Deloitte.

# The Era of the Digital Healthcare System in Nigeria

**Tax and Regulatory Considerations**

MAKING AN IMPACT THAT MATTERS since 1845

The introduction of digital technologies has revolutionized various aspects of human life with more business processes being transformed from the hitherto manual and orthodox methods to more advanced methods. The healthcare sector is no exception. It has also embraced digitalization to improve the quality of healthcare provided to patients.

The COVID-19 pandemic significantly accelerated the growth of digital healthcare system by altering many of the pivotal building blocks of healthcare services. Digital healthcare system revolves around mobile health (delivering healthcare services and information); telehealth and telemedicine (remote provision of healthcare services); predictive analysis (predicting health outcomes from data); AI-enabled check-ups; wearable devices; e-prescription (prescription of medication digitally), amongst others.

**Digital healthcare system in Nigeria**

Recently, Nigeria has embraced technological innovation in the delivery of healthcare services, with a significant number of healthcare providers employing digital health tools to provide diverse healthcare services, while improving healthcare outcomes. This is largely attributable to the continual increase in population, massive exodus of health practitioners and the prevalence of the use of mobile phones and internet. In May 2023, Nigeria launched 'NIGCOMHEALTH', a telehealth service platform which has been regarded as the first African digital healthcare platform. The platform is a product of the collaboration between the Nigerian Communications Satellite Limited (NIGCOMSAT), Ethnomet, and Sawtrax, and it is expected to harness the benefits of technology in providing quality and affordable healthcare services to Nigerians.

It was also projected that revenue in the digital health market in Nigeria would increase significantly by over $1m between 2023 and 2028[1]. This therefore makes the digital healthcare sector attractive to investors. However, in setting up a digital healthcare platform, it is essential for investors to consider the relevant tax and regulatory considerations that may potentially affect their investment. This article examines some of the tax considerations and opportunities that investors should be aware of when deciding to set up a digital healthcare centre.

[1] Digital Health - Nigeria | Statista Market Forecast

## Relevant tax and regulatory considerations

**1**

***Maximization of tax incentives:*** To encourage investments in specific sectors, including health, certain tax incentives have been made available. A prominent tax incentive is the pioneer status incentive (PSI) granted to eligible Nigerian companies in respect of qualifying products. Under the PSI, companies are granted tax relief for up to three years, which can be extended for over a year or two, provided their activities fulfil the eligibility criteria.

Several activities in the healthcare sector may qualify for these incentives. Activities listed as those that can enjoy the PSI status are:

- manufacturing of pharmaceutical and medical chemical products e.g. antibiotics, medical impregnated wadding, gauze, bandages, dressing etc;
- manufacturing of Irradiation, electro medical and electrotherapeutic equipment e.g. pacemakers, hearing aids, medical laser equipment;
- manufacturing of medical and dental equipment and supplies e.g. surgical drapes, sterile string and tissue, distilling apparatus, dental instruments
- construction and operation of non-residential buildings e.g. specialised hospitals, diagnostic centres, and laboratories.

**2**

***Direct and indirect tax implications:*** Healthcare companies are investing significantly in new hardware and software technologies aimed at improving the quality of healthcare delivery. Corporate tax and indirect tax rates are now an important factor to be taken into consideration by companies. For example In Nigeria, income from the provision of medical care services, medical and pharmaceutical products are exempt from value added tax (VAT), while certain transactions such as technical and service fees will qualify for withholding tax (WHT). Hence, the relevant tax implications will need to be taken into consideration by life science and healthcare companies in carrying out its business transactions.

**3**

***Tax deduction for research and development related activities***: Digital healthcare companies engage in various research and development (R & D) related activities to innovate, increase market participation and improve the quality of service delivery. To encourage R & D, Nigerian tax law allows the deduction of any amount expended on R&D from the total profits for that year before arriving at the assessable profit or loss, subject to a cap of 10% of the total profits of that company for that year as ascertained before any deduction is made for allowable donations and R & D.

**4**

***Increasing profits in emerging markets pushes up effective tax rates:*** It has been projected that revenue from digital health market in Nigeria would increase significantly by over $1m between 2023 and 2028. In addition, Nigerian tax law imposes corporate tax on a progressive rate of 0% to 30%, depending on the total profits of the company for the year. With effect from 1 September 2023, the FA23 has increased the tertiary education tax (TET) from 2.5% to 3%. Hence, as activities in emerging markets increases and profits also increase, this may push up effective tax rates of companies.

**5**

***Increased costs in funding regulatory compliance as part of a company's tax strategy*** - Companies registered and operating in Nigeria are required to pay different taxes, which are paid to different levels of government. Penalties are imposed for nor compliance. Therefore regulatory compliance is a significant value driver which companies should consider as part of the overall strategy.

**6**

***Shared services consideration:*** The provision of virtual healthcare services has led to certain activities being central-ized. Thus, companies continually need to review their business models to assess how they engage with customers, what intercompany arrangements are required for tax purposes and the arm's length nature of the transactions.

**7**

***Tax considerations of collaborations and partnerships:*** Healthcare companies have entered new partnerships and collaboration with technology companies to leverage digital technologies for delivering healthcare services. Taking account on how these new arrangements and business activities are structured triggers questions as to whether, from a tax perspective, companies can still regard themselves as healthcare providers, and what the tax implications of any different status might be. The principal activities carried out by healthcare companies that are in partnership with technology companies should be reflective to show that it still maintains its status as a healthcare company to ensure it remains eligible to enjoy tax incentives available to healthcare companies.

## Conclusion

With digital healthcare offering a wide range of possibilities and improving the quality of healthcare delivery services, many investors are now attracted to the sector. However, understanding the tax consequences of such decisions is critical for investors who are seeking a maximum return on their investments. While the Nigerian government continues to put in place various tax incentives and opportunities to stimulate investment, it is essential that investments in medical and pharmaceutical companies are structured in a way that can maximse returns and achieve tax optimality.

## Authors


**Funke Oladoke**
**Partner,**
**Tax & Regulatory Services**
foladoke@deloitte.com.ng

**Adenike Emeya-Friday**
**Manager,**
**Tax & Regulatory Services**
aEmeya-Friday@deloitte.com.ng

**Ajani, Ayooluwa**
**Senior Consultant,**
**Tax & Regulatory Services**
aajani@deloitte.com.ng