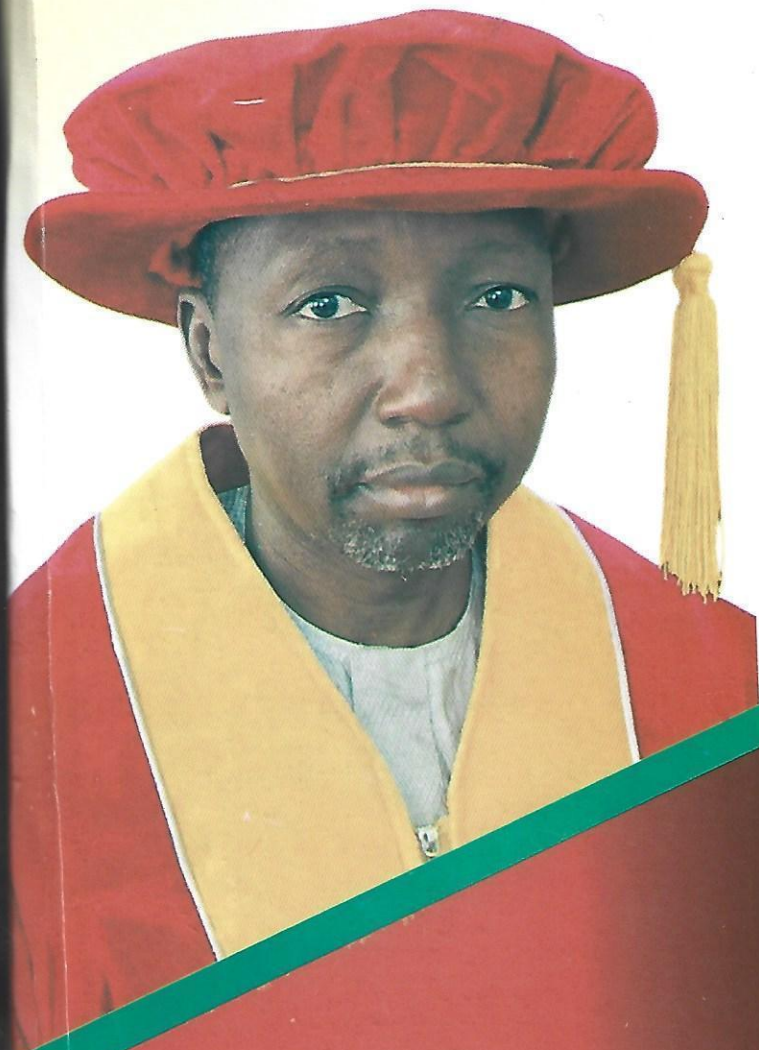


UNIVERSITY GOVERNANCE AND INSECURITY IN NIGERIA

A Festschrift in Honor of
PROF. MU'AZU GUSAU ABUBAKAR
Vice Chancellor, Federal University Gusau



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Linus Akor
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University Governance and Insecurity in Nigeria

A Festschrift in Honor of

Prof. Mu'azu Gusau Abubakar
Vice Chancellor, Federal University Gusau

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Implications of Nigeria's Tax Reform Act (2019–2022) on Public Tertiary Institutions

Edun, Abdulkareem Jimoh

Preamble

This chapter examines the implications of Nigeria's Tax Reform on public tertiary institutions. The paper adopts Human Capital Theory, propounded by Schultz in 1961. This chapter adopts a descriptive research design, utilizing only secondary data. Secondary data include official government publications, including the Tax Reform Act, annual budget reports, and policy briefs from the Federal Inland Revenue Service (FIRS) and the Federal Ministry of Education. Other relevant documents such as financial reports of public tertiary institutions, academic journal articles, books, and international organization reports from bodies like UNESCO and the World Bank reviewed. The data is analyzed using qualitative content analysis. The findings reveal that tax reforms, including the increase of Value Added Tax (VAT) to 7.5% and the Education Tax (E-Tax) to 2.5%, expanded government revenue and boosted TETFund disbursements, enabling modest improvements in infrastructure, staff training, and service delivery in universities and polytechnics. However, these gains were constrained by low budgetary prioritization of education, inflationary pressures, operational inefficiencies, delayed disbursements, and compliance challenges linked to weak administrative capacity and unclear tax regulations. The work concludes that while the Tax Reform Act created opportunities for enhanced funding and institutional performance, its full potential remains unrealized due to structural and policy limitations. The paper recommends increasing education's budget share to meet international benchmarks, strengthening institutional autonomy and administrative capacity, simplifying tax laws, improving accountability mechanisms, and implementing macroeconomic policies to mitigate inflation and operational costs in tertiary education.

Keywords: Fiscal policy, Funding, Tax, Reform, Tertiary institutions, Public education.

Introduction

Taxation remains a vital instrument for mobilizing revenue to finance public goods and services, including education (OECD, 2019). In developed countries, periodic tax reforms improve efficiency, equity, and adequacy of tax systems to meet rising public expenditure demands. Higher education, as a critical public good, is largely sustained through tax revenues, enabling governments to fund institutions, support research, and subsidize student tuition (UNESCO, 2021). For example, nations such as Germany, Norway, and Canada have leveraged robust tax systems to maintain affordable and quality tertiary education, highlighting the strong connection between tax policy and educational development (World Bank, 2020).

In many African countries, however, weak tax systems, over-reliance on extractive industries, and high levels of informality in the economy have constrained governments' ability to adequately finance higher education (IMF, 2021). Tax reforms across Africa are often pursued to broaden the tax base, reduce fiscal deficits, and improve transparency in public finances, but their impact on education funding has been mixed. While reforms can increase government revenues, competing demands and budget misallocations often leave the education sector underfunded. Countries such as Kenya, Ghana and South Africa have experimented with earmarked education levies to directly support tertiary education, with varying levels of success (Kiringai & Wanjala, 2022; Ndlovu, 2021).

In Nigeria, public tertiary institutions comprising universities, polytechnics, and colleges of education have long struggled with inadequate funding, infrastructural decay, and declining service quality (Ogunode & Abubakar, 2020). Successive administrations have introduced tax reforms aimed at enhancing non-oil revenue mobilization and improving fiscal sustainability. The most recent Tax Reform Act consolidates, amends, and introduces several tax provisions designed to widen the tax base and enhance compliance (Federal Inland Revenue Service [FIRS], 2023). Although this reform holds the potential to increase public revenues and improve education financing, it also imposes compliance burdens on institutions and sometimes reduces their fiscal autonomy by taxing previously exempt activities (Adeoye & Bello, 2023).

The implications of the Tax Reform Act for public tertiary education remain uncertain, raising concerns about institutional sustainability, accessibility, and service delivery. Despite the potential of tax reforms to enhance public revenue, the implications for public tertiary institutions remain complex and underexplored.

Public tertiary institutions in Nigeria have, for decades, faced the persistent challenge of inadequate and unstable funding. This has manifested in dilapidated infrastructure, poor staff welfare, frequent industrial actions, declining quality of education, and limited access for prospective students (Ogunode & Abubakar, 2020). These problems are largely attributable to Nigeria's heavy dependence on oil revenues, which are volatile and insufficient to meet the growing demands of higher education financing (Adeoye & Bello, 2023). Against this background, this chapter seeks to investigate the multifaceted impact of the Tax Reform Act on public tertiary education in Nigeria with the intent to answer the following research questions: What are the provisions of Nigeria's Tax Reform Act in public tertiary institutions? How has the Tax Reform Act affected government budgetary allocations to public tertiary education in Nigeria? In what ways has the Tax Reform Act influenced the operational efficiency and service delivery of public tertiary institutions? What compliance challenges do public tertiary institutions face in implementing the provisions of the Tax Reform Act?

Conceptual Discourse

Tax Reform Act

Tax reform refers to the deliberate modification of the tax structure to achieve improved revenue performance, economic efficiency, and fairness (Musgrave and Musgrave, 2017). Ariyo (2020) defines tax reform as a systematic restructuring of a country's tax laws and administration to align revenue generation with economic realities while ensuring compliance and equity among taxpayers. Adeoye and Bello (2023) describe the Nigerian Tax Reform Act specifically as a comprehensive policy and legislative framework enacted to amend, consolidate, and modernize tax laws with the primary goals of broadening the tax base, eliminating loopholes, and increasing fiscal transparency. The Federal Inland Revenue Service (FIRS, 2023) officially defines the Act as an instrument for consolidating various amendments to tax statutes, addressing inefficiencies in the system, and improving the ease of tax compliance for both individuals and corporate entities. Furthermore, Okafor (2021) emphasizes that tax reform laws, such as the Nigerian Tax Reform Act, serve to enhance non-oil revenue generation by introducing progressive policies and measures targeted at previously untapped sectors of the economy.

Public Tertiary Institutions

Olojede (2019), describes public tertiary institutions as state-funded higher learning centers mandated to offer teaching, research, and community service in line with

national education goals. Public tertiary institutions comprise of government-owned universities, polytechnics, and colleges of education, which are established to provide advanced education, foster research, and produce skilled manpower for socio-economic development (Ogunode & Abubakar, 2020). In Nigeria, we have first generation public universities which comprises of those universities that were established between 1950s and 60s-, and second-generation universities which comprises those that were established in the 1970s. As of July 2025, Nigeria has a total 126 public universities with number increasing every day. Among these institutions are specialized institutions such as University of Technology, University of Education and University of Agriculture. For the polytechnic, a total of 113 are currently in place which include both federal and state-owned institutions. Public Colleges of Education amounts 86 for federal and state-owned colleges throughout the federation (Source).

Funding

Funding refers to the provision of adequate financial support, primarily from government allocations and supplemented by Internally Generated Revenue, to ensure the smooth running of academic and administrative activities (Akinyemi & Babalola, 2021). Ogundele and Aina (2019) see funding as the systematic provision of monetary resources necessary for maintaining educational infrastructure, paying staff salaries, conducting research, and supporting students' learning processes. Funding for these public tertiary institutions has been abysmal fall below international bench marks. In particular, underfunding of public institutions has always resulted into reactions from the workforces of these institutions mostly championed by Academic Staff Union of Nigerian Universities (ASUU) through industrial actions such as protests and incessant strikes which always lead to disruption academic and research activities on Nigeria academic campuses across the nation. More importantly, underfunding of these institutions always resulted into poor quality of education, dilapidated infrastructure and backwardness of national development.

Theoretical framework

The chapter adopts the Human Capital Theory, propounded by Theodore W. Schultz in 1961 and later developed by Gary Becker in 1993, who views education as an investment rather than mere consumption as its theoretical framework. The theory assumes that education enhances the productive capacity of individuals, leading to increased productivity, higher earnings, and improved employment opportunities, while also contributing to national economic growth. It posits that

the benefits of investing in education outweigh the costs, making such investment economically rational for both individuals and governments. Moreover, it assumes that the labor market rewards higher education through better wages, providing a measurable return on educational investment. This theory is highly relevant to the work, as it underscores the vital role of public tertiary institutions in developing the skilled manpower required for national development.

However, the Human Capital Theory has been critiqued. Marginson (2019), argued that the theory reduces education to a mere economic commodity, overlooking its role in fostering social cohesion, cultural identity, and civic engagement. Similarly, Psacharopoulos (2006), contended that while education can enhance productivity, the assumption that the labor market always fairly rewards educational attainment is flawed, as real-world contexts often exhibit underemployment, wage discrimination, and skill mismatches that undermine expected returns. Brown, Lauder, and Ashton (2011), also observed that the globalized labor market creates unequal opportunities, with some highly educated individuals earning less than expected due to structural inequalities. Furthermore, the theory has been criticized for overlooking disparities in returns to education among different demographic and socio-economic groups, as women and marginalized populations often experience lower returns on educational investments compared to others (Blau & Kahn, 2017). Despite these criticisms, the Human Capital Theory remains relevant and applicable to this chapter, as it underscores the importance of adequately funding public tertiary education to build the human capital necessary for national development and economic growth.

Results

I. Provisions of Nigeria's Tax Reform Act as they relate to funding and financial sustainability of public tertiary institutions

The Nigeria's Tax Reform Act, reflected in the series of Finance Acts (2019–2022), contains several provisions that directly or indirectly affect the funding and financial sustainability of public tertiary institutions by expanding the government's revenue base and improving fiscal transparency. Since public tertiary institutions in Nigeria are largely funded through budgetary allocations and dedicated education taxes, these reforms play a critical role in their sustainability (FIRS, 2023; Adeoye & Bello, 2023). One prominent provision is the increase in the Value Added Tax (VAT) rate from 5% to 7.5%, introduced in the 2019 Finance Act. This move was designed to boost the federal government's non-oil revenue

and create more fiscal space to fund critical sectors, including education (Onuoha & Ibrahim, 2020). For instance, federal budget allocations to education increased modestly in 2021 and 2022, partly supported by higher VAT collections. In 2021, ₦771 billion was allocated to education. A slight improvement over previous years, though still below UNESCO's recommended benchmark of 15–20% of the national budget (UNESCO, 2021). Public tertiary institutions such as the University of Abuja and Federal Polytechnic, Bauchi benefited from this increment through improved funding for personnel costs and limited capital projects (TETfund, 2022).

Another provision with direct impact is the Education Tax (E-Tax), administered by the Tertiary Education Trust Fund (TETfund), which was raised to 2.5% of assessable company profits by the 2021 Finance Act (FIRS, 2023). This provision has significantly contributed to funding for infrastructure, research, and academic staff training. For example, TETfund disbursed over ₦300 billion to public tertiary institutions in 2022 alone, funding projects such as new lecture theatres at the University of Lagos, laboratories at Ahmadu Bello University, and capacity-building workshops for lecturers nationwide (TETfund, 2022). The Act also introduced measures to improve tax compliance, such as making the Tax Identification Number (TIN) mandatory for businesses operating accounts and transactions. This move has broadened the tax base and reduced revenue leakages, which increases the pool of funds available for public spending, including education (Olaoye et al., 2021).

However, not all effects have been entirely positive. The provision of tax relief and exemptions for micro and small enterprises companies with turnover under ₦25 million being exempted from income tax while encouraging entrepreneurship, has marginally reduced the corporate tax base. This could constrain government revenues in the short term, potentially affecting the amount available for education financing if compensatory measures are not implemented (Adeoye & Bello, 2023). Similarly, public tertiary institutions themselves are not fully insulated from inflationary pressures and increased operating costs stemming from higher VAT and compliance costs passed on by suppliers and contractors (Ogunode & Abubakar, 2020). For example, the management of the University of Nigeria, Nsukka, in its 2022 budget report, noted that increased costs of goods and services eroded part of the gains from additional allocations, while unmet funding needs for research and maintenance persisted (UNN, 2022). This highlights the continuing gap between increased tax revenues and actual improvements in tertiary education funding and sustainability.

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ii. Impact of the Tax Reform Act on government budgetary allocations to public tertiary education

The introduction of Nigeria's Tax Reform Act, through the Finance Acts (2019–2022), aimed at boosting the federal government's revenue base has had a modest but uneven impact on budgetary allocations to public tertiary education. The reforms, which increased revenue streams such as Value Added Tax (VAT), expanded the Education Tax (E-Tax), and improved compliance, which were expected to create more fiscal space for funding critical sectors, including education (FIRS, 2023; Onuoha & Ibrahim, 2020). Data from the Federal Ministry of Finance indicate that total federally collected revenue rose from ₦8.8 trillion in 2019 to over ₦10.7 trillion in 2021, largely due to improved non-oil revenue from VAT and corporate taxes (FIRS, 2023). This revenue boost contributed to an increase in the federal education budget, which rose from ₦620.5 billion in 2019 to ₦771.4 billion in 2021, representing about 6% of the total national budget (Budget Office of the Federation, 2021). This incremental rise can be partly attributed to the fiscal effects of tax reforms. For example, allocations to tertiary institutions under the Federal Ministry of Education and through the Tertiary Education Trust Fund (TETfund) saw moderate improvements. TETfund disbursed ₦213 billion in 2021, up from ₦198 billion in 2019, funding various capital and research projects in universities, polytechnics, and colleges of education nationwide (TETfund, 2022).

Despite these increases, the impact of the Tax Reform Act on budgetary allocations remains constrained by competing fiscal pressures and low prioritization of education in overall public spending. While revenues increased, education's share of the national budget remained below the UNESCO-recommended benchmark of 15–20% (UNESCO, 2021). Analysts argue that although the Tax Reform Act expanded government revenue, much of the additional funds were diverted to debt servicing and recurrent expenditures, leaving insufficient improvement in capital allocations to public tertiary education (Ogunode & Abubakar, 2020; Adeoye & Bello, 2023). For instance, in 2022, the federal budgetary allocation to education was about ₦923 billion, representing just 5.4% of the national budget, a decline in proportional terms despite higher revenue (Budget Office, 2022). This suggests that while tax reforms increased fiscal capacity, institutional and policy choices continue to limit the extent to which tertiary education benefits directly. Universities such as the University of Lagos and Ahmadu Bello University still reported funding shortfalls for critical infrastructure and research programs (UNN, 2022).

iii. Implications of the Tax Reform Act on the operational efficiency and service delivery of public tertiary institutions

The implementation of the Tax Reform Act, through the Finance Acts (2019–2022), has had mixed implications for the operational efficiency and service delivery of public tertiary institutions in Nigeria. While the Act has contributed to increased government revenue and enhanced funding channels such as the Tertiary Education Trust Fund (TETFund), its full potential to transform the operations and service quality of these institutions has been limited by systemic inefficiencies and funding gaps. On a positive note, the improved revenue mobilization resulting from higher Value Added Tax (VAT), increased Education Tax (E-Tax) from 2% to 2.5%, and strengthened compliance has facilitated greater funding for infrastructure, teaching, and research in public tertiary institutions (FIRS, 2023; TETFund, 2022). TETFund disbursements funded the construction of lecture theatres, laboratories, hostels, and ICT facilities in institutions such as the University of Lagos and Bayero University Kano, which improved the learning environment and administrative processes (TETFund, 2022). Enhanced access to research grants and staff development programs funded through TETFund also contributed to capacity building, which is critical for institutional efficiency and quality service delivery (Ogunode & Abubakar, 2020). The increased revenue from tax reforms also enabled institutions to address some long-standing operational challenges, including inadequate equipment and deteriorating facilities. For example, Ahmadu Bello University and the University of Nigeria Nsukka reported improved maintenance of facilities and staff training programs between 2020 and 2022, citing TETFund allocations as a key factor (UNN, 2022).

However, despite these improvements, the implications of the Tax Reform Act on operational efficiency and service delivery remain constrained by persistent underfunding, bureaucratic bottlenecks, and misallocation of resources. Scholars such as Ogunode and Abubakar (2020) argue that the increased revenues from tax reforms have not translated into proportional increases in recurrent and capital budgets for tertiary institutions, which still struggle with overcrowded classrooms, staff shortages, and outdated equipment. For instance, the Education sector's share of the national budget remained below 7% even after the reforms, far short of international benchmarks (UNESCO, 2021). Moreover, while TETFund interventions have improved infrastructure, inefficiencies in project execution, delays in disbursements, and poor maintenance culture continue to undermine operational gains (Adeoye & Bello, 2023). Rising costs of operations, partly due to inflationary pressures linked to increased VAT and compliance costs in the

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economy, have also negatively impacted the purchasing power of allocated funds, limiting their effectiveness in improving service delivery (Onuoha & Ibrahim, 2020).

Challenges Public Tertiary Institutions Face in Implementing the Provisions of the Tax Reform Act

Although the Tax Reform Act (through the Finance Acts 2019–2022) has improved Nigeria's tax administration and increased government revenue, it has also introduced compliance requirements that pose significant challenges for public tertiary institutions. These challenges arise largely from institutional capacity gaps, bureaucratic inefficiencies, and limited fiscal autonomy, all of which undermine the ability of tertiary institutions to fully align with the Act's provisions (Adeoye & Bello, 2023; Olaoye et al., 2021).

One major compliance challenge is the weak administrative capacity of tertiary institutions to meet reporting and documentation requirements under the Act. Provisions such as mandatory Tax Identification Numbers (TIN) for all institutional transactions and stricter audit requirements which have exposed gaps in recordkeeping, tax awareness, and administrative expertise within universities, polytechnics, and colleges of education (Olaoye et al., 2021). Many institutions still operate outdated accounting systems that make it difficult to generate timely and accurate tax records needed for compliance. Another challenge is the complexity of tax regulations and frequent policy changes, which create uncertainty and confusion among institutional administrators. For example, the introduction of new VAT rules, exemptions for certain categories of goods and services, and the increase in Education Tax have been inconsistently communicated and poorly understood at the institutional level, resulting in errors and delays in remittances (Onuoha & Ibrahim, 2020).

Public tertiary institutions also struggle with limited fiscal autonomy, which restricts their ability to manage tax obligations independently. Most institutions depend heavily on federal or state allocations, and their internally generated revenue (IGR) is tightly regulated by government agencies, leaving little flexibility to adjust to new tax burdens. Consequently, compliance obligations sometimes compete with other pressing operational needs, such as salaries and infrastructure maintenance, forcing institutions to prioritize immediate needs over tax compliance (Ogunode & Abubakar, 2020). In addition, the inadequate training of administrative and finance staff on evolving tax laws limits institutional readiness.

Many finance officers in tertiary institutions lack up-to-date knowledge of the latest tax provisions, penalties, and exemptions, leading to unintentional non-compliance and exposure to sanctions by tax authorities (Adeoye & Bello, 2023).

Furthermore, there are concerns about weak enforcement mechanisms and corruption, which undermine voluntary compliance. Some institutions deliberately underreport their tax liabilities or delay remittances, betting on lax enforcement or negotiated settlements with tax officials (Olaoye et al., 2021). Such practices erode trust in the system and perpetuate inefficiency. For example, TETFund (2022) noted that delays in remitting Education Tax by some tertiary institutions and their contractors have affected the timely disbursement of funds for approved projects. Similarly, the University of Nigeria Nsukka's 2022 internal audit report highlighted compliance gaps, including late filing of returns and incomplete documentation for VAT and PAYE remittances (UNN, 2022).

Discussion of Findings

The findings show that the provisions of the Tax Reform Act, as enacted through the series of Finance Acts (2019–2022), have directly and indirectly influenced the funding and financial sustainability of public tertiary institutions. The increase in Value Added Tax (VAT) from 5% to 7.5% and the adjustment of the Education Tax (E-Tax) rate to 2.5% of assessable company profits substantially increased government revenue and TETFund's pool of funds (FIRS, 2023; TETFund, 2022). This aligns with earlier evidence by Onuoha and Ibrahim (2020), who observed that higher VAT rates and improved compliance mechanisms expand fiscal capacity for public sector funding, including education. These measures contributed to improved budgetary allocations and project funding in universities and polytechnics. However, the benefits were diluted by rising operational costs, inflationary pressures, and the relatively low priority accorded to education in national budget planning. This corroborates Ogunode and Abubakar's (2020) argument that increased revenue does not automatically translate into adequate education funding if policy priorities remain skewed.

The chapter revealed a modest but uneven impact of the Tax Reform Act on budgetary allocations to public tertiary education. While federal revenue rose significantly between 2019 and 2021, education's share of the national budget remained below the recommended international benchmark of 15–20% (UNESCO, 2021). Instead, a significant portion of additional revenue was allocated to debt servicing and recurrent expenditure. This finding reflects Adeoye and Bello's

(2023) critique that fiscal policy reforms in Nigeria often fail to adequately address the chronic underfunding of education despite improved government earnings. For instance, even with increased TETFund disbursements, many institutions still reported inadequate funding for critical needs such as maintenance, research, and capital development (UNN, 2022).

On the operational side, the findings show that tax reforms contributed to some improvements in institutional efficiency and service delivery. Enhanced funding through TETFund facilitated the construction of infrastructure, procurement of equipment, and training of academic staff, which improved the teaching and learning environment in several universities and polytechnics (TETFund, 2022). These outcomes are consistent with findings by Ogunode and Abubakar (2020), who noted that targeted interventions can enhance institutional capacity and service delivery. However, the full potential of these interventions was undermined by persistent inefficiencies, delayed disbursements, poor maintenance culture, and rising costs of operations, which weakened the effectiveness of the additional funds (Adeoye & Bello, 2023).

Finally, the chapter identified challenges which include weak administrative capacity, limited fiscal autonomy, outdated accounting systems, and inadequate knowledge of tax regulations among finance staff created gaps in timely and accurate compliance. The complexity of tax policies and frequent changes further compounded these difficulties. These findings are supported by Olaoye et al. (2021), who documented similar challenges among public institutions, emphasizing the need for capacity building and clearer policy communication. Furthermore, weak enforcement and corrupt practices allowed some institutions to underreport liabilities or delay remittances, undermining the intended fiscal discipline (TETFund, 2022).

Conclusion

This chapter examined Nigeria's Tax Reform Act and its implications on public tertiary institutions, focusing on funding, financial sustainability, operational efficiency, and compliance challenges. The findings clearly demonstrate that the Tax Reform Act, as reflected in the Finance Acts (2019–2022), has expanded government revenue through higher Value Added Tax (VAT), increased Education Tax (E-Tax), and improved tax compliance mechanisms. These reforms created an opportunity for improved funding to public tertiary institutions, particularly through modest increases in budgetary allocations and enhanced TETFund

disbursements. However, the positive effects of the Tax Reform Act have been limited by several factors. Education's share of the national budget remains below international benchmarks despite increased revenue, reflecting persistent policy prioritization issues. Additionally, operational inefficiencies, bureaucratic delays, and rising inflationary costs have reduced the impact of increased funding on service delivery and institutional performance.

Recommendations

- i. The Federal Government of Nigeria, through the Ministry of Finance, Budget and National Planning, the National Assembly, and State Governments, should prioritize education by increasing its share of the national and state budgets to at least meet the UNESCO-recommended benchmark of 15–20 percent of total expenditure, ensuring that the improved revenue from tax reforms meaningfully addresses funding gaps in public tertiary institutions.
- ii. The Federal Ministry of Education, in collaboration with the National Universities Commission (NUC), National Board for Technical Education (NBTE), and institutional governing boards, should grant public tertiary institutions more autonomy over their internally generated revenue and tax obligations, while also working with the Federal Inland Revenue Service (FIRS) to organize regular capacity-building programs for administrators and finance staff on tax laws, compliance requirements, and financial management best practices.
- iii. The governing councils and management of public tertiary institutions, in partnership with the Office of the Auditor-General of the Federation or States and the FIRS, should enhance transparency and accountability by enforcing regular audits and publishing compliance and funding reports to minimize corruption, misallocation of funds, and delays in remittances.
- iv. The Tertiary Education Trust Fund (TETFund), under the supervision of the Federal Ministry of Education, should also ensure that its disbursements and revenues are strategically targeted at critical needs such as infrastructure maintenance, research, and staff development to improve service delivery and operational efficiency.
- v. In addition, the FIRS, working with the Joint Tax Board (JTB) and the Federal Ministry of Finance, should simplify tax laws and develop clear, user-friendly guidelines tailored for public tertiary institutions, while also conducting awareness campaigns and establishing helpdesk services to improve institutional understanding and voluntary compliance.

- vi. The Central Bank of Nigeria (CBN), in conjunction with the Ministry of Finance, should implement macroeconomic policies to curb inflation and reduce the rising operational costs that erode the real value of allocations to tertiary institutions.

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