

2020

# Annual Report



The Annual Report on  
the Operations of the  
Department of  
Customs and Inland  
Revenue

***Mission:***

*For the good of Vanuatu,  
collect revenues, protect our  
borders and facilitate  
legitimate trade*



***Vision:***

*We are a capable and  
committed customs and  
revenue administration for a  
modern Vanuatu*

**Hon. Johnny Koanapo Rasou**  
**Minister of Finance and Economic Management**  
**Ministry of Finance and Economic Management**  
**Port Vila**  
**Vanuatu**

**Dear Honourable Minister,**

I am pleased to present to you the Annual Report of the Department of Customs and Inland Revenue for the year ended 31<sup>st</sup> December 2020.

The report has been prepared pursuant to section 68 of the Tax Administration Act no.37 of 2018 and includes the information as required in the Tax Administration Regulation Order no.154 of 2019.

The requirement for the Director of Customs and Inland Revenue to provide an annual report was introduced in the Tax Administration Act no.37 of 2018. As the Tax Administration Act no.37 of 2018 came into effect on the 1 January 2020, this is the 1<sup>st</sup> annual report made in accordance with that Act.

Can I very respectfully ask you to note that in accordance with section 68(3) of the Tax Administration Act no.37 of 2018, you are required to provide a copy of the report to the Parliament within 2 months of you receiving it.

Accordingly, I commend this report to you for your information and for presentation to the Parliament as a source of information to the people of Vanuatu on the role and operations of the Department.



**Harold Tarosa**

**Director**

**Date**

Copy to:

Mr Letlet August  
Director General  
Ministry of Finance and Economic Management



# Executive Summary

The requirement for the Director of Customs and Inland Revenue to provide an annual report was introduced in the Tax Administration Act no.37 of 2018. This is the 1<sup>st</sup> annual report made in accordance with that Act.

The Department is part of the Vanuatu public service and reports through the Ministry of Finance and Economic Management to the Public Service Commission. The authority for the Departments work is contained in the many Acts of Parliament and associated regulations that it administers.

The Department's objectives are to collect revenue to fund government services, protect and manage our borders and to facilitate trade. To do this, we are necessarily a large and diverse organisation with over 150 employees spread across Vanuatu. We have offices in both Port Vila and Luganville and also in all the provincial centres.

2020 was overshadowed by impacts of the international Covid-19 pandemic and Tropical Cyclone Harold. The Department was at the forefront of the measures taken to protect our borders and to manage the economic effects. It was a difficult year. It is a tribute to staff that they implemented with dedication, agility and professionalism.

Overall revenue collections during 2020 totalled VT14,415m – resulting in the Department achieving 87% of the revised budget. VAT revenue comprised 53% of the total revenue collected (VT14,415m), followed by Customs duty and excise with 39%. A range of other fees and taxes are also collected – these include business licence fees, rent tax, liquor licensing, and road taxes. Collectively, they provided 8% of the total revenue collected.

The Department spent VT589m (91%) of its government budget. This underspend was largely due to the number of staff vacancies during 2020.

For the Inland Revenue Division, the year saw the implementation of the major policy reform by way of the Tax Administration Act no.37 of 2018. Multiple changes were a consequence – among these, a new penalty regime was introduced, tax agents were registered, Taxpayer Identification Numbers (TIN's) replaced CT numbers. In parallel, thousands of tax and fee payments and associated documentation were processed.

For the Customs Division, the years plans were severely disrupted with the effect of the Covid-19 pandemic. required new border protection protocols to be implemented. New technology in the form of x-ray equipment was installed. Trade continued to be facilitated with a total of 20735 import/export declarations processed.



# Contents

<b>Directors Overview</b> .....	9
<b>Part 1: Organisation</b> .....	11
1.1 Purpose.....	11
1.2 Governance .....	11
1.3 Operations.....	13
1.4 Personnel.....	14
1.5 Revenue Collection.....	15
1.6 Expenditure .....	16
1.7 Modernization .....	18
1.8 Advice to Government .....	19
<b>Part 2: Inland Revenue Division</b> .....	21
2.1 Revenue.....	21
2.2 Registration of taxpayers .....	22
2.3 Filing of tax returns .....	23
2.4 Debt levels.....	23
2.5 Record-keeping compliance .....	24
2.6 VAT refunds.....	24
2.7 Compliance activity .....	25
2.8 New revenue measures.....	26
<b>Part 3: Customs Division</b> .....	27
3.1 Revenue.....	27
3.2 Border Enforcement and Compliance .....	27
3.3 Trade Facilitation.....	28
3.4 Exemption and Economic Relief.....	29
3.5 Intelligence-led.....	30
3.6 Warehousing .....	31
3.7 Compliance Activity .....	31
3.8 Debt Management .....	32



## Directors Overview



I am pleased to present this report reflecting the many achievements of my Department in 2020.

This is the 1<sup>st</sup> annual report completed to comply with section 68 of the Tax Administration Act no.37 of 2018. Some of its content is specifically required.

In keeping with our operational structure, the report is in three parts – the 1<sup>st</sup> part is about our organisation, then part 2 the Inland Revenue Division and part 3 the Customs Division.

2020 was overshadowed by impacts of the international Covid-19 pandemic and Tropical Cyclone Harold. My Department was at the forefront of the measures taken to protect our borders and to manage the economic effects. It was a difficult year. It is a tribute to staff that they implemented with dedication, agility and professionalism.

The Department's objectives are to collect revenue to fund government services, protect and manage our borders and to facilitate trade. The basis for this is in the many acts of Parliament that we administer. To do this, we are necessarily a large and diverse organisation.

Highlights of 2020, include revenue collection of VT14.4b, facilitating border trade valued at VT32.4b, and the implementation of the Tax Administration Act no.37 of 2018. Also, our modernisation programme delivered new x-ray equipment to better manage our border responsibilities and is working on an online VAT return filing and payment platform.

The Department is very grateful for the continuing support of the National Government through the Minister of Finance and Economic Management and our donor partners. We benefit significantly from the many forms of assistance provided by the government of China (China Aid) and the government of Australia (Governance for Growth Program). We also get support from IMF's Pacific Financial Technical Assistance Center (PFTAC), the World Customs Organisation (WCO) and the Oceania Customs Organisation.





# Part 1: Organisation

## 1.1 Purpose

The Department of Customs and Inland Revenue (“the Department”) is part of the Ministry of Finance and Economic Management. We are a large and diverse department with over 150 employees spread across Vanuatu. We have offices in both Port Vila and Luganville and also in all the provincial centres.

A primary goal for the Department is to collect revenue. Both Customs and Inland Revenue collect a range of taxes, fees and duties. These range from duties and taxes on imported goods, and on rental property, to vehicle license fees, business licence fees. The highest value revenue item is Value Added Tax which is imposed at the border and on domestic consumption. By law, the Department is also the administrator for casino and gaming operations in Vanuatu.

As well as collecting revenue, Customs has the responsibility to protect the community from potential risks arising from international trade and travel, while facilitating the legitimate movement of people and goods across the border.

During 2020, work began to refresh the Departments strategic plan. In 2020, our mission and values were:

**Mission:** *For the good of Vanuatu, collect revenues, protect our borders and facilitate legitimate trade*

**Vision:** *We are a capable and committed customs and revenue administration for a modern Vanuatu*

The authority for our work is contained in the many Acts of Parliament and associated regulations that we administer. These are:

### Customs

- The Import Duties (Consolidation) Act (Cap 91)
- The Customs Act no.7 of 2013
- The Customs Valuation Act no.8 of 1999
- Excise Tax Act no.24 of 2002
- Export Duties Act (Cap 31)
- Tax Administration Act no.37 of 2018

### Inland Revenue

- Tax Administration Act no.37 of 2018
- Value Added Tax Act (Cap 247)
- The Business Licence Act no.19 of 1998
- Rent Taxation Act (Cap 196)
- The Casino Control Act (Cap 223)
- Liquor Licensing Act (Cap 52)
- Gaming Control Act (Cap 172)
- Lotteries Act (Cap 205)
- The Interactive Gaming Act (Cap 261)
- Road Traffic (Control) Act (Cap 29)

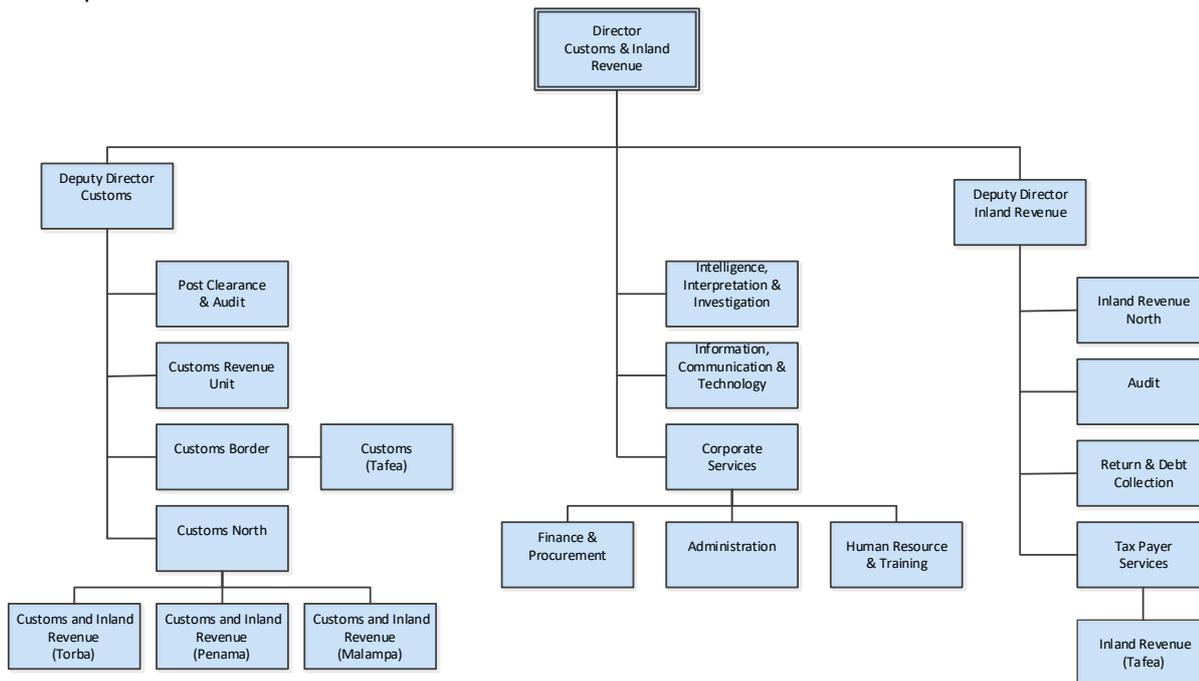
## 1.2 Governance

The Department is part of the Vanuatu public service and reports through the Ministry of Finance and Economic Management to the Public Service Commission.

The Department is led by our Director. We have 2 Deputy Directors who manage and lead each of the Customs Division and Inland Revenue Division. Each of Customs and Inland Revenue are organised into sections with specific goals and responsibilities. Each of the sections is led by a Manager. The basis of organisation is a functional model.

	Customs Division:	Inland Revenue Division:
Sections	<ul style="list-style-type: none"> <li>• Post Clearance + Audit Section</li> <li>• Revenue Section</li> <li>• Border Section</li> <li>• Northern Section</li> </ul>	<ul style="list-style-type: none"> <li>• Audit Section</li> <li>• Return and Debt Collection Section</li> <li>• Taxpayer Services Section</li> <li>• Northern Section</li> </ul>

We also have our Corporates area - they work across the whole department providing logistical and administrative services, financial management and human resource management. Similarly, our Information Technology Section and the Intelligence, Interpretation and Investigation Section provide services to all of the Department.



Reflecting the Departments position within the Ministry of Finance and Economic Management, the Departments policy and legislation work is largely the responsibility of the Ministry's Tax Policy Unit. The Department has a close working relationship with the Tax Policy Unit. Similarly, the Department has a close working relationship with the Ministry's financial areas.

To help manage and operate the Department, Governance teams are formed where needbe. During 2020 governance teams operated for:

- Tax Administration Act Implementation Governance Group
- Inland Revenue Modernisation Governance Group
- Customs Reforms and Modernisation Committee

## 1.3 Operations

Given the wide scope of its responsibilities there is a need for the Department to be operational across Vanuatu. Accordingly, the Department has offices in both Port Vila and Luganville and also in all the provincial centres.

Province	Office Location	Number of staff
TORBA	Office located in the Torba Provincial Centre	1
SANMA	Office located at New MFEM Building at La Milice	30
PENAMA	Office located at in the Penama Provincial Centre	1
MALAMPA	Office located in the New building within the Public Works compound in Lakatoro	1
SHEFA	<ul style="list-style-type: none"> <li>• Department Headquarters located at La Casa Building 3<sup>rd</sup> Floor</li> <li>• IR Audit Office located at La Casa Building Ground Floor</li> <li>• IR Taxpayer Services, Return and Debt Section, Customs Revenue and Post Clearance Audit Offices located at Chinese Club Building</li> <li>• Customs Border at Seaport located at Lapetasi Wharf</li> <li>• Customs Border at Airport Located at Bauerfield</li> </ul>	115
TAFEA	Office located in the MFEM Building in Isangel	3

Features of the Departments operations are:

- Business planning is undertaken each year and this identifies priorities and targets.
- The Department operates a fleet of Department branded vehicles - as much of its work requires staff to make inspections and checks.
- Technology is a core element of the Departments business, with both Customs and Inland Revenue operating specialist technology systems.
- Multiple controls are used which supervise access to our systems and its use. System administrators allocate staff with system functionality that align with their roles and responsibilities. Systems are overseen and hosted by Office of the Government Chief Information Officer (OGCIO) which ensures disaster recovery and security.
- During 2020, the Department issued various public notices and used its website and facebook page to communicate community messages
- During 2020, the Sanma Office moved to the new MFEM Building at La Milice. A new office location was established for Inland Revenue Audit Section in Port Vila.



## 1.4 Personnel

The Department currently has 166 positions in its organisational structure. In 2020, there was a total of 151 staff - 119 permanent staff and 34 contract staff. Some vacancies were advertised and appointments made during 2020. However, most of the appointments were of existing staff. There were 47 vacant positions at the end of 2020.

	Established Positions	Actual Staff	Vacancies
Customs	83	69	14
Inland Revenue	61	36	25
Corporate	22	14	8
<b>TOTAL</b>	<b>166</b>	<b>119</b>	<b>47</b>

	Actual Staff	Contract Staff	Secondments out	Total Staff
Customs	69	22	-2	89
Inland Revenue	36	7		43
Corporate	14	5		19
<b>TOTAL</b>	<b>119</b>	<b>34</b>	<b>-2</b>	<b>151</b>

The foundation for personnel practices at the Department is in section 4 of the Public Service Act - staff of the Public Service are to:

- be responsive to the Government in providing timely advice and implementing the Government's policies and programs
- Deliver services fairly, effectively, impartially and courteously to the public and visitors to Vanuatu
- Focus on achieving results and managing performances.

To assist staff in meeting these requirements, the Department is committed to effectively managing and enhancing staff work performance. It does this by promoting effective supervision in the workplace, encouraging the implementation of appropriate performance appraisal systems and providing opportunities for work related trainings and development activities.

In 2020, most overseas training opportunities cancelled due to COVID 19 pandemic. However, in 2020, we did provide a number of development secondments, and on-the-job and off-the-job training for its Officers:

<b>On-the-job</b>	Secondment	Single window
	Job Rotation	Job rotation between Customs Officers in Vila
	In-house Training	IR Taxpayer Services Vila and Tanna Officers
	Special Projects	Governance Project Teams
<b>Off-the-Job</b>	Training	Pacific Leadership Programme
		Customs Notebook Training in Vila and Santo
		Offense Module Training for Customs Officers
		Performance Training Tool Program
		RMS Training
	Oaths Training	
	Short and Long Term Study	Degree, Masters and PhD program Studies

High standards are required of staff. During 2020, the Department began training on the requirements imposed on its officers by provisions of the Tax Administration Act no.37 of 2018. These new provisions specify confidentiality and conflict of interest rules and include a requirement for the Departments officers to take an oath of office.

The Department values its staff. With the advent of the Covid-19 virus, strict border protocols were introduced to protect border staff. To help staff and their families based in areas hit by Tropical Cyclone Harold, the Department gave food and water supplies.

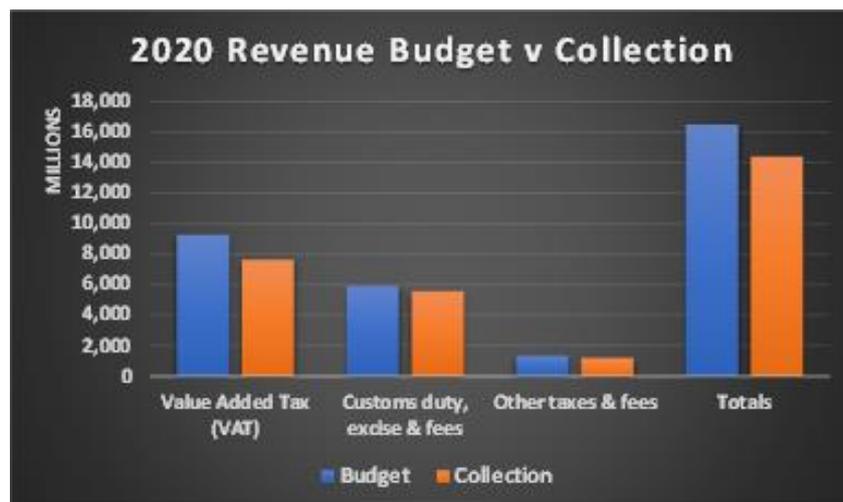


## 1.5 Revenue Collection

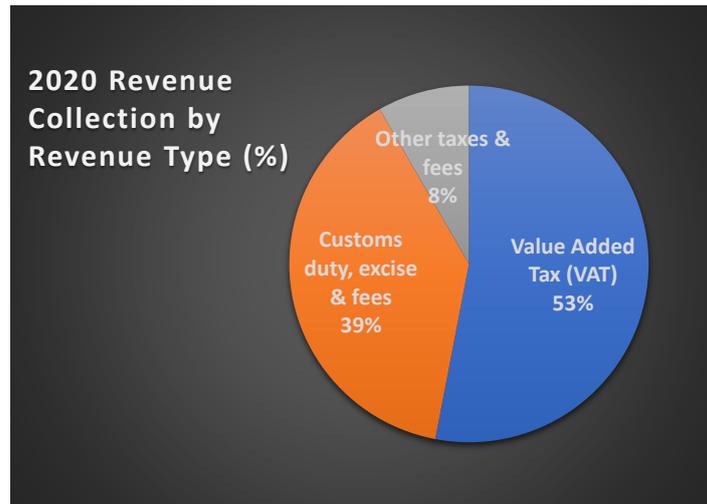
Due to the economic impact of Covid-19 and Tropical Cyclone Harold, revenue collection budgets were revised during the 2020. The revised budget for the Department was VT16,513m. The table below reflects 2020 revenue collections – by revenue type, compared to budget.

Revenue Type	Budget	Collection	Difference	Difference (%)
Value Added Tax (VAT)	9,262,600,000	7,640,524,799	1,622,075,201	82%
Customs duty, excise & fee	5,915,200,000	5,582,231,609	332,968,391	94%
Other taxes & fees	1,335,256,188	1,193,201,134	142,055,054	89%
<b>Totals</b>	<b>16,513,056,188</b>	<b>14,415,957,542</b>	<b>2,097,098,646</b>	<b>87%</b>

Overall collections during 2020 totalled VT14,415m – resulting in the Department achieving 87% of the revised budget. Below is a breakdown by revenue type. Revenue from Customs duty and excise achieved 94% of the revised budget while VAT achieved 82% of its budget.



As reflected in the chart below, VAT revenue comprised 53% of the total revenue collected (VT14,415m), followed by Customs duty and excise with 39%.



It should also be noted that some revenue was forgone in 2020 as a result of the Government Economic Stimulus package. This included Annual Road Taxes (est. VT82m) and Rent Tax (est. VT47m). The effect of the stimulus package will also reduce 2021 revenue collections (Business Licence Fees, Turnover Tax and Annual Road Tax).

Both Inland Revenue and Customs divisions collect revenue - in Parts 2 and Part 3 of this report, more information is provided.

## 1.6 Expenditure

In respect of managing expenditure, the Department adheres to the strict controls imposed the Public Finance Act Cap. 244 and administered by the Ministry of Finance and Economic Management. Expenditure controls include:

- Activity cost exceeding VT100,000 requires two quotes from different companies, and a sign agreement between parties for payment approval
- Activity exceeding VT1,000,000 above needs to go through RFQ (Request for Quote) and a signed agreement
- Activity exceeding VT10,000,000 needs to go to Tender for Tender Board approval.
- Refreshment for workshops, trainings or Meetings exceeding vt30,000 needs approval from Hon. Minister of Finance and Economic Management
- Payroll funds funds cannot be transferred to Operations
- Expenses incurred are committed within the monthly warrant released by the Department of Finance
- LPO's are signed only by "Specimen Authorizing Signatory"

During 2020, the Department was allocated personnel and operational funding of VT606m. In turn, this was allocated each of the Department's areas and sections. The table below provides the detail of both allocation and spending.

Overall, the Department expended VT589m (91%) of its budget. This underspend was largely due to the number of staff vacancies during 2020.

Operational Funding and Expenditure 2020										
Division	Area	Function	Budget Allocations	Budget Totals	% of Total Budget	Expended	Expended Total	Under (Over)	Under (Over) Total	% Under/Over
<b>Corporates</b>			143,781,262			145,452,777		(1,671,515)		
<b>Inland Revenue</b>				143,781,262	24%	145,452,777	145,452,777	(1,671,515)	(1,671,515)	-1%
	Southern Provinces	Audit	46,217,582		8%	39,982,348		6,235,234		
		Return and Debt Collection	48,268,180		8%	42,581,968		5,686,212		
		Taxpayer Services	77,523,574		13%	69,962,366		7,561,208		
	Northern Provinces	Return and Debt Collection	12,679,351		2%	10,829,934		1,849,417		
		Taxpayer Services	9,393,469		2%	9,655,474		(262,005)		
				194,082,156	32%		173,012,090	21,070,066	21,070,066	11%
<b>Customs</b>										
	Southern Provinces	Post Clearance + Audit	26,604,694		4%	26,079,782		524,912		
		Revenue	66,845,609		11%	61,468,764		5,376,845		
		Border	95,323,235		16%	99,991,641		(4,668,406)		
	Northern Provinces	Revenue	51,430,890		8%	58,342,117		(6,911,227)		
		Border	28,284,920		5%	25,176,791		3,108,129		
				268,489,348	44%		271,059,095	(2,569,747)	(2,569,747)	-1%
<b>Total DCIR</b>			606,352,766	606,352,766	100%	589,523,962	589,523,962	16,828,804	16,828,804	9%

## 1.7 Modernization

The Department strives to improve its service to the government and people of Vanuatu. Both Customs and Inland Revenue have governance committees dedicated to modernisation. We appreciate that technology solutions are a key element of our modernisation plans. During 2020, the Department undertook the following modernisation initiatives:

### The Use of the container & Cargo Xray at the Border

In June 2020, a handing over ceremony was held for a new container X-Ray Vehicle and cargo Xray machine to assist with the Airport & Seaport border operations. This Xray equipment were kindly donated by the Government of China.

The new Xray equipment not only allows for improved trade facilitation but it is helping to prevent and protect Vanuatu community from the importation of dangerous items such as drugs, weapons, contraband and illicit trade.



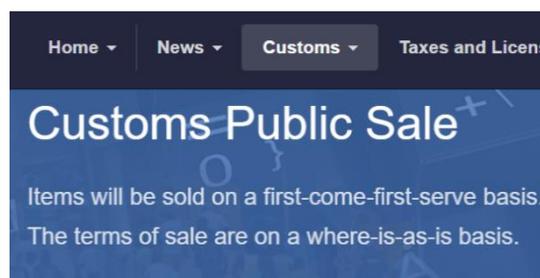
### The installation of CCTV

In mid-2020, Customs Border Section managed the installation of CCTV at the Port Vila Airport and Wharf Offices. The installation and implementation of the CCTV Cameras is helping Border Management and associated agencies in terms of security, accountability, transparency of work and investigation matters.

### A transparent platform for disposal of forfeited goods

To promote transparency, an independent committee now oversees the process of disposing of seized and forfeited goods.

During 2020, a display and ordering platform was developed within the Departments website. It is now used to publicly advertise and manage the disposal process.



### Electronic filing and paying

Inland Revenue began work on the development of a platform to allow VAT registered businesses to file and pay VAT returns online. This is expected to be well received by the business community when it is launched in 2021. The platform has been branded eTax Vanuatu



### Technology for Communication

A further aspect of modernisation is the use of electronic mediums by the Department to provide advice and education.

During 2020, the Department increased its use of social media, email, televisions screens and its website to convey messages and advice. The Departments website was revamped to provide a more professional medium. Its content was also expanded.

To gauge its use, we began counting the number of website visits from July 2020. Website visits from July to December 2020 numbered 7300. Internal communication was also enhanced with the installation of video conferencing facilities in some offices and mobile access to systems.

## 1.8 Advice to Government

The Director is a member of the Minister of Finance and Economic Management (MFEM) Executive Management Team that provides advice to the Government. Meetings were held quarterly on policy and operational matters. In 2020, he was also part of these national committees that focus on implementing urgent Government policies and directives, most of which were COVID-19 and TC Harold related. A total of more than 70 meetings were attended.

- COVID-19 Taskforce Committee
- NDMO Advisory Committee
- Trade Facilitation Steering Committee
- Ports Working Group Committee
- Seaport Taskforce Committee
- National Coordinating Committee meetings for LDC Graduation

Other revenue policy advisories were channelled through the Revenue Policy Unit (RPU), the coordinating section under MFEM.





## Part 2: Inland Revenue Division

### 2.1 Revenue

#### Value Added Tax (VAT)

VAT is a tax which is charged on goods and services consumed in Vanuatu. In effect, VAT is paid by end consumers of goods and services. The rate of VAT is 15% of the value of the good or service. VAT is collected by Customs at ports of entry, on imported goods, and by Inland Revenue by way of VAT returns.

Businesses with sales (supplies) over VT4m per year are required to register for VAT. VAT registered businesses file a VAT return to Inland Revenue each month or 3 months – VAT is calculated on the businesses total sales (supplies) with credits being allowed for exported goods and VAT paid to Customs.

As indicated in the table below, businesses classified as very large and large pay 88% of the VAT collected by Customs and Inland Revenue.

Classification of VAT registered entity	Number	VAT Paid to Customs	VAT Paid to Inland Revenue	Total VAT paid	% of total net VAT
Very Large	28	2,923,088,857	1,254,482,400	4,177,571,257	55%
Large	221	1,300,681,998	1,182,488,683	2,483,170,681	33%
Medium	655	255,298,571	619,928,575	875,227,146	11%
Small	441	19,797,372	11,870,613	31,667,985	1%
<b>Totals</b>	<b>1349</b>	<b>4,498,866,798</b>	<b>3,068,770,271</b>	<b>7,567,637,069</b>	<b>100%</b>

#### Other Taxes and Fees

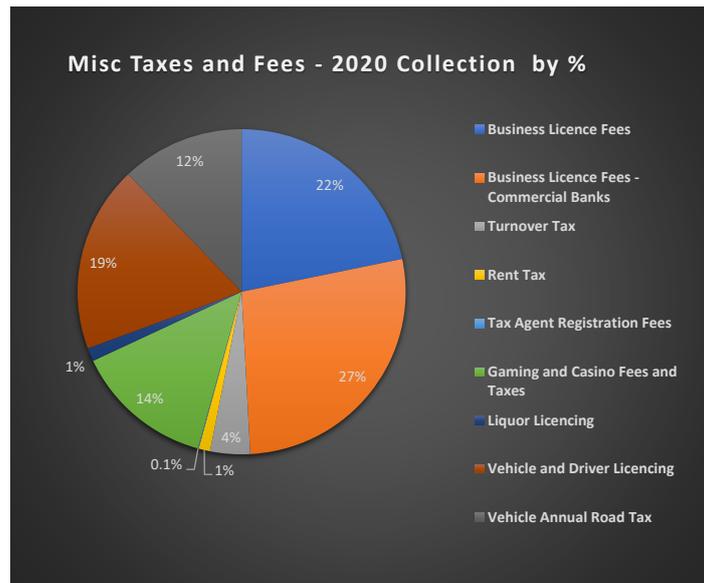
As well as VAT, Inland Revenue collect a wide range of other taxes and fees. This involves Inland Revenue in processing thousands of payments and returns/applications each year.

As indicated in the table, Business Licence fees comprise a high % of what is collected followed by vehicle and driver licensing fees.

\*It should be noted that some revenue was forgone in 2020 as a result of the Government Economic Stimulus package. This included Business Licence Fees, Annual Road Taxes (est. VT82m) and Rent Tax (est. VT47m).

The effect of the stimulus package will also reduce 2021 revenue collections (Business Licence Fees, Turnover Tax and Annual Road Tax).

2020 Revenue Collected - Other taxes and fees*	Revenue Collected	% of Total
Business Licence Fees	259,686,997	22%
Business Licence Fees - Commercial Banks	326,830,296	27%
Turnover Tax	46,955,708	4%
Rent Tax	13,419,456	1%
Tax Agent Registration Fees	1,050,000	0.1%
Gaming and Casino Fees and Taxes	163,661,525	14%
Liquor Licensing	15,711,186	1%
Vehicle and Driver Licencing	220,934,700	19%
Vehicle Annual Road Tax	144,951,266	12%
<b>Totals</b>	<b>1,193,201,134</b>	<b>100%</b>



## 2.2 Registration of taxpayers

During 2020, a number of new businesses were registered and some registrations cancelled. As indicated in the table below, the largest number of new registrations were in respect of business licensing, followed by VAT.

As Rent Tax was not payable in 2020, there was no movement in registrations. Registrations for casinos and interactive gaming tax represent the number of licences that have been granted – some licence holders have not yet begun operations.

As part of the process to register new businesses, they are allocated taxpayer identification numbers (TIN's). The number of new and cancelled TIN's therefore matches movements in registration. TIN's are also assigned to persons – who are not already in our database, for driver and vehicle licensing purposes.

Tax Type	Opening Count (as at 1 Jan 2020)	New Registrations	Cancelled Registrations	Closing Balance (at 31 Dec 2020)
Business Licensing	10,652	410	46	11,016
Casino Tax	10	0	0	10
Gaming Tax	1	0	0	1
Interactive Gaming Tax	9	0	0	9
Liquor Licencing	80	16	5	91
Rent Tax	1,215	0	0	1,215
Turnover Tax	48	5	0	53
Value Added Tax (VAT)	1,863	120	135	1,848
<b>Total</b>	<b>13,878</b>	<b>551</b>	<b>186</b>	<b>14,243</b>

## 2.3 Filing of tax returns

As part of the Government Economic Stimulus Covid-19 response, Rent Tax was not payable in 2020 – returns were therefore not required.

For VAT returns, on average 80% of returns were received by the due date in 2020. The majority of which came from the active clients being those in the Large and medium segments. Of the total expected returns, the 20% shortfall were mainly unsegmented registrants and those that were closed due to the disruption of COVID 19 and TC Harold. Those categorised as unsegmented were businesses that are small in size and not well established and some are voluntarily registrants taking advantage of the refund provisions.

The 2020 VAT return filing rate of 80% was a decrease compared to 2019, which recorded a 91% filing rate.

## 2.4 Debt levels

A new penalty regime was introduced on 1 January 2020. Throughout the 2020 year, this has had the effect of significantly raising penalty values on debt cases, in particular those cases existing as at 1 January 2020. These systems generated penalty impositions have occurred on non-active accounts and have brought to light the need for a data cleansing exercise.

According to system generated reports, the debt balance at 1 January 2020 was VT5,241,738,279 and as at 31 December 2020 it was VT9,589,656,757 Vatu. Efforts to properly classify it - according to if it is penalty/core debt, age, tax type, size of taxpayer, have begun.

What is currently known is that penalty impositions constitute a large proportion of the debt balance. The amount of core debt – that can be classified as collectable, as at 31 December 2020 was less than VT1b. This debt arises from back year assessments as well as from the 2020 year. Collectable debt cases are being managed by the Debt collection team.

Besides the effect of penalty impositions, there are indications that debt has increased over 2020 – thought to be a result of the economic conditions prevailing in 2020, particularly in the tourism sector.

In 2020, the Debt Collection team, operating with limited resources, planned to recover 30% of debt - which constituted VT 256,267,606. They took numerous actions, including the following:

- Engaging with taxpayers before the due date – this was done through outbound calls and issuing letters as the first reminder to prevent taxpayers to go in debt or not file.
- Maximizing collections after due dates through the use of email, phone calls and meetings. Also, the issue of strongly worded reminder letters.
- Effective and timely enforcement – Firm actions were taken against taxpayers who habitually fail to meet their payment obligations. This resulted in payment arrangements, and the freezing of bank accounts and assets.
- Realistic Debt Recovery – was applied where debts were cases were uneconomic to pursue, exceed limitation periods, where businesses cease to operate and when the owner is deceased.

During 2021, the focus for the Debt Collection team will be to complete the classification referred to above, to undertake a data cleansing exercise and to focus on timely and effective collection methods.

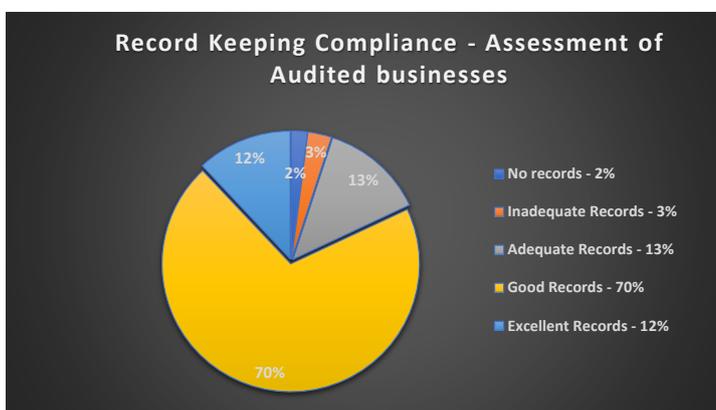
## 2.5 Record-keeping compliance

During 2020, Inland Revenue continued to put strong emphasis on the importance of record keeping compliance. This is because record keeping is the foundation for good compliance.

Education was undertaken to make businesses aware of the revised rules for record keeping were introduced in 2020 by way of the Tax Administration Act no.37 of 2018.

As standard practice, new business advisories given by staff emphasised record keeping requirements. Also, during 2020, high level record keeping checks were completed during unannounced visits to about 400 businesses.

Assessments of record keeping compliance were made for every taxpayer who was audited during 2020. This is a valid gauge on levels of compliance. Refer to the table here for the assessment.



According to this assessment 82% of businesses had good or excellent records and 5% had no or inadequate records.

Businesses with record keeping compliance rated as excellent are mostly from the Large Segment which comprise of businesses with annual turnovers exceeding 100 million vatu. These taxpayers have good internal controls and accounting software as the basis of their compliance behaviour.

Businesses with adequate, inadequate and no records are mostly from the small and medium segment. These businesses were provided education and awareness. Clearly, record keeping compliance varies among the business community and will continue to need a mix of awareness, education and enforcement activity by the Inland Revenue.

## 2.6 VAT refunds

The Tax Administration Act provides for a timeframe of 15 working days during which VAT refunds are to be paid by Inland Revenue. Interest (@15% per annum) is payable if the refund payment is delayed beyond the 15-day timeframe.

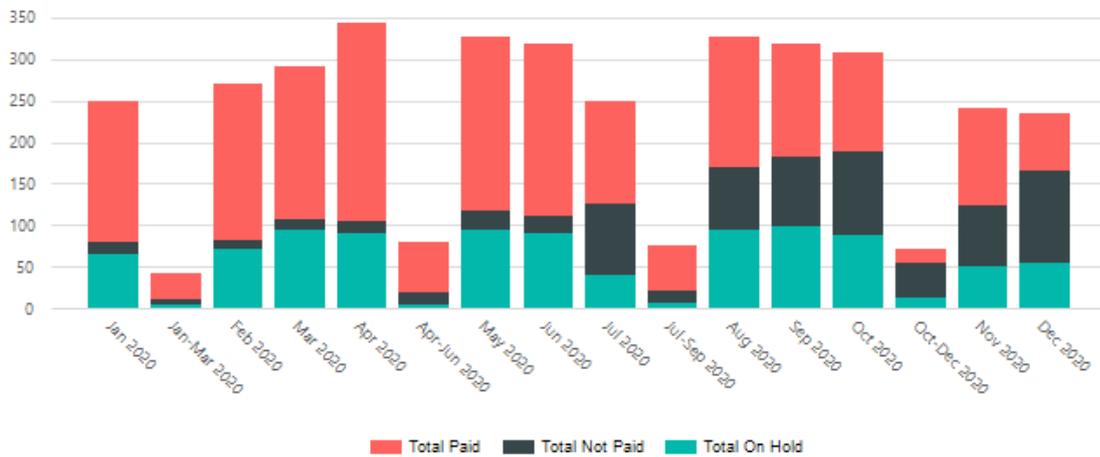
Year	Total Refunds Requested	Total Paid	Total on hold	Total not paid (incl of Govt Dept)
2019	2,391	2,072	319	319
2020	2,777	1,812	965	965

A total of 2,777 refund requests were received in 2020. Of these, 1,812 have been paid, while 965 were put on hold due to outstanding returns and/or debt. Of this total, 509 were related to Government Departments, all of which were on hold due to system issue. Over the year, the figures changed as taxpayers came forward to settle their outstanding matters and had their refunds released.

Compared with that of 2019, there was an increase in refund requests in 2020 - by 386 requests. The increase is considered to be the result of the COVID -19 Pandemic which caused some businesses to operate at a loss.

Below, a chart showing the status of refund requests by month in 2020.

**Status of Refund Requests**



## 2.7 Compliance activity

Inland Revenue conducted a range of compliance activities in 2020. Activities included, audits and projects which targeted specific issues:

### VAT Audits

During 2020, a total of 228 VAT audits were conducted. Depending on risk assessment different types of audits were conducted. This resulted in the identification of discrepancies totalling VT132,776,007.

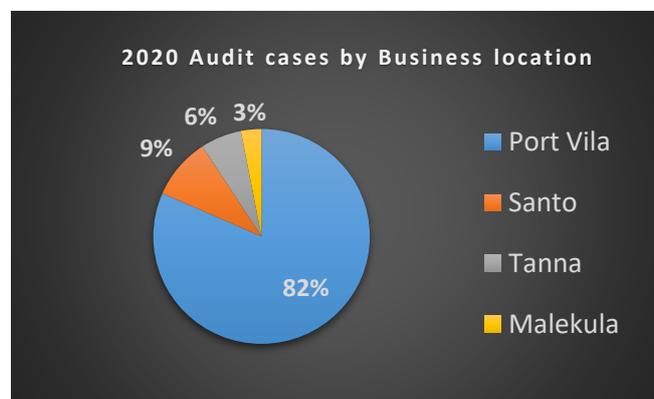
Audit Categories	Number of cases	Discrepancy amount (VT)
1. VAT Refund checks	59	20,982,312
2. Full audit - single period	23	5,619,560
3. Full audit - up to 3 periods	66	12,429,846
4. Full audit - more than 3 periods	44	27,705,476
5. Specific Audit (specific risks)	36	66,038,813
<b>Total</b>	<b>228</b>	<b>132,776,007</b>

To ensure coverage across Vanuatu, 82% of the 228 audit cases were completed on Port Vila based businesses and 18% on provincial based businesses.

Of the 228 cases completed, 154 (67%) resulted in a discrepancy. The average discrepancy was VT582,350.

### Compliance Checks, Shefa

During 2020, the tourism, construction, retail/wholesale, property rental sectors were checked for tax compliance and registration. Also designed to provide visibility, Inland Revenue staff visited a total of 400 business premises in the Shefa Province.



### Licensing Compliance, Port Vila Municipal Area

In July, Inland Revenue assisted in a joint operation over 4 days with other authorities to check Liquor licencing, Vehicle licencing and Drivers checks.

As a result, 63 vehicles were impounded or fined for a variety of offences and 3 outlets found to be breaching liquor license rules.

### Casino Compliance

As licensing regulator, compliance work was conducted during 2020. In collaboration with the Financial Intelligence Unit on-site inspection and audit was conducted on 1 operating casino license holder. Three licence holders were also evaluated for a legislative requirement to begin operations within 3 years of the issue of their licence.



## 2.8 New revenue measures

The Tax Administration Act no.37 of 2018 (TAA) took effect from 1 January 2020. This was a very significant development as it introduced a number of changes and modifications for both the business community and Inland Revenue.

For the business community, the main changes were the introduction of a new penalty regime, objection procedures, record keeping rules, taxpayer identification numbers and registration of tax agents.

In itself, the introduction of tax agent registration was significant. New forms for registration applications were established. Rules for tax agents were clarified. During 2020, a total of 18 business entities met the criteria and were approved to be registered tax agents.



For Inland Revenue, the implementation of the TAA was a significant undertaking that continued through 2020. Consequential amendments were also made to the VAT Act, the Customs Act and Rent Taxation Act. Systems and processes were changed, education and awareness was undertaken. Administratively, the TAA introduced approved forms, delegation processes, confidentiality requirements and rules for the conduct of taxation officers. This included the requirement for taxation officers to take an oath of office.

Implementation of the TAA was made more difficult with the Covid-19 pandemic. The governments economic stimulus package needed to also be implemented. Arrangements needed to be made to implement decisions to forgo some taxes and fees from 1 April 2020 and to support the implementation of the small and medium business grant.

Also, during 2020, the Tax Administration Regulation (Amendment) Order no. 156 of 2020 was made. The effect of this legislation change was to require designated agents and seasonal worker agents to hold tax clearances, and to require financial institutions to maintain certain records.

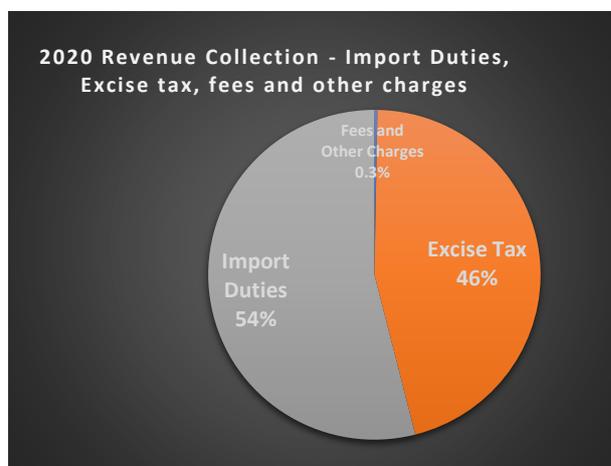
## Part 3: Customs Division

### 3.1 Revenue

Customs Division controls the movement of goods in and out of Vanuatu. Import duties and excise taxes are charged. Initially, the budget for Customs collection of 2020 Import Duties, Excise tax, fees and other charges was set at VT6.8b.

However, with the impact of COVID-19 pandemic the forecast was reviewed and reduced to VT5.9b. By year end, revenue collection was VT5,582,231,609 - approximately 94% of the reviewed projected amount.

As indicated in the table Import Duties contributed 54% (VT3b) and Excise Taxes 46% (VT2.5b) to the revenue collected.



It is noted that some import duties are forgone as a result of free trade agreements. Under the Melanesian Spearhead Group (MSG) trade agreement VT530,502,360 of import duty was forgone in 2020.

As well as collecting duties and excise, Customs Division collect VAT on imports. During 2020, VT4.5b of VAT was collected.

### 3.2 Border Enforcement and Compliance

Customs Border Section ensures that duties and taxes are correctly imposed on imported goods, while at the same time facilitating the movement of goods, people and crafts at the border. It also protects the Country from threats such as the importation of prohibited & dangerous goods.

Geographically, Vanuatu consists of 83+ islands but there are only 4 approved ports of entry. It is a challenge for the Border Section and other govt agencies, to administer and enforce the relevant border laws and regulations. However, with the coordinated team work with other law enforcement agencies, we utilize all the resources available to manage the situation on the ground and to ensure the welfare of the people is safe and protected at all times.

The Section provides a 24/7 service, and we are ready at any time of the day or night to respond to the arrival of international flights and vessels.

In order to achieved the core objectives of the Department, Customs border enforces Customs laws and other legislation and regulations at the border (Prohibited and Restricted imports + other legislations) to ensure all crafts, people and goods entering the country are legitimate and lawful.

All International Vessels and Flights are subject to the normal arrival and departure clearance procedures and requirements of the local Authorities. There are routine checks and surveillance patrols that are usually carried out by border agencies upon arrival for consistency and compliance.

To ensure compliance, a risk management process helps to identify high, medium and low risk crafts, goods and travelers at the border. Any contraband, illicit drugs or dangerous weapons detected will be subject to severe penalties and maybe subject to court proceedings depending on the nature of the offence committed.

As part of our coordinated team effort and commitment at the border, Customs border partners with other law enforcement agencies such as the Vanuatu Police force, Biosecurity Dept, Immigration Dept, Transnational Crime Unit, Financial Intelligence Unit. There are joint operations, combined investigation work and sharing of intel information.

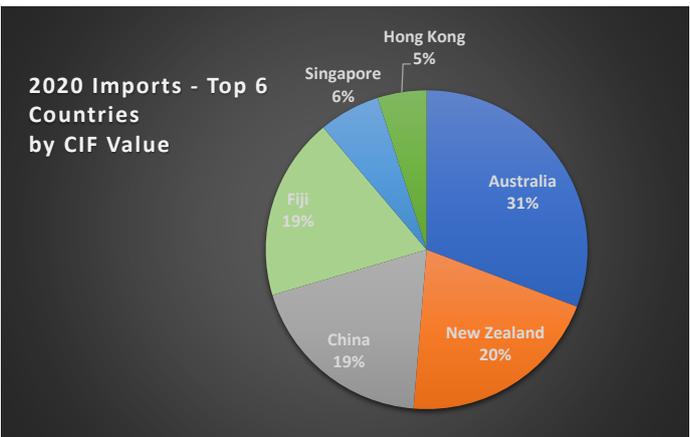


2020 was a unique year. The restrictions on the border to protect the Country from the COVID-19 pandemic required dedicated work by the Border Section. Strict Covid-19 protocols were developed by Border Agencies and Public Health Officials. These had to be understood and implemented by the Border Section.

### 3.3 Trade Facilitation

One of the main objectives for the Customs Division is to facilitate trade - ensuring the easy and smooth flow of goods across national borders. The simplification and harmonisation of Customs systems and procedures and reduction of costs associated with the controls on the movement of goods, enables trade facilitation.

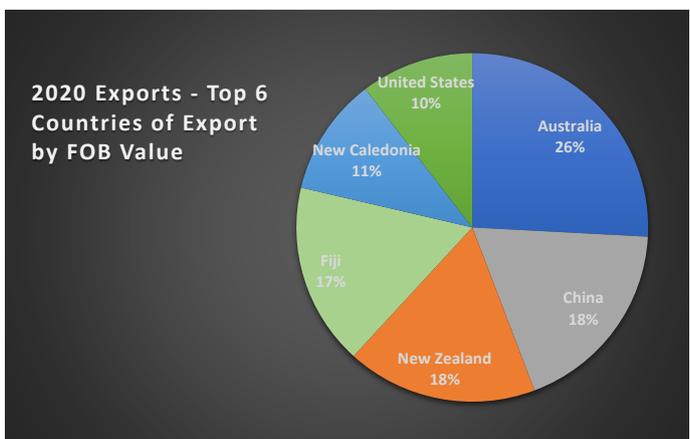
Trade Facilitation is very important to Vanuatu's economic development. International Trade is thought to be an engine for growth for an economy, as such ensuring the easy and smooth flow of goods across Vanuatu's borders is very beneficial to Vanuatu's economic growth.



During year 2020, Customs recorded 19,101 import transactions with the total CIF Value of VT26b.

As reflected in the chart, the top 6 countries that Vanuatu imported most from in terms of value were Australia, New Zealand, China, Fiji, Singapore, and Hong Kong.

In the same period, Customs recorded 1,634 export transactions with the total FOB Value of VT6.2b. The top 6 countries that Vanuatu exported most to in terms of value were Australia, China, New Zealand, Fiji, New Caledonia and the United States.



Vanuatu is a member of the World Customs Organisation (WCO) which plays a central role in developing, promoting and supporting the implementation of modern Customs standards, procedures and systems with an intention to foster global trade.

Since 1998, Vanuatu Customs have embarked on key reform and modernisation initiatives in efforts to modernise, simplify, and harmonise its systems and procedures in line with the international standards and best practices set out in the Revised Kyoto Convention (RKC). As a consequence, to these efforts, and to some extent, barriers to trade are minimised - improving the promotion and facilitation of trade across our borders.

### 3.4 Exemption and Economic Relief

The mandate for exemption of Import Duties and VAT is in the Import Duties Consolidation (Amendment) Act No. 33 of 2014. The exemptions are a concession by the national government to support specified circumstances.

Concessions are given through the granting of a duty exemption on imported goods – they cover a wide range of both the economic and social sector. In the economic sector import duty concessions can be approved (by a relevant authority) for the following goods:

Goods Eligible for concession
Raw materials for manufacturing, packaging and labelling materials and equipment for establishment of an industry
Building materials, Fixtures and Fittings, cutlery and other specified goods
Machineries and Equipment for mineral exploration in Vanuatu
Diesel Fuel for the generation of electricity grid under a concession granted in accordance with an agreement with Vanuatu government
Boats, boat building materials, fishing equipment, marine motors and refrigerating equipment

Each year a significant amount of revenue is forgone. The table below provides detail of the last 3 years:

Year	Manufacturing & Processing (VT)	Tourism industry (VT)	Mining Exploration (VT)	Power Generation (VT)	Fishing Project	Total Import Duty forgone on Economic Relief (VT)
2018	95,793,105	944,945	0	328,055,700	0	424,793,750
2019	94,571,195	673,750	0	322,423,160	0	417,668,105
2020	102,099,680	9,112,205	0	292,909,500	0	404,121,385

Besides the economic relief concession, a substantial amount of revenue is forgone on both Import Duties and VAT for national development projects. The 3 categories of concession to support national development or support for disaster relief is shown in the table below.

Goods Eligible for concession	Import Duty	VAT	Approval to be endorsed by
Goods imported subject to an International agreement or development loan agreement for a national development project	Free	Free	Director DSPPAC
Goods imported by or on behalf of such national development projects as approved by the Council of Ministers (with the exception of all types of fuel oil and motor vehicles falling within 8702 and 8703).	Free	Free	Council of Ministers
Goods imported by or on behalf of the government of Vanuatu or nongovernment groups or organisations for disaster relief supplies	Free	Free	Director NDMO

The amount of revenue forgone for national development projects is significant. This is because all materials and equipment for all national development projects are imported free of both import duty and VAT.

Year	Import Duty Forgone (VT)	VAT Forgone (VT)	Total tax Forgone (VT)
2018	352,232,720	950,358,375	1,302,591,095
2019	161,459,620	476,265,705	637,725,325
2020	185,164,450	392,175,795	577,340,215
<b>Totals</b>	<b>698,856,790</b>	<b>1,818,799,875</b>	<b>2,517,656,635</b>

Exemption of customs duty and VAT at import also applies to support the social sector. The concession covers goods to be used by social agencies including; sporting organizations, churches, schools, diplomatic missions, charitable organisations.

The table below reflects the value of the concessions given to the social sector for the last 3 years:

Year	Import Duty Forgone (VT)	VAT Forgone (VT)	Total Tax Forgone (VT)
2018	197,637,625	159,459,180	356,096,805
2019	93,285,140	147,954,400	241,239,540
2020	41,606,459	141,087,175	253,831,560
<b>Totals</b>	<b>332,529,224</b>	<b>448,500,755</b>	<b>851,167,905</b>

### 3.5 Intelligence-led

Intelligence is a tool that all law enforcement agencies, including Customs Agencies, around the world are heavily reliant on to help them achieve their goals. Customs currently has only one dedicated officer who performs Intelligence duties and roles including:

- contact point for international Agencies,
- liaison, receiving and sharing information and intelligence,
- conduct intelligence briefings, and training for Customs Officers and other Law Enforcement Agencies upon request,
- lead surveillance operations, and special operations,
- assist the investigation team to conduct background checks etc...

Today, Customs has an advanced system (Asycuda) that provides data which forewarns cargo processing risk and passenger processing risk – giving rise to seizures, court cases, penalties in relation to offences committed contrary to Customs Act and the other Acts that Custom enforce – at the border and at all Customs Control Areas - whether by sea or air, through post and express couriers such as DHL, FeDEX etc...

As well, we have access to regional and global networks to access diverse information and intelligence. This helps Customs operations in assessing risk. Interpol is next in line to give access once an MOU has been signed and agreed upon. These data bases have multiple functions including, submission of Information, receiving and exchanging information within these respective agencies in relation to commodities for which these data bases have created specifically for. E.g. IONICS (GRIDS) is a data base created and manage by International Narcotics Control Board (INCB) as an information sharing platform for New Psychoactive Substances (NPS) in real time.

The result is that the intelligence available to Customs is very much advanced and helpful for the purpose of risk assessment and targeting.

In 2020 alone, we received and share more than 77 Intel items from our international partners. These reports were disseminated for profiling and targeting purposes. We have also activated 9 Alerts in the passenger processing data base for specific targeting. By the end of the year, Customs, through its intelligence Officer, will engage in an international joint operation organised by INCB to fight trafficking of New Psychoactive Substance (NPS) across borders.

### 3.6 Warehousing

Customs Warehousing is a scheme where approved imported goods are stored in a Licensed Customs Control Area (CCA) until such time that the goods are sold and taxes can be collected. This scheme is legislated under the Customs Act No.7 of 2013, Part 1, Section 15(a), (b) and regulated in the Customs Regulation order No. 113 of 2014, Part 2.

In 2020, Customs administered a total of 30 CCA's. 4 of the CCA's are in Santo, while Vila has 26.

- 2 are for imported petroleum products,
- 7 are for imported vehicles,
- 6 are for domestic excise production and
- 15 are for other approved imported products - Duty free shops

Licensing fees are collected from CCA's. In 2020, over VT9m in licensing fees was collected. More importantly is to note that the goods transiting through CCA's are substantial – the duty, excise and VAT collected from the CCA scheme contributed to around 40% of the total revenue collected by the Department.

### 3.7 Compliance Activity

Customs plays a leading role in the collection of revenue by way of collecting import duty, excise tax, value added tax (VAT) and other fees at the border.

To maximize revenue collection, and as part its reform and modernization program Customs upgraded the Automated System called ASYCUDA WORLD (AW) in 2017. This system upgrade has significantly improved the level of compliance because it simplifies, harmonizes and integrates customs procedures, cargo clearance, and data collection.

Customs believes that the upgrade of the customs system is significant because it provides an incentive for customs brokers to have limited access to online processing and facilitates self- assessment. By doing this, the system expedites cargo clearance and collects duties and taxes in a timely manner. The upgrade is beneficial to both Customs, brokers and importers because it can effectively manage the movement of goods and reduce the cost of doing businesses in Vanuatu.

Compliance risks are closely managed. Risk Management is one of the tools used by Customs officials on day-to-day operations. Risk Management is paramount in Customs because it helps managers to effectively identify and allocate limited resources to check high-risk activities.

Customs compliance, intelligence and investigation unit uses risk profiling and assessment to identify potential risks, assess the risks and examine solutions prior to implementing an effective solution. Importers are profiled into three segments - large, medium and low (by CIF Value). These categories are constantly checked through desk and field audits, on-site- visits, unannounced visits and investigations to measure and control the behaviors of the importers as well as monitor the overall level of compliance.

In 2020 fiscal year, Customs managed a total of 20,735 customs declarations. Based on risk assessment activity, the Compliance team examined 20% of them. The Compliance team also checked another 8.6% (1798) of declarations through desk audits; on-site-visits, joint compliance audits; investigations and raised penalty notices to strengthen compliance. Furthermore, Customs conducted consultations and awareness programs to inform importers and taxpayers of new procedures and legislation.

However, with the pandemic (COVID 19) and devastation of TC Harold, Customs faced challenges that disrupted compliance activity plans. Notwithstanding that, Customs achieved 65% of the planned compliance activity. The table below outline the 2020 compliance activities.

Compliance Activity	Completed (number)	Revenue Collected (VT)
<b>Audits</b>	1798	13,804,829
<b>Joint compliance Audits</b>	3	86,244,840
<b>Investigations</b>	4	7,900,000
<b>On-Site/unannounced visits</b>	20	-
<b>Penalties imposed</b>	22	1,250,615
<b>Total</b>	<b>1847</b>	<b>109,200,284</b>

### 3.8 Debt Management

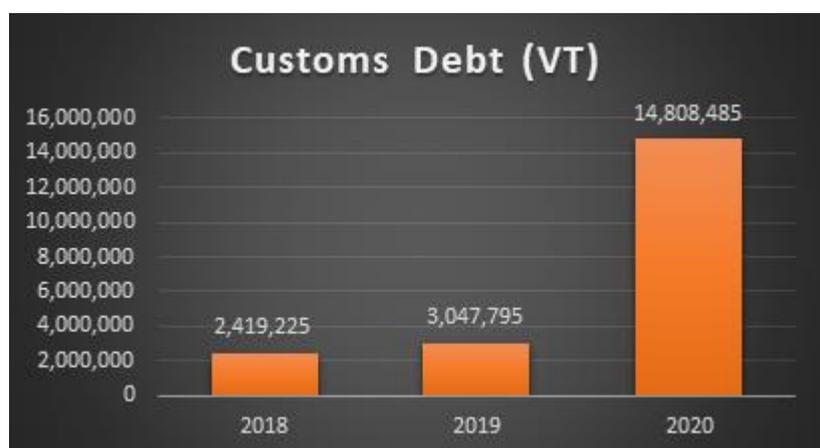
Customs has effective procedures and system functionality that identifies and monitors unpaid customs declarations. Customs officials access the system daily to retrieve unpaid customs declarations then send reminder notices to importers. This generates compliance, with the importer often coming to Customs office to settle the overdues. If they fail to do so, Customs will send seizure notices and the importer must file an application to appeal the seizure notice in the Supreme Court within 20 days prior to the goods are declared forfeited and becomes State’s property.

The Customs Act No 7 of 2013 clearly spells out the compliance procedures on how to deal with debt to reduce the substantial outstanding taxes.

Also, the Customs Act gives powers to Customs officers to examine, detain, seize and sell imported goods where the importer has Customs debt - to recoup the unpaid taxes to enhance revenue collected.

The total number of unpaid customs declarations as at 31 December 2020 was 120 (debt value of 14,808,485 VT). In contrast, in 2019 there were 50 unpaid customs declaration and 3,047,795 VT total arrears. This is about 21% of the total outstanding revenue in 2020.

The increase in outstanding revenue at 31 December 2020 perhaps indicates the need for stronger action, though it is thought that the cashflow position of some importers has been adversely affected by the pandemic (COVID 19).



**Mission:**

*For the good of Vanuatu,  
collect revenues, protect our  
borders and facilitate  
legitimate trade*



**Vision:**

*We are a capable and  
committed customs and  
revenue administration for a  
modern Vanuatu*