**Recent & Upcoming TA Missions**

**November**

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| PFM | Cook Is. | Assistance with PEFA Self- Assessment |
|  | Fiji | Implementing Accrual Accounting |
| Tax | Palau | Awareness seminars on VAT |
|  | Tonga | Preparation of legislation to implement a tax regime for the extractive industries sector and a small business tax |
|  | Vanuatu | Courtesy follow up on possible tax policy and administration reform issues (pre Steering committee Meeting) |
| Statistics | FSM | Sub-regional training course on National Accounts |
|  | Cook Is. | National Accounts - Quarterly |
|  | Vanuatu | National Accounts |
| PFTAC/IMF | Vanuatu | PFTAC Steering Committee and IMF Pacific Islands Conference |

**December**

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| PFM | Fiji | Implementing Accrual Accounting |
|  | Solomon Is. | PFM Roadmap Development Guidance – Phase 1 |
| Tax | Tonga | Finalization of regulations and Technical Notes for the new extractive industries and small business tax regimes |
|  | Palau | Finalizing VAT legislation |
| Statistics | Noumea | Regional Meeting for Statistical Heads (PSSC) |
|  | PNG | Review of methodology used to compile GDP estimates |
| Macro | PNG | Macroeconomic monitoring and forecasting framework |
| PFTAC/IMF | PNG | South Pacific Central Bank Governors’ meeting |

**January**

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| Tax | Tonga | Small Business Tax Implementation |
|  | Palau | Public Consultation on VAT |
| Statistics | Tonga | Improving National Accounts Statistics |

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**Meetings, Seminars & Workshops**

**Sub-Regional Training Course on National Accounts, Pohnpei, FSM, 4-8 November**

The workshop, attended by 11 participants from FSM, RMI, and Palau, was conducted by statistics advisors Russel Freeman and Greg Legoff. Topics covered included an overview of national accounts; production accounts; commodity flow and price and volume measures; methodology currently being implemented in the region; linkages with government finance and external sector statistics; and the use of administrative data.

**PFTAC Steering Committee and IMF Pacific Islands Conference, Port Vila, 21-22 November**

PFTAC staff, in collaboration with the Vanuatu authorities, hosted the 2013 Steering Committee meeting, in which the 2013 Annual Report was presented, and the work program and related issues wire discussed. Details and presentations are posted on the PFTAC website <http://www.pftac.org/>. Staff also attended the Pacific Islands Conference on *Lifting Potential Growth in the Pacific Islands*. Details are available at:

<http://www.imf.org/external/np/seminars/eng/2013/pic/index.htm>

**Heptagon Group of Pacific Donors, Sydney, 25 November.**

PFTAC Coordinator Scott Roger and Pacific Resident Representative Yongzheng Yang attended the meeting of donors, including ADB, Australia, European Union, Japan, New Zealand, and World Bank. Topics discussed included: the regional economic outlook; vulnerability and poverty in the Pacific; review of budget support strategies; and engagement with the private sector in development.

**Technical Assistance Issues**

**VAT as a Data Source for National Accounts**

**By Russel Freeman**

Most Pacific Island Countries have few staff and only very limited financial resources for collection of economic statistics. In such circumstances, it is essential to make maximum use of existing administrative data collected for other purposes, but which can be an inexpensive, readily usable source of information for production of national accounts or other statistics.

Over the last few years more and more countries in the Pacific have either implemented a value added tax (VAT) system, or are in the process of doing so, including Cook Islands, Fiji, Kiribati, Niue, Palau, PNG, Samoa, Tonga, Tuvalu, Vanuatu. These VAT systems nearly always include a software package which makes the data readily available as a potential data source.

In a typical value added tax system, all businesses over a specified turnover limit—$40,000 per annum for example—must register for VAT and charge the tax on their sales. In turn, they can deduct all VAT paid on their inputs and have to lodge a return and remit the net amount collected to the tax office. These returns are lodged periodically, usually on a monthly basis, but sometimes quarterly or even 2-monthly with half the businesses reporting on alternate months.

The VAT law sometimes specifies certain items that are exempt from VAT—for example, food in local markets, education, medicines—and others, usually exports, that attract a zero rate of VAT. Otherwise all commodities are subject to a fixed rate which makes VAT a relatively simple and efficient tax to administer. All purchases on which VAT is claimed need to be fully documented and the returns need to include the tax identification number of the seller.

In effect, contrary to common perception, the registered businesses don’t pay VAT all, but simply act as unpaid tax collectors for the government. Given that all VAT paid is quickly recovered from sales, there is no monetary reward for a business to game the system and make purchases exclusive of VAT on the black market. In practice, once businesses realize that being “exempt” from VAT is not as good as it initially sounds (they would in fact prefer to be zero-rated) because they still pay VAT on all their inputs

and cannot reclaim this, in some countries they volunteer to be registered even thought they are not legally bound to do so. In the final analysis, VAT is paid mostly by final consumers—households—who are not in business and by the unregistered businesses who cannot deduct the VAT they pay on their inputs. Typically around 90% of VAT is ultimately paid by households.

The periodic returns that businesses file differ from country to country but each contains the same basic information:

* Sales
* VAT collected
* Purchases—local
* Purchase—imported
* VAT paid

It requires some negotiation to overcome confidentiality issues but once access is obtained, this information is available in a very timely manner as, for example, monthly returns need to be processed within a month or else a back log is created. Filers need to lodge their returns by the end of the month and these need to be processed within a month, so data are potentially available within 60 days. Many countries are working towards electronic filing which reduces the processing burden.

For national accounts use, “sales” are not exactly the same as output because stock change is excluded but these differences tend to even out over time. The same is true for “purchases” which are not exactly the same as intermediate goods used because of stock change and purchases from businesses outside the VAT net. As a rule, “purchases” also include the purchase of capital goods which is a significant difference from the intermediate consumption concept but because capital purchases tend to be large compared to normal purchases they can potentially be identified in the data and removed.

Despite these imperfections, VAT data can—and does—provide timely, comprehensive national accounts indicators of far better quality than could be obtained from business surveys which suffer from both delayed and low response.

**Country TA Strategies**

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| vanuatu.png | **Vanuatu** |

## **Public Financial Management**

In the Public Financial Management area, Vanuatu receives support from a number of development partners, including AusAID and ADB. No direct inputs are anticipated in the short term, PFTAC will provide resources to support a PFM Roadmap.

**Revenue Administration**

In the tax revenue policy and administration area, direct support to the tax administration is provided by an AusAID funded resident advisor who is helping the administration implement reforms recommended in previous PFTAC TA.

There have been some recent discussions with the revenue authorities regarding possible changes to the tax policy settings and if the authorities decide to pursue policy reforms, PFTAC will provide TA to assist in developing the policy, implementing and administering the reforms.

**Statistics**

In macroeconomic statistics, PFTAC will continue to support the rebasing of the national accounts in 2013 and moving towards the production of quarterly accounts in 2014. IMF headquarters will provide support in strengthening the BOP and GFS statistics.

**Financial Sector Supervision**

In financial sector supervision, PFTAC will assist RBV adapt the base set of prudential returns developed by AFSPC to the Vanuatu context in advance of the regional implementation of RBNZ’s information system (FSIS).

 Support for the on-site supervision process will continue with the aim of adapting risk based banking supervision techniques to the financial institution sector.

A need for technical assistance to support the implementation of the oversight of credit unions, based on the amended Credit Union Act, including the impact

this will have on the supervision department, will be discussed with the RBV in November during a short mission.

**Macroeconomics**

Support in the macroeconomic analysis area will build on the enhanced economic statistics by using them to assist the Ministry of Finance strengthen its financial programming framework and to deliver training and capacity building to Finance and Central Bank staff.