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TONGA LEADS THE WAY IN TAX REFORM IN THE PACIFIC

Seven years ago Tonga embarked on an ambitious plan to overhaul its tax system.

It began with consultants drafting a model administration Act. Then a value added Tax (Tongan Consumption Tax) was introduced and finally the old Income Tax Act that had operated since 1978 was repealed and a new Income Tax Act 2007 was introduced. At the same time big changes were made to the Customs and Excise law due to Tonga accepting to become a member of the World Trade Organisation.

The new Income Tax Act is at the forefront of tax law with its simple principles and plain language. Four and a half years ago two PACTAM technical assistant advisers arrived in Tonga to continue the work of previous advisers and to assist in the implementation of the new Tax Act. One adviser Kelvin George (on leave from the ATO) was specifically allocated as a compliance advisor whose role was to capability build staff as to how to risk profile taxpayers so that only those high risk taxpayers were audited. The other adviser Michael O'Shannassy (formerly from the ATO) was allocated the role of assisting in implementing the new Tax Act which brought self assessment to income tax.

On arrival in Tonga in late February 2007 both advisers found a town that had been left devastated by the events of 16/11 when part of the town had been burnt down. Whilst Tonga's main town Nuku'alofa has a population of approximately 30,000, the island of Tongatapu where it is situated has about 70,000 people. The other 3 main islands of 'Eua, Ha'apai and Vava'u account for about 30 to 40,000. Tonga has 171 islands in its group but only 30 are inhabited. Tonga is a Kingdom with the oldest constitution in the Pacific.

Tonga has a modern communications system with internet and cable TV available. It has nice restaurants and some "pubs" and clubs (golf, tennis, football, fishing and a men's only club). Tongans love their sport especially Rugby. They have a long tradition of culture activities as well. Islands just off the main islands have some resorts to go on weekends and there are resorts open for lunch on Sundays (observed as a religious day in Tonga where most things are closed).

The Tax Office (Inland Revenue) is in a modern building and most of the staff of approximately 40 have computers. There is an advanced record management system (RMS) available. When the advisers arrived the office was operating mainly on a paper system and not taking full advantage of the computerised system. This has changed a lot in the past 4 years. Further staff are now keen to learn the new system and present ideas daily to the advisers. Inland Revenue has moved from an organisation that was "reluctant" to contact taxpayers to one that is now proactive in doing so. This gives staff and taxpayers a great sense of ownership of their tax system.



In the 4 years the advisers have been in Tonga the Australian Government in partnership with the Tongan Government have set standards that are required to be met before the Australian Government will provide monetary assistance. The two advisers took a lead role in assisting local staff to meet the standards set. Further whilst the role of one of the advisers was more an administrative and technical role he partnered his fellow advisor in raising a substantial amount of additional revenue for the Kingdom by conducting audits, reviewing files to resolve long outstanding issues and ensuring taxpayers complied with the tax law. Files which had been misplaced were found and decisions made and assessments issued which resulted in a significant amount of additional revenue being collected over the last 4 years despite the global financial crisis. Also the establishment of the Tax Tribunal resulted in a favourable decision on the Commissioner in an anti avoidance case. All of the above greatly assisted the introduction of self assessment which was the main component of the new Income Tax reform.

As well other achievements were:

- 80% of all large taxpayers having been risk profiled
- creation of a taxpayer charter and service standards
- development of the RMS including internet lodging of returns CT and IT and PAYE
- creation of a specific debt and lodgement team
- having an information booth at a trade fair – one of the first Government departments to do so
- a new Deputy Commissioner Large Business (from NZ IRD) who has brought new ways and methods of communicating with taxpayers
- newspaper and radio advertisements advertising due dates for lodging returns and other important tax news items
- an IRD newsletter published every two weeks sent electronically
- revamped website with all information on the website – www.revenue.gov.to
- 'Guide to Tongan Income Tax', a comprehensive guide of all legislation and explanation to be published in loose-leaf form but currently available on internet
- public seminars conducted explaining self assessment and the new Income Tax Act
- Training staff and other stakeholders on the tax reform legislation
- Designing and documenting new work processes and procedures associated with the new tax reform legislation
- conducting a number of information sessions (this was done mainly by the Tongan staff with assistance from the advisors after training) to introduce taxpayers to the changes in the new Act, including trips to the outer islands
- developing computerised Pay As You Earn (PAYE) scales in the form of a spreadsheet and making it available online for payroll clerks
- making amendments to the Income Tax Act to correct some provisions and provide for some administrative solutions.
- conducting Taxpayer Identification Number (TIN) registration days Over 3500 were issued to all public servants electronically and another 9000 were done in the space of



two months This was achieved by conducting a TIN registration day, open day and visiting businesses and outer islands to assist taxpayers complete the forms

- The Revenue Services Administration Amendment Act introduced compulsory registration for tax agents. We have had to train the potential agents, develop tax agent registration forms and appoint a tax agent registrar and process applications for registration
- assisting with the design of the Income Tax Regulations and preparation of forms and taxpayer assistance material to support the new tax reform legislation
- assisting with the interpretation of the New Tax Act by drafting Public Rulings with related work procedures.

Most of the above achievements/measures will be put together to form a model manual for implementing tax reform to assist other Pacific nations with their tax reform.

Self assessment has worked extremely well with lodgment of income tax returns at 90% and other returns at about 85%. Payments have been not always made on time due to the financial crisis. A few changes will be needed to the Income Tax Act after 4 years of operation and a review of self assessment is being conducted.

Whilst Kelvin returned home with a new addition his wife Bronwyn had a beautiful little girl Mia in August here in Tonga. AusAID agreed to replace him with another PACTAM compliance adviser Anne Lohmann to continue the great work started by Kelvin. Anne stayed for a year and has recently returned back home to Australia. A new advisor is currently being sought. Michael has remained on and is currently an Assistant Deputy Commissioner in an inline position.

Currently there is no Commissioner of Revenue the former Commissioner Sefita Tangi left this post in June. We have a Deputy Commissioner, Legal Mrs. Lepaola Vaea who is Acting Commissioner until she goes on maternity leave. Ms. Akanesi Taufa will take over as Acting Commissioner until a replacement Commissioner is appointed.

The office is split into a number of Divisions – Large and Small business, Processing team and a debt and lodgment team.