



TECHNICAL ASSISTANCE REPORT

TONGA

TADAT Performance Assessment Report

JULY 2021

PREPARED BY

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ABBREVIATIONS AND ACRONYMS

AG	Auditor General
CEO	Chief Executive Officer
CIA	Central Intelligence Agency (USA)
CIS	Compliance Improvement Strategy
CIT	Corporate Income Tax
CSD	Corporate Services Division
CT	Consumption Tax
FY	Financial Year
GDP	Gross Domestic Product
GMC	Governance and Modernization Committee
HR	Human Resources
IMF	International Monetary Fund
KPI	Key Performance Indicator
MOF	Ministry of Finance
MORC	Ministry of Revenue and Customs
MTED	Ministry of Trade and Economic Development
OECD	Organization for Economic Cooperation and Development
PAYE	Pay As You Earn
PFTAC	Pacific Financial Technical Assistance Centre
PIT	Personal Income Tax
POA	Performance Outcome Area
PSC	Public Service Commission
PT	Pa'anga (Tongan currency)
RMS	Revenue (IT) Management System
SBT	Small Business Tax
SMT	Senior Management Team
SOP	Standard Operating Procedure
TADAT	Tax Administration Diagnostic Assessment Tool
TIN	Taxpayer Identification Number
VAT	Value Added Tax

PREFACE

An assessment of the system of tax administration of Tonga was undertaken during the period May 10 to 26, 2021 using the Tax Administration Diagnostic Assessment Tool (TADAT). TADAT provides an assessment baseline of tax administration performance that can be used to determine reform priorities and, with subsequent repeat assessments, highlight reform achievements.

The assessment team comprised the following: Paul Martens (Team Leader), John Middleton, Kosugi Naofumi, and Robert Woods.

The team held meetings with the Chief Executive Officer (CEO) Mr. Kelemete Vahe; Mmes. Pipiena Faupula Tanaki, Taniela Sila, Letisia Moli; Mr. Michael Cokanasiga and other senior officials and technical staff from the Ministry of Revenue and Customs (MORC).

The team expresses its appreciation to MORC management and staff for their open, candid and active participation in the assessment. The support by Ms. Pipiena Faupula Tanaki has been essential to completing the assessment and the TADAT team is grateful for her guidance, organizational efforts and practical advice.

This report is the final version of the draft report presented to the CEO on May 26, 2021. Comments from the MORC have been considered and included as appropriate. The final report has also been reviewed by Mr. Georg Eysselein of Pacific Financial Technical Assistance Centre (PFTAC) and cleared by the TADAT Secretariat.

EXECUTIVE SUMMARY

Tax administration in Tonga has benefited from concerted efforts to improve and introduce a range of international good practices. These improvements were recognized during the conduct of this assessment and also notable given the substantial resource constraints and relatively small size of the organization. Many challenges remain and some of these, such as the impact of the current worldwide COVID-19 pandemic, are unavoidable and need to be factored into current and future planning.

The results of the TADAT assessment for Tonga follow, including the identification of the main strengths and weaknesses.

Strengths

- Coordinated field inspections using third-party data to identify non-registered or incorrectly registered taxpayers.
- Comprehensive Compliance Improvement Strategy.
- Detailed Audit Plans in place.
- High service standards of call-center.
- Extensive use of withholding collection systems.
- Robust input into Government tax revenue forecasts.
- High quality and transparency in the publication of activities, plans and results.

Weaknesses

- Management of operational risks is unstructured, focuses only on IT systems and does not consider human capital risk.
- Electronic filing and payment systems face challenges in gaining community acceptance.
- Despite recent efforts, tax debt figures are still large compared to collections.
- Audit quality assessment and the evaluation of the impact of audits on overall compliance are not undertaken.
- Dispute resolution timeframes are excessive.
- Time taken to pay Consumption Tax refunds.
- Irregular oversight by the Auditor General.

Good international practice exists in several areas. The use of third-party data matching coupled with dedicated field activities, particularly in the area of taxpayer registration, provides the administration with a high level of confidence that those wishing to operate outside the tax system face great difficulty in being able to maintain their anonymity. The extensive use of withholding systems, even with non-core taxes, provides for the benefits of efficient collection systems. Lastly the quality of publications covering activities, plans and results allow a high level of accountability and transparency in the work that the Tax Administration undertakes on behalf of the citizens of Tonga.

Some of the TADAT scores reflect legislated standards that are outside international good practice benchmarks. These include processing times for tax refunds. Even though the Tax Administration may meet the statutory deadlines, a lower assessment in these areas may still result. **Table 1 provides a summary of performance scores, and Figure 1 a graphical snapshot of the distribution of scores.** The scoring is structured around the TADAT framework's nine performance outcome areas and 32 high level indicators critical to tax administration performance. An 'ABCD' scale

is used to score each indicator, with 'A' representing the highest level of performance and 'D' the lowest.

Table 1. Tonga: Summary of TADAT Performance Assessment

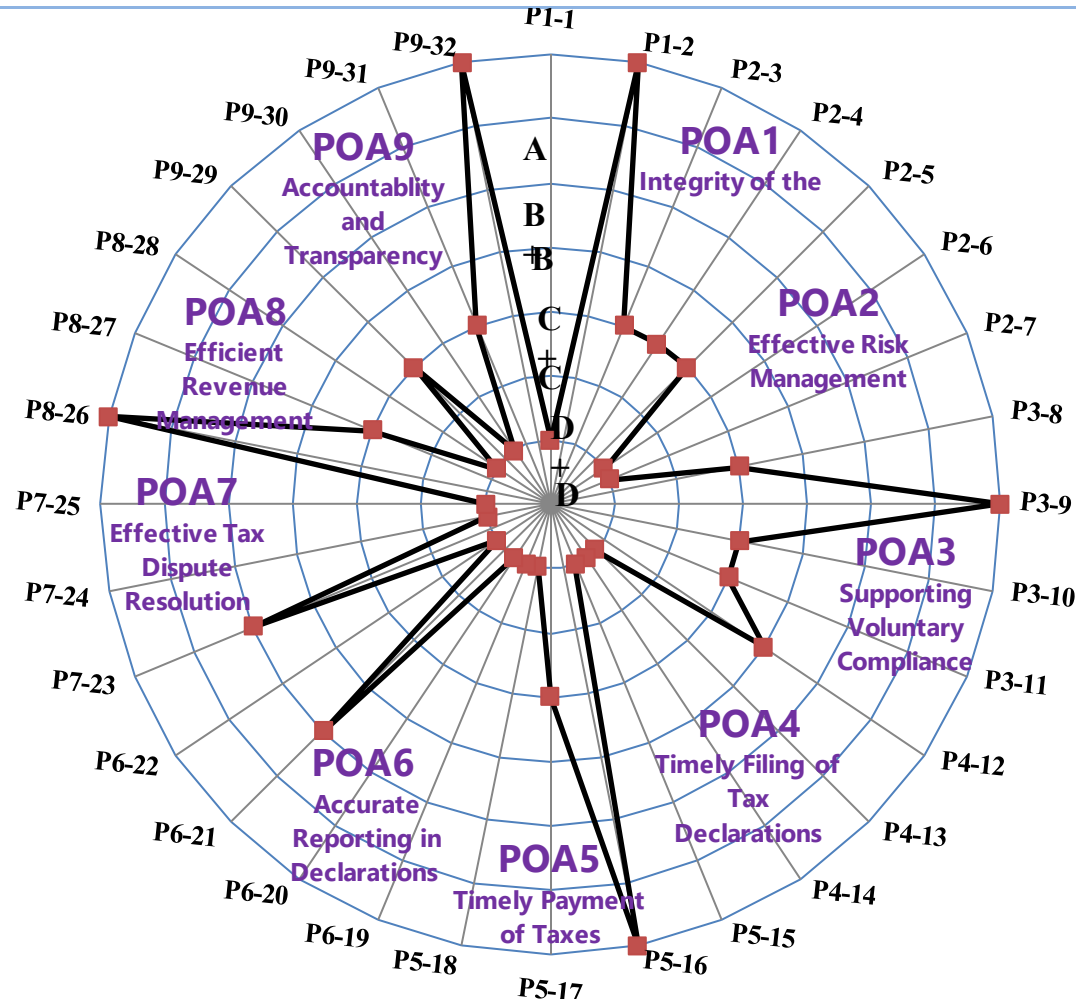
Indicator	Scores 2021	Summary Explanation of Assessment
POA 1: Integrity of the Registered Taxpayer Base		
P1-1. Accurate and reliable taxpayer information.	D	The current Tax Identification Number lacks the features that would give it high integrity.
P1-2. Knowledge of the potential taxpayer base.	A	The Compliance Improvement Strategy highlights initiatives to be undertaken in this area along with third-party data matching and a program of field inspections.
POA 2: Effective Risk Management		
P2-3. Identification, assessment, ranking, and quantification of compliance risks.	C	A structured process for analysing compliance risks is informed by internal data sources including Customs and data from various Ministries and other external sources, but an environmental scan has not been conducted.
P2-4. Mitigation of risks through a compliance improvement plan.	C	A two-year Compliance Improvement Strategy includes activities covering core taxes (other than domestic excise), taxpayer segments, and all taxpayer obligations but progress monitoring is unstructured.
P2-5. Monitoring and evaluation of compliance risk mitigation activities.	C	Measurement of the effectiveness of compliance improvement work is carried out on an ad hoc basis.
P2-6. Management of operational risks.	D	Management of operational risks is unstructured and limited to the IT systems. An IT disaster recovery plan exists but there is no formal business impact assessment or business continuity plan. Specific training and testing do not occur.
P2-7. Management of human capital risks.	D	The MORC lacks a structured process for managing human capital risks.
POA 3: Supporting Voluntary Compliance		
P3-8. Scope, currency, and accessibility of information.	C	Information is available to taxpayers to explain their main obligations and entitlements for each core tax. Dedicated staff are assigned to

Indicator	Scores 2021	Summary Explanation of Assessment
		maintain and update information but documented procedures to guide this work are not in place. There are currently some limitations to the availability of information and assistance for taxpayers.
P3-9. Time taken to respond to information requests.	A	The MORC call center delivers a high standard of service with all calls received being dealt with promptly.
P3-10. Scope of initiatives to reduce taxpayer compliance costs.	C	Some initiatives are in place to reduce taxpayer compliance costs including efforts to enhance cooperative compliance.
P3-11. Obtaining taxpayer feedback on products and services.	C	Taxpayer involvement with the design and testing of new forms and web platforms is not presently sought in a structured way, and design processes for new services are largely internal.
POA 4: Timely Filing of Tax Declarations		
P4-12. On-time filing rate.	C+	On-time filing rates are low for core taxes except for Consumption Tax and Domestic Excise Tax.
P4-13. Management of non-filers.	D	The MORC has no automated process to identify non-filers.
P4-14. Use of electronic filing facilities.	D	Electronic filing is available only for PAYE and Consumption Tax, but the take-up rate is low.
POA 5: Timely Payment of Taxes		
P5-15. Use of electronic payment methods.	D	Electronic payment methods are in place but have low adoption rates due to cultural and other factors.
P5-16. Use of efficient collection systems.	A	Withholding at source is extensive and is a cornerstone mechanism for the administration of income taxes.
P5-17. Timeliness of payments.	C	The number of Consumption Tax payments made on time has been impacted by the COVID-19 pandemic and other economic factors affecting businesses. The value of payments made on time suggests larger payments are more likely to be late.

Indicator	Scores 2021	Summary Explanation of Assessment
P5-18. Stock and flow of tax arrears.	D	Total tax debt averaged, over three years, more than 250 percent of annual core tax collections. The value of collectible core tax arrears as a percentage of total core tax revenue is historically high. Aged tax debt continues to represent a high proportion of the overall debt book.
POA 6: Accurate Reporting in Declarations		
P6-19. Scope of verification actions taken to detect and deter inaccurate reporting.	D	A comprehensive audit plan is implemented, and detailed audit guidance manuals support consistency in audit casework. However, there is no formal structured process for reviewing audit casework quality or the evaluation of the impact of audit work on compliance levels.
P6-20. Use of large-scale data-matching systems to detect inaccurate reporting.	D	A wide range of third-party data is available to support verification of tax declarations, but providers have limited IT capacity and send data in manual format, inhibiting automatic cross-checking.
P6-21. Initiatives undertaken to encourage accurate reporting.	B	A system of public and private binding rulings exists. Cooperative compliance arrangements have yet to be introduced.
P6-22. Monitoring the tax gap to assess inaccuracy of reporting levels.	D	A tax gap measurement exercise has not been conducted.
POA 7: Effective Tax Dispute Resolution		
P7-23. Existence of an independent, workable, and graduated dispute resolution process.	B	A dispute resolution process is in place, but no related guidance information is published for taxpayers.
P7-24. Time taken to resolve disputes.	D	The MORC completes only 26 percent of tax dispute administrative review cases within the good practice standard of 30 days.
P7-25. Degree to which dispute outcomes are acted upon.	D	No analysis is made of the outcome of tax dispute cases.

Indicator	Scores 2021	Summary Explanation of Assessment
POA 8: Efficient Revenue Management		
P8-26. Contribution to government tax revenue forecasting process.	A	The MORC provides robust input into government processes for tax revenue forecasting and tax revenue estimation.
P8-27. Adequacy of the tax revenue accounting system.	C	The MORC's accounting system is compliant with Government requirements, but the system is not regularly reviewed by internal audits.
P8-28. Adequacy of tax refund processing.	D	Consumption Tax refunds are limited and only partially subject to risk-based verification activities. The legislation sets 45 days for the issuance of such refunds which influences the timing of refund payments.
POA 9: Accountability and Transparency		
P9-29. Internal assurance mechanisms.	C	Although no Internal Audit Unit is currently in place, internal controls are evident in operational Standard Operating Procedures. A formal code of ethics and professional conduct guidelines are in place and enforced.
P9-30. External oversight of the tax administration.	D	The Auditor-General undertakes audits on the MORC but at intervals of nearly two years. Findings do not appear to be responded to nor publicly reported. Ombudsman investigations take place and provide recommendations to be implemented but no anti-corruption agency exists.
P9-31. Public perception of integrity.	C	Although a survey was conducted in 2019, which resulted in valuable findings for the MORC, it was not conducted independently.
P9-32. Publication of activities, results and plans.	A	Comprehensive Corporate Plans, Annual Performance Reports, and Operational Plans are produced and released publicly either in advance or within an acceptable timeframe.

Figure 1. Tonga: Distribution of Performance Scores



Indicator	Score
P1-1	D
P1-2	A
P2-3	C
P2-4	C
P2-5	C
P2-6	D
P2-7	D
P3-8	C
P3-9	A
P3-10	C
P3-11	C
P4-12	C+
P4-13	D
P4-14	D
P5-15	D
P5-16	A
P5-17	C
P5-18	D
P6-19	D
P6-20	D
P6-21	B
P6-22	D
P7-23	B
P7-24	D
P7-25	D
P8-26	A
P8-27	C
P8-28	D
P9-29	C
P9-30	D
P9-31	C
P9-32	A

INTRODUCTION

This report documents the results of the TADAT assessment conducted in Tonga during the period May 10 to 26, 2021, and subsequently reviewed by the TADAT Secretariat. The report is structured around the TADAT framework of nine Performance Outcome Areas (POA) and 32 high-level indicators critical to tax administration performance that is linked to the POAs. Fifty-five measurement dimensions are taken into account in arriving at each indicator score. A four-point 'ABCD' scale is used to score each dimension and indicator:

- 'A' denotes performance that meets or exceeds international good practice. In this regard, for TADAT purposes, a good practice is taken to be a tested and proven approach applied by a majority of leading tax administrations. It should be noted, however, that for a process to be considered 'good practice', it does not need to be at the forefront or vanguard of technological and other developments. Given the dynamic nature of tax administration, the good practices described throughout the field guide can be expected to evolve over time as technology advances and innovative approaches are tested and gain wide acceptance.
- 'B' represents sound performance (i.e. a healthy level of performance but a rung below international good practice).
- 'C' means weak performance relative to international good practice.
- 'D' denotes inadequate performance and is applied when the requirements for a 'C' rating or higher are not met. Furthermore, a 'D' score is given in certain situations where there is insufficient information available to assessors to determine and score the level of performance. For example, where a tax administration is unable to produce basic numerical data for purposes of assessing operational performance (e.g., in areas of filing, payment, and refund processing) a 'D' score is given. The underlying rationale is that the inability of the tax administration to provide the required data is indicative of deficiencies in its management information systems and performance monitoring practices.

For further details on the TADAT framework, see Attachment I.

Some points to note about the TADAT diagnostic approach are the following:

- TADAT assesses the performance outcomes achieved in the administration of the major direct and indirect taxes critical to central government revenues, specifically corporate income tax (CIT), personal income tax (PIT), value added tax (VAT), domestic excise tax (with a focus is on those registered domestic excise taxpayers who trade in the category of goods/services that contribute 70 percent of the total domestic excise revenue by value), and Pay As You Earn (PAYE) amounts withheld by employers (which, strictly speaking, are remittances of PIT). By assessing outcomes in relation to administration of these core taxes, a picture can be developed of the relative strengths and weaknesses of a country's tax administration.
- TADAT assessments are evidence-based (see Attachment V for the sources of evidence applicable to the assessment of Tonga).

- TADAT is not designed to assess special tax regimes, such as those applying in the natural resource sector. Nor does it assess customs administration.
- TADAT provides an assessment within the existing revenue policy framework in a country, with assessments highlighting performance issues that may be best dealt with by a mix of administrative and policy responses.

The aim of TADAT is to provide an objective assessment of the health of key components of the system of tax administration, the extent of reform required, and the relative priorities for attention. TADAT assessments are particularly helpful in:

- Identifying the relative strengths and weaknesses in tax administration.
- Facilitating a shared view among all stakeholders (country authorities, international organizations, donor countries, and technical assistance providers).
- Setting the reform agenda (objectives, priorities, reform initiatives, and implementation sequencing).
- Facilitating management and coordination of external support for reforms and achieving faster and more efficient implementation.
- Monitoring and evaluating reform progress by way of subsequent repeat assessments.

COUNTRY BACKGROUND INFORMATION

A. Country Profile

General background information on Tonga and the environment in which its tax system operates are provided in the country snapshot in Attachment II.

B. Data Tables

Numerical data gathered from the authorities and used in this TADAT performance assessment are contained in the tables comprising Attachment III.

C. Economic Situation

The global pandemic and recent natural disasters have amplified existing weak economic growth, worsened fiscal and external balances, and added pressure on debt sustainability.

Tonga's slow recovery from the devastating Tropical Cyclone Gita in 2018 has been derailed by twin shocks from the Covid-19 pandemic and Cyclone Harold in 2020. Proactive and timely actions, including the early closure of external borders and prompt economic support, have helped avoid a worse economic outcome and there are no recorded COVID-19 cases in Tonga to date.¹

¹ Source: World Health Organization (<https://covid19.who.int/region/wpro/country/to>)

Gross Domestic Product (GDP) for Financial Year (FY) 2021 is expected to contract by 3.5 percent.² Tonga's peak tourism season is negatively impacted as borders remain closed and

reconstruction efforts continue to be delayed. The latter has led to record high international reserves as delayed aid-spending resulted in import compression. Nevertheless, external balances are expected to deteriorate. Declines in tourism and remittance inflows, and higher pandemic and reconstruction related imports, are expected to worsen the current account deficit, sharply reducing reserves in FY2021.

Fiscal consolidation continued through FY2020 as a result of donor support and investment delays. However, a fiscal deficit is unavoidable in FY2021 given the need to support the economy and

healthcare through the pandemic. Given limited fiscal buffers and urgent balance of payments needs, Tonga has requested International Monetary Fund (IMF) financial assistance under the Rapid Credit Facility. While monetary stability has been maintained and inflation is expected to remain low, financial sector risks are elevated even though banks are still profitable and well-capitalized.

The medium-term outlook is modest and fragile. Tonga's growth potential is low due to its heavy reliance on labor exports, and the pandemic has worsened pre-existing vulnerabilities. A weaker global recovery that weighs on exports, aid, and remittances, and further disruptions in correspondent banking relations pose significant downside risks, as does the possibility of a local outbreak. Tonga is highly vulnerable to natural disasters and is at a high risk of external debt distress.

Large external debt repayments come due starting in 2024. Current account deficits are also likely to remain large, reflecting persistently weak export competitiveness and heavy import dependence, a pickup in reconstruction and the implementation of delayed climate-resilient infrastructure investments. Together, these forces are likely to reduce international reserves below desirable levels in the medium-term.

D. Main Taxes

Tonga's main domestic taxes are: Consumption Tax (CT)—which accounts for 10.9 percent of tax revenues, Corporate Income tax (CIT) and Pay As You Earn (PAYE) at 10.3 percent and 9.4 percent of tax revenues respectively. For TADAT purposes the "core taxes" include these three revenue streams along with Personal Income Tax (PIT); Small Business Tax (SBT); and domestic excise. In total, the core taxes represent 32.6 percent of tax collections in 2020. Both CT and excise collected on imports by Customs are by far the main tax revenue sources at 44.4 percent and 33.5 percent of tax revenues respectively.

Further details on tax revenue collections are provided in Table 1 of Attachment III.

² Source: IMF Asia and Pacific Department, "Tonga: Article IV Consultation Report", February 2021, (IMF Country Report No. 2021/026)

E. Institutional Framework

The MORC is responsible for collecting direct and indirect taxes, and the management of Tonga's borders and facilitation of trade, under supervision of the Minister of Revenue and Customs. The CEO is directly accountable to the Minister for delivering the six outputs, three organizational outcomes, and other goals set out in the Corporate Plan and Budget. This document aligns MORC's objectives with the Tonga Strategic Development Framework. The CEO is supported by an Executive Committee comprising the heads of MORC's six functional divisions.³ A newly established Governance and Modernization Committee (GMC), chaired by the CEO, oversees the development and implementation of the Compliance Improvement Strategy (CIS).

The MORC has a budget of PT10.04 million and total staffing of 243.⁴ Staffing is allocated broadly equally as between Tax and Customs. The recently refreshed Corporate Plan covering 2021/22 to 2023/24 anticipates an increase in staffing and budget for 2021/22 of approximately 6 percent (to 259 and PT10.65 million respectively) as compared with the previous FY. It also presents a revised organizational structure effective from July 1, 2021. A copy of the organizational structures for FY2020 and FY2021 are included in Attachment IV.

F. Current State of Tax Administration Reform

The major reform initiatives currently underway within Tonga's Revenue Division involve the organizational structure, tax law changes (including rate amendments) and IT modernization. Structural reforms will see the current Tax Operations Division split into two Divisions: (i) Large Taxpayer Office (LTO); and (ii) Tax Services Division [which will comprise a Client Services Section, Processing Section and an Outer-Island Branch]. An International Relations Unit will be established within the Revenue Division. No external assistance has been provided in regard to these structural reforms.

Several Acts and associated regulations are in line for amendment. These include the: Consumption Tax (Amendment) Bill 2020; Income Tax (Amendment) Bill 2020; and Revenue Services Administration Act 2020. In addition, several rate changes to PAYE are proposed as well as a review of current CT exemptions. Assistance is being received on these legislative reforms from the IMF, PFTAC, and the Asian Development Bank.

In the area of Information Technology (IT) reform, several initiatives are underway. These include a new website; expansion of the E-tax system; and a Sales Register System Program. In addition, research is currently being undertaken into the procurement of a new IT tax system. No assistance has yet been provided in regard to IT reform.

³ Tax Operations, Tax Corporate Services, Tax Compliance Improvement, Commercial Services, Customs Corporate Services, and Border Management Divisions.

⁴ Budget and Staffing data relate to FY 2020/21.

G. International Information Exchange

Tonga is not a member of the Organization for Economic Co-operation and Development's (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes. To-date, Tonga has not concluded any tax treaties but is party to a series of treaties under negotiation. Tonga is, however, a member of the Pacific Islands Tax Administrators Association (PITAA)⁵ and can exchange tax-related information with other Pacific Islands countries through this regional framework of tax administrations.

ASSESSMENT OF PERFORMANCE OUTCOME AREAS

POA 1: Integrity of the Registered Taxpayer Base

A fundamental initial step in administering taxes is taxpayer registration and numbering. Tax administrations must compile and maintain a complete database of businesses and individuals that are required by law to register; these will include taxpayers in their own right, as well as others such as employers with PAYE withholding responsibilities. Registration and numbering of each taxpayer underpins key administrative processes associated with filing, payment, assessment, and collection.

Two performance indicators are used to assess POA 1:

- P1-1—Accurate and reliable taxpayer information.
- P1-2—Knowledge of the potential taxpayer base.

P1-1: Accurate and reliable taxpayer information

For this indicator two measurement dimensions assess: (1) the adequacy of information held in the tax administration's registration database and the extent to which it supports effective interactions with taxpayers and tax intermediaries (i.e., tax advisors and accountants); and (2) the accuracy of information held in the database. Assessed scores are shown in Table 2 followed by an explanation of reasons underlying the assessment.

Table 2. P1-1 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P1-1-1. The adequacy of information held in respect of registered taxpayers and the extent to which the registration database supports effective interactions with taxpayers and tax intermediaries.	M1	D	D
P1-1-2. The accuracy of information held in the registration database.		B	

⁵ Exchange of information instruments are developed and ratified between members. These may include multi-lateral Tax Information Exchange Agreement or signing up to the "Convention of Mutual Administrative Assistance in Tax Matters."

Comprehensive taxpayer registration information is stored on a centralized computerized database. This applies to both individuals and businesses that seek registration for any of the core taxes. Taxpayer Identification Number (TIN) application forms detail the full range of information to be captured in line with TADAT good practice and, as part of the registration process, any applications that are not fully completed are rejected until the required information is provided by the applicant in accordance with the MORC's Standard Operating Procedure (SOP) for this process.

The TIN allocated on registration is drawn from a sequential number pool. It is a six-digit number that does not contain any check-digit. It therefore has no in-built high integrity characteristics. As part of the Revenue Management IT System (RMS), the registration database interacts with other subsystems such as filing and payment so that MORC officials can view a taxpayer's information across the full range of their obligations. Ad hoc reports can be drawn from the registration database, and these are used in activities such as industry profiling and compliance targeting.

Appropriate internal controls are in place for both registration and de-registration. Detailed SOPs show the steps for both of these processes. Close examination of the applicant's proof of identity is part of this process to ensure their application is authentic and they meet the legal requirements for registration. With the low take-up of electronic filing (as well as the fact it is only available for CT and PAYE), there is limited secure on-line access available but basic details (a taxpayers change of address for example) can be updated via a link.

Documented procedures, in the form of SOPs, are routinely applied to identify and remove inactive taxpayers. This is regularly done through third-party data exchange with the Ministry of Trade and Economic Development (MTED) which provides information on the cancellation of business licenses.

Senior MORC management regularly monitors the accuracy of the taxpayer register. Recent approval was given for a two-month project targeting incorrect registrations, outdated taxpayer information and mismatches in RMS data.

P1-2: Knowledge of the potential taxpayer base

This indicator measures the extent of tax administration efforts to detect unregistered businesses and individuals. The assessed score is shown in Table 3 followed by an explanation of reasons underlying the assessment.

Table 3. P1-2 Assessment

Measurement dimension	Scoring Method	Score 2021
P1-2. The extent of initiatives to detect businesses and individuals who are required to register but fail to do so.	M1	A

The MORC's CIS identifies correct registration as one of the major categories of a taxpayer's obligations. To detect businesses and individuals who have failed to register, the MORC regularly

receives third-party data from the MTED and routinely reviews this information to identify any new business that has obtained a business license but is yet to complete the registration process and obtain a TIN. Action is then taken to obtain the correct registration application forms so that the business can be issued their TIN.

The MORC has also commissioned targeted campaigns to identify non-registered taxpayers. The most recent activity in this category was "*Project Laukau*" conducted in late 2019 where 235 taxpayers were visited either to secure registration or correct details of their registration.

Reports on such initiatives are tabled at the MORC Executive meeting. On the basis of outcomes achieved from *Project Laukau*, a recommendation was made to conduct a similar campaign in 2020. Unfortunately, due to the COVID-19 pandemic, this activity was postponed.

POA 2: Effective Risk Management

Tax administrations face numerous risks that have the potential to adversely affect revenue and/or tax administration operations. For convenience, these risks can be classified as:

- Compliance risks—where revenue may be lost if businesses and individuals fail to meet the four main taxpayer obligations (i.e. registration in the tax system; filing of tax declarations; payment of taxes on time; and complete and accurate reporting of information in declarations); and
- Institutional risks—where tax administration functions may be interrupted if certain external or internal events occur, such as natural disasters, sabotage, loss or destruction of physical assets, failure of IT system hardware or software, strike action by employees, and administrative breaches (e.g., leakage of confidential taxpayer information which results in loss of community confidence and trust in the tax administration). For TADAT purposes, institutional risk is divided into two components. These are:
 - *Operational risk*—refers to disruptive actions that destroy or affect part or all of the administration's assets and resources, such as buildings, IT, and other equipment, data and records; and
 - *Human capital risk*—refers to interruptions that affect the tax administration arising out of capability, capacity, compliance, cost and connection (engagement) gaps of and by its employees.

Risk management is essential to effective tax administration and involves a structured approach to identifying, assessing, prioritizing, and mitigating risks. It is an integral part of multi-year strategic and annual operational planning.

Five performance indicators are used to assess POA 2:

- P2-3—Identification, assessment, ranking, and quantification of compliance risks.
- P2-4—Mitigation of risks through a compliance improvement plan.

- P2-5—Monitoring and evaluation of compliance risk mitigation activities.
- P2-6—Management of operational (i.e. systems and processes) risks.
- P2-7—Management of human capital risks.

P2-3: Identification, assessment, ranking, and quantification of compliance risks

For this indicator two measurement dimensions assess: (1) the scope of intelligence gathering and research to identify risks to the tax system; and (2) the process used to assess, rank, and quantify compliance risks. Assessed scores are shown in Table 4 followed by an explanation of reasons underlying the assessment.

Table 4. P2-3 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P2-3-1. The extent of intelligence gathering and research to identify compliance risks in respect of the main tax obligations.	M1	C	C
P2-3-2. The process used to assess, rank, and quantify taxpayer compliance risks.		C	

The **MORC does not conduct an environmental scan of external factors that potentially may affect the tax system and its administration over the medium to longer term.** The Corporate Plan sets out MORC's role in supporting the achievement of Tonga's Sustainable Development Goals, but this does not set the context for tax compliance risk identification. Compliance risk management is supported by analysis of internal data on taxpayers' compliance performance and from their tax declarations, and from Customs. Additionally, data from the MTED and Ministries of Infrastructure and Tourism, Lands and Natural Resources, and four other Ministries, along with the Reserve Bank, National Retirement Fund and other non-government providers contribute to the interpretation of risk.

A multi-dimensional risk register is under development but has yet to be introduced. A comprehensive and structured process exists for analyzing internal and external data at individual case level and producing a taxpayer compliance risk profile with recommendations for the appropriate compliance improvement interventions. A five-point risk scale illustrates the features on which risk ratings are based. Differentiated risk treatment strategies are applied in line with OECD compliance risk model principles. Developing a structured approach to quantifying, at a strategic level, the impact or likelihood of identified risks across each of the core taxes, taxpayer segments, and the four main compliance obligations of taxpayers (compliance pillars)⁶ is the next stage of building risk management capacity.

⁶ Registration as a taxpayer, timely filing, timely payment and accurately completed tax declarations.

A Customs Risk Profiling Committee meets six-monthly to review risk profiles of commercial importers, including domestic excise payers. The profiles are based on compliance levels of each taxpayer over the review period. The risk level attributed to the domestic excise taxpayer will determine the level of control to be actioned by Customs.

P2-4: Mitigation of risks through a compliance improvement plan

This indicator examines the extent to which the tax administration has formulated a compliance improvement plan to address identified risks. The assessed score is shown in Table 5 followed by an explanation of reasons underlying the assessment.

Table 5. P2-4 Assessment

Measurement dimension	Scoring Method	Score 2021
P2-4. The degree to which the tax administration mitigates assessed risks to the tax system through a compliance improvement plan.	M1	C

A two-year CIS feeds into the three-year Corporate Plan; progress monitoring of CIS projects is part of routine management reporting rather than CIS project-centric. The CIS contains activities and projects that cover all core taxes, taxpayer segments, and the four main compliance obligations of taxpayers. Projects also cover an industry partnership project in the high-risk tourism sector (whale watching providers) and high-value “Heilala” taxpayers now dealt with by the LTO.⁷ A CIS has been prepared by Customs to address some of the key compliance issues, in particular with bonded warehouses, but it has yet to be finalized and approved.

Compliance work is well-resourced. Tax Compliance Division comprises approximately 40 percent of total Revenue Department staffing and officers from Tax Operations Division also contribute to compliance improvement work through taxpayer service initiatives. CIS implementation progress is monitored through normal line management reports with focus being given to particular projects on an ad hoc basis. Compliance improvement activity on domestic excise is carried out on a case-by-case basis, risks being assessed as licenses are issued or being considered for renewal.

P2-5: Monitoring and evaluation of compliance risk mitigation activities

This indicator looks at the process used to monitor and evaluate compliance mitigation activities. The assessed score is shown in Table 6 followed by an explanation of reasons underlying the assessment.

⁷ Heilala taxpayers have been chosen on the basis of their high business turnover and/or payments, and their high level of compliance. There are currently 15 identified Heilala taxpayers who benefit from this scheme.

Table 6. P2-5 Assessment

Measurement dimension	Scoring Method	Score 2021
P2-5. The process used to monitor and evaluate the impact of compliance risk mitigation activities.	M1	C

The GMC, chaired by the CEO, approves the CIS and monitors progress periodically; structured evaluation of risk mitigation strategies' effectiveness is still developing. CIS implementation progress monitoring forms part of normal senior management team (SMT) meetings or as issues arise. For example, activities to ensure that new business license holders register as taxpayers are monitored at Head of Division level monthly. Performance monitoring of CIS projects focuses largely on workflow, outputs, and large or complex cases, with some consideration of compliance outcomes – for example around tax arrears management. These are recorded in SMT meeting minutes with clear direction given on the way forward.

P2-6: Management of operational risks

This indicator examines how the tax administration manages operational risks other than those related to human resources. The assessed score is shown in Table 7 followed by an explanation of reasons underlying the assessment.

Table 7. P2-6 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P2-6-1. The process used to identify, assess and mitigate operational risks.	M1	D	D
P2-6-2. The extent to which the effectiveness of the business continuity program is tested, monitored and evaluated.		D	

A structured system for the management of operational risks is limited to risks associated with the MORC's IT system. The IT system is backed up locally off-site and also with the MORC's commercial IT system partner. While there is no formal business impact assessment or business continuity plan, a disaster recovery management plan covering the IT system has been prepared and was said to have been reviewed two years ago. Its purposes are to make sure that: all people involved in disaster recovery understand the process and their respective responsibilities; production systems are successfully recovered and operating at designated sites as soon as possible after a disaster has been declared; and ultimately that the system recovers to normal operation thereafter.

The SMT receives periodic reports on IT system risks but independent testing of the disaster recovery plan's efficacy is not carried out. Reporting is carried out as part of normal performance reporting and includes the outturn against key performance indicators (KPI) for IT system availability, data back-up and security. The inter-island link is reportedly tested monthly. Project plans for system enhancements clearly describe project risks, ownership and mitigations.

P2-7: Management of human capital risks

This indicator examines how the tax administration manages human capital risks. The assessed score is shown in Table 8 followed by an explanation of reasons underlying the assessment.

Table 8. P2-7 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P2-7-1. The extent to which the tax administration has in place the capacity and structures to manage human capital risks.	M1	D	D
P2-7-2. The degree to which the tax administration evaluates the status of human capital risks and related mitigation interventions.		D	

No formal structured processes are present for the management of human capital risks. A Human Resources (HR) team of five officers manages processes around staff performance management, attendance, capacity development, and recruitment. Comprehensive procedures are applied for performance management and staff attendance. The Public Service Commission (PSC) sets HR policies across government and closely monitors implementation of performance management at quarterly intervals. The 2021/22 to 2023/24 Corporate Plan highlights human resources and skills gaps that are considered critical to the MORC delivering its organizational outcomes. The plan provides a comprehensive overview of planned resource and budget deployment against all programs and sub-programs.

POA 3: Supporting Voluntary Compliance

To promote voluntary compliance and public confidence in the tax system, tax administrations must adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their obligations and claim their entitlements under the law. Because few taxpayers use the law itself as a primary source of information, assistance from the tax administration plays a crucial role in bridging the knowledge gap. Taxpayers expect that the tax administration will provide summarized, understandable information on which they can rely.

Efforts to reduce taxpayer costs of compliance are also important. Small businesses, for example, gain from simplified record keeping and reporting requirements. Likewise, individuals with relatively simple tax obligations (e.g., employees, retirees, and passive investors) benefit from simplified filing arrangements and systems that eliminate the need to file.

Four performance indicators are used to assess POA 3:

- P3-8—Scope, currency, and accessibility of information.
- P3-9—Time taken to respond to information requests.
- P3-10—Scope of initiatives to reduce taxpayer compliance costs.

- P3-11—Obtaining taxpayer feedback on products and services.

P3-8: Scope, currency, and accessibility of information

For this indicator four measurement dimensions assess: (1) whether taxpayers have the information they need to meet their obligations; (2) whether the information available to taxpayers reflects the current law and administrative policy; (3) how easy it is for taxpayers to obtain information. Assessed scores are shown in Table 9 followed by an explanation of reasons underlying the assessment.

Table 9. P3-8 Assessment

Measurement dimensions	Scoring Method	Score 2021
P3-8-1. The range of information available to taxpayers to explain, in clear terms, what their obligations and entitlements are in respect of each core tax.	M1	B
P3-8-2. The degree to which information is current in terms of the law and administrative policy.		C
P3-8-3. The ease by which taxpayers obtain information from the tax administration.		C

Information is available to taxpayers to explain their main obligations and entitlements for each core tax. Information on registration, filing, payment and correct reporting is provided through various means including social media presence, television and radio, monthly newsletters, a range of pamphlets, and regular consultation activities. A recently established call-center is providing limited further support. An annual “Tax Week” event occurs in October, which includes a series of lead-up activities designed to support and encourage taxpayer participation. Taxpayer segment-specific information is available to small businesses, professionals, some service providers and employers. Large businesses also have access to tailored information through the LTO and client relationship management visits.

Dedicated staff are assigned to maintain and update information but documented procedures to guide this work are not in place. A process is in place to deal with law or other changes to obligations. This process is internally well-understood and includes undertaking consultation with groups of taxpayers ahead of any changes. Tax intermediaries play an active role in consultation activities. Responsible personnel advise communication of new requirements generally before changes take effect. A major review and refresh of online content has also recently been undertaken as part of the process of migrating the MORC’s current website to a new platform.

There are currently some limitations on the availability of information and assistance for taxpayers. Information is intended to be available through MORC’s website (www.revenue.gov.to). The website is currently offline and inaccessible while system and content upgrades are being

undertaken. MORC considers consequent risks are tolerable given internet access in Tonga is limited through its relatively high cost.⁸ A new web platform to host the website is expected to be delivered sometime in May/June 2021. A physical helpdesk located at head and branch offices provides dedicated walk-in support. Currently available taxpayer assistance channels require taxpayers to attend in-office or contact the call center during regular hours. All services provided by the MORC are fee-free, including technical advice given under their rulings program. The MORC further undertakes public education and training which targets identified groups of taxpayers. High demand for this service exists, however, there are insufficient resources to meet all requests for training.

P3-9: The time taken to respond to requests for information.

49. This indicator examines how quickly the tax administration responds to requests by taxpayers and tax intermediaries for information (for this dimension, waiting time for telephone enquiry calls is used as a proxy for measuring a tax administration's performance in information requests generally). Assessed scores are shown in Table 10 followed by an explanation of reasons underlying the assessment.

Table 10. P3-9 Assessment

Measurement dimension	Scoring Method	Score 2021
P3-9: The time taken to respond to taxpayers and tax intermediaries' requests for information.	M1	A

The MORC's call-center delivers a high standard of service with all calls received being dealt with promptly—see Table 3 of Attachment III. The call-center is at an early stage of development and demand for the service so far is low but is showing evidence of growth with call volumes roughly doubling since commencement. The center currently receives up to around 40 calls per month. Resources assigned to the call-center are limited and supporting infrastructure is still being fully established. Service delivery standards, which cover the majority of taxpayer interactions and services, are in place. Performance monitoring and evaluation against these standards is undertaken internally; however, performance results and outcomes are not published externally.

P3-10: Scope of initiatives to reduce taxpayer compliance costs

This indicator examines the tax administration's efforts to reduce taxpayer compliance costs. Assessed scores are shown in Table 11 followed by an explanation of reasons underlying the assessment.

⁸ Refer Appendix II, Country Profile for estimated rates of internet adoption.

Table 11. P3-10 Assessment

Measurement dimension	Scoring Method	Score 2021
P3-10. The extent of initiatives to reduce taxpayer compliance costs.	M1	C

Some initiatives are in place to reduce taxpayer compliance costs. Pre-filing of tax declarations is not undertaken despite substantial amounts of third-party data being obtained by the Tax Administration. Through the SBT regime, businesses with a turnover of less than PT100,000 have access to simplified record keeping, filing, reporting, and payment obligations. Common issues and frequently asked questions are gathered and used to help drive improvement efforts. Forms are regularly updated to remove unnecessary information, with a major redesign of the income tax return form in its final stages of approval for planned availability in the next fiscal year. E-filing registration is a pre-requisite for taxpayers to gain online access to their tax profile; however, E-filing services are presently only available for CT registrants and PAYE employers. This requirement limits the number of taxpayers able to access their tax profile online. Tax intermediaries are permitted to request and be assigned online access to their clients' tax profiles.

P3-11: Obtaining taxpayer feedback on products and services

For this indicator, two measurement dimensions assess: (1) the extent to which the tax administration seeks taxpayer and other stakeholder views of service delivery; and (2) the degree to which taxpayer feedback is taken into account in the design of administrative processes and products. Assessed scores are shown in Table 12 followed by an explanation of reasons underlying the assessment.

Table 12. P3-11 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P3-11-1. The use and frequency of methods to obtain performance feedback from taxpayers on the standard of services provided.	M1	B	C
P3-11-2. The extent to which taxpayer input is taken into account in the design of administrative processes and products.		C	

Taxpayer feedback is largely gathered through face-to-face consultation and other in-person activities undertaken with stakeholders. An initial taxpayer perception survey was undertaken by the MORC in 2018 and finalized in 2019. The survey targeted a stratified and randomized statistically significant population. A further taxpayer perceptions survey is planned for this fiscal year and is under development in conjunction with PFTAC. An additional survey to review taxpayer perceptions of the e-Tax product was also undertaken in 2020. Results from these surveys are not published within the annual report of the organization or made available via the internet. A customer satisfaction

questionnaire which assesses customer service is routinely provided on an ad-hoc basis to taxpayers who attend in-office.

Taxpayer involvement with the design and testing of new forms and web platforms is not presently sought in a structured way. Direct consultation activities are the primary source of improvements to administrative products and processes. Design processes for new services are largely internal and do not factor in regular opportunities to provide taxpayers to collaborate and help ensure that new offerings or changes to products will be fit for purpose and fully meet taxpayer needs.

POA 4: Timely Filing of Tax Declarations

Filing of tax declarations (also known as tax returns) remains a principal means by which a taxpayer's tax liability is established and becomes due and payable. As noted in POA 3, however, there is a trend towards streamlining preparation and filing of declarations of taxpayers with relatively uncomplicated tax affairs (e.g., through pre-filing tax declarations). Moreover, several countries treat income tax withheld at source as a final tax, thereby eliminating the need for large numbers of PIT taxpayers to file annual income tax declarations. There is also a strong trend towards electronic filing of declarations for all core taxes. Declarations may be filed by taxpayers themselves or via tax intermediaries.

It is important that all taxpayers who are required to file do so, including those who are unable to pay the tax owing at the time a declaration is due (for these taxpayers, the first priority of the tax administration is to obtain a declaration from the taxpayer to confirm the amount owed, and then secure payment through the enforcement and other measures covered in POA 5).

Three performance indicators are used to assess POA 4:

- P4-12—On-time filing rate.
- P4-13—Management of non-filers
- P4-14—Use of electronic filing facilities.

P4-12: On-time filing rate

A single performance indicator, with four measurement dimensions, is used to assess the on-time filing rate for CIT, PIT, VAT and domestic excise tax, and PAYE withholding declarations. A high on-time filing rate is indicative of effective compliance management including, for example, provision of convenient means to file declarations (especially electronic filing facilities), simplified declarations forms, and enforcement action against those who fail to file on time. Assessed scores are shown in Table 13 followed by an explanation of reasons underlying the assessment.

Table 13. P4-12 Assessment

Measurement dimensions	Scoring Method	Score 2021
P4-12-1. The number of CIT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered CIT taxpayers.	M2	C
P4-12-2. The number of PIT (SBT) declarations filed by the statutory due date as a percentage of the number of declarations expected from registered PIT taxpayers.		D
P4-12-3. The number of VAT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered VAT taxpayers.		B
P4-12-4. The number of domestic excise tax declarations filed by the statutory due date as a percentage of the number of declarations expected from registered domestic excise taxpayers.		B
P4-12-5. The number of PAYE withholding declarations filed by employers by the statutory due date as a percentage of the number of PAYE declarations expected from registered employers.		C
		C ⁺

On-time filing rates are low for core taxes except for CT and Domestic Excise Tax. As shown in Tables 4 to 10 in Attachment III, on-time filing rates achieved by the MORC are: (i) CIT 57.8 percent; (ii) PIT 32.4 percent; (iii) CT 87.4 percent; (vi) Domestic Excise Tax 85.4 percent; and (v) PAYE 58.2 percent.

The LTO was newly established in FY 2020 and has had little opportunity to make an impression on timely filing performance. For the purpose of measuring performance in this dimension, large taxpayers are treated as those that are members of the *Heilala* scheme. The on-time filing rates for large taxpayers for both CIT and CT are at 100 percent (15 taxpayers). The on-time filing rate for SBT is 42.4 percent.

P4-13: Management of non-filers

This indicator measures the extent to taxpayers who have failed to file declarations when due are managed. The assessed score is shown in Table 14 followed by an explanation of reasons underlying the assessment.

Table 14. P4-13 Assessment

Measurement dimension	Scoring Method	Score 2021
P4-13. Action taken to follow up non-filers.	M1	D

The MORC has no automated processes to quickly identify non-filers since returns are mostly

manually entered. In line with the relevant SOP, MORC staff from the Returns Management Unit make telephone contact with taxpayers who have yet to file five days before a filing due date, followed by a text message the day before the due date. The first contact with a non-filer is made three working days into the default period. A reminder letter is sent for outstanding returns after seven days.

P4-14: Use of electronic filing facilities

This indicator measures the extent to which declarations, for all core taxes, are filed electronically. Assessed scores are shown in Table 15 followed by an explanation of reasons underlying the assessment.

Table 15. P4-14 Assessment

Measurement dimension	Scoring Method	Score 2021
P4-14. The extent to which tax declarations are filed electronically.	M1	D

The electronic filing rate is very low at only 4 percent in FY2020. Electronic filing (e-Tax) is available only for PAYE and CT and take-up is low with only several hundreds of taxpayers registering to use the e-Tax online portal. The MORC is promoting e-Tax, especially for large taxpayers, and e-Tax for CIT and PIT will be available soon. However, the supporting infrastructure and low internet penetration services in Tonga will remain a challenge for the foreseeable future.

POA 5: Timely Payment of Taxes

Taxpayers are expected to pay taxes on time. Tax laws and administrative procedures specify payment requirements, including deadlines (due dates) for payment, who is required to pay, and payment methods. Depending on the system in place, payments due will be either self-assessed or administratively assessed. Failure by a taxpayer to pay on time results in imposition of interest and penalties and, for some taxpayers, legal debt recovery action. The aim of the tax administration should be to achieve high rates of voluntary on-time payment and low incidence of tax arrears.

Four performance indicators are used to assess POA 5:

- P5-15—Use of electronic payment methods.
- P5-16—Use of efficient collection systems.
- P5-17—Timeliness of payments
- P5-18—Stock and flow of tax arrears.

P5-15: Use of electronic payment methods

This indicator examines the degree to which core taxes are paid by electronic means without the direct intervention of bank staff or tax administration, including through electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer's bank

account to the Government's account), credit cards, and debit cards. Assessed scores are shown in Table 16 followed by an explanation of reasons underlying the assessment.

Table 16. P5-15 Assessment

Measurement dimension	Scoring Method	Score 2021
P5-15. The extent to which core taxes are paid electronically.	M1	D

Electronic payment methods are in place but have low adoption rates due to cultural and other factors. Most small business or individual taxpayers physically submit their return through a tax office and make a simultaneous over-counter payment, preferring to have a formal hard-copy payment receipt. The local cost for internet access is often beyond the means of smaller taxpayers who as a result do not conduct their banking using online services. Large and medium-sized businesses that are most likely to have access to electronic services are being encouraged to use electronic payments. Nonetheless, all taxpayers have access to electronic funds transfer facilities and may make payments across all core tax types. Electronic transfers are limited to bank-to-bank payments. Payments through credit cards, Automatic Telling Machines or other methods are not available. Work is underway to develop a suitable gateway through the banking system to permit the addition of these services in future. Refunds are not made electronically and require taxpayers to physically collect cash or a cheque payment from the Ministry of Finance (MOF).

P5-16: Use of efficient collection systems

This indicator assesses the extent to which acknowledged efficient collection systems—especially withholding at source and advance payment systems—are used. Assessed scores are shown in Table 17 followed by an explanation of reasons underlying the assessment.

Table 17. P5-16 Assessment

Measurement dimension	Scoring Method	Score 2021
P5-16. The extent to which withholding at source and advance payment systems are used.	M1	A

Withholding at source is extensive and is a cornerstone mechanism for the administration of income taxes. Withholding at source is in place for PIT employment income, interest, lease, and rental payments for Tonga residents. Payments to non-residents for services, interest, dividends, lease, and rental payments are also subject to withholding arrangements. Various control mechanisms are in place to support the correct operation of higher revenue elements of the withholding system, with the remaining elements relying on self-assessment principles. Advance payment regimes are available for all core taxes but are not subject to minimum thresholds or other mandatory requirements.

P5-17: Timeliness of payments

This indicator assesses the extent to which payments are made on time (by number and by value). For TADAT measurement purposes, VAT payment performance is used as a proxy for on-time payment performance of core taxes generally. A high on-time payment percentage is indicative of sound compliance management including, for example, provision of convenient payment methods and effective follow-up of overdue amounts. Assessed scores are shown in Table 18 followed by an explanation of reasons underlying the assessment.

Table 18. P5-17 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P5-17-1. The number of CT payments made by the statutory due date in percent of the total number of payments due.	M1	B	C
P5-17-2. The value of CT payments made by the statutory due date in percent of the total value of CT payments due.		C	

71. The number of CT payments made on time has been impacted by the COVID-19 pandemic and other economic factors affecting businesses. An unknown (but believed by the MORC to be significant) number of taxpayers have been forced to seek payment instalment arrangements. As shown in Table 12 of Attachment III, on on-time CT payment for FY2020 for all taxpayers is 91 percent. Large business taxpayers demonstrate a slightly better result with the segment making 92 percent of CT payments on time.

72. The value of CT payments made on time suggests larger payments are more likely to be late. Difficulty in meeting significant payment obligations is also consistent with business impacts noted earlier. The overall value of on-time CT payments for FY2020 is 77 percent. Large business taxpayers again demonstrate slightly better performance, with 87 percent of the payments, by value, made on time.

P5-18: Stock and flow of tax arrears

73. This indicator examines the extent of accumulated tax arrears. Two measurement dimensions are used to gauge the size of the administration's tax arrears inventory: (1) the ratio of end-year tax arrears to the denominator of annual tax collections; and (2) the more refined ratio of end-year 'collectible tax arrears' to annual collections.⁹ A third measurement dimension looks at the extent of unpaid tax liabilities that are more than a year overdue (a high percentage may indicate poor

⁹ For purposes of this ratio, 'collectible' tax arrears is defined as total domestic tax arrears excluding: (a) amounts formally disputed by the taxpayer and for which collection action has been suspended pending the outcome, (b) amounts that are not legally recoverable (e.g., debt foregone through bankruptcy), and (c) arrears otherwise uncollectible (e.g., the debtor has no funds or other assets).

debt collection practices and performance given that the rate of recovery of tax arrears tends to decline as arrears get older). Assessed scores are shown in Table 19 followed by an explanation of reasons underlying the assessment.

Table 19. P5-18 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P5-18-1. The value of total core tax arrears at fiscal year-end as a percentage of total core tax revenue collections for the fiscal year.	M2	D	D
P5-18-2. The value of collectible core tax arrears at fiscal year-end as a percentage of total core tax revenue collections for the fiscal year.		D	
P5-18-3. The value of core tax arrears more than 12 months old as a percentage of the value of all core tax arrears.		D	

Total core tax debt averaged over three years is more than 250 percent of annual core tax collections. This large volume of debt strongly influences assessment outcomes, despite evidence of some reduction across the three-year period 2018-2020 as shown in Table 13 of Attachment III. Debt stocks were placed under closer management in 2020 and are, as a result, reducing significantly. A comprehensive debt reform strategy (Operation Mercator) was deployed and is achieving positive results. The strategy adopts case-managed approaches to large debts with particular focus on the largest twenty debt cases. This strategy has resulted in a reduction in outstanding arrears from PT90M to PT20M as of April 2021.

The value of collectible core tax arrears as a percentage of total core tax revenue is historically high. Collectable tax arrears taken as an average over the three-year period from 2018 to 2020 represent 69 percent of total core tax arrears. As a result of Operation Mercator referred to above, total collectible core tax arrears up to April 2021 have been reduced to 25 percent of total arrears.

Aged debt continues to represent a high proportion of the overall debt book. Aged tax arrears greater than 12 months old represents 99 percent of total core tax arrears on average over the three-year (2018 to 2020) period. Factors contributing to this include two significant debt cases being pursued by the MORC. Non-collectible debts are being actively assessed and written off.

POA 6: Accurate Reporting in Declarations

Tax systems rely heavily on complete and accurate reporting of information by taxpayers in tax declarations. Tax administrations therefore need to regularly monitor tax revenue losses from inaccurate reporting, especially by business taxpayers, and take a range of actions to ensure compliance. These actions fall into two broad groups: verification activities (e.g., tax audits, investigations, and income matching against third party information sources) and proactive initiatives

(e.g., taxpayer assistance and education as covered in POA 3, and cooperative compliance approaches).

If well designed and managed, tax audit programs can have far wider impact than simply raising additional revenue from discrepancies detected by tax audits. Detecting and penalizing serious offenders serve to remind all taxpayers of the consequences of inaccurate reporting.

Also prominent in modern tax administration is high-volume automated crosschecking of amounts reported in tax declarations with third-party information. Because of the high cost and relative low coverage rates associated with traditional audit methods, tax administrations are increasingly using technology to screen large numbers of taxpayer records to detect discrepancies and encourage correct reporting.

Proactive initiatives also play an important role in addressing risks of inaccurate reporting. These include adoption of cooperative compliance approaches to build collaborative and trust-based relationships with taxpayers (especially large taxpayers) and intermediaries to resolve tax issues and bring certainty to companies' tax positions in advance of a tax declaration being filed, or before a transaction is actually entered into. A system of binding tax rulings can play an important role here.

Finally, on the issue of monitoring the extent of inaccurate reporting across the taxpayer population generally, a variety of approaches are being used. These include: use of tax compliance gap estimating models, both for direct and indirect taxes; advanced analytics using large data sets (e.g., predictive models, clustering techniques, and scoring models) to determine the likelihood of taxpayers making full and accurate disclosures of income; and surveys to monitor taxpayer attitudes towards accurate reporting of income.

Against this background, four performance indicators are used to assess POA 6:

- P6-19—Scope of verification actions taken to detect and deter inaccurate reporting.
- P6-20—Use of large-scale data-matching systems to detect inaccurate reporting.
- P6-21—Initiatives undertaken to encourage accurate reporting.
- P6-22—Monitoring the tax gap to assess inaccuracy of reporting levels.

P6-19: Scope of verification actions taken to detect and deter inaccurate reporting

For this indicator, four measurement dimensions provide an indication of the nature and scope of the tax administration's verification program. Assessed scores are shown in Table 20 followed by an explanation of reasons underlying the assessment.

Table 20. P6-19 Assessment

Measurement dimensions	Scoring Method	Score 2021
P6-19-1. The nature and scope of the tax audit program in place to detect and deter inaccurate reporting.	M1	B
P6-19-2. The extent to which the audit program is systematized around uniform practices.		B
P6-19-3. The degree to which the quality of taxpayer audits is monitored.		D
P6-19-4. The degree to which the tax administration monitors the effectiveness of the taxpayer audit function.		D

The tax audit program covers all core taxes and taxpayer segments. The audit program document sets the “to take” times for each audit type and allocates expected audit numbers to individual auditors according to their level of experience and working day availability. All this takes into account expected non-productive or personal development activities. Audit cases range across taxpayers of all types and sizes including a significant proportion of LTO cases. Domestic excise inspections and audits are carried out by Customs as part of their warehouse inspection regime.

Audits are selected on the basis of risk. The central risk management section conducts the risk assessment and produces taxpayer compliance profiles, with recommendations as to the appropriate audit type which are approved by higher management. This process is well documented with detailed workflow and accountability charts for different audit types. SOPs lay down the frequency of warehouse inspections by Customs officials to inspect domestic excise records and processes, according to the level of assessed risk. All new warehouses are visited within one month of licensing as part of taxpayer education, and to conduct an initial risk assessment.

Four graduated audit types are used; the selection being driven by the nature of the assessed risk. Full scope audits cover multiple taxes and risks, whereas limited scope audits may address a single risk or particular tax (for example, a PAYE payroll audit). CT refund reviews and audits are conducted to verify entitlement to and accuracy of refund claims. Investigations are carried out with a view to prosecution to reinforce the MORC’s compliance improvement activities through deterrence. Each type has specified scope delineations and standard hours. Indirect audit methodologies form part of the auditors’ toolkit - for example, profitability comparisons with similar local businesses and capital growth vs. declared income reconciliations.

Evaluation of the impact on compliance levels of the MORC’s audit activities is unstructured. The risk management section recognizes past audits in subsequent risk assessments and taxpayer compliance profiles.

The 2019 Guide to Tax Audit sets out standard practices covering all stages of each audit type from pre-audit research through to settlement, thus fully meeting TADAT requirements. It

emphasizes the importance of maintaining taxpayer relations during an audit, including explaining the purpose nature and scope of the audit, the audit findings and appeal rights. It provides standardized templates for various steps in an audit and “lead sheets” to guide auditors on which documents to inspect and questions to ask according to the nature of the issues under review.

A special sectoral manual for manufacturers and storage of excisable goods guides Customs officers with their inspections and audits of domestic excise taxpayers. The Warehouse Management Standard Operating Procedures and Post Clearance Audit Standard Operating Procedures assist officers in the implementation of effective warehouse risk assessments. They provide a guide for appropriate intervention and response to errors identified in the particular context of these specialized business operators. There are no special economic sector manuals supporting other core tax audits.

Independent monitoring of audit quality is not carried out, with quality checks being conducted by the Head of Audit as part of the case-by-case settlement procedure. The Guide to Tax Audit contains a standardized “approval and evaluation report” but this does not cover in detail adherence to the range of documented audit procedures.

Audit KPIs cover timeliness of actions during the various audit stages and auditor time usage. Assessment objection rates are monitored. Other high-level measures as described in the TADAT Field Guide as representing international good practice are not monitored or reported on.

P6-20: Use of large-scale data-matching systems to detect inaccurate reporting.

For this indicator, one measurement dimension provides an indication of the extent to which the tax administration leverages technology to screen large numbers of taxpayer records against third-party information to detect discrepancies and encourage correct reporting. Assessed scores are shown in Table 21 followed by an explanation of reasons underlying the assessment.

Table 21. P6-20 Assessment

Measurement dimension	Scoring Method	Score 2021
P6-20. The extent of large-scale automated crosschecking to verify information reported in tax declarations.	M1	D

A wide range of third-party data are available to MORC to support verification of tax declarations, but these are received in manual format, preventing automated cross-checking. The MORC advised that many of the data providers, particularly in the public sector, have limited IT systems and are unable to provide bulk data in electronic format.

P6-21: Initiatives undertaken to encourage accurate reporting

This indicator assesses the nature and scope of cooperative compliance and other proactive initiatives undertaken to encourage accurate reporting. Assessed scores are shown in Table 22 followed by an explanation of reasons underlying the assessment.

Table 22. P6-21 Assessment

Measurement dimension	Scoring Method	Score 2021
P6-21. The nature and scope of proactive initiatives undertaken to encourage accurate reporting.	M1	B

A system of public and private binding rulings is operative and has statutory authority. Both types of rulings were evidenced with recent examples of public rulings provided in relation to PAYE and CT. Demand for private rulings seems limited. While the *Heilala* taxpayer arrangements are a clear example of excellent taxpayer service to recognize and incentivize voluntary compliance, formalized co-operative compliance arrangements including agreements for a transparent relationship and sharing of tax risks as they occur are not apparent.

P6-22: Monitoring the tax gap to assess inaccuracy of reporting levels

This indicator examines the soundness of methods used by the tax administration to monitor the extent of inaccurate reporting in declarations. The assessed score is shown in Table 23 followed by an explanation of reasons underlying the assessment.

Table 23. P6-22 Assessment

Measurement dimensions	Scoring Method	Score 2021
P6-22. The soundness of tax gap analysis method/s used by the tax administration to monitor the extent of inaccurate reporting.	M1	D

Structured measurement of tax losses through inaccurate reporting is not conducted. A tax gap measurement exercise has not been conducted. With limited access to bulk third-party data in electronic format, it would be difficult for MORC to implement such an approach.

POA 7: Effective Tax Dispute Resolution

This POA deals with the process by which a taxpayer seeks an independent review, on grounds of facts or interpretation of the law, of a tax assessment resulting from an audit. Above all, a tax dispute process must safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing.

The process should be based on a legal framework, be known and understood by taxpayers, be easily accessible, guarantee transparent independent decision-making, and resolve disputed matters in a timely manner.

Three performance indicators are used to assess POA 7:

- P7-23—Existence of an independent, workable, and graduated dispute resolution process.
- P7-24—Time taken to resolve disputes.
- P7-25—Degree to which dispute outcomes are acted upon.

P7-23: Existence of an independent, workable, and graduated resolution process

98. For this indicator three measurement dimensions assess: (1) the extent to which a dispute may be escalated to an independent external tribunal or court where a taxpayer is dissatisfied with the result of the tax administration's review process; (2) the extent to which the tax administration's review process is truly independent; and (3) the extent to which taxpayers are informed of their rights and avenues of review. Assessed scores are shown in Table 24 followed by an explanation of reasons underlying the assessment.

Table 24. P7-23 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P7-23-1. The extent to which an appropriately graduated mechanism of administrative and judicial review is available to, and used by, taxpayers.	M2	A	B
P7-23-2. Whether the administrative review mechanism is independent of the audit process.		A	
P7-23-3. Whether information on the dispute process is published, and whether taxpayers are explicitly made aware of it.		D	

A dispute resolution process is in place and is independent of the audit and assessment

processes. The Revenue Service Administration Act 2002 stipulates a three-tiered review mechanism, namely: (i) administrative review process within MORC, which is conducted by the legal section; (ii) an Independent Tax Tribunal; and (iii) the Supreme Court. Staff guidance on the review process is clearly stated in an Objection Review Guide.

No guidance information on appeal rights procedure is published for taxpayers. Auditors provide information on the taxpayers' appeal right in accordance with the Audit manual. The assessment notice form sent to taxpayers clearly states their appeal rights and time limit. However, there is no guidance information publicly available for taxpayers regarding the dispute resolution process except as contained within the relevant legislation.

P7-24: Time taken to resolve disputes

This indicator assesses how responsive the tax administration is in completing administrative reviews. Assessed scores are shown in Table 25 followed by an explanation of reasons underlying the assessment.

Table 25. P7-24 Assessment

Measurement dimensions	Scoring Method	Score 2021
P7-24. The time taken to complete administrative reviews.	M1	D

The MORC completes only 26 percent of administrative reviews of tax dispute cases within the TADAT good practice standard of 90 percent within 30 days. During the period from July 2019 to June 2020, the percentage of cases finalized within 90 days was 78 percent, and within 60 days was 65 percent.

P7-25: Degree to which dispute outcomes are acted upon

This indicator looks at the extent to which dispute outcomes are taken into account in determining policy, legislation, and administrative procedure. The assessed score is shown in Table 26 followed by an explanation of reasons underlying the assessment.

Table 26. P7-25 Assessment

Measurement dimension	Scoring Method	Score 2021
P7-25. The extent to which the tax administration responds to dispute outcomes.	M1	D

No analysis is made on the outcomes of tax dispute cases. Tax dispute cases are small in number and most of the cases are factual issues such as levels of gross profit margins or lack of provided evidence.

POA 8: Efficient Revenue Management

This POA focuses on three key activities performed by tax administrations in relation to revenue management:

- Providing input to government budgeting processes of tax revenue forecasting and tax revenue estimating. (As a general rule, primary responsibility for advising government on tax revenue forecasts and estimates rests with the Ministry of Finance. The tax administration provides data and analytical input to the forecasting and estimating processes. Ministries of Finance often set

operational revenue collection targets for the tax administration based on forecasts of revenue for different taxes.)¹⁰

- Maintaining a system of revenue accounts.
- Paying tax refunds.

Three performance indicators are used to assess POA 8:

- P8-26—Contribution to government tax revenue forecasting process.
- P8-27—Adequacy of the tax revenue accounting system.
- P8-28—Adequacy of tax refund processing.

P8-26: Contribution to government tax revenue forecasting process

This indicator assesses the extent of tax administration input to government tax revenue forecasting and estimating. The assessed score is shown in Table 27 followed by an explanation of reasons underlying the assessment.

Table 27. P8-26 Assessment

Measurement dimensions	Scoring Method	Score 2021
P8-26. The extent of tax administration input to government tax revenue forecasting and estimating.	M1	A

The MORC provides robust input into government processes for tax revenue forecasting and tax revenue estimation. Dedicated personnel monitor revenue received against forecasts for all core taxes on a weekly basis and provide a summary report monthly to the MOF. CT refunds are estimated through the forecasting process and paid from consolidated CT revenue. Various tax concessions, granted principally to assist with recovery from natural disasters, are available to some classes of taxpayers and applied largely to imports. The cost to revenue of these expenditures is reported monthly. Monitoring of the accumulation of losses and tax refunds is also maintained.

P8-27: Adequacy of the tax revenue accounting system

This indicator examines the adequacy of the tax revenue accounting system. Assessed scores are shown in Table 28 followed by an explanation of reasons underlying the assessment.

¹⁰ It is common for Ministries of Finance to review budget revenue forecasts and related tax collection targets during the fiscal year (particularly mid-year) to take account of changes in forecasting assumptions, especially changes in the macroeconomic environment.

Table 28. P8-27 Assessment

Measurement dimension	Scoring Method	Score 2021
P8-27. Adequacy of the tax administration's revenue accounting system.	M1	C

The MORC's accounting system is compliant with Government requirements, but the system is not regularly reviewed through internal audits. The MORC is yet to establish an internal audit capability. External audits are conducted by the Auditor General's (AG) office, the most recent of which occurred in April 2019. Findings from the audit were generally favorable with only minor matters identified. The accounting system conforms to the established government accounting standards. MORC's accounting system does not electronically interface with the MOF system, however, a manual exchange of data is completed on a weekly basis. Tax liabilities and payments are posted to the system on the same date as they are created or receipted.

P8-28: Adequacy of tax refund processing

For this indicator, two measurement dimensions assess the tax administration's system of processing VAT refund claims. Assessed scores are shown in Table 29 followed by an explanation of reasons underlying the assessment.

Table 29. P8-28 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P8-28-1. Adequacy of the CT refund system.	M2	D	D
P8-28-2. The time taken to pay (or offset) CT refunds.		D	

CT refunds are only partially subject to limited risk-based verification activities. LTO-assigned taxpayers and taxpayers under the *Heilala* program receive refunds based on a risk assessment of their compliance profile. This process is not automated. Refunds issued on this basis are subjected to randomized post-issue verification. Other taxpayers who apply for a refund are subjected to a full verification activity which examines all inputs and outputs prior to release. Refunds are generally paid from consolidated revenue when claims occur, however impacts of the COVID-19 pandemic have driven a sharp increase in refund applications. In order to reduce impacts on government revenue from this increase, informal arrangements are in place with some taxpayers to spread refunds across two financial years. Taxpayers do not receive interest on delayed refunds as there is no requirement in law to do so.

The CT legislation sets 45 days to issue CT refunds which influences the timing of refund payments. International good practice (TADAT) provides for refund payments, offsets or decline within 30 days, and the scores are graduated accordingly. As outlined in Table 15 of Attachment III, only 8

percent by number and 4.1 percent by value of refunds meet this requirement. Officials advised that under the 45-day standard, about 22 percent of refunds are currently paid within 30 days and that the 45-day rule is generally met in most cases. In part this is due to the number of taxpayers actively seeking refunds being few, and MORC generally being able to keep pace with this level of demand.

POA 9: Accountability and Transparency

Accountability and transparency are central pillars of good governance. Their institutionalization reflects the principle that tax administrations should be answerable for the way they use public resources and exercise authority. To enhance community confidence and trust, tax administrations should be openly accountable for their actions within a framework of responsibility to the minister, government, legislature, and the general public.

Four performance indicators are used to assess POA 9:

- P9-29—Internal assurance mechanisms.
- P9-30—External oversight of the tax administration.
- P9-31—Public perception of integrity.
- P9-32—Publication of activities, results, and plans.

P9-29: Internal assurance mechanisms

For this indicator, two measurement dimensions assess the internal assurance mechanisms in place to protect the tax administration from loss, error, and fraud. Assessed scores are shown in Table 30 followed by an explanation of reasons underlying the assessment.

Table 30. P9-29 Assessment

Measurement dimensions	Scoring Method	Score 2021
P9-29-1. Assurance provided by internal audit.	M2	D
P9-29-2. Staff integrity assurance mechanisms.		B
		C

The formation of an organizationally independent and fully functional internal audit unit is planned under the MORC's Corporate Services Division (CSD), but its establishment has yet to occur. Recruitment appears to be the major issue holding up the standing up of the unit. In discussions with the MORC officials, there is a solid understanding of the role and functions of an internal audit unit and the fact that it already appears in the organizational structure chart for the CSD provides evidence that the MORC will, subject to appropriate recruitment, eventually set the unit up. MORC officials also acknowledged the inherent skills and specialized training required for staff appointed to this unit.

Internal controls were clearly evident in each SOP reviewed but no central repository is maintained. All tax administration operations are supported by comprehensive SOPs. Identification of many internal controls covering policies, processes and procedures were easily identified. These covered a typically standard range of areas including: IT system controls; separation of duties; transaction authorizations; and accounting reconciliations. The MORC officials acknowledged that a key function of an Internal Audit Unit would be to document each internal control, maintain a register for them, and conduct regular assurance checks that they are being adhered to.

A formal code of ethics and professional conduct is in place. The code comes under Section 19 of the Public Service Act 2010 so covers all departments and government agencies with the PSC being the custodians of the code. The original code was introduced in 2004 but replaced by the 2010 Act. A revision of the code took place in 2016.

All new staff to the MORC receive training in the code of ethics and must complete a test to verify their understanding. Staff are required to sign an acknowledgment of their employment which contains a reference to the code including the requirement for secrecy.

Within the MORC, the CSD undertakes investigations on staff where there is an alleged breach of the code of ethics with a report going directly to the CEO. Staff in the HR Unit are trained to undertake such investigations but do not have any special powers to do so. Statistics are kept on the number and type of cases, but the incidence of such matters is rare with only two cases investigated in the 2019/2020 financial year. More serious cases can be referred to the PSC and ultimately the Police and/or Attorney General. No cases have been referred to the Police or Attorney General in the last three years.

P9-30: External oversight of the tax administration

Two measurement dimensions of this indicator assess: (1) the extent of independent external oversight of the tax administration's operations and financial performance; and (2) the investigation process for suspected wrongdoing and maladministration. Assessed scores are shown in Table 31 followed by an explanation of reasons underlying the assessment.

Table 31. P9-30 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P9-30-1. The extent of independent external oversight of the tax administration's operations and financial performance.	M2	D	D
P9-30-2. The investigation process for suspected wrongdoing and maladministration.		D	

The AG conducts periodic inspections of the MORC including separate inspections of individual branches. These are not conducted on an annual basis with the most recent being conducted in January 2019 covering almost a two-year period prior. The AG audit reports contain multiple

recommendations covering findings they made during the audit but there is no evidence of any response to the recommendations (for example: where they may agree or in cases where the recommendation is not agreed to). No evidence was provided to confirm that the AG's reports are made public.

Tonga's Ombudsman conducts investigations of taxpayers' complaints against the MORC. In his report both findings and recommendations are made. In the case of one complaint reviewed, there was also a response by the Administration to the Ombudsman's recommendations. Cases involving the MORC that are lodged with the Ombudsman are few in number and infrequent, hence there is no regular reporting in place.

Tonga does not have an anti-corruption agency. Cases falling into this category are referred to the Police or the Attorney General. No cases have been referred involving suspected corruption in the last three years.

P9-31: Public perception of integrity

This indicator examines measures taken to gauge public confidence in the tax administration.

The assessed score is shown in Table 32 followed by an explanation of the reasons underlying the assessment.

Table 32. P9-31 Assessment

Measurement dimension	Scoring Method	Score 2021
P9-31. The mechanism for monitoring public confidence in the tax administration.	M1	C

A Taxpayer Satisfaction Survey was conducted in 2018 to assess and evaluate taxpayers' and public's perception of the level and quality of service delivered by the MORC and whether their service expectations are being met. This survey was not conducted independently but by officials of the MORC (with support from PFTAC) with the survey population selected randomly. Although the survey was broad in the areas it covered, a section of the survey specifically asked taxpayers to provide their views on whether the MORC administered the tax system fairly or not. Some 93 percent of the survey population agreed with the statement that *"The Ministry of Revenue and Customs administers the tax system fairly."* One recommendation that came from the survey was that further surveys should be undertaken on a regular basis (for example every 18 months). Unfortunately, plans to undertake this have been put on hold due to the COVID pandemic which re-focused priorities from early 2020.

P9-32: Publication of activities, results, and plans

Two measurement dimensions of this indicator assess the extent of: (1) public reporting of financial and operational performance; and (2) publication of future directions and plans. Assessed scores are shown in Table 33 followed by an explanation of reasons underlying the assessment.

Table 33. P9-32 Assessment

Measurement dimensions	Scoring Method	Score 2021	
P9-32-1. The extent to which the financial and operational performance of the tax administration is made public, and the timeliness of publication.	M2	A	A
P9-32-2. The extent to which the tax administration's future directions and plans are made public, and the timeliness of publication.		A	

A comprehensive Annual Report is prepared on the financial and operational performance of the MORC. This report is normally submitted to Parliament in September each year. A delay in this timeframe occurred for the 2019/2020 Annual Report due to the COVID pandemic with submission to Parliament occurring in May 2021. At this stage, although the 2020/2021 Annual Report will be prepared by September 2021, no scheduled date for submission to Parliament has been determined but the expectation is that it will be delayed again. These unusual circumstances, which have delayed the normal submission process, have been taken into account for this assessment.

A multi-year MORC Corporate Plan outlines the organization's future directions and plans. The current plan, released in 2020, is for the period 2020/2021 to 2022/2023 and was available in advance of the period covered. The Corporate Plan publicly details: reforms; priorities; plans; outputs and KPIs; and budget and staffing. Output-focused annual operational plans are then prepared by individual divisions within the MORC.

The first time ever produced CIS has also been publicly released. This strategy was released in 2019 and covers the period 2019 – 2021. The CIS is the primary document that sets out specific strategies to promote and enhance taxpayers' compliance levels.

Attachment I. TADAT Framework

Performance outcome areas

TADAT assesses the performance of a country's tax administration system by reference to nine outcome areas:

1. **Integrity of the registered taxpayer base:** Registration of taxpayers and maintenance of a complete and accurate taxpayer database is fundamental to effective tax administration.
2. **Effective risk management:** Performance improves when risks to revenue and tax administration operations are identified and systematically managed.
3. **Supporting voluntary compliance:** Usually, most taxpayers will meet their tax obligations if they are given the necessary information and support to enable them to comply voluntarily.
4. **On-time filing of declarations:** Timely filing is essential because the filing of a tax declaration is a principal means by which a taxpayer's tax liability is established and becomes due and payable.
5. **On-time payment of taxes:** Non-payment and late payment of taxes can have a detrimental effect on government budgets and cash management. Collection of tax arrears is costly and time consuming.
6. **Accurate reporting in declarations:** Tax systems rely heavily on complete and accurate reporting of information in tax declarations. Audit and other verification activities, and proactive initiatives of taxpayer assistance, promote accurate reporting and mitigate tax fraud.
7. **Effective Tax Dispute Resolution:** Independent, accessible, and efficient review mechanisms safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing in a timely manner.
8. **Efficient revenue management:** Tax revenue collections must be fully accounted for, monitored against budget expectations, and analyzed to inform government revenue forecasting. Legitimate tax refunds to individuals and businesses must be paid promptly.
9. **Accountability and transparency:** As public institutions, tax administrations are answerable for the way they use public resources and exercise authority. Community confidence and trust are



enhanced when there is open accountability for administrative actions within a framework of responsibility to the minister, legislature, and general community.

Indicators and associated measurement dimensions

A set of 32 high-level indicators critical to tax administration performance are linked to the performance outcome areas. It is these indicators that are scored and reported on. A total of 55 measurement dimensions are taken into account in arriving at the indicator scores. Each indicator has between one and five measurement dimensions.

Repeated assessments will provide information on the extent to which a country's tax administration is improving.

Scoring methodology

The assessment of indicators follows the same approach followed in the Public Expenditure and Financial Accountability (PEFA) diagnostic tool so as to aid comparability where both tools are used.

Each of TADAT's 55 measurement dimensions is assessed separately. The overall score for an indicator is based on the assessment of the individual dimensions of the indicator. Combining the scores for dimensions into an overall score for an indicator is done using one of two methods: Method 1 (M1) or Method 2 (M2). For both M1 and M2, the four-point 'ABCD' scale is used to score each dimension and indicator.

Method M1 is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator).

Method M2 is based on averaging the scores for individual dimensions of an indicator. It is used for selected multi-dimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of higher scores on other dimensions for the same indicator.

Attachment II. Tonga: Country Snapshot

Geography	<p>Located in Oceania, Tonga is an archipelago in the South Pacific Ocean, about two-thirds of the way from Hawaii to New Zealand.</p> <p>Total area is 747 square kilometres, made of 717 square kilometres of land and 30 square kilometres of water. Only 45 of the nation's 171 islands are occupied.</p> <p>(Source: Central Intelligence Agency (CIA) World Factbook)</p>
Population	<p>105,780 July 2021 (estimated). Ranked 192nd in population in the world. Over two-thirds of the population lives on the island of Tongatapu.</p> <p>(Source: CIA World Factbook)</p>
Languages	<p>Tongan and English 76.8 percent; Tongan, English, and other language 10.6 percent; Tongan only (official) 8.7 percent; English only (official) 0.7percent, other 1.7 percent, none 2.2 percent (2016 estimate).</p> <p>Note: Data represent persons aged 5 and older who can read and write a simple sentence in Tongan, English, or another language.</p> <p>(Source: CIA World Factbook)</p>
Adult literacy rate	<p>99.5 percent of persons aged 15 and over can read and write.</p> <p>(Source: UNESCO.org)</p>
GDP	<p>0.51bn USD (2019).</p> <p>(Source: The World Bank)</p>
Per capita GDP	<p>6,416 USD (2019).</p> <p>(Source: The World Bank)</p>
Main industries	<p>Tourism, Construction, Fishing.</p> <p>(Source: CIA World Factbook)</p>
Communications	<p>Mobile cellular users per 100 people: 59.43 (2019 estimate).</p> <p>Internet users as a percentage of population: 41.25 percent (July 2018 estimate).</p> <p>(Source: Source: CIA World Factbook)</p>
Tax to GDP	<p>Tax as a percentage of GDP is 20.9 percent – 2019.</p> <p>(Source: IMF)</p>
Main Taxes	<p>CT (Rate 15 percent), CIT (Rate 25 percent), PIT (Rate 0/10/20/25 percent), Withholding Tax (Rate 15 percent).</p>
Number of taxpayers	<p>666 CT, 876 CIT, 514 PIT/Sole Trader, 1503, PAYE Withholding Tax Employers, 19,745 PIT Employees, 21 Domestic Excise Tax and 3,489 other taxpayers.</p> <p>(Source: MORC)</p>
Main collection agency	<p>Ministry of Revenue and Customs.</p>
Number of Staff in the Main collection Agency	<p>243</p> <p>(Source: MORC)</p>
Financial Year	<p>July 1 to June 30</p>
Impact of COVID-19 pandemic	<p>Tonga has so far avoided COVID-19 cases. (Source: World Health Organization)</p> <p>Tonga's recovery following the devastation of the 2018 Cyclone Gita has been derailed by a double blow from the COVID-19 pandemic and Cyclone Harold. FY2020 GDP growth is estimated to fall to -2½ percent due to domestic containment measures, a sudden stop in tourism, and investment delays. Government support measures included allowing deferral of tax, duty, and retirement contributions payments.</p> <p>The full brunt of the pandemic will be felt in FY2021 (beginning July) during peak tourism season, when a deeper contraction is expected. A worse outcome was avoided by early actions to close external borders—which has kept Tonga COVID-19-free—and prompt economic support. Beyond FY2021, the recovery is</p>

	expected to resume in line with the global recovery, but the magnitude and trajectory is uncertain. (Source: IMF Country Report No. 2021/026).
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Attachment III. Data Tables

A. Tax Revenue Collections

Table 1. Tax Revenue Collections, Years ended June 2018 to June 2020 ¹			
	[2018]	[2019]	[2020]
In local currency			
National budgeted tax revenue forecast²	189,348,900	203,446,600	221,969,600
Total tax revenue collections	214,699,045	219,396,372	220,805,355
Total Core Tax Revenue Collections¹¹	67,708,663	69,626,496	69,963,835
Corporate Income Tax (CIT)	20,296,584	24,966,195	22,165,833
Personal Income Tax (PIT)	1,077,726	1,406,936	1,049,688
Small Business Tax (SBT)	420,551	412,199	526,980
Pay as You Earn (PAYE) withholding by employers	18,752,084	19,025,581	20,116,210
Consumption Tax (CT) net ¹²	94,824,283	95,923,635	95,220,727
- Consumption Tax (CT)—gross domestic collections	27,029,255	27,768,029	30,545,722
- Consumption Tax (CT)—collected on imports	72,603,146	74,727,553	71,970,102
- Consumption Tax (CT)—refunds paid	(4,808,117)	(6,571,947)	(7,295,097)
Excises on domestic transactions	4,940,580	2,619,504	2,854,499
Excises—collected on imports	54,369,141	52,273,182	57,218,007
Other domestic taxes ³	11,642,471	13,654,540	13,015,880
Withholding Tax - Residents	602,558	1,003,884	813,230
Withholding Tax - Non-residents	7,769,630	8,108,654	7,822,806
Tax Agent Fees	1,778	1,580	1,495
Court Fees	1,658	484	-
In percent of total tax revenue collections			
Total tax revenue collections	100.0	100.0	100.0
Corporate Income Tax (CIT)	9.45	11.63	10.32
Personal Income Tax (PIT)	0.50	0.66	0.49
Small Business Tax (SBT)	0.20	0.19	0.25
Pay As You Earn (PAYE) withholding by employers	8.73	8.86	9.37
Value Added Tax (CT) net	44.17	44.68	44.35
- Consumption Tax (CT)—gross domestic collections	12.59	12.93	14.23
- Consumption Tax (CT)—collected on imports	33.82	34.81	33.52
- Consumption Tax (CT)—refunds paid	(2.24)	(3.06)	(3.40)
Excises—collected on domestic transactions	2.30	1.22	1.33
Excises—collected on imports	25.32	24.35	26.65
Other domestic taxes	5.42	6.36	6.06
Withholding Tax - Residents	0.28	0.47	0.38
Withholding Tax - Non-residents	3.62	3.78	3.64
Tax Agent Fees	0.00	0.00	0.00
Court Fees	0.00	0.00	0.00
In percent of GDP			
Total tax revenue collections	20.0	18.9	18.3
Corporate Income Tax (CIT)	1.89	2.14	1.83
Personal Income Tax (PIT)	0.10	0.12	0.08
Small Business Tax (SBT)	0.04	0.04	0.04
Pay As You Earn (PAYE) withholding by employers	1.75	1.63	1.66
Value Added Tax (CT) net	8.83	8.24	7.88

¹¹ Total core tax revenue collections = CIT + PIT + SBT + PAYE + (CT gross domestic collections - CT refunds paid) + Excise on domestic transactions.

¹² Consumption Tax = CT Net = (Gross domestic CT collected + CT collected on imports) - CT refunds paid

- Consumption Tax (CT)—gross domestic collections	2.52	2.39	2.53
- Consumption Tax (CT)—collected on imports	6.76	6.42	5.96
- Consumption Tax (CT)—refunds paid	(0.45)	(0.57)	(0.60)
Excises—collected on domestic transactions	0.46	0.23	0.24
Excises—collected on imports	5.07	4.49	4.73
Other domestic taxes	1.08	1.17	1.08
Withholding Tax - Resident	0.06	0.09	0.06
Withholding Tax – Non-Resident	0.72	0.70	0.65
Other domestic taxes	0.00	0.0	0.0
Nominal GDP in local currency	1,073,283,954	1,164,008,124	1,208,665,776

Explanatory notes:

¹ This table gathers data for three fiscal years (e.g. 2016 -18) in respect of all domestic tax revenues collected by the tax administration at the national level, plus CT and Excise tax collected on imports by the customs and/or other agency.

² This forecast is normally set by the Ministry of Finance (or equivalent) with input from the tax administration and, for purposes of this table, should only cover the taxes listed in the table. The final budgeted forecast, as adjusted through any mid-year review process, should be used.

³ 'Other domestic taxes collected at the national level by the tax administration include, for example, property taxes, financial transaction taxes, and environment taxes.

B. Movements in the Taxpayer Register

Table 2. Movements in the Taxpayer Register, Years ended June 2018 to June 2020

(Ref: POA1)

	Registered taxpayers ¹ [A]	Taxpayers otherwise not required to file ² [B]	Taxpayers Expected to File [C] = [(A) – (B)] ³	Memorandum items ⁴ [D]	
				New Registrations [D1]	Taxpayers deregistered during year [D2]
[2018]					
Corporate income tax	754	0	754	55	34
Personal income tax/Sole Trader	516	0	516	60	16
PAYE withholding (withholding by employers)	,1463	0	1,463	74	11
Value Added Tax	666	0	666	21	9
Domestic excise tax ⁵	21	0	21		
Personal Income Tax Employment	16,026	0	16,026	1,346	0
Other Taxpayers (Small Business Tax)	2,685	0	2685	337	37
[2019]					
Corporate income tax	798	0	798	66	22
Personal income tax/Sole Trader	518	0	518	10	8
PAYE withholding (withholding by employers)	1,537	0	1537	89	15
Value Added Tax	669	0	669	10	7
Domestic excise tax ⁵	21	0	21		
Personal Income Tax Employment	17,517	0	17517	1,491	0
Other Taxpayers (Small Business Tax)	3013	0	3013	351	23
[2020]					
Corporate income tax	837	0	837	83	44
Personal income tax/Sole Trader	516	0	516	7	9
PAYE withholding (withholding by employers)	1,520	0	1,520	0	17
Value Added Tax	666	0	666	5	8
Domestic excise tax ⁵	21	0	21		
Personal Income Tax Employment	18,631	0	18,631	1,114	0
Other Taxpayers (Small Business Tax)	3251	0	3,251	252	14

Explanatory Notes:

¹ A registered taxpayer who is in the tax administration's taxpayer database.

² Taxpayers not required to file declarations' means taxpayers who are registered but are currently not required to file by law or regulation and are explicitly flagged in the automated tax administration system.

³ Expected filing calculations to be used in Indicator P4-12.

⁴ Taxpayer register activity information.

⁵ For purposes of a TADAT assessment, the focus is on those registered domestic excise taxpayers who trade in goods/services that contribute 70 percent of the total domestic excise revenue by value.

C. Telephone Enquiries

(Ref: POA 3)

Table 3. Telephone Enquiry Call Waiting Time (for year ended June 2020)			
Month	Total number of telephone enquiry calls received	Telephone enquiry calls answered within 6 minutes' waiting time	
		Number	In percent of total calls
Jul-19	17	17	100
Aug-19	26	26	100
Sep-19	30	30	100
Oct-19	26	26	100
Nov-19	32	32	100
Dec-19	48	48	100
Jan-20	32	32	100
Feb-20	41	41	100
Mar-20	36	36	100
Apr-20	40	40	100
May-20	13	13	100
Jun-20	10	10	100
12-month total	351	351	100

D. Filing of Tax Declarations

(Ref: POA 4)

Table 4. On-time Filing of CIT Declarations for year ended June 2020			
	Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
All CIT taxpayers	495	856	57.8
Large taxpayers only	15	15	100.0

Explanatory notes:

¹ 'On-time' filing means declarations (also known as 'returns') filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

² 'Expected declarations' means the number of CIT declarations that the tax administration expected to receive from registered CIT taxpayers that were required by law to file declarations.

³ The 'on-time filing rate' is the number of declarations filed by the statutory due date as a percentage of the total number of declarations expected from registered taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of CIT declarations filed by the due date}}{\text{Number of declarations expected from active CIT taxpayers}} \times 100$$

Table 5 (A). On-time Filing of PIT Declarations (Employment) for year ended June 2020

Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
4,884	15,092	32.4

Explanatory notes:

¹ 'On-time' filing means declarations (also known as 'returns') filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

² 'Expected declarations' means the number of PIT declarations that the tax administration expected to receive from registered PIT taxpayers that were required by law to file declarations.

³ The 'on-time filing rate' is the number of declarations filed by the statutory due date as a percentage of the total number of declarations expected from registered taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of PIT declarations filed by the due date}}{\text{Number of PIT declarations expected from active PIT taxpayers}} \times 100$$

Table 5 (B). On-time Filing of SBT Declarations for year ended June 2020

Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
1,508	3,554	42.4

Explanatory notes:

¹ 'On-time' filing means declarations (also known as 'returns') filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

² 'Expected declarations' means the number of PIT declarations that the tax administration expected to receive from registered PIT taxpayers that were required by law to file declarations.

³ The 'on-time filing rate' is the number of declarations filed by the statutory due date as a percentage of the total number of declarations expected from registered taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of PIT declarations filed by the due date}}{\text{Number of PIT declarations expected from active PIT taxpayers}} \times 100$$

Table 6. On-time Filing of CT Declarations—All CT taxpayers
for year ended June 2020

Month	Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
Jul-19	619	692	89.5
Aug-19	617	693	89.0
Sep-19	620	692	89.6
Oct-19	619	694	89.2
Nov-19	617	697	88.5
Dec-19	626	710	88.2
Jan-20	629	710	88.6
Feb-20	617	713	86.5
Mar-20	604	710	85.1
Apr-20	604	710	85.1
May-20	601	714	84.2
Jun-20	608	711	85.5
12-month total	7,381	8,446	87.4

Explanatory notes:

¹ 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

² 'Expected declarations' means the number of CT declarations that the tax administration expected to receive from registered CT taxpayers that were required by law to file declarations.

³ The 'on-time filing rate' is the number of CT declarations filed by the statutory due date as a percentage of the total number of declarations expected from registered CT taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of VAT declarations filed by the due date}}{\text{Number of declarations expected from active VAT taxpayers}} \times 100$$

Table 7. On-time Filing of CT Declarations—Large taxpayers only
(for year ended June 2020)

Month	Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
Jul-19	15	15	100
Aug-19	15	15	100
Sep-19	15	15	100
Oct-19	15	15	100
Nov-19	15	15	100
Dec-19	15	15	100
Jan-20	15	15	100
Feb-20	15	15	100
Mar-20	15	15	100
Apr-20	15	15	100
May-20	15	15	100
Jun-20	15	15	100
12-month total	180	180	100.0

Explanatory notes:

¹ 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

² 'Expected declarations' means the number of CT declarations that the tax administration expected to receive from large taxpayers that were required by law to file CT declarations.

³ The 'on-time filing rate' is the number of CT declarations filed by large taxpayers by the statutory due date as a percentage of the total number of CT declarations expected from large taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of VAT declarations filed by the due date by large taxpayers}}{\text{Number of VAT declarations expected from active large taxpayers}} \times 100$$

Table 8. On-time Filing of Domestic Excise Tax Declarations
[for those excise tax goods/services categories contributing, by value, 70 percent of total domestic excise tax]
(for year ended June 2020)

Month	Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
Jul-19	15	20	75.0
Aug-19	15	20	75.0
Sep-19	16	20	80.0
Oct-19	17	20	85.0
Nov-19	17	20	85.0
Dec-19	15	20	75.0
Jan-20	18	20	90.0
Feb-20	18	20	90.0
Mar-20	19	20	95.0
Apr-20	18	20	90.0
May-20	19	20	95.0
Jun-20	18	20	90.0
12-month total	205	240	85.4

Explanatory notes:

¹ 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy) by registered domestic excise tax taxpayers who contribute up to 70 percent, by value, of the total domestic excise tax revenue.

² 'Expected declarations' means the number of excise tax declarations that the tax administration expected to receive from registered domestic excise tax taxpayers (the focus is on those registered domestic excise taxpayers who trade in the categories of goods/services that contribute 70 percent of the total domestic excise revenue by value) that are required by law to file excise tax declarations.

³ The 'on-time filing rate' is the number of excise tax declarations filed by taxpayers by the statutory due date as a percentage of the total number of excise duties declarations expected from registered domestic excise tax taxpayers who trade in the categories of goods/services that contribute 70 percent of the total domestic excise revenue by value, i.e. expressed as a ratio:

$$\frac{\text{Number of domestic excise tax declarations filed by the due date}}{\text{No. of domestic excise tax declarations expected from active domestic excise tax taxpayers}} \times 100$$

Table 9. On-time Filing of Domestic Excise Tax Declarations—Large taxpayers only
(for the most recent 12-month period)

Month	Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
Month 1	Customs do not differentiate Large Taxpayers; please refer Table 8		
Month 2			
Month 3			
Month 4			
Month 5			
Month 6			
Month 7			
Month 8			
Month 9			
Month 10			
Month 11			
Month 12			
12-month total			

Explanatory notes:

¹ 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy) by large taxpayers registered for domestic excise tax.

² 'Expected declarations' means the number of excise tax declarations that the tax administration expected to receive from ALL large taxpayers registered for domestic excise tax and are required by law to file excise tax declarations.

³ The 'on-time filing rate' is the number of excise tax declarations filed by large taxpayers by the statutory due date as a percentage of the total number of excise duties declarations expected from large taxpayers registered for domestic excise tax taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of domestic excise tax declarations from large taxpayers filed by the due date}}{\text{No. of domestic excise tax declarations expected from active large taxpayers registered for domestic excise tax}} \times 100$$

Table 10. On-time Filing of PAYE Withholding Declarations (filed by employers)
(for year ended June 2020)

Month	Number of declarations filed on-time ¹	Number of declarations expected to be filed ²	On-time filing rate ³ (In percent)
Jul-19	899	1,557	57.7
Aug-19	910	1,561	58.3
Sep-19	913	1,560	58.5
Oct-19	904	1,524	59.3
Nov-19	900	1,524	59.1
Dec-19	902	1,528	59.0
Jan-20	895	1,526	58.7
Feb-20	879	1,526	57.6
Mar-20	879	1,526	57.6
Apr-20	884	1,525	58.0
May-20	875	1,528	57.3
Jun-20	875	1,534	57.0
12-month total	10,715	18,419	58.2

Explanatory notes:

¹ 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

² 'Expected declarations' means the number of PAYE withholding declarations that the tax administration expected to receive from registered employers with PAYE withholding obligations that were required by law to file declarations.

³ The 'on-time filing rate' is the number of PAYE withholding declarations filed by employers by the statutory due date as a percentage of the total number of PAYE withholding declarations expected from registered employers, i.e. expressed as a ratio:

$$\frac{\text{Number of PAYE withholding declarations filed by the due date}}{\text{Number of PAYE withholding declarations expected from registered employers}} \times 100$$

E. Electronic Services

(Ref: POAs 4 and 5)

Table 11. Use of Electronic Services, Years ended June 2018 to June 2020 ¹			
	[2018]	[2019]	[2020]
	Electronic filing² (In percent of all declarations filed for each tax type)		
CIT	No TP registered; Only 2 Tax Types are available at the moment to allow lodge online. This is due to limitation of fund to facilitate for electronic filing.		0
PIT			0
PAYE (Withholding)	No TP Registered		4
CT			
Domestic excise tax (for all registered taxpayers)	No TP Registered		
Large taxpayers (all core taxes)			PT1,820,311.00
	Electronic payments³ (In percent of total number of payments received for each tax type)		
CIT	Cannot make payment through e-tax; only direct deposit/bank transfer into MORC's account		
PIT			
PAYE (Withholding)			
CT			
Domestic excise tax (for all registered taxpayers)			
Large taxpayers (all core taxes)			
	Electronic payments (In percent of total value of payments received for each tax type)		
CIT	Cannot make payment through e-tax; only direct deposit/bank transfer into MORC's account		
PIT			
PAYE (Withholding)			
CT			
Domestic excise tax (for all registered taxpayers)			
Large taxpayers (all core taxes)			
Explanatory notes:			
¹ Data in this table will provide an indicator of the extent to which the tax administration is using modern technology to transform operations, namely in areas of filing and payment.			
² For purposes of this table, electronic filing involves facilities that enable taxpayers to complete tax declarations online and file those declarations via the Internet.			
³ An electronic payment is a payment made from one bank account to another via electronic means without the direct intervention of bank staff instead of using cash or check, in person or by mail. Methods of electronic payment include credit cards, debit cards, and electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer's bank account to the Treasury account). Electronic payments may be made, for example, by mobile telephone where technology is used to turn mobile phones into an Internet terminal from which payments can be made.			

(Ref: POA 5)

Table 12. CT Payments Made During [for the year ending June 2020]

	CT payments made on-time ¹		CT payments due ²		On-time payment rate ³ (In percent)	
	All CT payers	Large CT payers	All CT payers	Large CT payers	All CT payers	Large CT payers
Number of payments	7,376	356	8,128	389	90.7	91.5
Value of payments	30,645,706	14,003,383	39,702,238	16,178,946	77.1	86.6

Explanatory notes:

¹ 'On-time' payment means paid on or before the statutory due date for payment (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

²'Payments due' include all payments due, whether self-assessed or administratively assessed (including as a result of an audit).

³The 'on-time payment rate' is the number (or value) of CT payments made by the statutory due date in percent of the total number (or value) of CT payments due, i.e. expressed as ratios:

- The on-time payment rate by number is: $\frac{\text{Number of VAT payments made by the due date}}{\text{Total number of VAT payments due}} \times 100$
- The on-time payment rate by value is: $\frac{\text{Value of VAT payments made by the due date}}{\text{Total value of VAT payments due}} \times 100$

G. Domestic Tax Arrears

(Ref: POA 5)

Table 13. Value of Tax Arrears, [for financial years ended 2018 to 2020]¹

	[2018]	[2019]	[2020]
	In local currency		
Total core tax revenue collections (from Table 1) (A)	62,768,083	67,006,992	67,109,336
Total core tax arrears at end of fiscal year ² (B)	216,075,736	202,575,758	93,206,046
Of which: Collectible ³ (C)	69,264,753	37,447,544	27,632,411
Of which: More than 12 months' old (D)	207,147,441	199,502,890	88,720,733
	In percent		
Ratio of (B) to (A) ⁴	344	302	139
Ratio of (C) to (A) ⁵	110	56	41
Ratio of (D) to (B) ⁶	96	98	95

Explanatory notes:

¹ Data in this table will be used in assessing the value of core tax arrears relative to annual collections and examining the extent to which unpaid tax liabilities are significantly overdue (i.e. older than 12 months).

² 'Total core tax arrears' include tax, penalties, and accumulated interest.

³ 'Collectible' core tax arrears is defined as the total amount of domestic tax, including interest and penalties, that is overdue for payment and which is not subject to collection impediments. Collectible core tax arrears therefore generally exclude: (a) amounts formally disputed by the taxpayer and for which collection action has been suspended pending the outcome, (b) amounts that are not legally recoverable (e.g., debt foregone through bankruptcy), and (c) arrears otherwise uncollectible (e.g., the debtor has no funds or other assets).

⁴ i.e. $\frac{\text{Value of total core tax arrears at end of fiscal year (B)}}{\text{Total core tax collected for fiscal year (A)}} \times 100$

⁵ i.e. $\frac{\text{Value of collectible core tax arrears at end of fiscal year (C)}}{\text{Total core tax collected for fiscal year (A)}} \times 100$

⁶ i.e. $\frac{\text{Value of core tax arrears >12 months' old at end of year (D)}}{\text{Value of total core tax arrears at end of fiscal year (B)}} \times 100$

H. Tax Dispute Resolution

(Ref: POA 7)

Table 14. Finalization of Administrative Reviews

For the year ending June 2020

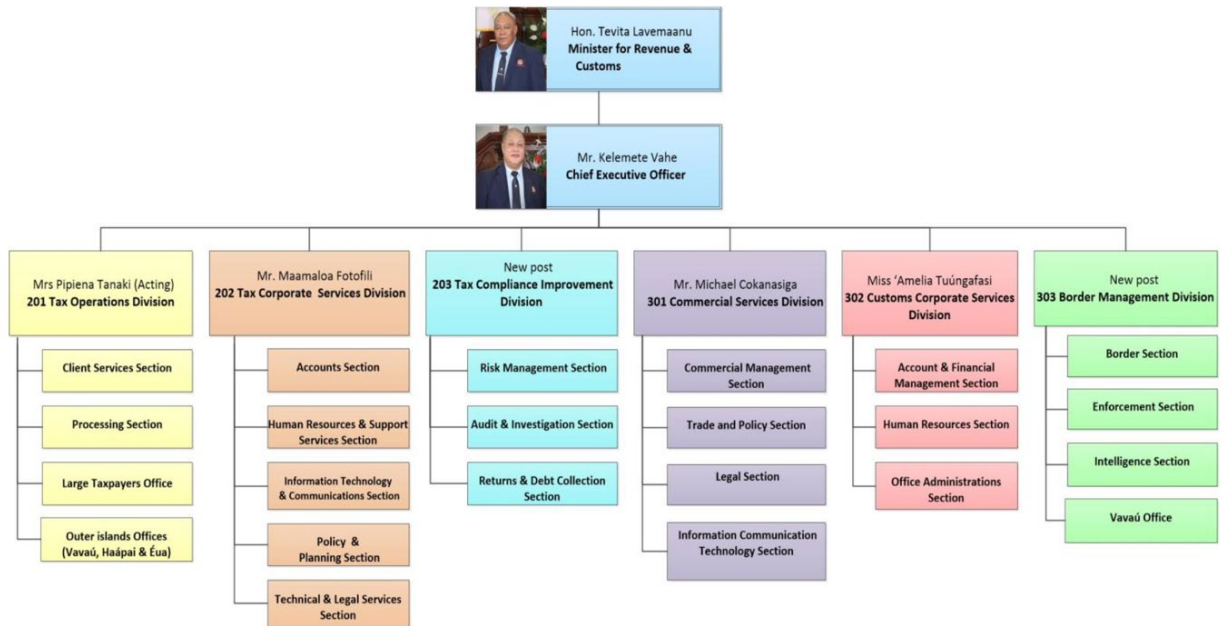
Month	Number of administrative review cases				Finalized within 30 days		Finalized within 60 days		Finalized within 90 days		Finalized more than 90 days	
	Stock at beginning of month	Received during the month	Finalized during the month	Stock at end of month	Number	In percent of total	Number	In percent of total	Number	In percent of total	Number	In percent of total
	[A]	[B]	[C]	[A + B - C]	[E]	[F] = [E / C]	[G]	[H] = [G / C]	[I]	[J] = [I / C]	[K]	[L] = [K/C]
Jul-19	4	3	2	5	1	50	1	50	0	0	0	0
Aug-19	5	4	4	5	2	50	1	25	1	25	0	0
Sep-19	5	0	3	2	1	33	1	33	0	0	1	33
Oct-19	2	4	2	4	0	0	2	100	0	0	0	0
Nov-19	4	3	0	7	0	0	0	0	0	0	0	0
Dec-19	7	1	2	6	0	0	1	50	1	50	0	0
Jan-20	6	0	0	6	0	0	0	0	0	0	0	0
Feb-20	6	1	5	2	0	0	1	20	1	20	3	60
Mar-20	2	2	2	2	2	100	0	0	0	0	0	0
Apr-20	2	1	1	2	0	0	1	100	0	0	0	0
May-20	2	0	2	0	0	0	1	50	0	0	1	50
Jun-20	0	1	0	1	0	0	0	0	0	0	0	0
Total			23									
12-month total					6	26	9	39	3	13	5	22

I. Payment of CT Refunds

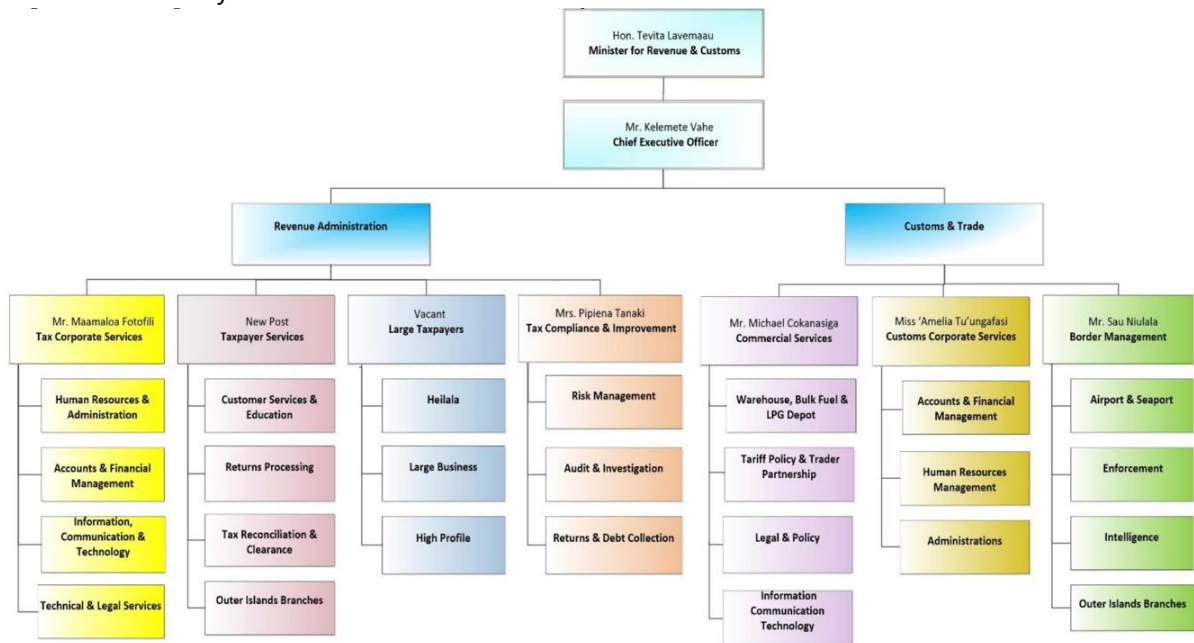
(Ref: POA 8)

Table 15. CT Refunds (for the year ending June 2020)		
	Number of cases	Value in Pa'anga
Total CT refund claims received (A)	300	1,365,430
Total CT refunds paid ¹	205	1,019,461
Of which: paid within 30 days (B) ²	22	53,597
Of which: paid outside 30 days	183	965,864
Total CT refund claims declined ³	6	2,695
Of which: declined within 30 days (C)	2	1,816
Of which: declined outside 30 days	4	880
Total CT refund claims not processed ⁴	7	9,405
Of which: no decision taken to decline refund	7	9,405
Of which: approved but not yet paid or offset		
In percent		
Ratio of (B+C) to (A) ⁵	8.0	4.1
Explanatory note: ¹ Include all refunds paid, as well as refunds offset against other tax liabilities. ² TADAT measures performance against a 30-day standard. ³ Include cases where a formal decision has been taken to decline (refuse) the taxpayer's claim for refund (e.g., where the legal requirements for refund have not been met). ⁴ Include all cases where refund processing is incomplete—i.e. where (a) the formal decision has not been taken to decline the refund claim; or (b) the refund has been approved but not paid or offset. ⁵ i.e. $\frac{\text{VAT refunds paid within 30 days (B)} + \text{VAT refunds declined within 30 days (C)}}{\text{Total VAT refund claims received (A)}} \times 100$		

Attachment IV. Organizational Chart



With effect from July 2021:



Attachment V. Sources of Evidence

Indicators	Sources of Evidence
P1-1. Accurate and reliable taxpayer information.	<ul style="list-style-type: none"> • Sole Trader TIN Application Form (Form 3B) • Company TIN Application Form (Form 4) • Individual TIN Application Form (Form 3A) • SOPs Registration/De-registration Process
P1-2. Knowledge of the potential taxpayer base.	<ul style="list-style-type: none"> • Laukau Campaign Report • MORC Internal Memorandum – Updated Status of Registered/Non-registered Businesses January 2020 • MORC Internal Memorandum – Non-Registered Business List March 2021
P2-3. Identification, assessment, ranking, and quantification of compliance risks.	<ul style="list-style-type: none"> • List of third-party data sources • Taxpayer compliance profiling tool • Compliance risk register template • MORC Corporate Plans 2020/21 to 2022/23 and 2021/22 to 2023/24 • CIS 2019-21 • Customs staff guidance on domestic excise
P2-4. Mitigation of risks through a compliance improvement plan.	<ul style="list-style-type: none"> • CIS 2019-21 • Staffing data: MORC Corporate Plan and Budget • Terms of Reference for GMC • Minutes of meetings of senior management team • Customs guidance manuals for staff on domestic excise
P2-5. Monitoring and evaluation of compliance risk mitigation activities.	<ul style="list-style-type: none"> • Minutes of meetings of senior management team • Guide to Tax Audits • Workflow charts for audit casework • Monthly reports on data matching of new business licenses with taxpayer register
P2-6. Management of operational (i.e. systems and processes) risks.	<ul style="list-style-type: none"> • Disaster Recovery Plan for IT systems • Performance reports from IT Section to CEO • Scope of work documents for IT system changes
P2-7. Management of human capital risks.	<ul style="list-style-type: none"> • Reports from PSC following review of performance management system • Corporate Plan and Budget 2021/22 to 2023/24 • MORC succession planning template
P3-8. Scope, currency, and accessibility of information.	<ul style="list-style-type: none"> • Examination of available taxpayer information including: pamphlets, newsletters, social media and related sources. • Review of new MORC website • Review of Tax Week activities • Review of LTO and Heilala activities

Indicators	Sources of Evidence
	<ul style="list-style-type: none"> Organizational Chart and interview with Client Support Services personnel. List of training activities undertaken. MORC Corporate Plan 2020/2021 – 2022/2023 Interviews and discussions with other responsible personnel
P3-9. Time taken to respond to information requests.	<ul style="list-style-type: none"> Data gathered in Attachment III, Table 15 Documented service delivery standards Management reports of performance achieved against the service delivery standards. Interviews and discussions with responsible personnel
P3-10. Scope of initiatives to reduce taxpayer compliance costs.	<ul style="list-style-type: none"> Withholding Tax Legislation Frequently Asked Questions List of identified issues provided to CEO Interviews and discussions with responsible personnel
P3-11. Obtaining taxpayer feedback on products and services.	<ul style="list-style-type: none"> Copies of survey forms and feedback examples. MORC E-Tax Survey Report MORC Taxpayers Satisfaction Survey – 2018 List of consultation forums and consultation activities undertaken in 2020 PAYE consultation activities 2020 Interviews and discussions with responsible personnel
P4-12. On-time filing rate.	<ul style="list-style-type: none"> Table 4. On-time Filing of CIT Declarations Table 5(A). On-time Filing of PIT Declarations (Employment) Table 5(B). On-time Filing of SBT Declarations Table 6. On-time Filing of CT Declarations Table 7. On-time Filing of CT Declarations—Large taxpayers only Table 8. On-time Filing of Domestic Excise Tax Declarations Table 9. On-time Filing of Domestic Excise Tax Declarations—Large taxpayers only Table 10. On-time Filing of PAYE Withholding Declarations (filed by employers)
P4-13 Management of non-filers.	<ul style="list-style-type: none"> SOP of tax returns management
P4-14. Use of electronic filing facilities.	<ul style="list-style-type: none"> Table 11. Use of Electronic Services
P5-15. Use of electronic payment methods.	<ul style="list-style-type: none"> Data gathered in Attachment III, Table 11 Core Legislation Organizational chart of the tax administration Interviews and discussions with responsible personnel MORC E-Tax Survey Report MORC Corporate plan
P5-16. Use of efficient collection systems.	<ul style="list-style-type: none"> Core Legislation Interviews and discussions with responsible personnel

Indicators	Sources of Evidence
P5-17. Timeliness of payments.	<ul style="list-style-type: none"> Data gathered in Attachment III, Table 12 Interviews and discussions with responsible personnel
P5-18. Stock and flow of tax arrears.	<ul style="list-style-type: none"> Data gathered in Attachment III, Table 13 Interviews and discussions with responsible personnel
P6-19. Scope of verification actions taken to detect and deter inaccurate reporting.	<ul style="list-style-type: none"> Taxpayer audit program spreadsheet and working / settled case lists Audit case lists and results sheets Taxpayer compliance profile matrix Audit Guide Customs Warehousing Manual Audit settlement and evaluation report templates Reports on KPIs for audit
P6-20. Use of large-scale data-matching systems to detect inaccurate reporting.	<ul style="list-style-type: none"> List of third-party data sources
P6-21. Initiatives undertaken to encourage accurate reporting.	<ul style="list-style-type: none"> Copies of public and private rulings Revenue Administration Act 2002
P6-22. Monitoring the tax gap to assess inaccuracy of reporting levels.	<ul style="list-style-type: none"> No evidence
P7-23. Existence of an independent, workable, and graduated dispute resolution process.	<ul style="list-style-type: none"> Revenue Service Administration Act 2002 Objection Review Guide
P7-24. Time taken to resolve disputes.	<ul style="list-style-type: none"> Table 14. Finalization of Administrative Reviews
P7-25. Degree to which dispute outcomes are acted upon.	<ul style="list-style-type: none"> No evidence
P8-26. Contribution to government tax revenue forecasting process.	<ul style="list-style-type: none"> Organizational chart of the tax administration Interviews and discussions with key personnel Documented reports to senior management and MOF regarding: <ul style="list-style-type: none"> Core tax revenue forecasts. Actual collections compared with forecasts for the current fiscal year. Reasons for material differences between collections and forecasts. Tax revenue foregone as a result of tax expenditures. CT refund data.
P8-27. Adequacy of the tax revenue accounting system.	<ul style="list-style-type: none"> Interviews and discussion with key personnel on the nature and scope of the accounting system. Documented revenue accounting procedures of the tax administration. External audit reports on the operation of the accounting system

Indicators	Sources of Evidence
P8-28. Adequacy of tax refund processing.	<ul style="list-style-type: none"> • Interviews and discussion with key personnel on the operation of the CT refund risk management process and related documentation. • Audit Manual section on processing CT refunds. • Data gathered in Attachment III, Table 15
P9-29. Internal assurance mechanisms.	<ul style="list-style-type: none"> • MORC Organizational Chart - Corporate Services Division • Tonga Public Service Act 2010 – Code of Ethics • PSC – Summary of Breaches of Code of Ethics 2019/2020 • PSC – New Inductee Training Quiz • PSC – Training Evaluation
P9-30. External oversight of the tax administration.	<ul style="list-style-type: none"> • MORC Annual Reports 2017/2018, 2018/2019, 2019/2020 • Ombudsman Tonga – Case Final Report • AG Reports
P9-31. Public perception of integrity.	<ul style="list-style-type: none"> • MORC E-Tax Survey Report • MORC Taxpayers Satisfaction Survey – 2018
P9-32. Publication of activities, results and plans.	<ul style="list-style-type: none"> • MORC Corporate Plan 2020/2021 – 2022/2023 • MORC Annual Reports 2017/2018, 2018/2019, 2019/2020 • MORC CIS 2019/2021 Version I

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