



Ministry of Revenue and Customs Annual Report 2018/19



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ACRONYMS

A background image showing a group of people, likely of Pacific descent, wearing traditional floral leis and traditional clothing. They appear to be in a social or cultural gathering, with some individuals looking towards the camera and others looking away. The image is slightly faded to allow the text to be legible.

APRO	– Assistant Principal Revenue Officers
ASDCEO	– Assistant Senior Deputy Chief Executive Officers
CEO	– Chief Executive Officer
DCEO	– Deputy Chief Executive Officers
DPL	– Daily Paid Laborer
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

FOREWARD FROM THE MINISTER



I, as Minister of Revenue and Customs, am honored to hereby present the Ministry of Revenue & Custom's Annual Report for the Financial Year 2018/2019. This Ministry is the primary revenue collector for the government of Tonga and that in itself indicates the underlying challenges faced with being such an agent. Tonga is a small-scaled resilient nation and with constant growth in its economy in the past years, drives the Ministry to actively pursue its role of delivering quality services through revenue collection, trade facilitation and border management. Delivering those mandates contributes tremendously to Government's goal of safeguarding our nation and generating a progressive environment in which all Tongans can prosper.

We encourage partnership with all key stakeholders and we actively participate in building an integrative working environment to support the Ministry's preceding vision;" To be recognized as the best Ministry amongst all Government Ministries".

The past year has been incredibly challenging with the devastating effects of Cyclone Gita, which trailed our small-scale nation in the beginning of 2018. The devastation heavily marked Tonga with additional hurdles in which we are currently still recovering from. The aftermath was expected to be felt by the Ministry in the 2018/2019 financial year and it certainly encouraged the Ministry to re-develop and re-prioritize through our risk management system to still be able to achieve our targets in the Corporate plan 2017/2018-2019/2020. Whilst our legislative framework undergoes major review to close off existing loopholes for revenue drainage, awareness and education continued to be a primary focus; and investigations and audits move towards a more risk based system. Maximizing revenue collection at the lowest cost was mandatory.

That said, I am proud to say that we did our best and 2018/2019 was another year of success for the Ministry. I therefore would like to personally express my sincere and utmost gratitude to our many faithful stakeholders, donor partners and most especially our loyal taxpayers for their valuable contributions and cooperation thus far. We would not have accomplished the things we attained this financial year without your involvement.

With the progressive partnership building and the standard of service by the Ministry, I have faith that we will overcome the challenges of the coming financial year. We, as a Ministry are dedicated to improving and I look forward to your continued support and co-operation that together we are able to secure our nation and contribute to achieving our National Impact of becoming "A More Progressive Tonga, Supporting Higher Quality of Life for All".

Respectfully,

Hon. Mateni Tapueluelu
Minister of Revenue and Customs

MESSAGE FROM THE CEO OF THE MINISTRY



“We strive to deliver value to our people and we thrive to contribute to the economic and social wellbeing of Tonga”

As Chief Executive Officer responsible for daily administration of the

Ministry, we as a Ministry work to provide and support the Government and the people through our newest approach which is sustainable partnership. We believe that building a sustainable relationship with key stakeholders is our way of improving voluntary compliance and achieving the best outcomes. In this financial year, we were recognized for our performances and our continuous contribution towards our people by being awarded the following recognitions.

Our Achievements and Awards.

- ❖ **Certificate of Excellence from the Public Service Commission (2019)**
 - 1st place award for the best customer service booth
- ❖ **Certificate of Excellence from the Public Service Commission (2019)**
 - 1st place award in recognition excellence demonstration at the PMS
- ❖ **New Office Building at Custom Division (2018-2019)**
- ❖ **Certificate of Recognition – Engagement Progress with Tax Administration Reforms and Revenue Collection (2019)**

There had been significant shifts in how MORC is better helping people. These

includes projects such as the War on Illicit Drugs, Trade facilitation and the Rental Construction Project. Moreover, is the introduction of the consultation of PACER PLUS, and the new system: ASYCUDA World Project. These in turn adds value to our current operating procedures, aiming to deliver effective and efficient quality services which reflects in our core functions of revenue collection, trade facilitation and border security.

During this financial year, Tonga faced many challenges along the way due to political, economic, sociological and physical factors such as Cyclone Gita, which had negative impacts on MORC’s operations. As we continue to thrive, the aftermath from Cyclone Gita shadowed our nation leaving Tonga with additional re-development issues in all aspects including the need for infrastructure, the need to improve health facilities, and the need to rebuild school amenities.

Revenue

Most local businesses were demolished and hence of abolishment for the remainder of this financial year. However, with the resilience nature of MORC, we managed to exceed our estimated revenue target of \$T232 million by a surplus of \$T0.04 million, given the actual revenue collected for this financial year was \$T232.1 million. *(Figures as outlined in the following table).*

Estimate vs. Actual	FY2016/17	FY 2017/18	FY2018/19
Estimated Revenue	180.0	225.0	232.0
Actual Revenue Collected	210.1	227.2	232.1
Surplus/(Deficit)	30.1	2.2	0.04

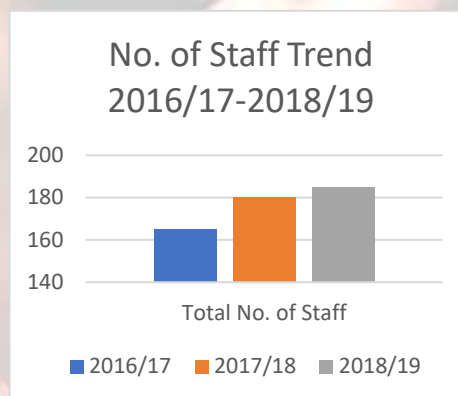
Staffing

Over the years this Ministry has seen an increase in its staffing which speaks value on the professionalism and the reputation of this Ministry. *(This is clearly demonstrated in the graph below.)*

Expenditure

Category	Total
10 established staff	4,652,467.00
20 assets	2,070,395.00
14 purchase of goods & services	1,280,010.00
13 maintenance & operations	559,225.00
12 travel & communication	424,899.00
11 unestablished staff	217,798.00

As the number of our challenges elevated, so as our total expenditure for this financial year. The most area of spending was on staff, given the sum of established and unestablished staff totaled to \$T4,870,265.00. The least area of spending amount was totaled to \$T424,899.00 for travel and communication.



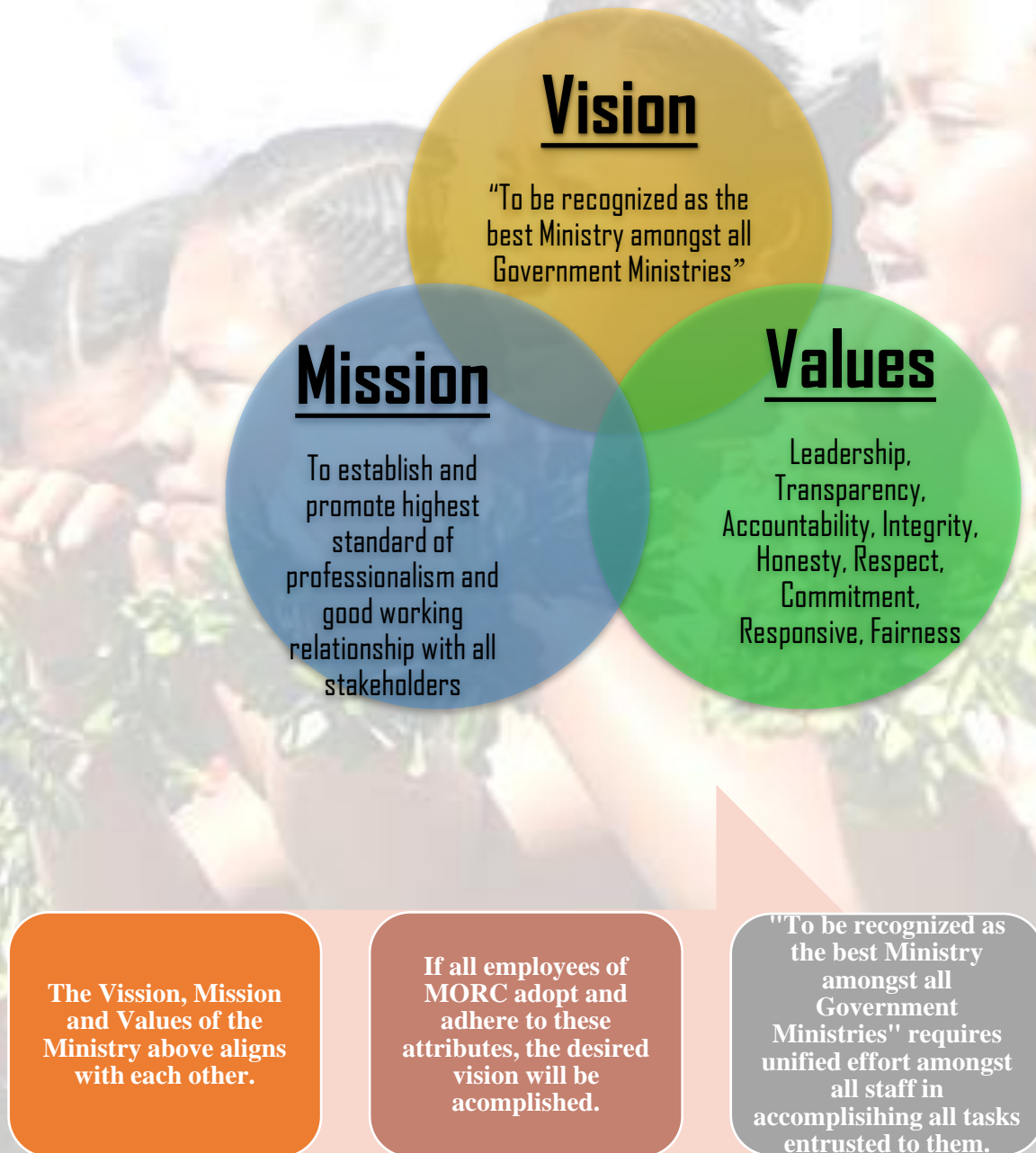
Overall, with my years of experience with this Ministry, I am determined with confidence that our partnership will enhance the quality services we are currently delivering and mitigate the challenges and risks that are yet to come. I salute you all for your valuable contributions thus far and I am ready to walk on with you all to the next financial year.

Sincerely,

Mr. Kelemete Vahe
Chief Executive Officer

Ministry of Revenue and Customs

1. OVERVIEW OF THE MINISTRY



1.1 INTRODUCTION

Every financial year there are goals and organizational outcomes that drive the Ministry to achieving the best results. During the financial year 2018-2019, the Ministry of Revenue and Customs worked towards achieving the Ministry's organizational outcomes which are outlined below:

Improved macroeconomic management and stability with the development of a strong, deeper and 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 defense engagement within the Pacific & the rest of the world, 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 support of other countries and consistent advancement of our international interests, security and sovereignty

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

To constantly achieve these outcomes, the Ministry must carry out its core functions which are as follows:

**Revenue
Collection**



**Cross Border
Security**



**Facilitation of
Legal Trade**

Effective Revenue collection is done on behalf of the Government of Tonga in order to fund services for its people. There is also the responsibility of assessing vital processes of cross border security and also the facilitation of legal trade between Tonga and other countries.

With carrying out these functions there are binding laws and regulations that contribute in administering the effectiveness of the Ministry and to ensure that all operations of both the Revenue and Customs Divisions are exercised within its legal rights.

The following legislations below what dictates both the operations of the Revenue and Customs Divisions.

Legislations governing the 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

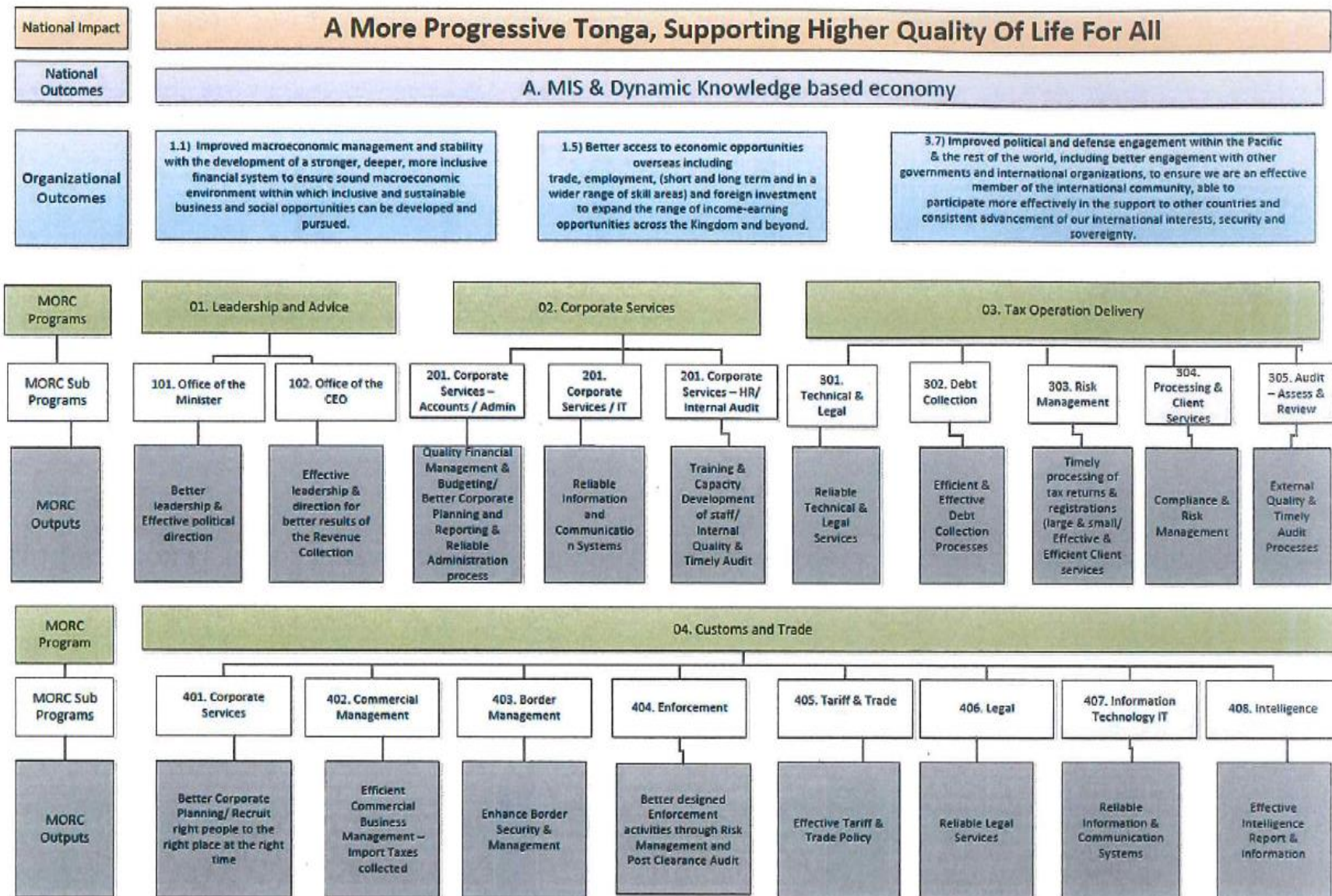
Legislations governing Customs Division

- 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

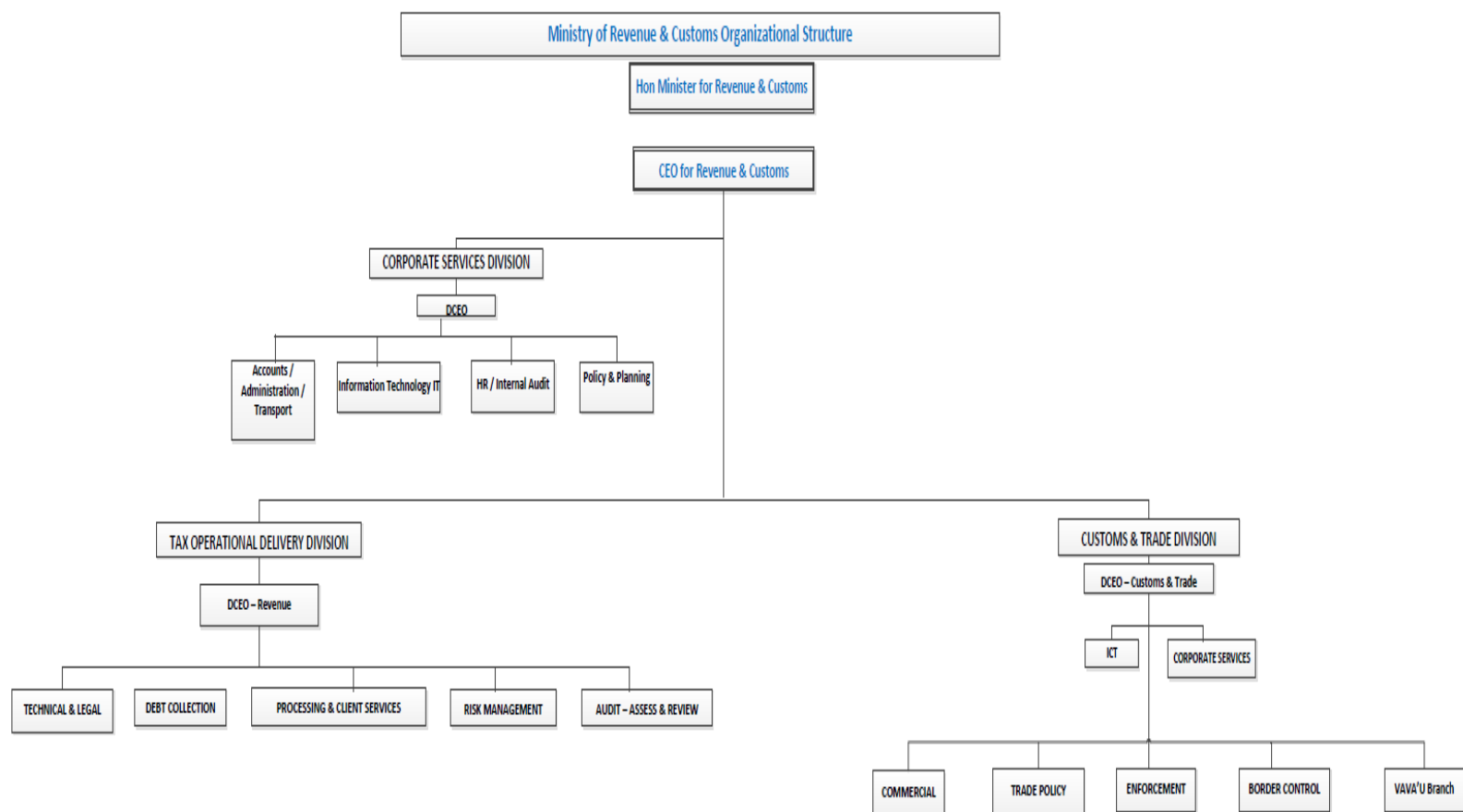
Additional Legislations followed by Customs Division

- 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

1.2 RESULTS MAP



1.3 ORGANISATIONAL STRUCTURE



2. MINISTRY PERFORMANCE

2.1 HUMAN RESOURCE MANAGEMENT

2.1.1 MINISTRY STAFFING SUMMARY

Post	At Post 1 st July 2018	At Post 30 th June 2019
Chief Executive Officer	0	1
Deputy Chief Executive Officers	2	2
Senior Assistant Deputy Chief Executive Officers	7	8
Assistant Senior Deputy Chief Executive Officers	1	0
Principal Revenue Officers	14	13
Senior System Analysts	1	0
Assistant Principal Revenue Officers	1	0
Senior Revenue Officers	19	22
Revenue Officers Graduate	21	19
Revenue Officers	27	28
Revenue Officer Grade I	23	24
Revenue Officer Grade II	18	14
Revenue Officer Grade III	18	20
Transport Supervisor	1	0
Driver	8	8
Daily Paid Laborers	13	20
Watchman	4	4
Cleaner	1	1
Personal Assistant for the Minister	1	1
TOTAL	180	185

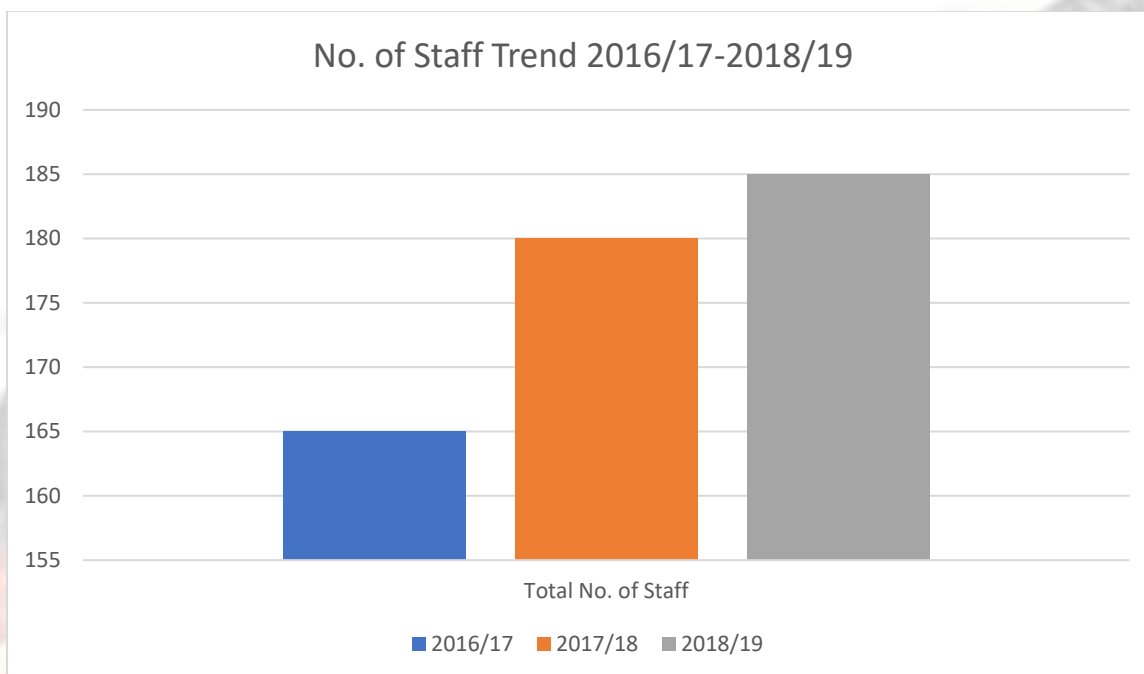
DIVISIONS	NUMBER OF STAFF 2018/2019
LEADERSHIP OFFICE	
Office of the Honourable Minister	4
Office of the CEO	1
<i>Total</i>	5
CORPORATE SERVICES DIVISION	
DCEO for CSD	1
Accounts	6
Information Technology - IT	4
HR & Administration	5
Policy and Planning Unit	2
Transportation	5
Cleaner	2
Watchman	4
<i>Total</i>	26
Tax Operational Delivery	
DCEO for Tax	1
Technical & Legal Services Unit	3
Debt Collection Unit	12
Processing & Client Services (Outer Islands)	37
Risk Management Unit	8
Audit – Assess & Review	10
<i>Total</i>	71

CUSTOMS & TRADE	
Corporate Services (Admin, Accounts, HR)	6
Vava'u Branch	13
Commercial Management	20
Border Management	24
Enforcement (Risk Management & Post Clearance Audit)	7
Tariff and Trade Policy	4
Legal	0
Information Communication Technology	3
Intelligence	3
Total	80
TOTAL	185

2.1.2 STAFFING TREND

Staffing	FY 2016/17	FY 2017/18	FY 2018/19
Total Established Staff	141	167	165
Total Daily Paid	22	13	20
Consultants	0	0	0
Volunteers	2	0	0
TOTAL STAFF	165	180	185

The above table depicts the number of MORC staff over the past three financial years and is steadily increasing. For this financial year, there are 185 staff in total, which is a slight increase from the previous FY of 180 staff. This indicates a rising trend compared to the FY 2016/17, where a total of 20 staff have been recruited over the past three financial years.



2.2 RESULTS MANAGEMENT

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. 	<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 	<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
	<ul style="list-style-type: none"> ❖ Provide timely endorsements of MORCs Corporate Plan, Annual Management Plan, MORC budget, Annual Report etc. ❖ Regularly attend CEO Forums held 	<ul style="list-style-type: none"> ✓ MORC exceeded desired revenue collection for the Financial Year 	
c) 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) 	<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
	<ul style="list-style-type: none"> ❖ Develop a MORC Annual Procurement Plan ❖ Develop and implement MORC budget for the Financial year and link with MORC corporate Plan 		
d) Reliable Information and Communications System	<ul style="list-style-type: none"> ❖ Constantly upgrade server Operating systems, hardware resources, and also workstation computer & 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. 	<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

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	❖ Prompt support and assistance provided to MORC staff for any IT related matters		attachment, workshops or conference.
e) Training and Capacity Development of staff/Internal Quality and Timely Audit	<ul style="list-style-type: none"> ❖ Training & Capacity Development of staff ❖ Quality management of the Performance Management System for all staff ❖ Effective and efficient customer service delivery 	<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 18/19 was well monitored and reported to PSC, for payment of staff rewards. ✓ 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. 	<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 of how to properly keep their records and evidence. ❖ To be innovative when it comes to a busy office, must be able to cater for all visitors visiting the office.

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
		<ul style="list-style-type: none"> ✓ Enhanced working relationship with other internal division 	<ul style="list-style-type: none"> ❖ To work together with other technical advisors from external sector ❖ Have more attachment opportunities to outer taxation jurisdiction
f) 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 	<ul style="list-style-type: none"> ✓ 100% of issues identified are addressed at a timely and effective manner. ✓ RSA Bill 2019 now completed pending King's royal assent ✓ 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"> ❖ Draft the RSA Bill 2019 ❖ Effectively develop internal and public policies to address issues identified 		
g) 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
h) 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) 	<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. 	<ul style="list-style-type: none"> ❖ Provide more effective public awareness programs through TV ads, radio, brochures, and other means.

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	<ul style="list-style-type: none"> ❖ Timely processing of returns within 5 working days at lodgment. ❖ 100% integrity and reliability of data entered into RMS (Vava'u Office) ❖ Process TIN Number within 3 working days from lodgment date. ❖ 100% accuracy of data entered as TIN number and CT registrations per week ❖ 95% spot checking of new CT Registers. 	<ul style="list-style-type: none"> ✓ 15,000 returns are expected to be received and entered into RMS within the fiscal year ✓ 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 	<ul style="list-style-type: none"> ❖ Improve the use of social media and online sources for public awareness matters for the purpose of fostering voluntary compliance. ❖ 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 <u>tax intermediaries</u> especially in relation to filing, payment, and assessment matters.

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	<ul style="list-style-type: none"> ❖ 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 2 days from date received 	<p>time processing of reconciliation</p> <ul style="list-style-type: none"> ✓ All files are properly stored in an orderly manner with no lost files at any time. 	<ul style="list-style-type: none"> ❖ Ensuring that applications for registration are authentic ❖ Undertaking initiatives to detect unregistered businesses and individuals, especially those representing high revenue risks ❖ Processing of reconciliation within 5 days at lodgment ❖ 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

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	<ul style="list-style-type: none"> ❖ Issuance of requested files within the approved timeframe 		<ul style="list-style-type: none"> ❖ Operational files are well managed throughout their life cycle. ❖ PA all files received at the filing room. ❖ Issue requested file from staff on time
i) 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 skillful 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.

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
j) 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 penalties issued and timeliness in processing of warehouse stock taken once a month ❖ Ensure the accuracy of processing of entries and timeliness in processing of Customs entries for local manufacturing warehouse 	<ul style="list-style-type: none"> ✓ Less complaints received on a monthly basis (no more than 5 complaints) ✓ 100% accuracy of Revenue Collection according to approved entries and accuracy of processing of entries. 	<ul style="list-style-type: none"> ❖ Continual of timeliness and accuracy of declarations and processing of entries ❖ Improve monthly compliance check on total number of approved places
k) Enhance border security and management	<ul style="list-style-type: none"> ❖ Improve and provide appropriate level of border security for the people 	<ul style="list-style-type: none"> ✓ Transfer of Immigration service from Ministry of Foreign Affairs to Customs & Trade 	<ul style="list-style-type: none"> ❖ On-going capacity building of staff at each sections of Border Unit especially the new

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	<ul style="list-style-type: none"> ❖ Develop effective and efficient process to manage border protection for detection of Tonga from movement of illicit, restricted goods and undesirable travelers ❖ Better border protection and services through effective processes ❖ Provision of Border protection in all areas of movement of people and goods using risk assessment and re-screening information 	<p>Division and provide complete staffing of this new Unit</p> <ul style="list-style-type: none"> ✓ 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 of customers to legal trade and travelling as well as Customs regulations and policies 	<p>Immigration Section</p> <ul style="list-style-type: none"> ❖ More improvement in the Border protection processes which leads to facilitation of legal trade and the movement of people, goods, and services through Tonga's borders
1) Better Designed Enforcement activities through Risk	<ul style="list-style-type: none"> ❖ To develop and improve enforcement roles on Customs 	<ul style="list-style-type: none"> ✓ Improvement in productivity of human resource and management on PCA 	<ul style="list-style-type: none"> ❖ On-going capacity building of staffs on international level of enforcement process

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
Management and Post Clearance Audit.	<p>activities and process</p> <ul style="list-style-type: none"> ❖ 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 an Enforcement Unit ❖ Preparing Strategic Audit Planning ❖ Design Field Audit Planner for FY 2017/18 ❖ Establish and practice WCO design guidelines for audited targeting 	<p>✓ Maintained effectiveness of PCA operations and enforcement roles through capacity building and sharing information with other Customs Units</p>	<ul style="list-style-type: none"> ❖ 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
m) Provide effective tariff and trade policies	<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. ❖ Trade Facilitation and Facilitation Agreement, International Liaison, Policy advice on trade issues and Training on Trade Issues. 	<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 Harmonized System. ❖ Possibility for training of staff and customers on trade matters

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	❖ Updating the Harmonized System, Participate on Trade Negotiations, Formulation of Rules of Origin Plan for established of Trade Unit.		
n) Provide Reliable Legal Services for Customs division	<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 clarification of Customs Laws 	<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 timeframe requested

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	<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. 		<ul style="list-style-type: none"> ❖ Able to settle court cases and closed cases each Financial Year
o) Reliable Information and Communication Systems.	<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. 	<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 	<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

OUTPUTS	OBJECTIVES	ACHIEVEMENTS	WAY FORWARD
	❖ Use new Customs computer system, the “ASyCuDa World”, more effectively	<p>revised arrival and departure cards.</p> <p>✓ Fua’amotu and Vava’u airports has seen an increase in efficiency and effectiveness of processing functions due to newly installed computer systems.</p>	<p>ASyCuDa World system.</p> <p>❖ Persistent installation of system updates.</p>



2.3 FINANCIAL MANAGEMENT

2.3.1 ESTIMATED vs. ACTUAL REVENUE COLLECTED

Table 1: Revenue Collected 2016/17 – 2018/19 (In Millions)

Estimate vs. Actual	FY2016/17	FY 2017/18	FY2018/19
Estimated Revenue	180.0	225.0	232.0
Actual Revenue Collected	210.1	227.2	232.1
Surplus/(Deficit)	30.1	2.2	0.04

Due to refund and other issues including bounce cheques, Budget Statement's report will show a -\$1.5mil shortage in revenue collected.

Also, there could had been more revenue generated but because of waive penalties and exemptions mainly due to TC Gita, there were foregone revenue within the Financial Year 2018/19:

Foregone Revenue	FY2018/19
Penalty Waived	16,739,239.11
Exemptions	63,462,540.08
TOTAL	\$ 80,201,779.19



2.3.2 REVENUE COLLECTION

Revenue Source	FINANCIAL YEAR			FINANCIAL YEAR			FINANCIAL YEAR		
	2016/17			2017/18			2018/19		
	Estimates	Net Actual Collection	% Inc or Dec	Estimates	Net Actual Collection	% Inc or Dec	Estimates	Net Actual Collection	% Inc or Dec
INCOME TAX									
LBD Income Tax (Corporate Tax)	9,616,128	16,681,457	<i>13%</i>	10,001,100	18,461,994	<i>11%</i>	14,401,100	21,450,581	16%
SBD Income Tax (Corporate Tax)	1,450,000	724,948	<i>-18%</i>	1,470,000	776,084	<i>7%</i>	700,000	830,510	7%
WITHHOLDING TAX									
Withholding Tax - Residents	600,000	513,769	<i>N/A</i>	604,000	592,900	<i>15%</i>	504,000	739,923	25%
Withholding Tax – Non-Residents	4,000,000	5,454,235	<i>N/A</i>	4,000,000	7,383,332	<i>35%</i>	6,500,000	8,264,139	12%
PAYE TAX									
Non-Government PAYE	8,300,000	9,901,942	<i>16%</i>	9,720,000	9,868,446	<i>0%</i>	11,718,000	10,296,171	4%
Government PAYE	9,722,200	10,331,781	<i>18%</i>	10,330,000	8,541,046	<i>-17%</i>	8,530,000	8,381,798	<i>-2%</i>
CONSUMPTION TAX									
Domestic Consumption Tax	9,500,000	15,422,945	<i>48%</i>	21,100,000	19,439,189	<i>26%</i>	17,100,000	16,958,667	<i>-13%</i>
Government Consumption Tax	500,000	600,899	<i>-39%</i>	300,000	871,937	<i>45%</i>	600,000	1,256,269	44%
Import Consumption Tax	63,381,942	66,829,486	<i>8%</i>	74,837,400	72,534,615	<i>9%</i>	74,837,400	74,617,346	3%

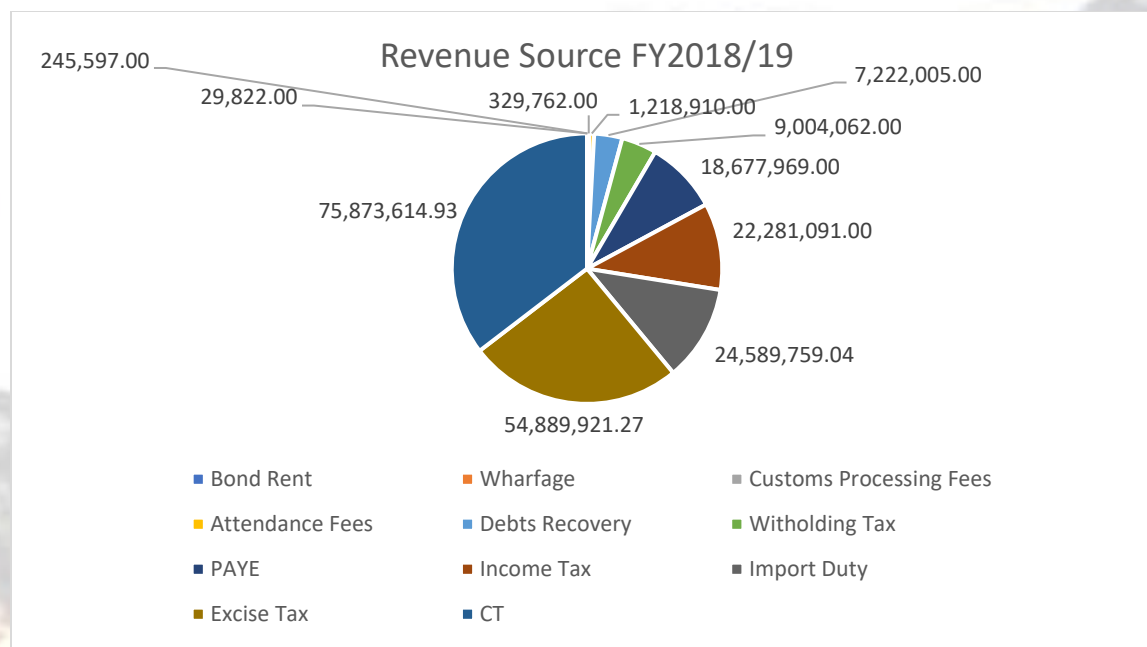
TAX DEBTS COLLECTION									
Income Tax Debts Recovery	5,271,556	2,480,528	1%	1,940,000	3,129,443	26%	3,000,000	5,267,808	68%
Consumption Tax Debts Recovery	3,000,000	420,323	-65%	621,000	1,968,579	368%	1,121,000	1,954,197	-1%
IMPORT DUTY									
Import Duty Business	20,765,663	19,732,911	2%	26,142,700	21,655,717	10%	27,201,900	24,138,747	11%
Import Duty Government	101,000	178,411	34%	175,000	319,292	79%	175,000	451,012	41%
EXCISE TAX									
Excise Tax	42,352,411	53,060,773	18%	62,329,000	59,303,563	12%	64,423,100	54,881,481	-7%
Excise Tax Government	23,800	3,900	x	120,000	26	-99%	12,000	8,440	32362%
Customs Processing Fees	412,000	361,602	0%	412,000	317,891	-12%	412,000	329,762	4%
Wharfage	185,400	238,663	6%	185,400	273,387	15%	185,400	245,597	-10%
Attendance Fees	670,400	771,431	-18%	520,400	1,172,886	52%	520,400	1,218,910	4%
Bond Rent	150,000	90,077	-23%	150,000	129,528	44%	150,000	29,822	-77%
Revolving	-	-	0%	150,000	327,672	x	-	-	-
Total	180,002,500	203,800,081	10%	225,108,000	227,067,527	10%	232,091,300	231,321,180	2%

Note:

In relation to the table under section “Revenue Collection”.

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. All Estimates and Net Actual Collection amounts are recorded in Tongan Pa’anga currency (\$TOP)
6. All Estimates and Net Actual Collections amounts are rounded to the nearest dollar





This Graph depicts the numbers in Table above.

2.3.2.1 IMPORTED GOODS

Total value of imported goods for the Financial Year 2018/2019 compared to previous years of 2016/17 – 2017/2018.

<i>Financial Year</i>	<i>Total CIF</i>
<i>FY 2016-2017</i>	<i>\$432,877,845.66</i>
<i>FY 2017-2018</i>	<i>\$371,971,599.55</i>
<i>FY 2018-2019</i>	<i>\$602,621,277.10</i>

2.3.2.2 VOLUME OF CARGO IMPORTED

Compares the volume of cargo imported for the Financial Year 2018/2019 compared to previous years which portrays a significant increase in the volume of imported cargo and illustrated in the table below.

<i>Financial Year</i>	<i>Volume of Imported Cargo</i>
<i>FY 2016-2017</i>	<i>182789.68 tons'</i>
<i>FY 2017-2018</i>	<i>293671.63 tons'</i>
<i>FY 2018-2019</i>	<i>30561.23 tons'</i>

2.3.2.3 CUSTOM'S EXEMPTIONS

Illustrates the foregone revenue during the financial years from 2015/2016 – 2018/ 2019 due to Government support towards local business industries.

<i>Financial Year</i>	<i>Duty</i>	<i>Consumption Tax</i>	<i>Excise Tax</i>	<i>Total</i>
<i>FY 2016-2017</i>	<i>\$12,491,360.53</i>	<i>\$21,709,121.60</i>	<i>\$21,984,740.43</i>	<i>\$56,185,222.56</i>
<i>FY 2017-2018</i>	<i>\$10,582,773.14</i>	<i>\$21,812,405.04</i>	<i>\$20,097,929.88</i>	<i>\$52,493,108.05</i>
<i>FY 2018-2019</i>	<i>\$14,815,326.85</i>	<i>\$16,252,043.13</i>	<i>\$31,064,527.92</i>	<i>\$62,131,897.90</i>

2.3.2.4 NUMBER OF AIRCRAFTS AND PASSENGERS

Demonstrates the number of Commercial Aircrafts and passengers processed by the Airport Team comparing the FY 2015/2016 – 2018/2019. As show in the table below, there's a significant hike both in the number of passengers arriving at the airport and also the number of Commercial Flights.

<i>Financial Year</i>	<i>No. of Commercial Flights</i>	<i>No. of Passengers</i>
<i>FY 2016-2017</i>	880	135,366
<i>FY 2017-2018</i>	966	100,691
<i>FY 2018-2019</i>	889	103,341

2.3.2.5 NUMBER OF VESSELS PROCESSED

Portrays the number of ships processed by the Sea Port team. As seen below, there's a significant increase in the number of Yachts that visited Tonga throughout the Fiscal Year 2018/2019. There's also a slight change in the number of other ships as *shown in the figure below*.

<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>
<i>FY 2016-2017</i>	149	31	17	17	12	132
<i>FY 2017-2018</i>	107	33	14	15	7	116
<i>FY 2018-2019</i>	155	38	12	14	10	213

2.3.3 BUDGETED vs. ACTUAL EXPENDITURE

Recurrent Expenditure Estimates for 2016/17 – 2018/19 Financial Years (In Millions)

Estimate Vs. Actual	FY2016/17	FY 2017/18	FY 2018/19
Budgeted Expenditure	3.9	8.2	10.0
Actual Expenditure	3.2	6.0	9.2
Surplus/(Deficit)	0.7	2.2	0.8

As the number of our challenges elevated, so as our total expenditure for this financial year. The most area of spending was on staff, given the sum of established and unestablished staff totaled to \$T4,870,265.00. The least area of spending amount was totaled to \$T424,899.00 for travel and communication.



2.3.4 RISKS AND ASSUMPTIONS

RISKS & 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 post.
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

		<p>risks to operations when leadership changes occur</p> <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 –</p> <p>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 formalized</p>	<p>Lack of capacity and skills</p> <p>– Customs roles nowadays have been expanded to include new areas of responsibility which faces resource constraints</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

	<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>	<p>career planning and development opportunities</p> <ul style="list-style-type: none"> ❖ 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
f) Level of taxation regulations and compliance knowledge is low	<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

3. CONCLUSION

As a Ministry we strive to deliver value to our people and we thrive to contribute to the economic and social wellbeing of Tonga. 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.

Despite the challenges faced by the Ministry, we successfully executed plans and projects 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 outcomes for the 2019/20 financial year. Highlighted in the Corporate Plan, these activities include the provision of tailored services to assist taxpayers more conveniently and detect non-compliance cases.

To improve efficiency of services and enhanced revenue collection, the Ministry plans to implement innovative initiatives. These include 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 outlined in this annual report for the past three financial years, it is evident that the Ministry has potential in increasing the amount of revenue collection for the 2019/20 financial year. We believe that with sustainable partnership, we can establish a more macroeconomic nation.

