



MINISTRY OF REVENUE & CUSTOMS



Baggage CT Scanner



ESRS at Point of Sale



E-Tax

Shipping Container X-Ray



ANNUAL REPORT

FINANCIAL YEAR 2022/2023

Endorsement of MORC’s Annual Report Financial Year 2022/23



Mr. Michael Comanaisiga
CEO for Revenue and Custom



Mr. Tiofilusi Tineti
Hon. Minister for Revenue and Customs

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	4
EXECUTIVE SUMMARY	5
ABOUT MORC	6-8
MANAGEMENT TEAM	9
MINISTRY'S PERFORMANCE	10
LEADERSHIP & ADVICE	10
HUMAN RESOURCES MANAGEMENT	11
Table 1: Staffing	11
Table 2: Staff Movement	11
Performance Management System	12
ACCOUNTS AND FINANCIAL MANAGEMENT	13-16
Table 4: FY 22/23 EXPENDITURE SUMMARY	13
Table 5: FY 22/23 REVENUE COLLECTION SUMMARY	13
TAX OPERATIONS DIVISION	17
TAX COMPLIANCE AND IMPROVEMENT DIVISION	17
LARGE TAXPAYERS' DIVISION	17
COMMERCIAL SERVICES DIVISION	18
TRADE SERVICES DIVISION	18
BORDER MANAGEMENT DIVISION	19
Table 6: Number of goods seized	19
Table 7: Number of aircrafts and Passengers arrived	20
Table 8: Number of Vessels Arrived & Processed	20
KEY MILESTONES	21
ELECTRONIC SALES REGISTERED SYSTEM [ESRS]	21
AUTOMATED SYSTEM FOR CUSTOMS DATA [ASYCUDA]	22
TAX WEEK 2022	23-24
CANINE (K9) UNIT	25
HEILALA PLATINUM MEMBERS	26
CHALLENGES FACED IN FY 2022/23	27
CONCLUSION	28
IN MEMORIAM	29

ABBREVIATIONS AND ACRONYMS

AEO: Authorized Economic Operator
AMP: Annual Management Plan
ASYCUDA: Automated System For Customs Data
CEO: Chief Executive Officer
CMS: Customs Management System
CSD: Corporate Services Division
CT: Consumption Tax
ESRS: Electronic Sales Registered System
E-TAX: Electronic Tax
FY: FINANCIAL YEAR
HODs: Head of Divisions
HS: Harmonized System or Harmonized Commodity Description and Coding System
HTHH: Hunga Tonga Hunga Ha'apai
ICT: Information, Communication and Technology
iEPA: Interim Economic Partnership Agreement
K9 - Canine
LPG: Liquefied Petroleum Gas
LTD: Large Taxpayers' Division
MCC: Maritime Coordination Centre
MDAs: Ministries, Departments and Agencies
M&E: Monitor and Evaluation
MORC: Ministry of Revenue and Customs
MTED: Ministry of Trade and Economic Development
NEMC: National Emergency Management Committee
No.: Number
NTFPC: National Trade Facilitation and Policy Committee
OSS: One Stop Shop
PDDP: Pacific Detector Dog Program
PIFS: Pacific Island Forum Secretariat
PMS: Performance Management System
PPIU: PACER Plus Implementation Unit
PSC: Public Service Commission
RMS: Revenue Management System
RoO: Rules of Origin
RSA: Revenue Services Administration
SPC: Secretariat of the Pacific Community
TC: Tax Clearance
TGC: Trade in Goods Committee
TIN: Tax Identification Number
TRS: Time Release Study
WCO: World Customs Organization
WTO: World Trade Organization

EXECUTIVE SUMMARY

The financial year of 2022 -2023 proved to be one of substantial growth, despite facing challenges from the aftermath of the HTHH volcanic eruption and the lingering effects of COVID-19. The Ministry's strategic focus was honed in on the advancement of ICT-driven and risk-based services, emphasizing the voluntary compliance of taxpayers.

From July 1st 2022 to January 6th 2023, under the leadership of former CEO Mr. Kelemete Vahe, significant steps were initiated towards reform and improvement across the Ministry. These measures were integral in ensuring the resilience of the Ministry following major natural disaster & pandemic. January 9th 2023 saw change in leadership at the end of Mr. Vahe's tenure as Mr. Michael Cokanasiga stepped in as the Ministry's new CEO.

Tasked with ensuring that the goals chartered in the Ministry's existing corporate plan were achieved, the current Chief Executive Officer placed major focus on efficiency and effectiveness by streamlining business processes, reorganization of resources to meet the demands of taxpayers and partners as well as ensuring that transparency of decision-making processes through the establishment of guidelines and appropriate monitoring and evaluation mechanisms.

Our financial and operational achievements over this period have demonstrated the tenacity and unity of our team. MORC achieved remarkable financial success, surpassing its initial budget estimate of \$243,001,600 (million) after collecting actual revenue of \$274,036,147.72 (million), resulting in a significant surplus of approximately \$31 million. Overall M&E results at the end of the financial year was 67% achieved of which significant milestones included, the launching of the ASYCUDA system on February 27th 2023, the establishment of the very first K9 unit, upgrade of E-tax platforms, and enforcement of RSA (ESRS) Regulations 2022.

In this report, stakeholders will find detailed insights into our strategic, financial and operational highlights over the past year, showcasing the journey, milestones, and the unwavering dedication of the Ministry.

We express our gratitude to all stakeholders for their trust and support, and we remain committed to forging ahead with excellence in every endeavor.

ABOUT MORC

The Ministry plays an integral role in the Kingdom of Tonga. It oversees and ensures adherence to both Tax and Customs Acts and Regulations. This involves rigorous monitoring, providing guidance to all taxpayers and traders, and taking necessary actions against any non-compliance. Its role in this regard is vital to maintain a fair and just economic system for all Tongans. The Ministry's responsibilities encompass three pivotal functions:

Revenue Collection: The primary objective here revolves around ensuring streamlined and efficient revenue flows. In this FY, emphasis was placed on domestic CT collection through the ESRS project. Efforts were also channeled towards robust debt management and recovery across both tax and custom duty. Moreover, the monitoring and verification processes within the Customs exemptions regimes witnessed significant enhancements to promote fair and accurate implementation.

Border Protection: A vital mandate of the Ministry is to ensure the nation's borders remain secure and impermeable to illicit activities. In alignment with the national illicit drugs and its related action plans, concerted efforts were made to fulfill these mandates. A noteworthy achievement was the strengthening of Customs intelligence capabilities, marking a significant leap in our surveillance prowess. Further, the establishment of Customs K9 capabilities and the further deployment of x-ray equipment into operations has drastically bolstered our detection and inspection mechanisms.

Facilitation of international trade: The Ministry actively works to streamline and promote international trade practices. The focus this financial year was the deployment of ASYCUDA, an integral platform that streamlines Customs procedures. In addition, the AEO program took center stage, promoting trusted partnerships and expedited processes. The migration to the HS2022 and a thorough review of import exemptions further underscored our commitment to refining and optimizing trade facilitation measures.

Together, these functions underscore the ministry's commitment to creating a prosperous, secure, and fair economic landscape for the Kingdom of Tonga.

Our Guiding Principles

- ❖ To be recognized as the best Ministry amongst all Government Ministries.

Our Vision:

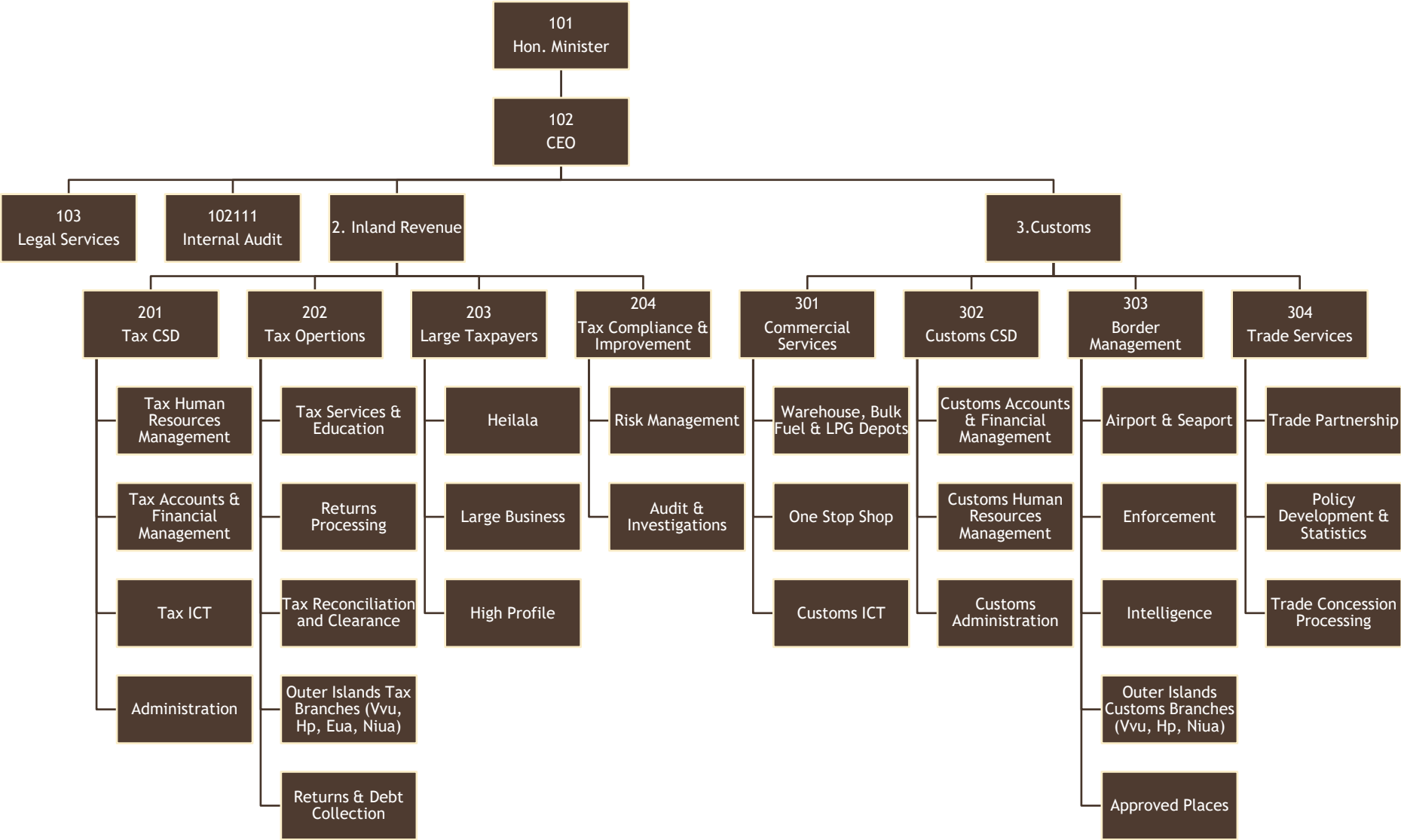
Our Mission:

- ❖ To establish and promote highest standard of professionalism and good working relationship with all stakeholders.

Our Values:

- ❖ Fairness
- ❖ Respect
- ❖ Transparency
- ❖ Responsive
- ❖ Integrity
- ❖ Commitment
- ❖ Honesty
- ❖ Accountability
- ❖ Leadership

FY 2022/23: ORGANIZATIONAL STRUCTURE



MANAGEMENT TEAM



Mr. Tiofilusi Tiueti
Honorable Minister



Mr. Michael Cokanasiga
Chief Executive Officer



Ms. Mele Mangisi
Deputy CEO
Legal Services



Mr. Maamaloa Fotofili
Deputy CEO
Tax Corporate Services



Mr. Tevita Heimuli
Deputy CEO
Tax Operations



Mr. Taniela Sila
Deputy CEO
Large Taxpayers



Mrs. Pipiena Tanaki
Deputy CEO
Tax Compliance & Improvement



Mr. Sau Niulala
Deputy CEO
Border Management



Mr. Veimau Fe'aomoeata
Acting Deputy CEO
Commercial Services



Mr. Loseti Mahe
Deputy CEO
Information, Communication & Technology

MINISTRY'S PERFORMANCE

LEADERSHIP & ADVICE

This program underscores the significant achievements and contributions made by the Office of the Hon.Minister, Office of the CEO, Legal Services Team and Internal Audit Section during FY 22/23.

Under the astute leadership of the Hon.Minister and CEO's offices, the ministry witnessed the successful development and implementation of key initiatives and systems. Noteworthy among these are the ASYCUDA System, the Electronic Sale Registered System (ESRS) Regulation, and the acquisition and installation of x-ray machines and scanners, ensuring enhanced security and efficiency at both the wharf and airport. Following the significant strides made in the first half of the financial year, from January - April 2023, the CEO, alongside the management team, undertook a comprehensive analysis of the Ministry's corporate plan and budget for the next three financial years and submitted to the Prime Minister's Office and Ministry of Finance within the given timeline.

The Legal Services Division was without counsel from July 2022 - November 2022 as the Principal Legal Officer was on study leave to complete her Professional Diploma in Legal Practice. The Deputy CEO for the division was appointed in November 2022 and the Principal Legal Officer resumed duty in January 2023. She was since admitted to the Supreme Court of Tonga in March 2023. The Legal Services Team has consistently demonstrated its commitment to upholding the highest standards of legal compliance and knowledge dissemination. During FY 22/23, the team conducted four training sessions for tax agents, ensuring they were well-acquainted with the nuances of tax obligations. They also efficiently managed and conducted one tax tribunal case. Moreover, their dedication to timely reviews was evident with a 100% completion rate of rulings established, a commendable 100% review of audit objection cases within 60 days and 100% review of CT refund objection cases within 30 days. There have not been any appeals to the Tax Tribunal on a decision made by the Ministry. There have not been any appeals to the Tax Tribunal on a decision made by the Ministry.

Internal Audit Section, being a nascent section with no preceding blueprint, the leadership shown in its establishment has been exceptional. Within the first 6 months, the appointed Head of Section accomplished a 100% completion in developing the Audit Management Plan (AMP) for FY 2022/23 and advanced 80% in the development and review of the audit manual, audit charter, and audit scope. However, in the subsequent six months, no internal audit activities were undertaken. This was due to the internal transfer of the section's leader to the Tax Corporate Services Division, where she played a pivotal role in assisting the Head of Division in managing the Accounts, HR & Administration sections. This move was in response to the retirement of the head of accounts effective from January 1st, 2023, and the resignation of the Head for HR & Administration effective from November 7th, 2022.

The achievements highlighted above stand testament to the dedication, agility, and resilience of our leadership and advisory teams, who have consistently delivered, even amidst challenges and transitions.

HUMAN RESOURCES MANAGEMENT

At the heart of MORC lies our Human Resources Management section, dedicated to ensuring that the ministry operates at its fullest potential through its most valuable asset: its people. Table 1 below offers a comparative snapshot of the number of employees in post as of end of financial year 2021/22 against those in post by end of financial year 2022/23.

Table 1: Staffing

Employee	June 2022	June 2023
Established Staff	194	192
Unestablished Staff	19	32
Vacancies	28	24
TOTAL	241	248

In addition, we closely monitor and record the internal dynamics and changes within our workforce. Table 2 below provides a detailed overview of the staff movement throughout the financial year. This encompasses new appointments, transfers & promotions, internal promotions, resignations, retirements, cessation of employment and death in service. Such data not only gives us insight into the nature of our workforce changes but also assists in future planning and strategy, ensuring continuity in our operations and growth of our human resources.

Table 2: Staff Movement

Type of staff movement	June 2022	June 2023
New Appointments	16	6
Transfer & Promotion	2	2
Internal Promotion	22	14
Retirement	2	4
Resignation	6	5
Death in Service	3	2
Cessation of service under medical grounds	-	1

Performance Management System

The Performance Management System (PMS) is a crucial instrument within MORC, designed by the Public Service Commission (PSC) to evaluate, guide, and enhance the performance of our employees. It serves as a structured framework that aligns individual goals with the ministry’s objectives, promoting a culture of excellence and continuous improvement. Through regular feedback, performance reviews, and developmental initiatives, the PMS ensures that our workforce remains motivated, competent, and aligned with the ministry’s vision and goals.

For a clearer understanding of how our team has evolved and performed, the subsequent table offer a comparative analysis of the PMS results for fully eligible employees between the financial years 2020/21 and 2021/22. This comparison provides insights into areas of growth, opportunities for improvement, and the overall efficacy of our performance management practices. It should be noted that the PMS results for financial year 2022/23 are pending and will be confirmed by PSC in the forthcoming financial year 2023/24.

Table 3: MORC PMS Results Analysis

	FY 20/21	FY 21/22
Fully Eligible Employees		
No. of Employees with a 5% reward	13	23
Inland Revenue	12	7
Customs	1	16
No. of Employees with a 3% reward	74	69
Inland Revenue	41	26
Customs	33	43
No. of Employees with a 1.5% reward	68	34
Inland Revenue	19	22
Customs	49	12
TOTAL	155	126

ACCOUNTS AND FINANCIAL MANAGEMENT

The Accounts and Financial Management section is an integral pillar within MORC, ensuring fiscal responsibility and strategic financial planning. To provide a more detailed and comprehensive understanding of our financial performance, the tables below present a breakdown of both the expenditure incurred and the revenue collected by the ministry during financial year 2022/23. These figures reflect our commitment to fiscal responsibility and offer insights into how resources were allocated and revenue streams were realized throughout the year.

Table 4: FY 22/23 EXPENDITURE SUMMARY

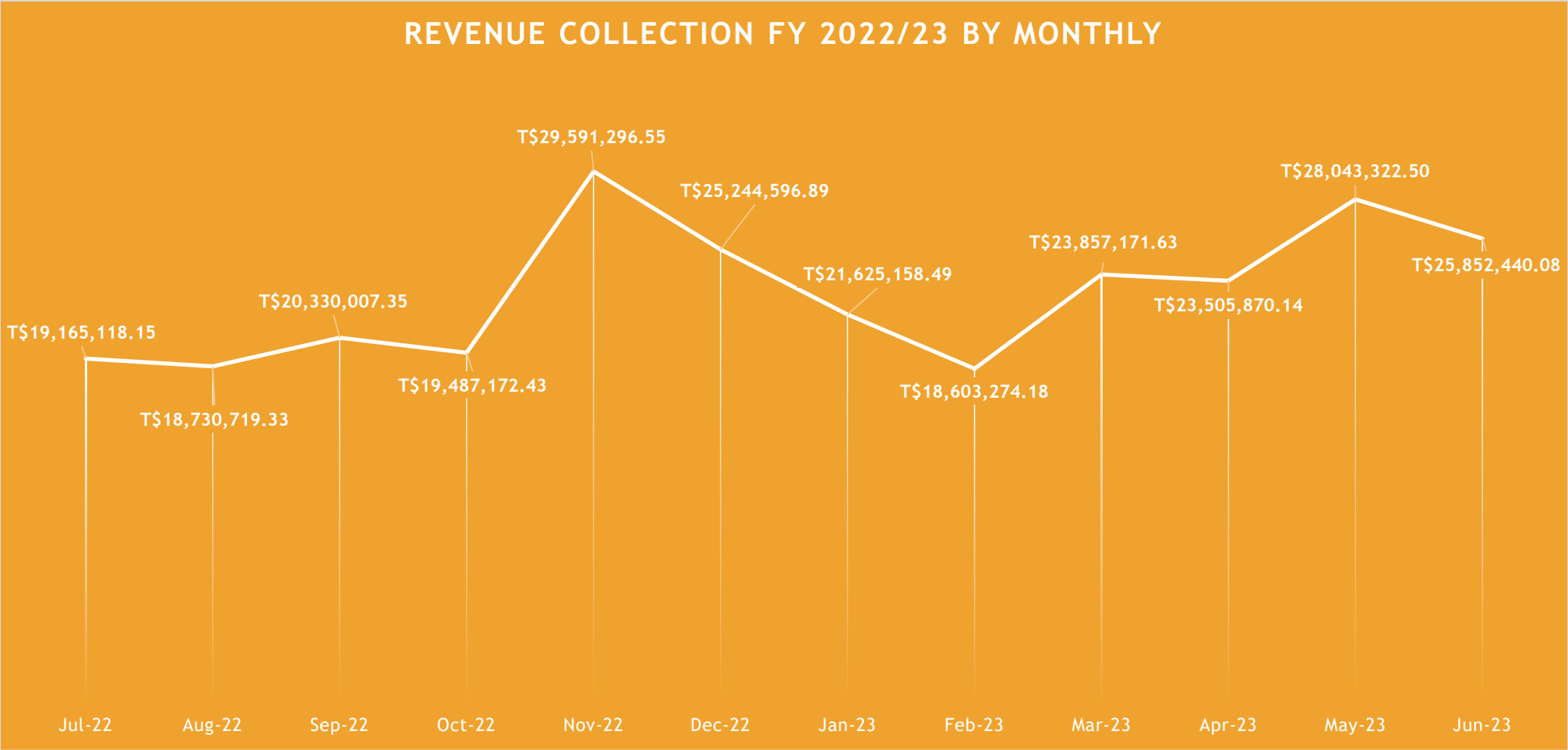
Expenditure Categories	Original Budget (\$)	Actual (\$)
Established Staff	6,235,200	4,912,284
Unestablished Staff	346,100	286,440
Travel & Communication	344,200	188,955
Maintenance & Operation	1,152,500	1,047,718
Purchase of Goods & Services	2,758,400	3,689,100
Grants & Transfer	10,000	-
Assets	195,800	462,388
TOTAL	\$11,042,200	\$10,586,884

Table 5: FY 22/23 REVENUE COLLECTION SUMMARY

Revenue Source	Budget Estimate (\$)	Actuals (\$)	SURPLUS/DEFICIT	EXPLANATORY NOTE
PAYE Tax - Government	8,534,000	9,519,194	985,194	Average monthly Gov't PAYE is \$700k+ - \$800k+ however after PMS rewards for FY 21/22, Gov't PAYE rise to an average of \$1m+ monthly
PAYE Tax - Non-Government	11,289,800	10,874,560	(415,240)	Majority of taxpayers did not switch to the new tax rate introduced in FY 21/22, they paid more taxes using the old tax rate, leading to refunds later on.
Corporate Tax - Small Business	1,000,000	960,801	(39,199)	Majority of small businesses were affected from the aftermath of HTHH and COVID-19 Restrictions, businesses ceased operations and others operated in losses
Corporate Tax - Large Business	14,328,900	23,031,274	8,702,678	Boost in Financial Institution and Telecommunication Sectors due to increase demand from the public during the challenging period.

Withholding Tax (residents)	1,000,000	594,034	(405,966)	due to financial institutions policy to hold term-deposits.
Withholding Tax (non-residents)	8,000,000	9,670,563	1,670,563	Priority for the last two FY thus strengthening the awareness and talatalanoa sessions, and enforce using data from third parties for review, reassess and collect extra revenues from these taxpayers
Consumption Tax - Domestic	23,505,800	24,242,724	736,924	One of the priority areas for FY 22/23, and enforcement of the RSA (ESRS) Regulation which came into effect July 2022
Tax Debts Recovered (Corporate))	4,000,000	3,315,935	(684,065)	Ministry's internal COVID-19 policy for recovering of debts, accepted extension request, instalment payment, penalty remissions and blanket TC
Tax Debts Recovered (CT)	2,500,000	1,212,913	(1,287,087)	
Business Import Duties	22,868,900	25,426,886	2,557,986	Steadily increase in trade and Improved operating environment through the ASYCUDA project enabled better accounting of imported goods and more accurate collection.
Government Import Duties	417,100	392,182	(24,918)	Decrease Government Imports
Consumption Tax - Import	79,403,200	100,971,045	21,567,845	Steadily increase in trade and Improved operating environment through the ASYCUDA project enabled better accounting of imported goods and more accurate collection.
Consumption Tax - Government	1,200,000	1,916,344	716,344	Decrease Government Imports
Excise Tax	63,382,500	60,222,317	(3,160,183)	High volume of excisable goods was subject to exemptions.
Excise Tax - Government	1,000	1,370	370	Increase importation of excisable goods by MDAs (vehicle)
Attendance Fees	400,400	428,570	28,170	Increase international flights, demanded services and as a result additional fees collected.

Custom Entry Processing Fees	400,000	584,431	184,431	<i>Increasing number of Customs entries processed due to slightly increasing number of cargoes imported.</i>
Wharfage on Goods	30,000	256,854	226,749	<i>An increase number of cargoes were sent over by plane.</i>
Customs Penalties	100,000	108,644	8,644	<i>Strengthening of reshaping Trader/Custom Brokers/Shipping Agent compliance behaviors.</i>
Custom Fees	40,000	23,123	(16,877)	<i>License application fee for warehouses and brokers where minimal as some had closed down their businesses.</i>
Auction Proceeds	400,000	239,885	(160,115)	<i>Due to only one auction being conducted in March 2023 and subsequent halts in operations because the wharf is undergoing construction and maintenance. This has limited auction activities and affected the potential revenue collections.</i>
Customs Security	200,000	42,500	(157,500)	<i>Renewal of licenses beginning of the calendar year and a number of security bonds did not require renewal.</i>
TOTAL	\$243,001,600	\$274,036,149	\$31,034,549	



The graph above provides a summary of the total revenue collected on a monthly basis for the financial year 2022/23.

TAX OPERATIONS DIVISION

Known as the engine room of the Tax Administration, this division consists of five sections all of whom yielded outstanding performances in the financial year.

This was made possible through implementing new initiatives and improvements with the objectives of meeting key performance indicators and yielding the best possible outcomes. Initiatives included was the reorganizing of human resources to meet the demands of taxpayers, enhanced taxpayers' outreach, upgrading staff capabilities and skills via vital internal trainings that helped boost officers' confidence and implementation of special revenue collection projects.

Key achievements included, tax awareness programs, tax trainings and tax workshops completed and well above the initial targets included, over 1700 new TIN registration, processing of over 20,000 returns into data entry going to file management verified remarkable output in a very timely manner. Service level targets with respect to issuing of tax clearances, reconciliation of tax accounts, returns and arrears recovery were surpassed.

TAX COMPLIANCE AND IMPROVEMENT DIVISION

The Tax Compliance and Improvement Division plays an instrumental role in fortifying our tax system. Rooted in its guiding principle - "better improved compliance with legislative provisions on taxation to enhance revenue growth" - the division embodies our commitment to ensuring that taxpayers align with legislative mandates, thus fostering sustainable revenue growth. Building on their unwavering commitment and specialized expertise, this division has marked financial year 22/23 with significant achievements. These accomplishments not only demonstrate the division's effectiveness but also emphasize its vital role in enhancing our tax system's overall resilience and trustworthiness.

Engaging key stakeholders in data sharing and information, this division plays an important role in collecting and analysing of internal and external data from third parties such as MDAs, Churches, and Financial Institutions. Twenty-four (24) risk analysis reports were approved, identifying key areas for the Ministry to prioritise, as it could potentially affect its revenue collection capabilities. Areas for prioritisation were taxpayers outside of the tax system (not yet registered), taxpayers not filing and paying their tax on time, and taxpayers that were underreporting their tax.

In addressing potential risks to improve compliance, division enforced audits of high-risk taxpayers. As a result, one hundred forty (140) audit cases were completed with the outcome of \$4 million pa'anga in additional tax revenue to be collected. Taxpayers targeted for audit were those enforced to use the ESRS yet failed to do so, taxpayers in the Construction Sector and taxpayers identified to have underreported their tax. Furthermore, one hundred fifty-nine (159) CT refund cases were also completed, which resulted in \$1.07 million pa'anga savings.

LARGE TAXPAYERS' DIVISION

The Large Taxpayers' Division, stands as foundational pillar within our tax administration structure, ensuring the rigorousness and resilience of our tax system. With its core objective being "a robust tax system that strengthens large taxpayers' compliance with tax requirements," the division places particular emphasis on the unique needs and complexities of large taxpayers.

This division focused on its unique incentive policy for all Heilala members (platinum, gold, silver and bronze). Recognizing the post-COVID-19 recovery challenges, the division worked closely with members to help them manage their tax obligations through "TALATALANO" sessions and flexible payment plans. A notable initiative was the introduction of the Foakautu'u Project, targeting Withholding tax for non-residents which extra revenue were collected. The team underwent internal trainings to bridge knowledge gaps caused by staff changes. To boost compliance, reminders were sent to taxpayers each month prior

the due dates. The highlight of the year was the successful update of the e-tax including all tax type, which simplified tax returns submissions and led to higher compliance by June 2023.

Presented below are specific accomplishments and milestones achieved by this division at the end of FY 22/23:

1. The Large Taxpayers Division has mobilized 72% (TOP\$60.5 million) of the inland revenue department collections for 2022-2023.
2. An ongoing professional and effective relationships upheld with all Heilala and high-profile members, which has enabled the swift provision of taxpayer services at minimized timeframes relative to the standard timeframes.
3. Prioritized efforts to impart guidance and training on the utilization of the electronic tax platform.
4. The utilization of third-party information, indirect methods and staff capacity development has enabled the completion of several compliance checked activities, which has enhanced compliance and domestic revenue mobilization by \$1.2 million. Timeframes for assessing consumption tax refunds have also been reduced as the LTD has adopted a risk-based approach.
5. Procedures for debt and return recovery are meticulously followed, enabling the LTD to recover 94% of its approved instalment plans.

COMMERCIAL SERVICES DIVISION

The Commercial Services Division stands as a cornerstone within our customs services, ensuring seamless operations and optimal service delivery. This division integrates three pivotal sections, each dedicated to a specific realm of customs operations, ensuring that the entire spectrum of commercial services is efficiently covered. This division ensures that our customs services operate at peak efficiency, meeting the expectations of stakeholders and contributing positively to the nation's commerce and security. However, our primary focus for FY 2022/23 was to ensure that all revenue is collected completely and accurately from the Duty Payers. We also strengthen the transition from the CMS to ASYCUDA World System. Below are some of the specific accomplishments and milestones that this division proudly attained during FY 2022/23.

1. Overall Actual collection for FY 2022/23 greater than projected targets
2. Establishment of a standalone valuation unit to scrutinize specific imported commodities and ensure accurate declaration to Customs of goods valuation for duty calculation
3. Recovery of \$4.5 million of Customs arrears
4. Capacity building for staff on Customs valuation laws and methodologies
5. Policy Guidelines for issuing of administrative penalties
6. Full implementation of ASYCUDA World System in the Customs One Stop Shop (OSS) for the processing of normal imports and exports.

TRADE SERVICES DIVISION

At the heart of fostering beneficial relationships between customs and traders lies the Trade Service Division. Since its establishment as a standalone division in July 2022, the main focus of the Division centered on managing relationships with line MDA's, international institutions, public and private stakeholders. Standing by the Division's core objective of "building customs to trader partnerships to drive sustainable tariff and trade facilitation policies."

This has been instrumental in shaping the trade landscape over the past financial year. Following are the notable accomplishments of this division during FY 22/23:

1. Trade Partnerships;
 - Re-establishment of the NTFPC, appointing the CEO of MORC to co-chair meetings.
 - Establishment of the TGC, appointing MORC to chair and provide secretariat roles to the committee.

- The successful completion of the WCO - Mercator Mission during the month of May 2023.
 - With the support of the PPIU a RoO Training was conducted for manufacturers, exporters, custom brokers, MDA's and Custom officials.
 - Preparations for the iEPA and formal submission of the market access offer to MTED for further negotiation and necessary action.
2. Policy Development;
 - Endorsement by Cabinet of a policy paper proposing an extension of current exemptions applicable to vessels, aircrafts and parts imported by licensed inter-island public domestic transport providers and scope of the exemption extended to loading and unloading machinery and equipment.
 3. Trade Concession Monitoring;
 - Process and monitor sector specific exemptions and all concessions for cargoes and shipments that entered the Tongan border during July 2022 - June 2023.
 - The total revenue forgone on all exemptions applied for the FY22/23 is \$58,834,336.78
 - Cabinet approval of the Import TRS Report for publication.

BORDER MANAGEMENT DIVISION

The Border Management Division, under its driving principle - "A robust border security system to support legitimate cross-border trade and travel", plays an indispensable role in safeguarding our national borders. With a structure that spans five specialized sections, this division encompasses a comprehensive approach to border management, ensuring security, facilitating legitimate trade, and enhancing our nation's protective measures. Having established its structure and objectives, the Border Management Division has, over the past financial year, achieved several milestones in fortifying our nation's borders. Below are some of the division's specific accomplishments during FY 2022/23:

1. Successful implementation of COVID-19 policies on both Sea port and airports.
2. Reestablishment of coordination with other law enforcement agencies through the Tonga MCC to monitor vessels and small-craft movement in Tongan waters.
3. Participate and Contribute to NEMC.
4. Installation and operation of x-ray scanner machines in the Fua'amotu International Airport and Tonga Post. Securing of new site for the installation of pallet x-ray equipment in the customs licensed SF Oceania Approve Place to assist inspection process
5. Seizure and detention of restricted and prohibited goods.

Table 6 below shows the type of goods seized, its quantity and the area where it was detained in FY 2022/23.

Table 6: Number of goods seized

PORT OF ENTRY	NUMBER OF FINDINGS	DESCRIPTION OF GOODS
AIRPORT	68	Cigarettes/ Liquor/ Tablets/ Clothing/ Fireworks
SEAPORT	28	Undeclared Goods/ Prohibited Goods (ODS Gas)

The tables presented below provide a comprehensive breakdown of the number of aircraft and passengers that arrived, as well as the number of vessels arrived & processed in FY 2021/22 and FY 2022/23. From the data, it is evident that there's a notable increase in the numbers for FY 2022/23. This surge can be attributed to the lifting of COVID-19 restrictions and the subsequent opening of Tonga's border, which facilitated higher volumes of traffic and trade.

Table 7: Number of aircrafts and Passengers arrived

	FY 21/22	FY 22/23
No. of Commercial Flights	100	536
No. of Passengers	3,249	66078

Table 8: Number of Vessels Arrived & Processed

	FY 21/22	FY 22/23
Commercial Vessels	98	171
Oil Tanker	29	45
Gas Tankers	12	10
Cruise Ships	0	11
Fishing Vessels	4	13
Yachts	0	123

KEY MILESTONES

ELECTRONIC SALES REGISTERED SYSTEM [ESRS]



Initiated under the visionary leadership of our late CEO, Mr. Vahe, the ESRS stands as a testament to his dedication to modernizing Tonga’s financial infrastructure. The ESRS is an innovative system meticulously designed to digitally record transactions, ensuring that sales data is captured with utmost accuracy, transparency, and efficiency. Beyond streamlining the reporting process for businesses, the ESRS serves as a powerful tool for our Ministry, facilitating the monitoring and collection of revenues in a more precise manner.

The last six months we continued maintaining regular communication and engaged with key stakeholders, including all specified taxpayers and the Ministry’s ICT Team. Comprehensive training and capacity-building programs were conducted to equip our revenue officers and specified taxpayers with the necessary skills to utilize the ESRS effectively.

A special acknowledgment goes to LivingstoneIT Tonga for their unwavering cooperation in the rollout of the ESRS. Their dedication ensured that our ICT Team underwent comprehensive training, fostering a deep understanding of the system. This not only equipped our team with the expertise to use the system efficiently but also empowered them to impart this knowledge to our specific taxpayers.



Our primary focus for the implementation of ESRS is the Consumption Tax (CT) registered taxpayers specifically the retail and wholesale sector. This decision stemmed from the identification of risks related to inadequate record-keeping and the under-reporting of sales among this group, leading to reduced tax contributions. The rollout of ESRS was planned in two phases.

During phase 1, our aim was to target the 113 CT taxpayers who did not already have a point of sales system in place. The Ministry is pleased to report that by end of FY 2022/23 88 out of those 113 taxpayers had successfully integrated the ESRS into their operations. This equates to a commendable 78% adoption rate among our targeted taxpayers for Phase 1 and a total of \$119,000 collected from ESRS penalty.



In addition to the initial progress, it’s worth noting that of the 113 taxpayers targeted in Phase 1, there remain 25 who are yet to adopt the ESRS. Our team is dedicated to ensuring that these taxpayers are brought onboard in the upcoming financial year 2023/24. Concurrently, we are also preparing for Phase 2 of the ESRS rollout. This next phase is designed to target 86 taxpayers who already have their own point of sale systems. The goal here is designed to seamlessly integrate their existing systems with our ESRS, ensuring that data consistency and accuracy are maintained.

By the end of June 2023, a notable 51% of total sales were recorded through the ESRS, specifically from the 88 taxpayers highlighted earlier. This underscores the system’s efficiency and the dedication of these taxpayers to embrace contemporary record-keeping and transparent reporting practices.

The inception and realization of the ESRS in Tonga echo MORC’s commitment to fostering innovation that not only advances businesses but also fortifies its operations, propelling the nation’s economic trajectory.

AUTOMATED SYSTEM FOR CUSTOMS DATA [ASYCUDA]



What is ASYCUDA?

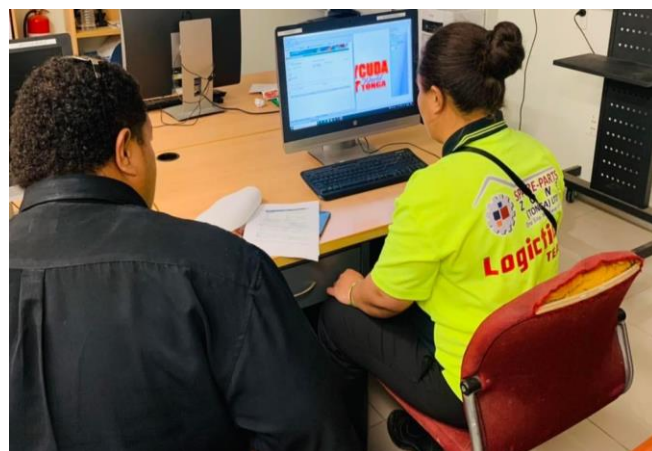
ASYCUDA, or the Automated System for Customs Data, is a computerized system designed to streamline customs procedures. It aids in simplifying the import and export processes, making the movement of goods across borders more efficient. This system plays a pivotal role in enhancing customs operations by reducing processing times, ensuring accuracy in data collection, and assisting in fraud detection.

Tonga stands as one of the privileged first six Pacific Island countries to adopt the ASYCUDA system. This significant leap towards modernizing our customs services was made possible through the initiative and dedication of our late CEO, Mr. Vahe, alongside a committed team. We extend our heartfelt appreciation to both the Australian and New Zealand governments for generously funding the deployment of ASYCUDAWorld to Pacific Island nations, including Tonga. Their

unwavering support was instrumental in equipping Tonga with this state-of-the-art system, facilitating a seamless, transparent, and efficient customs process to benefit both our traders and government.

On February 27th, 2023, we marked a milestone with the successful migration from the Customs Management System (CMS) to ASYCUDA World Live. This transition was accompanied by a comprehensive update and review of standard procedures for cashier, import, export, and warehouse declarations. To ensure the system's optimal use, ongoing support and training programs are being provided to all users of ASYCUDA.

With its ongoing evolution, ASYCUDA continues to adapt to the ever-changing needs of our trade environment, integrating innovative features and updates to further optimize its utility and serve our nation effectively.



TAX WEEK 2022

From October 9th to October 14th, 2022, the Ministry hosted the esteemed “Tax Week 2022.” Embracing the theme “Scaling up Digital Transformation for a Prosperous Tonga,” this event demonstrated the Ministry’s forward-thinking approach and commitment to leveraging technological advancements to serve the nation better.

A notable highlight of the week was the grand launching event, where attendees were treated to video demonstrations that showcased the Ministry’s latest technological innovations. This encompassed the ESRS, ASYCUDA, Non-Intrusive Equipment designed to efficiently scan luggage, cargo and containers and E-TAX. Through these tools and the insights shared, the week-long initiative underlined the importance of digital transformation in elevating Tonga’s economic growth and prosperity.

Building on the momentum from the launch, a series of informative seminars were held from October 11th - 13th at the Fe’aomoengalu Customs Building specifically catering to different sectors. These included wholesale, retail, manufacturing, exporting, importing, services & constructions, tourism, professional services in banking, transportation, and communication. These seminars provided crucial insights and guidance for taxpayers from these sectors, ensuring they were well-informed about their responsibilities and the Ministry’s latest initiatives.

Tax Week 2022 concluded with a special prayer service was convened on October 14th, 2022, at the Fe’aomoengalu Building. Following the service, awards in the form of certificates were presented to tax and customs officers, acknowledging their commitment to virtual trainings during the pandemic era.

The Ministry wishes to express its sincere gratitude to every participant. Their engagement and feedback played a pivotal role in making Tax Week 2022 a resounding success.

Below are some snapshots capturing the vibrant activities and engaging sessions from Tax Week 2022.



MORC's Staff alongside the Guest of Honor (Deputy Prime Minister - Mr. Samiu Vaipulu) and his wife, after the thanksgiving mass for Tax Week 2022 at the Immaculate Heart of Mary Cathedral, Ma'ufanga, Tonga, on October 9th, 2022.



Official Launching of Tax Week 2022 at Fe'aomoengalu, Customs Office, Ma'ufanga, Tonga, on October 10th, 2022.



Mrs. 'Ana Fifita and Mrs. Malia Koletu Veamatahau, both retired in December 2022, they participated in the hymn readings during the official launch of Tax Week 2022. This was a special tribute to honor their final Tax Week with the Ministry.



October 11th, 2022: Seminar for Wholesale, Retail & Manufacture



October 12th, 2022: Seminar for ASYCUDA, Exporter & Importer, Services & Construction



October 13th, 2022: Seminar for Tourism, Professional Service in Banking, Re-estate, Transportation & Communication



October 14th, 2022: Mr. Kelemete Vahe with 5 HODs and a junior officer, after the special closing prayer service of Tax Week 2022

CANINE (K9) UNIT



The financial year 2022/23 marked a significant milestone for the Ministry with the establishment of its first-ever K9 Unit with Customs inaugural participation in the PDDP facilitated by the New Zealand Police. In May 2023, Customs Officer - Mr. 'Amini Fonua successfully completed a nine weeks training under the Pacific Detector Dog Program (PDDP) in Wellington, New Zealand. This intensive training, facilitated by the New Zealand Police, equipped Mr. Fonua with specialized skills in dog handling, leadership, investigations and enforcement against contraband, including illicit drugs. Partnered with a New Zealand Police-bred dog named 'Fred', he is now poised to enhance Tonga's border control and enforcement. This advancement showcases the Ministry's commitment to leveraging international collaborations and enhancing our capabilities in border management and security.

The Ministry expresses its profound gratitude for this invaluable opportunity. The introduction of dedicated detector dog capabilities signifies a crucial advancement in bolstering our border security and national safety.

HEILALA PLATINUM MEMBERS

Below are the logos of our 22 distinguished Heilala Platinum members. The Ministry extends its heartfelt gratitude and acknowledgement to these members for their unwavering dedication and adherence to compliance. Together, they contributed, \$132 million, a substantial portion of our total revenue collection for the financial year 2022/23.



CHALLENGES FACED IN FY 2022/23

The financial year 2022/23 was not without its unique set of challenges that tested the resilience and adaptability of the Ministry:

1. **Recovery form HTHH Volcanic Eruption and COVID-19**
Businesses in Tonga faced significant setbacks from the aftermath of the HTHH volcanic eruption and the prolonged impact of the COVID-19 pandemic. Assisting them in their recovery process and ensuring they meet their tax obligations without adding undue pressure became a delicate balancing act for the Ministry.
2. **Leadership Transition**
The leadership transition from Mr. Kelemete Vahe to Mr. Michael Cokanasiga midway through the financial year. Ensuring continuity in ongoing projects, maintaining team morale, and guaranteeing that the vision remained consistent were crucial during this phase.
3. **Technological Challenges**
The drive to digitize our operations and systems introduced a range of technological challenges. From seamless integration of systems such as ESRS and ASYCUDA to ensuring data security, our journey demanded continuous adaptations and improvements.
4. **Human Resources Challenges**
The evolving technological landscape necessitated upskilling and adapting for our staff. Organizing timely training sessions, managing resistance to new technologies, and addressing skill gaps post significant HR challenges. Additionally, HR Team specifically grappled with a high staff turnover rate. This, coupled with a shortage of staff and complications arising during recruitment processes, created operational hurdles for the ministry.

These challenges, while demanding, provided the Ministry with invaluable lessons. With the combined efforts of our dedicated team and the continued support of our stakeholders, we remain committed to overcoming future obstacles and serving the people of Tonga.

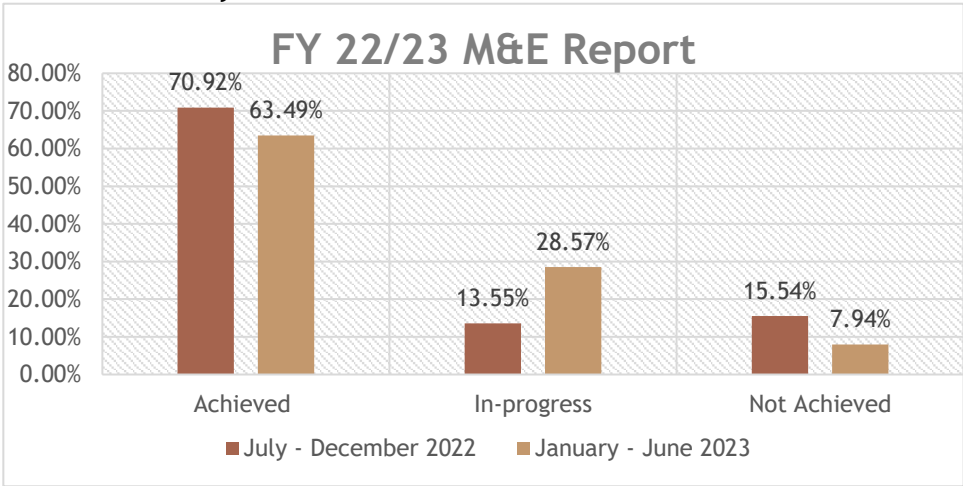
CONCLUSION

In reflection upon the financial year 2022/23, the Ministry of Revenue and Customs (MORC) has displayed resilience, adaptability, and unwavering commitment amidst significant changes and challenges. The continued hard work and commitment of our staff, highlighted the Ministry’s unwavering dedication to its vision and mission.

This annual report showcases a broad spectrum of achievements across various divisions, from Tax Operations and Large Taxpayers Division to Border Management and Trade Services. Each division played a pivotal role in promoting voluntary compliance, risk-based services, and ICT-driven solutions, like ASYCUDA and ESRS. Furthermore, the ministry made commendable strides in strategic leadership, training, taxpayer partnerships, and border security.

The introduction of cutting-edge technologies, like the installation of x-ray machines and scanners, complements our traditional methods, ensuring a balanced and modern approach to revenue collection and customs duties. Moreover, the comprehensive analysis of our Corporate Plan and Budget in the second half of the financial year sets the stage for future growth and ensures that our strategies remain relevant and robust.

To provide a comprehensive view of our progress, the bar graph below offers a summary of our achievements against planned targets, derived from our bi-annual M&E Reports spanning two periods: July - December 2022 and January - June 2023.



- **Achieved:** The latter half of 2022 saw an achievement rate of 70.92%, which slightly dipped to 63.49% in the first half of 2023. This decline attributed to the evolving challenges brought about by external factors, such as the continuous adjustments related to COVID-19 protocols and restrictions.
- **In-progress:** A notable shift can be observed in the “In-progress” category, which more than doubled from 13.55% in the latter half of 2022 to 28.57% in the first half of 2023. This suggests a significant increase in tasks that are actively being worked upon, indicating our commitment to address previously lagging objectives.
- **Not Achieved:** Encouragingly, the “Not Achieved” percentage has decreased from 15.54% in July-December 2022 to 7.94% in January-June 2023. Several factors contributed to this positive change, including the resumption of activities that had been previously on-hold due to COVID-19 restrictions.

In summary, while the ministry has navigated through various challenges, the dedication to our mission remains evident. We continue to adapt, re-prioritize, and strive for excellence in service to the people Tonga. The dedication and teamwork exhibited by all sections underline MORC’s commitment to excellence, and we are optimistic as we journey into the next financial year. We are ever grateful to our staff, stakeholders, and the community for their continued trust and collaboration. We remain optimistic and dedicated to continually advancing our systems and approaches, aiming for a prosperous future for Tonga.

IN MEMORIAM

This section is dedicated to the cherished members of our Ministry family who passed away during the financial year 2022-2023. Their unwavering commitment, dedication, and contribution to the Ministry and the nation of Tonga will forever be remembered. We honor and pay tribute to their memory, acknowledging the void they have left behind. Their legacy will continue to inspire us in our mission to serve the people to Tonga with utmost dedication and integrity.



Mr. Kelemete Vahe
Former Chief Executive Officer
 Sunrise: October 9th, 1958
 Sunset: February 27th, 2023

**Duration of Service for the
Government of Tonga**

Entered Service Date:
13th April, 1979

End of Service Date:
6th January, 2023

44 years of service.



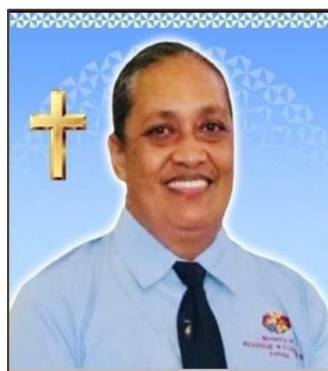
Ms. Vila Mafi
Senior Assistant Deputy CEO
 Sunrise: December 29th, 1982
 Sunset: December 18th, 2022

**Duration of Service for the
Government of Tonga**

Entered Service Date:
15th October, 2003

End of Service Date:
17th December, 2022

19 years of service.



Mrs. Lapulou 'Eukaliti
Revenue Officer
 Sunrise: May 26th, 1970
 Sunset: January 27th, 2023

**Duration of Service for the
Government of Tonga**

Entered Service Date:
21st October, 1999

End of Service Date:
26th January, 2023

24 years of service