

## VANUATU<sup>1</sup>

The Inland Revenue Section within the Department of Customs & Inland Revenue is divided to two sections, the VAT Office and the Rates & Taxes Section.

Vanuatu is divided into 6 provinces and this year has seen a total of 5 VAT Offices operating in 5 of the 6 provinces. There are 2 offices for the Rates & Taxes Section in 2 of the provinces where the two municipalities are located.

### VAT

Back in 1997 Vanuatu was at the crossroad and leaders at that time supported the move to adopt and introduce the comprehensive reform program (CRP). Basically, tax reform was part of the CRP package. As a move to promote a fair and equitable tax system, the Vanuatu Government introduced the valued added tax (VAT) on 1<sup>st</sup> August 1998. The Vanuatu Parliament passed VAT Act No 12 of 1998.

VAT is an indirect tax on consumption, which applies to supplies of goods and services consumed in Vanuatu. It is charged and accounted for at the rate of 12.5%. Before the introduction of VAT, customs duty rates which were really high and other forms of taxes were applied: turnover tax, hotel tax, video tax, amusement tax and cheque levy. When VAT came into effect these taxes were abolished and high-valued duty rates were reduced dramatically. The introduction of VAT was meant to compensate for the reductions. It was specified that turnover tax was to be collected from professional services only (zero-rated for VAT and exempted from VAT). Current VAT threshold stands at 4 million vatu (US\$38,168 – exchange rate 104.80). VAT is seen as a fair and equitable tax system in Vanuatu.

The VAT Office has a team of 6 auditors and 8 compliance staff to maximize compliance with the VAT legislation through firm and fair enforcement. The number of staff is expected to increase by 6 by the end of the year.

### OTHER INLAND TAXES

The Rates & Taxes Section collected other inland taxes that include Business License Fee, Vehicle Tax, Turnover Tax from professional services only (zero-rated for VAT and exempt from VAT), Rent Tax, Liquor License Fee, Gaming Tax, Casino Tax, Interactive Gaming Tax and Betting Tax. There are 9 staff responsible for administering these taxes with 1 more staff expected to join the team by the end of this year. This section has yet to introduce auditors and is part of the department's plan to introduce an audit section within the next few years.

### DIFFICULTIES

Some problems encountered by the Inland Revenue Section are listed below:

- Lack of capacity to enforce its legislations
- Non-filing and non-payment of returns
- Non-recovery of taxes payable
- Lack of proper record keeping to ascertain correct tax liabilities
- Lack of voluntary compliance
- Limitations to the revenue management system (RMS)
- Lack of funds to upgrade the revenue management system
- Limitations to access the revenue management system outside the municipalities
- Geographical location of the islands
- Lack of readily available funds to enable visits to all taxpayers in the outer islands
- Difficulty in trying taxes cases before the court. The costs of inputs (preparation) are high while court fines are small
- Reviewing and amending legislations

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- Inconsistency of policy statements
- Weak cash flow to manage ongoing VAT refund processes

### **INITIATIVES**

The Vanuatu Government will depend on VAT and inland taxes in the near future as their source of revenue once customs duty rates are reduced dramatically when Vanuatu joins WTO. New initiatives continue to be taken to amend the inland tax legislations to maximize collections of inland taxes.

- The vehicle transfer fee and registration fee for the Vehicle Tax was increased from 4% to 7% this year.
- A penalty system to apply fines on the spot was introduced in April of this year to enforce compliance with the VAT legislation. Similarly there is a proposed amendment to apply fines on the spot for false declarations for Business License Fees.
- VAT registration certificates were issued to the retailers and wholesalers in June 2007 for the public to assist enforce compliance by ensuring all monies paid are recorded.
- A large taxpayer unit for the VAT Office audit section was introduced in June 2007 with the assistance of the Australian Tax Office. The unit is expected to be operational towards the end of this year.
- The Rent Tax Act is to be fully reviewed with proposed amendments by the end of this year.

The total number of active registered VAT taxpayers as at 31 August 2007 is 1,316. Total number of active taxpayers within the Rates & Taxes Section is 6,297. The Inland Revenue taxes contribute to approximately 59% of the total government revenue with VAT contributing to 35%, and Rates & Taxes contributes to 24%.