

# ANNUAL REPORT JUNE 2014 – JULY 2015

To collect revenue efficiently and effectively for the Government of Tonga to fund the services to the people of Tonga. In addition, the Ministry is also responsible for border security and trade facilitation.

*“Revenue from the  
Community to the  
Community*

---

## TABLE OF CONTENTS

---

### FOREWORD

1. INTRODUCTION
2. MINISTRY'S ORGANISATIONAL STRUCTURE
3. MINISTRY'S HUMAN RESOURCE MANAGEMENT
4. MINISTRY'S OUTPUT VERSUS MINISTRY'S PERFORMANCE
5. MINISTRY'S FINANCIAL PLANNING VERSUS MINISTRY'S PERFORMANCE
6. CHALLENGE AND RISK
7. CONCLUSION

**FOREWORD****From the Chief Executive Officer for Revenue and Custom**

The Ministry of Revenue and Custom's overall theme is to improve the lives of Tongans through effective and efficient tax and customs administration. This builds and improves on the work, commitment and dedication of previous leaders of the Ministry in the modernization of the tax and customs processes. The Ministry of Revenue and Customs had come through different stages of reforms and changes including the latest, the change of its name to Ministry of Revenue and Customs. The Ministry's core role includes not only revenue collection, but also border security, and trade facilitation.

The Ministry is committed to continuing to strengthen its various divisions. The enforcement programs of compliance for taxpayers, the assistance of the Government of Australia that supports the active campaign to have Tax Identification Number (TIN) registration for taxpayers, further, was the bringing of Tonga's informal sector into the formal sector, which also features the introduction of the Small Business Tax regime. All these works have helped to support the move towards Risk Profiling and Management.

Further, was the improvement of the active Clients Section as well as a modernized IT system, funded by Asian Development Bank (ADB) to enable the upgrade of the Revenue Management System (RMS).

We can only achieve our plans through working in harmony with the support of all the other Government Ministries and together with our development partners, specifically the Australian Government, the Asian Development Bank, the World Bank, the Pacific Financial Technical Assistance Centre (PFTAC), the Oceania Customs Organization (OCO), the World Customs Organization and more recently the European Union. The work is made easier with all your support. We hope the partnership will continue to grow in all areas including technical assistance, funding assistance and much needed training and capacity building for our staff. I acknowledge the untiring support given by our former minister, Honourable Siosifa Tu'utafaiva and to our current Honourable Minister Tevita Lavemaau. This also extends to the capable Deputies of the Ministry, namely Mrs Lepaola Vaea, Mr. Feleti Fa'otusia, Mr Kelemete Vahe and Mrs Makitalena Fifita. I would also like to acknowledge the former Deputies Ms 'Akanesi Taufu, Mr David Sadler and Mr Pita Ha'angana.

We welcomed Mr. Michael O'Shannasy as the Taxpayer Advisor and Mr. Kelvin George as the Audit Compliance Advisor. Their input had been invaluable to the improvement of the service delivery of the Ministry.

## INTRODUCTION

### 1.1 Legislation

Legislation administered by Revenue Division:

- Revenue Administration Act 2000
- Revenue Services Administration Act 2002,
- Revenue Services Administration Regulations 2003
- Consumption Tax Act 2003, Consumption Tax Regulations 2005
- Customs & Excise Management Act 2007, Customs & Excise Regulations 2008
- Customs Act 2007, Customs Regulations 2008
- Excise Tax Act 2007, Excise Tax Regulations 2008
- Income Tax Act 2007, Income Tax Regulations 2008

Legislation administered by Customs Division:

- Customs Act & Regulations 2007
- Customs & Excise Management Act 2007
- Excise Act and Regulations 2007
- Customs Tariff Schedule (Harmonised series 2012)
- Excise Tax Tariff Schedule

### 1.2 Values / Functions

Values:

- Leadership
- Accountability
- Integrity
- Transparency

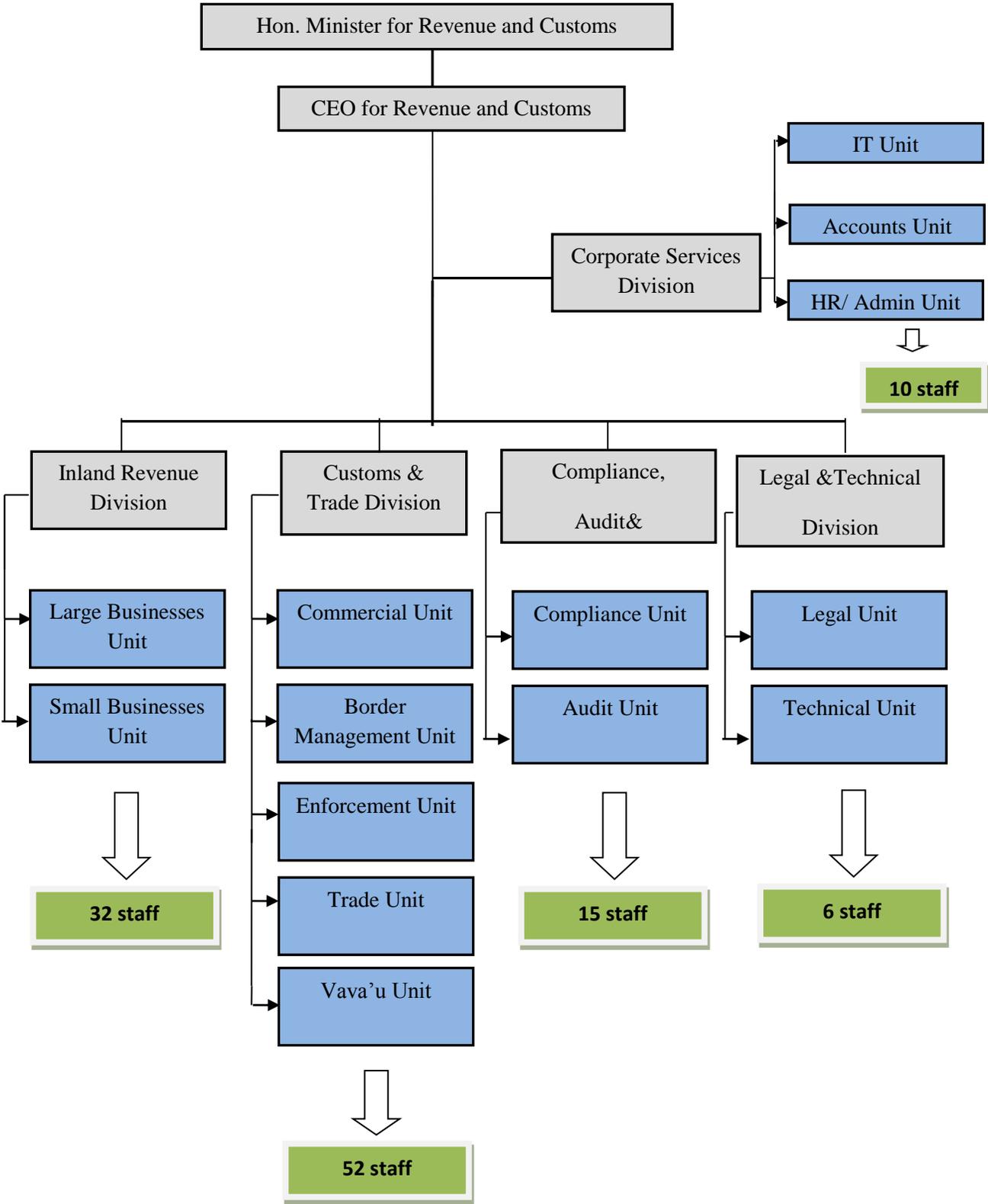
Functions:

To collect revenue efficiently and effectively for the Government of Tonga thus to fund the services to the people of Tonga. In addition, the Ministry is also responsible for border security and to facilitate legitimate trade while improving compliance to Ministry's Legislation.

### 1.3 Ministry Staffing Summary

Post	At Post 1 <sup>st</sup> July 2014	At Post 30 <sup>th</sup> June 2015
Chief Executive Officer	1	1
Deputy Chief Executive Officers	5	4
Senior Assistant Deputy Chief Executive Officers	2	2
Assistant Senior Deputy Chief Executive Officers	2	3
Principal Revenue Officers	7	8
Assistant Principal Revenue Officers	2	1
Senior Revenue Officers	8	13
Revenue Officers Graduate	7	11
Revenue Officers	16	20
Assistant Revenue Officer	1	0
Revenue Officer Grade I	12	11
Revenue Officer Grade II	14	16
Revenue Officer Grade III	20	17
Computer Operator Grade III	2	2
Driver	3	5
Cleaners	1	1
Daily Paid Labours	9	18
Consultants	2	2
<b>TOTAL</b>	<b>114</b>	<b>135</b>

2. MINISTRY’S ORGANISATIONAL STRUCTURE



### 3. MINISTRY'S HUMAN RESOURCE MANAGEMENT

#### 3.1 Number of Divisional Staff

DIVISIONS	NUMBER OF STAFFS 2015
Large Business Division (LBD)	22
Small Business Division + outer islands (SBD)	10
Compliance and Audit Division (CAD)	15
Technical Support Division (TSD)	6
Customs & Trade Division (CTD)	52
Corporate Strategy Division (CSD)	10
<b>TOTAL</b>	<b>135</b>

#### 3.2 Number of Staff Recruited to the Ministry

RECRUITED July - December 2014	RECRUITED January – June 2015
Mrs. Makitalena Fifita	Ms. Lata Afu
Mr. Kilifi Heimuli	Ms. Jacinda Polota
	Mrs. Losaline Sa'ili
	Mrs. Mele Kioa
	Ms. 'Itili Manu
	Mr. Suliasi 'Aholelei
	Ms. Siu'esi Kupu
	Mr. Telesa Tahaafe

#### 3.3 Number of Staff Exited from the Ministry

EXITED July – December 2014	EXITED January – June 2015
Mrs. Daphne Stone	Mr. Pita Ha'angana
Ms. 'Akanesi Taufa	Mr. Graham Tukuafu
	Ms. Lupeolo Tupou
	Mr. Konaa'u Kautai
	Mr. Feleti Hopoate
	Mr. Sione Lau Laupea'alu

**4. MINISTRY'S OUTPUT VERSUS MINISTRY'S PERFORMANCE**

<b>OUTPUT</b>	<b>OBJECTIVES</b>	<b>ACHIEVEMENT</b>	<b>WAY FORWARD</b>
More efficient and effective management of voluntary and to collect adequate revenue for funding of government services	To improve revenue collection through enforced compliance with all revenue and customs rules and regulations.	Achieved revenue collection estimate of \$136.93 million and exceed by \$19.4 million.	To achieve revenue target for 2015/2016 of \$162 million.
Increased protection of the borders of Tonga from illegal movement of goods and services	To provide appropriate level of border security	Eight officers attended training on pleasure craft search and Maritime Intelligence to improve capacity on border protection. Approved by Cabinet for the function carried out by Immigration be transferred to Customs	Signing of MOU to facilitate information sharing and cooperation and collaboration in the investigation and prosecution of serious crime
Improved administration of international trade agreements, minimized customs transaction costs and more timely release for legitimate trade.	To facilitate trade in the most effective and efficient way possible.	Cabinet approval for amendment of Tariff Schedule 2012.	More awareness programs to educate the public.
More effective placement of the right people in the right place at the right time within a well managed organization, able to handle change effectively which ensures the staff acquiring the necessary skills, funds and technology to support the Ministry's operations	To improve staff capacity and productivity	Able to fill the senior posts with capable people. Many staff attended trainings overseas.	Recruit more suitable senior staff. Need more expertise for the technical posts. More training for staff.

## 5. MINISTRY'S FINANCIAL PLANNING VERSUS MINISTRY'S PERFORMANCE

The revenue target for the financial year 2014/2015 of \$136,926,307.00 was achieved with a total revenue collection of \$156,331,028.50 giving a surplus of \$19,404,721.50. Financial year 2014/2015 illustrated in **Table 1** reflects a significant increase of 13.5m as compared to the two previous financial years.

**Table 1 (Revenue Collected)**

	FY2012/13 (\$m)	FY2013/14 (\$m)	FY2014/15 (\$m)
<b>Actual Revenue Collected</b>	129.73	134.05	156.33
<b>Estimated Revenue</b>	122.57	126.64	136.93
<b>Surplus/(Deficit)</b>	7.16	7.41	19.4

**Table 2: Recurrent Expenditure Estimate 2010/11 – 2013/14(millions)**

Financial Year	2012/13 (\$m)	2013/14 (\$m)	2014/15 (\$m)
<b>Actual</b>	3.58	3.95	4.08
<b>Budget</b>	4.10	4.05	4.34

**Table 3** compares the total value of goods that was imported for the FY2012/2015 an insignificant increase between the financial years to support the significant increase in the FY2014/2015.

**Table 3 (CIF)**

Financial Year	Total CIF
<b>FY2012-2013</b>	\$282,237,535
<b>FY2013-2014</b>	\$301,551,635
<b>FY2014-2015</b>	\$323,153,708

**Table 4** compares the volume of cargo imported for the FY2013/2015 again an insignificant in volume to support the significant increase in the FY2014/2015.

**Table 4 (Volume of Cargo Imported)**

Financial Year	Volume of Imported Cargo
<b>FY2013-2014</b>	208234.042 tons'
<b>FY2014-2015</b>	225475.805 tons'

**Table 5** illustrates the revenue that was foregone in the financial year 2012-2015 due to the Governments support towards the local business industry. Financial 2013/2014 saw a decrease of \$1.6m however financial year 2014/2015 saw an increase of \$11.1m revenue that was foregone.

**Table 5(Exemptions)**

<i>Financial Year</i>	<i>Duty</i>	<i>Consumption Tax</i>	<i>Excise Tax</i>	<i>Total</i>
<b><i>FY2012-2013</i></b>	<i>\$11,583,999.59</i>	<i>\$4,376,173.76</i>	<i>\$12,519,250.94</i>	<i>\$28,479,424.29</i>
<b><i>FY2013-2014</i></b>	<i>\$10,708,013.12</i>	<i>\$3,450,096.77</i>	<i>\$12,710,028.43</i>	<i>\$26,868,138.32</i>
<b><i>FY2014-2015</i></b>	<i>\$17,820,150.09</i>	<i>\$8,590,857.87</i>	<i>\$11,553,317.93</i>	<i>\$37,964,325.89</i>

**Table 6** Illustrates the number of Commercial Aircrafts and passengers processed by the Airport team comparing FY2013/2014 and FY2014/2015.

**Table 6 (No. of Aircrafts & Passengers)**

<i>Financial Year</i>	<i>No. of Commercial Flights</i>	<i>No. of Passengers</i>
<b><i>FY2013-2014</i></b>	<i>694</i>	<i>73,824</i>
<b><i>FY2014-2015</i></b>	<i>839</i>	<i>80,610</i>

**Table 7** illustrates the number of ships processed by the Sea Port team as seen below the number of Commercial Vessels remained the same however Oil Tankers increased by 3, Cruise Ships increased by 1, Fishing Vessels decreased by 8 and incoming yachts also decrease by 7.

**Table 7 (No. of Vessels Processed)**

<i>Financial Year</i>	<i>No. Commercial Vessels</i>	<i>No. Oil Tankers</i>	<i>No. Gas Tankers</i>	<i>No. Cruise Ships</i>	<i>No. Fishing Vessels</i>	<i>No. Yachts</i>
<b><i>FY2013-2014</i></b>	<i>91</i>	<i>26</i>	<i>14</i>	<i>11</i>	<i>17</i>	<i>107</i>
<b><i>FY2014-2015</i></b>	<i>91</i>	<i>29</i>	<i>14</i>	<i>12</i>	<i>9</i>	<i>100</i>

## 6. CHALLENGES AND RISKS

Table 1: Ministry of Revenue and Customs Outputs' Risks & Mitigation Strategies

RISKS	DESCRIPTION	MITIGATION STRATEGIES
<b>Operating Environment:</b>		
a) Lack of proper equipment and technology	Improved inspection facilities and technology are the main requirements to fully support the risk assessment	Seek budget support from donor funding partners
b) External shocks, crisis and natural disasters	External factors such as a collapse of the world economy (e.g. global economic crisis), international export markets; changes under the World Trade Organisation (WTO) agreements	Strategy to advise decision makers on the cost to the economy and tax payers of any form of political instability
		Economic resilience strategy
		Macroeconomic stability
		Communication and awareness programs
c) Whole of Government Coordination with line Government Agencies	Increased fragmentation within Government due to: conflicting priorities; lack of communication between central Agencies; lack of understanding, which would in turn generate cost inefficiencies to Government	Strengthen core Government Agencies coordination with line Ministries
		CEO Forum problem solving
		Cascaded coordination through all levels of Government
<b>Internal Environment:</b>		
a) Funding Changes	Unjustified decreases in appropriated budget, inability of Government and donors to support funding gaps etc	Budget execution and control strategies
		Prioritization of outputs and activities to transfer funds from low value to high value activities
b) Staffing Gaps	Inability of MRC to recruit and maintain the appropriate competencies required to deliver its planned outputs:	Better designed, implemented and monitored Corporate Plan
		Strengthen coordination with PSC in recruitment of required skills

	No funding and internal policies and processes which delay/inhibit access to available funds; high turnover of staff due to migration, dissatisfaction, movements outside of the Ministry etc	Organizational improvement strategy to focus on staff development, considers providing incentives for staff performance, staff retaining policy, and provision of promotion and career development opportunities
c) Change in Leadership	Lack or change in executive commitment to delivery of outcomes and outputs due to executive management changes	Development of a strong executive team and supportive staff to minimize risks to operations when leadership changes occur
		Development of effective briefings for CEO and Minister on MRC corporate plan and their respective roles and significance of these roles
d) Whole of Government Strategic Planning	If strategic plans are poor it may result in uncoordinated long term direction and unacceptable outcomes for MFNP and Government customers	Development of a process for strategic plan development where there is collective whole of Government contribution and ownership of the plan
		Clear outline of results based approach linking from TSDF, Sector Plans, Corporate Plan, Budget Annual Management Plans, JDs

## 7. CONCLUSION

In our quest to achieve the Government objectives, the Ministry will contribute to economic growth and safety of Tonga by attracting foreign investment, ease the way of doing business at a comparative low cost and provide good access to advisory services. We will ensure an even playing field through consistent approach and detection of non-compliance.

We will continue to monitor and control our borders to ensure community security and a safe environment to operate within. We also contribute by building the community confidence in the Ministry audits ability to meet its stated output through maintaining the recognition as the leading contributor to Tonga's economic, security and social programmes, through effectively collecting the majority of Government revenues, carefully protecting its border, facilitation of trade and providing quality advice to key stakeholders.

To ensure service sustainability we will focus on developing voluntary compliance. We understand that when there are high levels of voluntary compliance it will contribute to maximize revenue collection. With the limited resources MRC has available it is critical to identify, prioritize and treat risks with a range of interventions including assistance through providing tailored services to assist taxpayers (customers) at their convenience, and detect and deter non-compliance by applying enforcement responses.

The Ministry will work on improving policy advice and implementation: by strengthening the Ministry's leadership role and credibility within the public service, through continuing to provide the Minister and Government with high-quality policy advice that can be effectively implemented.