained by PTFT, while the remaining 88.30% is explained by the error term as part of the NI which is not interpreted by the regression model.

4.2.1.1 Decision

Following the F-statistics of 1.867674 with an associated P-value of 0.174580 (p>0.05) which is greater than 5%, therefore, hypothesis H_1 is rejected while Ho is accepted. Hence, Police Trust Fund Tax has a negative and no significant effect on Net Investment of listed Communication firms in Nigeria at 5% level of significance respectively.

Table 3 Hausman Test Comparing PTFT and NI

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.808463	1	1.6137

Source: E-Views 10.0 Hausman Output, 2024

4.2.2 Post Regression Analysis

From the Hausman test result in table 3, the p-value is 1.6137, this is statistically non-significant at the conventional level of 0.05. Thus, the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM) in analysing the relationship between PTFT and net investment (NI) of listed communication firms in Nigeria at 5% significant level.

4.2.2.1 Finding

Police Trust Fund Tax has a negative and non significant effect on Net Investment of listed Communication firms in Nigeria. at 5% level of significance (β_5 = -1.403370; p-value = 0.1746 > 0.05).

CONCLUSION AND RECOMMENDATION

Given the above finding, it was recommended that government should implement policies that would provide the critical needs of the Nigeria Police Force and its institutions in order to ensure the overall improvement and efficient discharge of their duties and responsibilities, in order to build a well-trained, equipped and motivated Nigerian Police Force that is Proactive, Prompt and Responsive to security challenges effectively.

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