



Ministry of Revenue and Customs

Annual Report 2017 - 18



“Revenue from the Community for the Community”

ACRONYMS AND TERMS

APRO – Assistant Principal Revenue Officers

ASDCEO – Assistant Senior Deputy Chief Executive Officers

CEO – Chief Executive Officer

DCEO – Deputy Chief Executive Officers

DPL – Daily Paid Labourer

FY – Financial Year

HOD – Head of Division

MORC – Ministry of Revenue and Customs

P.A – Personal Assistant

PRO – Principal Revenue Officers

RO – Revenue Officers

RO GI – Revenue Officer Grade I

RO GII – Revenue Officer Grade II

RO GIII – Revenue Officer Grade III

ROG – Revenue Officers Graduate

SADCEO – Senior Assistant Deputy Chief Executive Officers

SRO – Senior Revenue Officers

SSA – Senior System Analysts

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FOREWORD FROM MINISTER



As Minister responsible for tax and customs related matters, it is with great privilege to present the Annual Report for the Ministry of Revenue and Customs for the 2017/18 financial year. With the constant growth of this nation's small yet resilient Economy, the Ministry plays a vital role in cultivating a more prosperous Tonga through establishing and monitoring a stable tax revenue collection system and also strengthening our border security. Therefore, the Ministry strives to reflect the fulfilment of this pivotal role through its management and efforts every financial year.

This financial year was a gratifying yet challenging one especially with the devastating effects of Cyclone Gita which shadowed our little nation in the beginning of 2018. Tropical Cyclone Gita heavily impacted various aspects of our Ministry's operations which in turn accumulated additional hurdles and challenges to overcome. However, as a result of immense commitment and diligence by the Ministry as a whole, we exceeded our expectations through the collection of over \$227 million pa'anga in tax revenues.

During the financial year, the Ministry also executed various plans and hosted educational events such as the Ministry's first ever Tax Week held in October of 2017. We also commemorated the first-year anniversary for the Heilala Tax System. Both events were successful in terms of turn outs from the general public, customers, special guests from abroad, and representatives from Tonga's governing body.

The accomplishments we have attained for this financial year as a Ministry, was a unified effort. Therefore, I would personally like to express my sincere and utmost gratitude to our many faithful stakeholders, donor partners, and customers of the Ministry for all their contribution and cooperation thus far. I also wish to recognise the excellent and vigilant work of the former CEO, Kulufeinga 'Anisi Bloomfield, the deputy CEOs, Mrs Makitalena Fifita and Kelemete Vahe, and not forgetting the diligent and hardworking efforts of the entire staff of the Ministry of Revenue and Customs.

Despite challenges and hurdles faced by the Ministry during the 2017/18 financial year, our enduring efforts as a Ministry encompassed every aspect of our preceding vision *"To work cooperatively for a safer and prosperous Tonga"*. Therefore, may we look forward to attaining and upholding the ministry's new vision in our daily operational endeavours for this new financial year, *"To be recognised as the best Ministry amongst all Government Ministries"*

Respectfully,



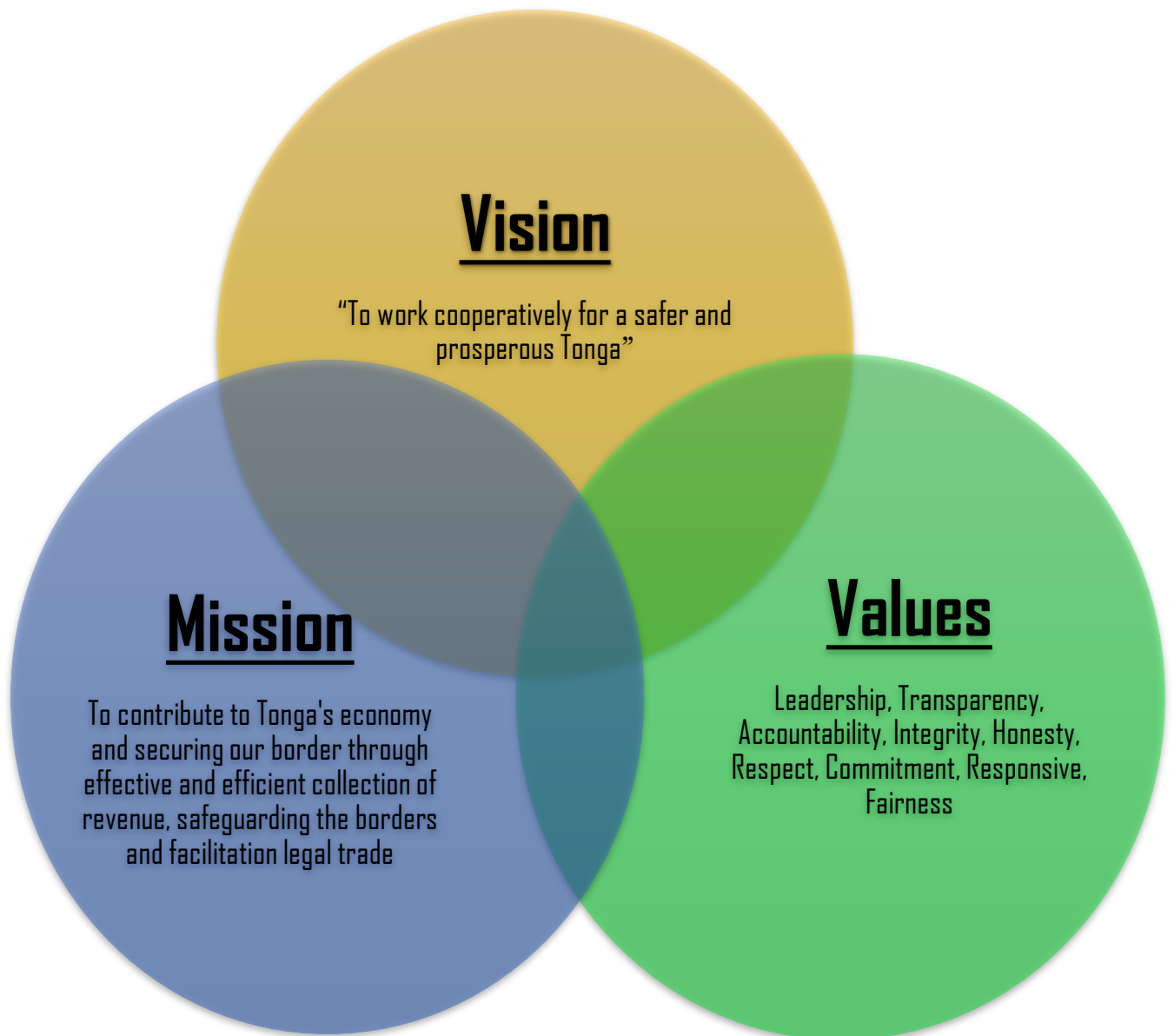
Hon. Mateni Tapueluelu

Minister for Revenue and Customs



Minister for Revenue and Customs

VISION, MISSION AND VALUES



1. INTRODUCTION

During the 2017-18 Financial Year, the Ministry of Revenue and Customs contributed in achieving the Ministry's organisational outcomes as outlined;

- Improved macroeconomic management and stability with the development of a stronger, deeper, more inclusive financial system to ensure sound macroeconomic environment within which inclusive and sustainable business and social opportunities can be developed and pursued;
- Better access to economic opportunities overseas including trade, employment, (short and long term and in a wider range of skill areas) and foreign investment to expand the range of income-earning opportunities across the Kingdom and beyond;
- Improved political and defence engagement within the Pacific and the rest of the world, including better engagement with other governments and international organizations, to ensure we are an effective member of the international community, able to participate more effectively in the support to other countries and consistent advancement of our international interests, security and sovereignty.

These outcomes support the government's 10 years framework known as Tonga's Strategic Development Framework – TSDF 2015-2025, primarily designed to improve the quality of life for all Tongans by 2025.

To constantly attain these outcomes, it is mandatory for the Ministry to carry out its core functions which encompasses the collection of revenue both efficiently and effectively on behalf of the Tongan Government for funding of services for its people. The Ministry is also responsible for continual assessment of the vital functions and processes of cross border security and the facilitation of legal trade.

In order to enhance our efforts and legislative obligations, we must administer and maintain the confidentiality of the information entrusted to us. The following legislations dictate the operations of the Ministry that are overseen and executed at both the Revenue and Customs Offices.

Legislations 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
- Income Tax Act 2007, Income Tax Regulations 2008

Legislations administered by Customs Division

- Customs Act 2007
- Customs Regulations 2008
- Customs Tariff Schedule (Harmonised series 2012)
- Excise Act 2007
- Excise Tax Regulations 2008
- Excise Tax Tariff Schedule
- Customs & Excise Management Act 2007
- Customs and Excise Management Regulations 2008

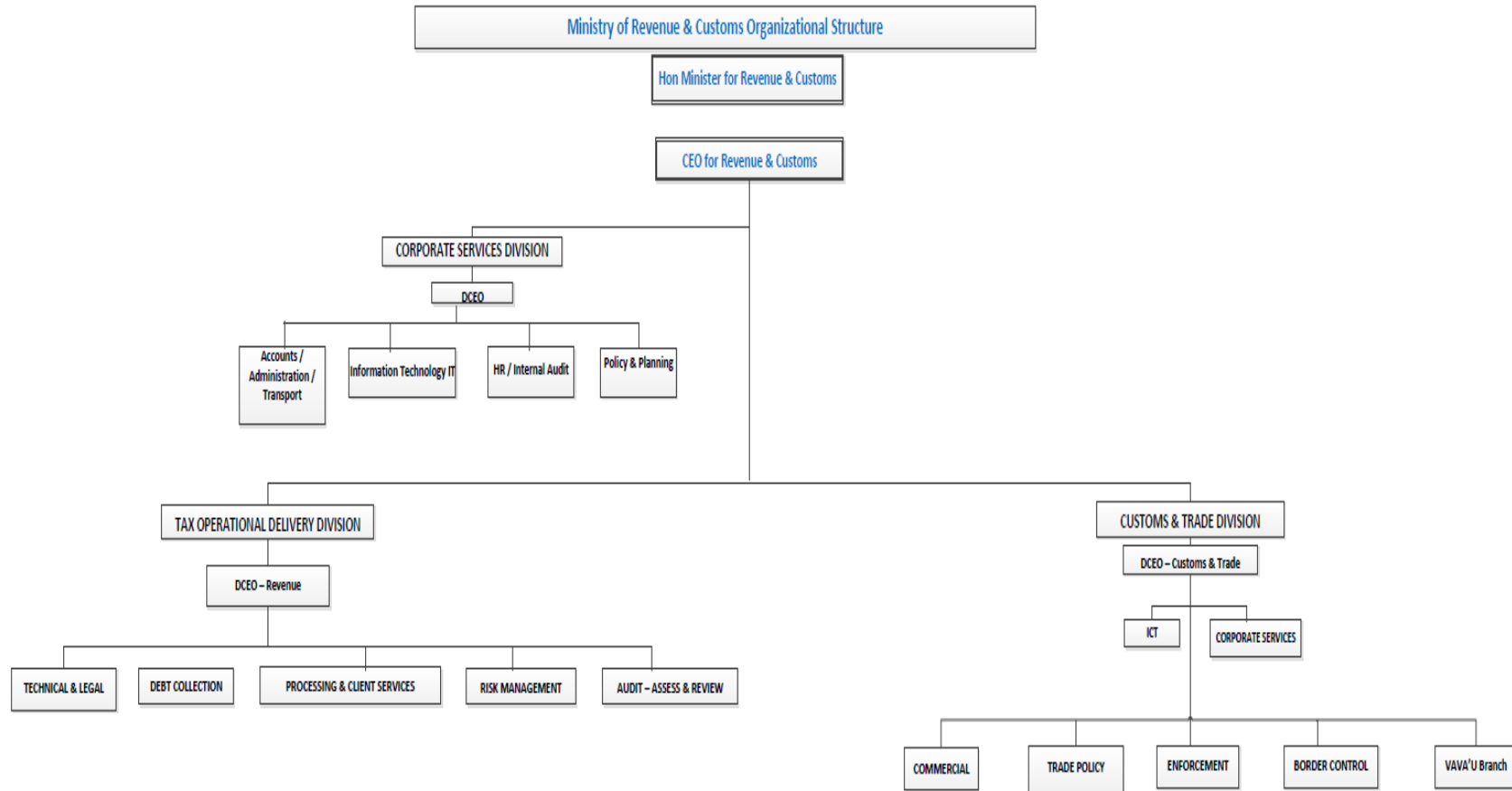
Additional legislations enforced by Customs Division:

- Consumer Protection Act 2009
- Food Act 2014
- Illicit Drugs Control Act 2003
- Immigration Act
- Tobacco Control Act 2000
- Money Laundering and Proceeds of Crimes Act 2000
- Sandalwood Regulations 2016
- Therapeutic Goods Act 2001

1.1 MINISTRY STAFFING SUMMARY

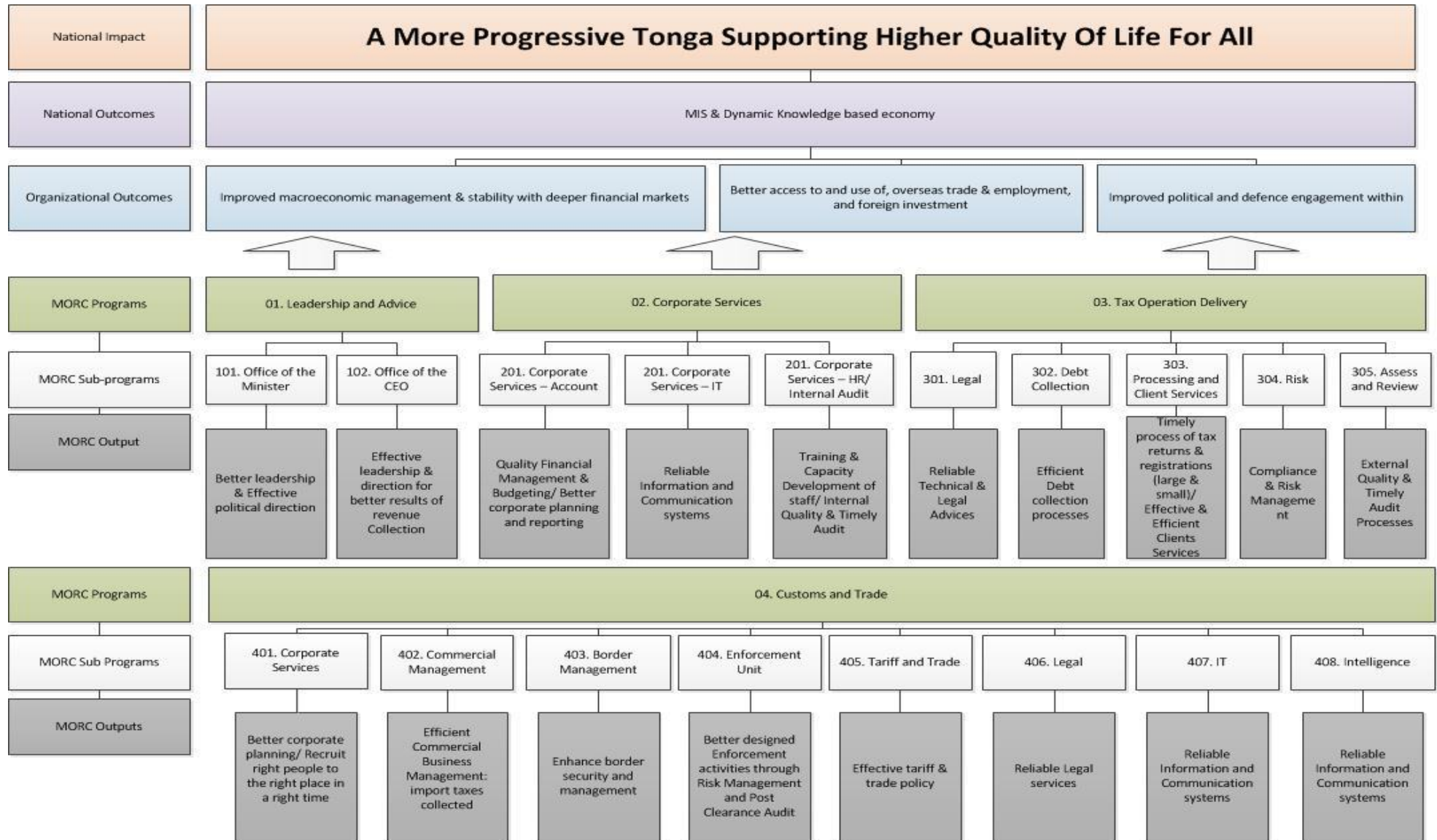
Post	At Post 1st July 2017	At Post 30 th June 2018
Chief Executive Officer	1	0
Deputy Chief Executive Officers	3	3
Senior Assistant Deputy Chief Executive Officers	6	7
Assistant Senior Deputy Chief Executive Officers	1	1
Principal Revenue Officers	14	14
Senior System Analysts	1	1
Assistant Principal Revenue Officers	1	1
Senior Revenue Officers	18	19
Revenue Officers Graduate	15	20
Revenue Officers	23	28
Revenue Officer Grade I	22	22
Revenue Officer Grade II	13	18
Revenue Officer Grade III	14	19
Transport Supervisor	1	1
Driver	6	8
Daily Paid Labourers	18	13
Watchman	1	4
Cleaner	1	1
Volunteers	0	0
TOTAL	159	180

2. ORGANISATIONAL STRUCTURE



Note: ** There has been no variations in the organizational structure in relation to the prior Financial Year. **

3. RESULTS MAP



4. OUTPUTS VS PERFORMANCE

Outputs	Objectives	Achievements	Way Forward
a) Better leadership and Effective Political direction	<ul style="list-style-type: none"> ❖ Present MORC Annual Report to Parliament in a timely manner. ❖ Table to Parliament regarding any Bills and Regulations related to the Ministry or its operations. 	<ul style="list-style-type: none"> ✓ Successful acceptance of Bills and Regulations presented to Parliament 	<ul style="list-style-type: none"> ❖ Present MORC Annual Report to Parliament ❖ Closely work together with CEO of MORC.
b) Effective leadership and direction for better results of revenue Collection	<ul style="list-style-type: none"> ❖ Provide sufficient advice from CEO over tax and customs related matters ❖ Conduct weekly meetings with MORCs HODs and regularly meet with Minister of the Ministry for reporting purposes. ❖ Provide timely endorsements of MORCs Corporate Plan, Annual Management Plan, MORC budget, Annual Report etc. 	<ul style="list-style-type: none"> ✓ Better understanding of MORCs operations and proper delegation of responsibilities for issues brought up in weekly HOD meetings ✓ Issues effectively delegated to proper Units ✓ MORC exceeded desired revenue collection for the Financial Year 	<ul style="list-style-type: none"> ❖ Continual push for more effective HOD meetings and take into account any suggestions from consultants that visit the Ministry in the future.

Outputs	Objectives	Achievements	Way Forward
	❖ Regularly attend CEO Forums held		
c) Better corporate planning and recruiting the right people, to the right place, at the right time.	<ul style="list-style-type: none"> ❖ Improve and build capacity and productivity of staff in Customs Division ❖ Develop more comprehensive planning for Customs. ❖ Improve development of the Ministry through executing effective Corporate Planning and Financial Management, and also providing secure and upgraded IT services. 	<ul style="list-style-type: none"> ✓ Able to fill all vacant posts with capable candidates. ✓ Many staff members were able to attend trainings overseas. ✓ Produced Corporate Plan, Annual Management Plan, and Annual Reports in a timely manner. 	<ul style="list-style-type: none"> ❖ To recruit more suitable senior staff to the Ministry. ❖ Need more expertise and skilful candidates for the technical posts. ❖ Ministry to provide more training opportunities for the staff. ❖ Closer cooperation with other heads of divisions for the production of the Corporate Plan, Annual Management Plan and Annual Reports.
d) Efficient commercial business management import taxes collected.	<ul style="list-style-type: none"> ❖ Number of complaints not to exceed 5 per month ❖ Ensure the accuracy in 	<ul style="list-style-type: none"> ✓ Less complaints received on a monthly basis (no more than 5 complaints) ✓ 100% accuracy of Revenue Collection 	<ul style="list-style-type: none"> ❖ Continual of timeliness and accuracy of declarations and processing of entries

Outputs	Objectives	Achievements	Way Forward
	<p>penalties issued and timeliness in processing of warehouse stock taken once a month</p> <ul style="list-style-type: none"> ❖ Ensure the accuracy of processing of entries and timeliness in processing of Customs entries for local manufacturing warehouse 	<p>according to approved entries and accuracy of processing of entries.</p>	<ul style="list-style-type: none"> ❖ Improve monthly compliance check on total number of approved places
<p>e) Enhance border security and management</p>	<ul style="list-style-type: none"> ❖ Improve and provide appropriate level of border security for the people ❖ Develop effective and efficient process to manage border protection for detection of Tonga from movement of illicit, restricted goods and undesirable travellers ❖ Better border protection and 	<ul style="list-style-type: none"> ✓ Transfer of Immigration service from Ministry of Foreign Affairs to Customs & Trade Division and provide complete staffing of this new Unit ✓ Establishment of Immigration service at Vava'u airport to serve International flights at Vava'u ✓ Additional improvement in the enforcement process which lead to more compliance 	<ul style="list-style-type: none"> ❖ On-going capacity building of staff at each sections of Border Unit especially the new Immigration Section ❖ More improvement in the Border protection processes which leads to facilitation of legal trade and the movement of people, goods, and services

Outputs	Objectives	Achievements	Way Forward
	<p>services through effective processes</p> <ul style="list-style-type: none"> ❖ Provision of Border protection in all areas of movement of people and goods using risk assessment and re-screening information 	<p>of customers to legal trade and travelling as well as Customs regulations and policies</p>	<p>through Tonga's borders</p>
<p>f) Better Designed Enforcement activities through Risk Management and Post Clearance Audit.</p>	<ul style="list-style-type: none"> ❖ To develop and improve enforcement roles on Customs activities and process ❖ Seek better designed enforcement activities, processes, and systems ❖ To improve transaction-based control on Desk Audit ❖ To establish good information sharing within Customs Units ❖ Preparing for establishment of 	<ul style="list-style-type: none"> ✓ Improvement in productivity of human resource and management on PCA ✓ Maintained effectiveness of PCA operations and enforcement roles through capacity building and sharing information with other Customs Units 	<ul style="list-style-type: none"> ❖ On-going capacity building of staffs on international level of enforcement process ❖ Able to establish Pre-audit research techniques to assist in Audit Planning ❖ Improve targeting techniques of importers for field audit, research techniques for better audit results and increase compliance level

Outputs	Objectives	Achievements	Way Forward
	<p>an Enforcement Unit</p> <ul style="list-style-type: none"> ❖ Preparing Strategic Audit Planning ❖ Design Field Audit Planner for FY 2017/18 ❖ Establish and practice World Customs Office design guidelines for audited targeting 		
<p>g) Provide effective tariff and trade policies</p>	<ul style="list-style-type: none"> ❖ More improvement in the trade agreements processes which leads to facilitation of legal trade at all times. ❖ Also upgrade Tonga to formulation of higher level of International trade policies and rulings ❖ To enhance legal and professional handling of Trade matters. 	<ul style="list-style-type: none"> ✓ Slight improvement in trade sector as a result of establishing trade unit. ✓ Continual facilitation of legitimate trade through provision of Trade Facilitation and Facilitation Agreement 	<ul style="list-style-type: none"> ❖ Able to facilitate international trade Agreement and participate in Trade Negotiation. Ensure of an up to date Harmonised System. ❖ Possibility for training of staff and customers on trade matters

Outputs	Objectives	Achievements	Way Forward
	<ul style="list-style-type: none"> ❖ Trade Facilitation and Facilitation Agreement, International Liaison, Policy advice on trade issues and Training on Trade Issues. ❖ Updating the Harmonised System, Participate on Trade Negotiations, Formulation of Rules of Origin Plan for established of Trade Unit. 		
<p>h) Provide Reliable Legal Services for Customs division</p>	<ul style="list-style-type: none"> ❖ Drafting policy papers for legislative amendments to Customs Laws ❖ Draft legislative amendments as required and facilitate public awareness ❖ Provide legal advice to internal and external stakeholders requiring 	<ul style="list-style-type: none"> ✓ Cabinet Submission for Customs Law reform completed ✓ Cabinet Submission for Tariff Policy 2016/17 completed. ✓ Completed Cabinet Submission for amendment to the passenger arrival and departure cards 	<ul style="list-style-type: none"> ❖ Review of Customs Legislation against the Revised Kyoto Convention, Completion of review of Customs and Revenue legislation ❖ Meet the deadlines for provision of advices at a

Outputs	Objectives	Achievements	Way Forward
	<p>clarification of Customs Laws</p> <ul style="list-style-type: none"> ❖ Review of Customs SOPs to enable implementation of PACER Plus requirements/obligations ❖ Improved facilitation and assistance of the performance of revenue administration by providing timely and accurate legal advisory services. 		<p>timeframe requested</p> <ul style="list-style-type: none"> ❖ Able to settle court cases and closed cases each Financial Year
<p>i) Reliable Information and Communication Systems.</p>	<ul style="list-style-type: none"> ❖ To upgrade and update the Custom Divisions' computer system ❖ To provide better and reliable IT platforms, software, and ICT systems for Customs Division. ❖ Use new Customs computer system, the "ASYCUDA World", more effectively 	<ul style="list-style-type: none"> ✓ Successful installation and use of "ASYCUDA World" for Custom Division activities. ✓ Successful Completion of workstation at Vava'u Airport facilitate of revised arrival and departure cards. ✓ Fua'amotu and Vava'u airports has seen an increase in efficiency and 	<ul style="list-style-type: none"> ❖ On-going preparation of exporting CMS data to the new system ASYCUDA World ❖ Continually provide training for all Customs staff on application of ASYCUDA World system.

Outputs	Objectives	Achievements	Way Forward
		effectiveness of processing functions due to newly installed computer systems.	❖ Persistent installation of system updates.
j) Quality Financial Management and Budgeting / Better corporate planning and report.	<ul style="list-style-type: none"> ❖ Work closely with other units of the Ministry of accurately getting numbers in a timely manner for reporting purposes. ❖ More efficient and Timely submission of reports to CEO and other necessary parties ❖ Submit accurate and weekly reports to MORC Head of Divisions (HOD) ❖ Develop a MORC Annual Procurement Plan ❖ Develop and implement MORC budget for the Financial year and link with MORC Corporate Plan 	<ul style="list-style-type: none"> ✓ Timely submission of financial year forecasting for weekly reporting to MORC staff. ✓ Effectively pick up issues that require attention of MORC officers or supervisors as a result of efficient and accurate report preparation. 	<ul style="list-style-type: none"> ❖ Consistently report numbers etc. at a timely manner. ❖ Continue to work closely with Ministry of Finance and other partners. ❖ Propose the undertaking of overseas training for internal audit processes

Outputs	Objectives	Achievements	Way Forward
<p>k) Reliable Information and Communications System</p>	<ul style="list-style-type: none"> ❖ Constantly upgrade server Operating systems, hardware resources, and also workstation computer and software. ❖ Provide training where necessary for MORC staff regarding any IT or technical services related matters. ❖ Ensure Ministry website is up to date and working. ❖ Prompt support and assistance provided to MORC staff for any IT related matters 	<ul style="list-style-type: none"> ✓ Minimal number of complaints reported from MORC staff due to constant check-up of computer systems. ✓ Information provided on the website is 95% up to date at all times. 	<ul style="list-style-type: none"> ❖ Better network and update hardware ❖ Access to the database to run queries and the source code to do the changes – need training on the system ❖ Propose for a funding – to upgrade system and hardware ❖ More IT training, working attachment, workshops or conference.
<p>l) Training and Capacity Development of staff/Internal Quality and Timely Audit</p>	<ul style="list-style-type: none"> ❖ Training & Capacity Development of staff ❖ Quality management of the Performance Management System for all staff 	<ul style="list-style-type: none"> ✓ Lead in organizing of trainings both internally and externally for all staff, in order to boost their training capacity. ✓ PMS process for the FY 17-18 was well monitored and 	<ul style="list-style-type: none"> ❖ Look for more training opportunities overseas for relevant staff. ❖ Map out more internal trainings relating to PMS, as all staff needs to be well aware

Outputs	Objectives	Achievements	Way Forward
	<ul style="list-style-type: none"> ❖ Effective and efficient customer service delivery 	<p>reported to PSC, for payment of staff rewards.</p> <ul style="list-style-type: none"> ✓ On a daily basis, the Administration team plays a vital role in welcoming visitors to the office, answering of phone calls and transferring to the right employees. 	<p>of how to properly keep their records and evidence.</p> <ul style="list-style-type: none"> ❖ To be innovative when it comes to a busy office, must be able to cater for all visitors visiting the office.
m) Provide reliable Technical and Legal Services	<ul style="list-style-type: none"> ❖ Providing timely legal advice to the Minister and CEO responding to complex technical and legal issues raised by tax payers ❖ Also manage appeals, ruling, technical policy for all Customs duties, review of legislatives and provide legal support to the Operational Delivery Division ❖ Draft the Consumption Tax Bill by the end of the Financial Year 	<ul style="list-style-type: none"> ✓ 100% of issues identified are addressed at a timely and effective manner. ✓ Final draft of Consumption Tax Bill completed by June 30th, 2018 or end of Financial Year ✓ All policies developed were approved by CEO and Cabinet 	<ul style="list-style-type: none"> ❖ Provide regular trainings with all of MORC staff on the Acts and Regulations enforced by MORC

Outputs	Objectives	Achievements	Way Forward
	<ul style="list-style-type: none"> ❖ Effectively develop internal and public policies to address issues identified 		
n) Efficient Debt collection processes	<ul style="list-style-type: none"> ❖ Consistent follow up with taxpayers regarding outstanding debt ❖ Timely response to approval of applications for instalment, extensions and waiver of penalties. ❖ Improve accuracy of debt balance reported monthly. 	<ul style="list-style-type: none"> ✓ 100% follow up of taxpayers with outstanding debt. ✓ 60% Annual debt budgeted collected ✓ More accurate and efficient follow up with taxpayers has improved the amount of recoverable debt for the financial year. 	<ul style="list-style-type: none"> ❖ Despite Lack of Human resources, continually strive to achieve goals and numbers. ❖ Improve strategies for increase in debt collection
o) Timely process of tax returns and registrations / Effective & Efficient Clients Services	<ul style="list-style-type: none"> ❖ 100% integrity and reliability of data entered into RMS (Head Office) ❖ Timely processing of returns within 5 working days at lodgement. ❖ 100% integrity and reliability of data entered into RMS (Vava'u Office) 	<ul style="list-style-type: none"> ✓ Ministry was able to achieve its revenue target for the Financial Year and also collected a surplus of \$2.2 million. ✓ 15,000 returns are expected to be received and entered into RMS within the fiscal year 	<ul style="list-style-type: none"> ❖ Provide more effective public awareness programs through TV ads, radio, brochures, and other means. ❖ Improve the use of social media and online sources for public awareness matters for the purpose of fostering

Outputs	Objectives	Achievements	Way Forward
	<ul style="list-style-type: none"> ❖ Process TIN Number within 3 working days from lodgement date. ❖ 100% accuracy of data entered as TIN number and CT registrations per week ❖ 95% spot checking of new CT Registers. ❖ 100% adherence to CT Act before register for CT ❖ 100% integrity and reliability of Reconciliation return entered into RMS ❖ Timely processing of returns within 5 working days at lodgment. ❖ 70% PAYE Reconciliation lodge by due date ❖ Timely Filing of Returns and documents within 	<ul style="list-style-type: none"> ✓ At least 90% of businesses, individuals, and other entities that are required to register are included in a taxpayer registration database. ✓ Information held in the database is complete, accurate, and up-to-date. ✓ 100% complete, accurate, and on time processing of reconciliation ✓ All files are properly stored in an orderly manner with no lost files at any time. 	<p>voluntary compliance.</p> <ul style="list-style-type: none"> ❖ Continue the monthly analysis of returns filing and payments to make sure they are up to date. ❖ Maintaining a database on a weekly basis to ensure sufficient, accurate and reliable to assist interactions with the taxpayer and tax intermediaries especially in relation to filing, payment, and assessment matters. ❖ Ensuring that applications for registration are authentic ❖ Undertaking initiatives to detect unregistered businesses and individuals,

Outputs	Objectives	Achievements	Way Forward
	<p>2 days from date received</p> <ul style="list-style-type: none"> ❖ Issuance of requested files within the approved timeframe 		<p>especially those representing high revenue risks</p> <ul style="list-style-type: none"> ❖ Processing of reconciliation within 5 days at lodgement ❖ Visit and deal with incomplete and unreconciled PAYE from tax payer to expedite the process. ❖ Regular visits and do testing of the source documents used by TP to prepare their monthly reports ❖ Operational files are well managed throughout their life cycle. ❖ PA all files received at the filing room. ❖ Issue requested file from staff on time

5. MINISTRY'S HUMAN RESOURCE MANAGEMENT

5.1 NUMBER OF DIVISIONAL STAFF

Divisions	Number of Staff 2017/2018
Leadership Office	
Office of the Honourable Minister	3
Office of the CEO	1
Total	4
Corporate Services Division	
DCEO for CSD	1
Accounts	5
Information Technology - IT	3
HR & Administration	4
Transportation	5
Total	18
Tax Operational Delivery	
DCEO for Tax	1
Technical & Legal Services Unit	4
Debt Collection Unit	10
Processing & Client Services (Outer Islands)	31
Risk Management Unit	7
Audit – Assess & Review	17
Total	70
Customs and Trade	
Corporate Services	13
Vava'u Branch	12
Commercial Management	17
Border Management	27
Enforcement (Risk Management & Post Clearance Audit)	7
Tariff and Trade Policy	4
Legal	0
Information Communication Technology	4
Intelligence	4
Total	88
TOTAL	180

5.2 NUMBER OF STAFF RECRUITED TO THE MINISTRY

Recruited July - December 2017	Recruited January – June 2018
Revenue Division Total = 17	
RO GI – Siua Tu’ineau	Driver – ‘Esau Fifita
RO GII – Finau Va’enuku	P.A for Minister – Manitasi Leger
RO GII – Mafikovi ‘Aho	Receptionist – Kalisi Vaipulu
RO GII – Mele Moala	RO GII – ‘Akanesi Tangifua
RO GII – Militoni Finau	RO GII – ‘Ana ‘Eti
ROG – Kilisitina ‘Isitolo	RO GII – Matamoana Savieti
ROG – Siosaia Langilangi	ROG – ‘Amoni Taumoe’anga
SADCEO – Kesomi Siale	ROG – Cecilia ‘Akauola
	ROG – Robert Fusikata
Customs Division Total = 6	
ROG – Sioeli Tu’ivai	DPL – Fatai Taukapo
	DPL – Milika ‘Aukafolau
	DPL – Nau Vaolupe
	DPL – Po’uli Paletu’a
	DPL – Taniela Liongitau

5.3 NUMBER OF STAFF EXITED FROM THE MINISTRY

Exited July – December 2017	Exited January – June 2018
Revenue Division Total = 4	
	SRO – Kivalu Tuiono
	RO – Sione Fetuani
	ROG – Lata Afu
	ROG – Pita Tonga
Customs Division Total = 4	
RO GI – Keuli Malakai	RO GII – Sione Tukipili
PRO – Charles ‘Ofa	
RO GIII – Vaima’a Iketau	

6. FINANCIAL PLANNING VS PERFORMANCE

6.1 ESTIMATED VS. ACTUAL REVENUE COLLECTED

Table 1: Revenue Collected 2015/16 – 2017/18 (In Millions)

Estimate Vs. Actual	FY2015/16	FY2016/17	FY 2017/18
Estimated Revenue	\$ 162.22	\$ 180.00	\$ 225.00
Actual Revenue Collected	\$ 176.34	\$ 210.10	\$ 227.20
Surplus/(Deficit)	\$ 14.12	\$ 23.60	\$ 2.20

As illustrated in *Table 1* above, the Ministry projected a greater estimate for the 2017/18 financial year in relation to prior years, of which it exceeded via surplus of \$2.2 million in Actual Revenue Collected. The surplus of \$2.20 million may seem insignificantly less compared to the surplus from previous financial years. However, this does not reflect the substantial increase in total amount of Actual Revenue Collected by the Ministry for the past three financial years, which is approximately a 29% increase from 2015/16 – 2017/18.

Note:

In relation to both tables under sections “6.2 – Revenue collection from Revenue Division” and “6.3 - Revenue collection from Customs Division” below:

1. The columns titled “% Inc or dec” in both tables represent the percentage change when comparing Net Actual collections from previous financial year to current financial year.
2. All percentages are rounded to the nearest whole number
3. The negative percentage figures highlighted in **red** represent a **decrease** in percentage of Net Actual Collection in the current year in relation to the prior year.
4. The positive percentage figures that are **not highlighted**, represent an **increase** in percentage of Net Actual Collection in the current year in relation to the prior year.
5. “x” figures in the tables represent a significant number in percentage (above 1,000%)
6. All Estimates and Net Actual Collection amounts are recorded in Tongan Pa’anga currency (\$TOP)
7. All Estimates and Net Actual Collections amounts are rounded to the nearest dollar

6.2 REVENUE COLLECTED FROM REVENUE DIVISION

REVENUE SOURCES	FINANCIAL YEAR 2014/15			FINANCIAL YEAR 2015/16			FINANCIAL YEAR 2016/17			FINANCIAL YEAR 2017/18		
	Estimates	Net Actual Collection	% <i>Inc or dec</i>	Estimates	Net Actual Collection	% <i>Inc or dec</i>	Estimates	Net Actual Collection	% <i>Inc or dec</i>	Estimates	Net Actual Collection	% <i>Inc or dec</i>
INCOME TAX												
LBD Income Tax (Corporate Tax)	11,800,000	12,805,090	1%	13,078,500	14,746,318	15%	9,616,128	16,681,457	13%	10,001,100	18,461,994	11%
SBD Income Tax (Corporate Tax)	800,000	1,131,527	5%	1,100,000	882,449	-22%	1,450,000	724,948	-18%	1,470,000	776,084	7%
WITHHOLDING TAX												
Withholding Tax - Residents	N/A	N/A	N/A	N/A	N/A	N/A	600,000	513,769	N/A	604,000	592,900	15%
Withholding Tax - Non-Residents	N/A	N/A	N/A	N/A	N/A	N/A	4,000,000	5,454,235	N/A	4,000,000	7,383,332	35%

PAYE TAX												
Non-Government PAYE	7,200,000	8,052,298	10%	7,745,300	8,542,481	6%	8,300,000	9,901,942	16%	9,720,000	9,868,446	0%
Government PAYE	7,100,000	7,774,457	24%	7,500,000	8,789,264	13%	9,722,200	10,331,781	18%	10,330,000	8,541,046	-17%
CONSUMPTION TAX												
Domestic Consumption Tax	7,700,000	6,937,204	10%	8,048,300	10,429,891	50%	9,500,000	15,422,945	48%	21,100,000	19,439,189	26%
Government Consumption Tax	400,000	435,468	-1%	404,000	990,183	127%	500,000	600,899	-39%	300,000	871,937	45%
TAX DEBTS COLLECTION												
Income Tax Debts Recovery	3,000,000	7,700,042	702%	7,350,900	2,453,466	-68%	5,271,556	2,480,528	1%	1,940,000	3,129,443	26%
Consumption Tax Debts Recovery	1,300,000	600,630	-63%	1,600,000	1,203,567	100%	3,000,000	420,323	-65%	621,000	1,968,579	368%
TOTAL	39,300,000	45,436,718	16%	46,827,000	48,037,619	6%	51,959,884	62,532,828	30%	60,086,100	71,032,950	14%

6.3 REVENUE COLLECTED FROM CUSTOMS DIVISION

REVENUE SOURCE	FINANCIAL YEAR 2014/2015			FINANCIAL YEAR 2015/2016			FINANCIAL YEAR 2016/2017			FINANCIAL YEAR 2017/2018		
	Estimate	Net Actual Collections After Refunds	% <i>Inc or dec</i>	Estimate	Net Actual Collections After Refunds	% <i>Inc or dec</i>	Estimate	Net Actual Collections After Refunds	% <i>Inc or dec</i>	Estimate	Net Actual Collections After Refunds	% <i>Inc or dec</i>
Import Duty Business	15,650,000	17,351,971	15%	18,030,000	19,428,461	12%	20,765,663	19,732,911	2%	26,142,700	21,655,717	10%
Import Consumption Tax	51,686,307	56,975,909	9%	59,097,500	62,093,174	9%	63,381,942	66,829,486	8%	74,837,400	72,534,615	9%
Excise Tax	28,950,000	35,094,799	20%	36,830,300	44,997,716	28%	42,352,411	53,060,773	18%	62,329,000	59,303,563	12%
Customs Processing Fees	400,000	430,929	28%	412,000	360,385	-16%	412,000	361,602	0%	412,000	317,891	-12%
Wharfage	180,000	186,598	12%	185,400	225,626	21%	185,400	238,663	6%	185,400	273,387	15%
Attendance Fees	550,000	565,070	5%	580,000	945,284	67%	670,400	771,431	-18%	520,400	1,172,886	52%
Bond Rent	100,000	172,895	77%	150,000	116,722	-32%	150,000	90,077	-23%	150,000	129,528	44%
Import Duty Government	100,000	96,431	-3%	101,000	133,255	38%	101,000	178,411	34%	175,000	319,292	79%
Excise Tax Government	10,000	-	0%	10,000	0	0%	23,800	3,900	x	120,000	26	-99%
Revolving	-	-	0%	-	-	0%	-	-	0%	150,000	327,672	x
Total	97,626,307	110,874,602	15%	115,396,200	128,300,220	16%	128,042,616	141,267,255	10%	164,913,900	156,034,576	10%

6.4 BUDGETED VS. ACTUAL EXPENDITURES**Table 2: Recurrent Expenditure Estimates for 2015/16 – 2017/18 Financial Years (In Millions)**

Estimate Vs. Actual	FY2015/16	FY2016/17	FY 2017/18
Budgeted Expenditure	\$ 3.74	\$ 3.91	\$ 8.17
Actual Expenditure	\$ 3.31	\$ 3.21	\$ 5.97
Surplus/(Deficit)	\$ 0.43	\$ 0.70	\$ 2.20

Table 2 illustrates the Recurrent Expenditure Estimates (Budgeted Expenditure) and the actual Expenditures. There is a reoccurring budget surplus for all three financial years which basically highlights that the Ministry is spending within its budgeted amount.

6.5 IMPORTED GOODS**Table 3: Total Value of Imported Goods for 2015/16 – 2017/18 Financial Years**

Financial Year	Total CIF
FY 2015/16	\$ 373,671,797
FY 2016/17	\$ 432,877,846
FY 2017/18	\$ 371,971,600

Table 3 highlights the total amount of Cost Insurance and Freight (CIF) that was attained from the Importing of Goods for the three Financial Years 2015/16 – 2017/18. As shown in the table above, there is a peak or significant improvement in total CIF from the 2015/16 to 2016/17 financial year followed by a decline of approximately 14% in the 2017/18 financial year.

6.6 IMPORTED CARGO

Table 4: Volume of Cargo Imported from 2015/16 – 2017/18 financial year (In Tons)

Financial Year	Total Volume of Imported Cargo
FY 2015/16	282,947
FY 2016/17	182,790
FY 2017/18	293,672

Table 4 shows a comparison in the volume of Imported Cargo for the 2015/16 – 2017/18 financial years. Despite the drop in Imported Cargo from the 2015/16 – 2016/17 financial year, there is a significant increase for the following 2017/18 financial year of almost 61% compared to the year prior.

6.7 REVENUE FORGONE

Table 5: Exemptions for 2015/16 – 2017/18 financial years

Financial Year	Duty	Consumption Tax	Excise Tax	Total
FY 2015/16	\$ 10,979,969	\$ 21,359,416	\$ 13,301,578	\$ 45,640,953
FY 2016/17	\$ 12,491,361	\$ 21,709,122	\$ 21,984,740	\$ 56,185,223
FY 2017/18	\$ 10,582,773	\$ 21,812,405	\$ 20,097,930	\$ 52,493,108

The Government of Tonga continually strives to support and assist the local business sector or industry by implementing incentives such as the exemption of certain taxes such as the major types highlighted in table 5 above. The Total amount of Revenue Forgone has slightly decreased over the 2016/17 to 2017/18 financial year as a result of a decrease in Duty and Excise Tax.

6.8 AIRCRAFTS AND PASSENGERS

Table 6: No. of Aircrafts and Passengers for 2015/16 – 2017/18 financial years

Financial Year	Number of Commercial Flights	Number of Passengers
FY 2015/16	911	107,684
FY 2016/17	980	135,366
FY 2017/18	966	100,691

Table 6 depicts the number of commercial aircrafts and passengers as processed by Airport personnel for the 2015/16 - 2017/18 financial years. Despite the decrease in number of passengers and commercial flights from 2016/17 – 2017/18, the average number of passengers per financial year is still approximately 100,000 which is a significant number.

6.9 VESSELS/SHIPS

Table 7: Number of Vessels processed for 2015/16 – 2017/18 financial years

Financial Year	Number of Commercial Vessels	Number of Oil Tankers	Number of Gas Tankers	Number of Cruise Ships	Number of Fishing Vessels	Number of Yachts
FY 2015/16	100	31	15	12	9	175
FY 2016/17	149	31	17	17	12	132
FY 2017/18	107	33	14	15	7	116

Table 7 depicts the different Vessel Types as processed by the Sea Port team. It also shows a negative trend for all vessel types between 2016/17 and 2017/18. A contributing factor to this is the destructive aftermath of Tropical Cyclone Gita in the beginning of 2018.

7. FINANCIAL PLANNING VS PERFORMANCE

Risk and Assumptions	Description	Mitigation Strategy
Operating Environment		
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 collapsing of the world economy {e.g. global economic crisis}, international export markets, changes under World Trade Organization (WTO) agreements	<ul style="list-style-type: none"> ❖ Strategy to advice 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 Ministries	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	<ul style="list-style-type: none"> ❖ Strengthen core government agencies coordination within line Ministries ❖ CEO forum problem solving ❖ Cascaded coordination through all levels of Government

Internal Environment		
a) Funding changes	Unjustified decreases or removal in appropriated budget and the inability of Government or donors to support the funding gaps	<ul style="list-style-type: none"> ❖ Budget execution and control strategies ❖ Prioritization of outputs and activities to transfer funds from low value to high value activities
b) Staffing Gaps	<p>Inability of Revenue and Customs to recruit or maintain the appropriate competencies required to deliver its planned output</p> <p>Slow processing of recruitment from PSC and RA in this new procedure developed with the salary bands.</p> <p>Certain Units have a shortage of staff.</p>	<ul style="list-style-type: none"> ❖ Better designed, implemented and monitored Corporate Plan ❖ Strengthen coordination with PSC in recruitment of required skills ❖ Organizational improvement strategy to focus on staff development, considers providing incentives for staff performance, staff retaining policy, provision of promotion and career development opportunities ❖ Fixed bands for salaries instead of job sizing every new post, every vacant post and every filled posts.
c) Change in Leadership	New Leader, new direction and new operations for the Ministry.	<ul style="list-style-type: none"> ❖ Development of a strong executive team and supportive staff to minimize risks to operations when leadership changes occur

		<ul style="list-style-type: none"> ❖ Development of effective briefings for CEO and Minister regarding the Ministry’s Corporate Plan and their respective roles and significance of these roles ❖ Closer work relationship between the Minister, CEO and the Senior Management Team at all times.
<p>d) Whole of Government Instability – Institutional Change and Internal Disaster – IT corruption</p>	<p>If strategic plans are poor, it may result in uncoordinated long-term direction and unacceptable outcomes for MFNP and Government customers</p>	<ul style="list-style-type: none"> ❖ 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, and Job Descriptions etc.

<p>e) Staffing succession and staff capacity training is not formalised</p>	<p>Lack of capacity and skills – Customs roles nowadays have been expanded to include new areas of responsibility which faces resource constraints</p> <p>Lack of Non-Intrusive Equipment & Similar Tools – Physical inspection activity at the border needs correct equipment</p> <p>Lack of staff – Major challenge for Customs department while trying to control goods at the border</p> <p>Customs Automated System – Capability of the current system is limited to number of areas but unable to fulfil the requirements to facilitate legal trade</p> <p>Limited Office Space – Space at Customs not suitable for the purpose of the work which pushes for border security</p>	<ul style="list-style-type: none"> ❖ Organizational improvement strategy to focus on staff development, incentives for staff performance, staff retention policy and provision of promotion and career planning and development opportunities ❖ Customs to improve capacity of officer by providing in-house training ❖ Sought available funds to purchase such equipment to speed up inspection ❖ Request for an increase in the budget allocation to recruit more staff ❖ Customs requesting funding for acquiring of the ASYCUDA System to facilitate Customs clearance process ❖ Provide land allotment which is purpose designed space and suitable for Customs operations
<p>f) Level of taxation regulations and compliance knowledge is low</p>	<p>The public, mainly the customers have limited knowledge over the laws and regulations that governs Tonga’s revenue and taxation systems</p>	<ul style="list-style-type: none"> ❖ Enhanced tax payer education efforts by conducting regular Taxation Awareness Programs ❖ Conduct media talkback to discuss and clarify any issue regarding taxation

8. CONCLUSION

As a Ministry, we continually seek to maintain and fulfil our commitment in contributing to the country's economic growth and safety through robust foreign investments, boosting a friendly business environment, and offering easier access to tax related advisory services. We also seek to accomplish this through establishing a more consistent and efficient system for the detection and handling of non-compliant related matters.

Despite the lack of resources available, the Ministry successfully executed plans and activities throughout the financial year that helped accomplish various desired outputs and goals. Therefore, we continually seek to effectively utilize available resources in various aspects and activities that will contribute to attaining the desired outputs for the 2018/19 financial year as highlighted in the Corporate Plan. These activities include the provision of tailored services to assist taxpayers at their convenience and also the detection of non-compliance cases.

To ensure service sustainability and the maximization of revenue collected, the Ministry plans to implement vital tasks such as establishing of a more sophisticated and effective revenue collection system, encouraging proper facilitation of trade, and providing quality advice to both key stakeholders and taxpayers.

In relation to the actual figures attained in this annual report for the past three financial years, it is apparent that the Ministry has significant potential in increasing the amount of revenue collection for the 2018/19 financial year. Therefore, we anticipate a total of \$232 million pa'anga in revenue collection for the 2018/19 financial year.