

Customs and Inland Revenue

ANNUAL REPORT 2025

(Section 68, Tax Administration Act)



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Minister's Foreword.

The year 2025 was a significant period for Vanuatu's public finances, economic recovery, and institutional reform. Against the backdrop of post-disaster reconstruction, rising global cost pressures, and the Government's commitment to fiscal sustainability, **Customs and Inland Revenue (CIR) played a central role in protecting the national revenue base and supporting economic stability.**

The Government remains firmly committed to **strengthening domestic revenue mobilisation as a cornerstone of national development**, reducing reliance on external financing, and ensuring that public resources are raised fairly, transparently, and efficiently. In this context, the performance of Customs and Inland Revenue during 2025 was both critical and commendable.

Revenue outcomes for the year reflect the combined impact of **economic recovery efforts, improved compliance, and sustained enforcement at the border and within the domestic tax system.** At the same time, the year also highlighted structural challenges in tax compliance, debt accumulation, and system capability, which the Government has acknowledged and is actively addressing through ongoing reforms.

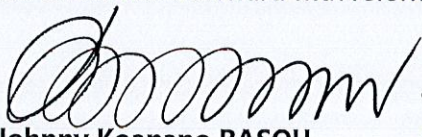
The Government continues to prioritise:

- **Modernisation of tax and customs systems**, including digital service delivery and data integration
- **Stronger compliance and enforcement**, particularly to address evasion, avoidance, and arrears
- **Improved service to compliant taxpayers and traders**, to support ease of doing business
- **Capacity building and integrity within revenue institutions**, recognising the importance of skilled and ethical public servants

Customs' achievements in border security and trade facilitation, together with Inland Revenue's efforts to strengthen VAT performance, audits, and compliance visibility, directly support the Government's broader objectives of **economic resilience, national security, and inclusive growth.**

I acknowledge the dedication and professionalism of the officers of Customs and Inland Revenue, who continued to deliver under challenging circumstances. Their work underpins the Government's ability to fund essential services, infrastructure, and social programmes that benefit all citizens.

This Annual Report is presented in the spirit of **transparency and accountability to Parliament and the people of Vanuatu**, providing an accurate account of performance, challenges, and priorities as we move forward with reform and recovery.


Hon. Johnny Koanapo RASOU
Deputy Prime Minister
Minister of Finance and Economic Management



Director General's Statement.

I am pleased to present the Customs and Inland Revenue Annual Report for the 2025 financial year.

During 2025, CIR focused on strengthening core revenue administration, enhancing compliance measures, and advancing modernisation initiatives. Despite operational and economic challenges, the Department achieved solid results in revenue collection and compliance enforcement.

Key priorities included improved risk management, digital service delivery, staff capacity building, and closer collaboration with domestic and international stakeholders. These efforts laid an important foundation for future reforms.

I extend my appreciation to our officers, partner agencies, and stakeholders for their continued commitment and cooperation.



Mr. Roan Lester Sunghk
Director General
Ministry of Finance and Economic Management

Director's Message.

I am pleased to present the Customs and Inland Revenue Annual Report for the year ended 31 December 2025. At the outset, I wish to express my sincere appreciation to the **Government**, through the **Honourable Minister responsible for Finance and Economic Management**, for the continued confidence, policy direction, and leadership provided to Customs and Inland Revenue during 2025. The Government's ongoing commitment to strengthening revenue mobilisation, improving border security, and modernising public institutions has been instrumental in guiding the Department's work throughout the year.

I also acknowledge with gratitude the **Director General's Office** for its consistent support, strategic oversight, and guidance. The year 2025 presented a complex set of circumstances, including post-disaster recovery, increased compliance risks, and growing demands on border and revenue administration. Despite these challenges, the dedication and professionalism of Customs and Inland Revenue staff ensured continuity of operations and delivery against key priorities.

In addition, I acknowledge the invaluable support of our **regional and international partners**, whose technical assistance, capacity-building initiatives, and operational cooperation continue to strengthen our institutional capability. In particular, I extend appreciation to:

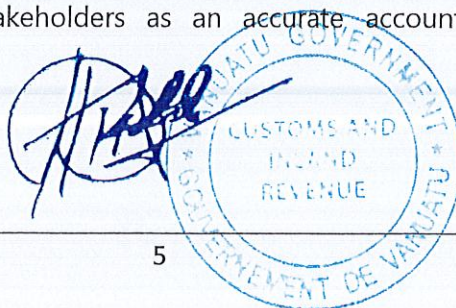
- The **Oceania Customs Organization (OCO)** for fostering regional cooperation and supporting enforcement, valuation, and intelligence-sharing initiatives;
- The **Pacific Islands Tax Administration Association (PITAA)** for promoting best practice in tax administration and facilitating regional collaboration among revenue authorities;
- The **Pacific Financial Technical Assistance Centre (PFTAC)** for its ongoing support in tax policy, administration reform, and capacity development;
- The **World Customs Organization (WCO)** for providing international standards, technical guidance, and training support aligned with global best practice; and
- The **Australian Border Force (ABF)** for its continued partnership, including operational support, training, and the provision of critical border security equipment.

The contributions of these partners have played an important role in enhancing risk management, compliance capability, trade facilitation, and border security outcomes in Vanuatu.

Looking ahead, Customs and Inland Revenue remains committed to strengthening compliance, improving service delivery, advancing digital transformation, and supporting the Government's broader fiscal and economic objectives. The experiences and lessons of 2025 will continue to inform our reform agenda as we work to build a more resilient, efficient, and trusted revenue administration.

I thank all officers of Customs and Inland Revenue, from far remote offices in the provinces to the main headquarters in Port Vila, for their dedication and resilience, and I commend this report to Government, Parliament, and stakeholders as an accurate account of the Department's performance during the year 2025.

**Mr. Harold Tarosa, Director
Customs and Inland Revenue**

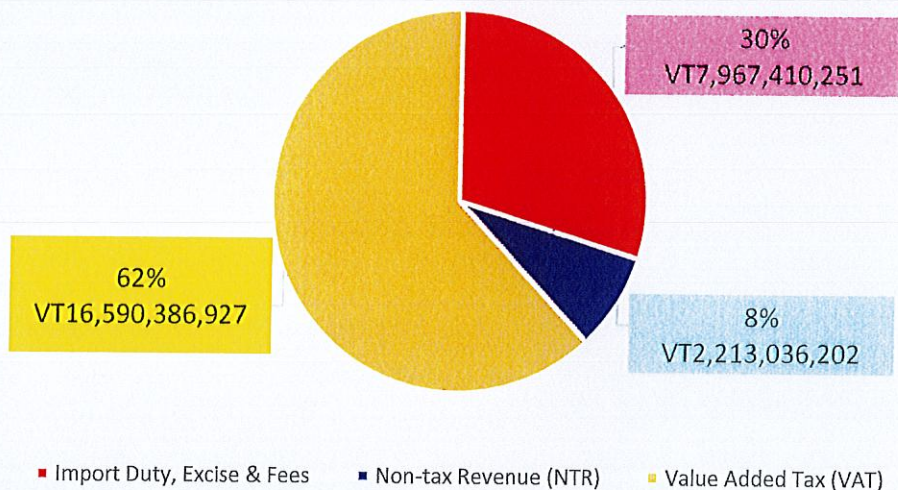


Revenue Performance Overview.

In 2025, Customs and Inland Revenue (CIR) collected a total of **VT 26.77 billion**, exceeding the overall revenue target of VT 24.84 billion. This strong performance was largely driven by **Value Added Tax (VAT)**, which exceeded its annual target by approximately **VT 2.45 billion**, reflecting increased economic activity linked to post-earthquake reconstruction and growth in imports.

However, **Customs duties and excise revenue** fell short of the allocated target by approximately **VT 772 million**, primarily due to increased concessions and exemptions, including aid-funded projects, concessional loans, and a higher proportion of zero-rated or exempt imports. **Non-tax revenue** exceeded expectations, supported by strong collections from vehicle registration, road tax, liquor licensing, and turnover tax.

Figure 1: Summary of Revenue Performance



VAT BREAKDOWN BY DIVISION

VAT Target	VT14,137,481,892
VAT Actual Collection	VT16,590,386,927
VAT - Import (SINGLE WINDOW SYSTEM)	VT9,115,526,690
Estimate - VAT – Domestic (REVENUE MANAGEMENT SYSTEM)	VT7,474,860,237
Actual Collection - SMARTSTREAM	
Cost Centre contribution to Revenue	
3601 2,389,642	VT2,389,642
3603 15,670,518,109	VT16,479,011,243
3605 20,755,126	VT108,909,277
3606 76,765	VT76,765
TOTAL	VT16,590,386,927

Analysis of VAT Collection at Import versus Domestic VAT – 2025.

VAT Collection Performance.

In 2025, total Value Added Tax (VAT) collections amounted to **VT 16.59 billion**, exceeding the approved target of **VT 14.14 billion** by approximately **17 percent**. VAT collected at the **border (imports)** accounted for **VT 9.12 billion**, representing approximately **55 percent** of total VAT revenue. **Domestic VAT**, collected from registered taxpayers on local supplies, contributed an estimated **VT 7.47 billion**, or **45 percent** of total VAT collections.

This distribution indicates that VAT collected at import continues to be the **dominant and more reliable source of VAT revenue**, reflecting the structure of the economy, which remains **import-dependent**, particularly for fuel, construction materials, consumer goods, and capital equipment.

Reasons for the Difference in VAT Collection.

VAT at import is structurally easier to administer and enforce than domestic VAT. Collection occurs at a single control point, prior to the release of goods, and is supported by Customs controls, documentation requirements, and automated systems. As a result, compliance levels at the border are generally higher, and opportunities for non-compliance are more limited.

By contrast, **domestic VAT relies heavily on voluntary compliance**, accurate record-keeping, timely filing, and correct self-assessment by taxpayers. This exposes the system to a wider range of compliance risks, including under-reporting, non-filing, delayed payments, and cash-based transactions that are difficult to detect.

Tax Evasion and Avoidance – Systemic Considerations.

The **gap between import VAT and domestic VAT collections does not, in itself, indicate widespread illegal activity**, but it does highlight **structural vulnerabilities** within the domestic tax environment.

Key factors contributing to tax evasion and avoidance risks in Vanuatu include:

- **High levels of cash-based economic activity**, particularly among small and informal businesses, reducing transaction visibility.
- **Weak or inconsistent record-keeping practices** among smaller taxpayers, despite education and outreach efforts.
- **Limited audit coverage** relative to the overall taxpayer population, due to resource constraints.
- **Complexity of VAT obligations**, especially for newly registered taxpayers or those affected by economic shocks.
- **Post-disaster economic conditions**, including the impacts of the December 2024 earthquake, which affected business continuity, record retention, and filing compliance in 2025.

Tax avoidance, while generally lawful, also affects collections through **structuring of transactions, exemptions, zero-rating provisions, and threshold-based registration rules**, all of which reduce the domestic VAT base without breaching legislation.

Compliance and Risk Management Response.

In 2025, Inland Revenue implemented **risk-based audits, compliance visits, and record-keeping checks**, which confirmed that while compliance among medium and large taxpayers remains relatively strong, **non-compliance risk is concentrated within the small and emerging business segment**. Filing compliance data further shows a **decline in domestic compliance during the second half of the year**, which directly correlates with the observed increase in VAT debt.

The Department continues to strengthen compliance through:

- Targeted audits and sector-based compliance projects;
- Increased visibility and taxpayer education;
- Improved data matching between Customs and Inland Revenue;
- System enhancements aimed at improving filing, reporting, and debt accuracy.

Overall Assessment.

The difference between VAT collected at import and VAT collected domestically reflects the **economic structure of Vanuatu and the inherent differences in enforceability**, rather than solely enforcement failure. While border VAT provides a stable revenue base, **domestic VAT remains exposed to compliance risks**, including tax evasion and avoidance, particularly in the informal and small business sectors.

Sustained improvements in compliance will depend on **continued system modernisation, enhanced audit coverage, improved data integration, and balanced enforcement approaches** that support voluntary compliance while protecting the revenue base.

Customs Division Performance.

Customs Revenue.

The Customs Division was allocated a revenue target of **VT 8.74 billion**, representing 35% of total CIR revenue. Actual collections reached **VT 7.70 billion**, resulting in a shortfall of **VT 1.04 billion**. Import Duty and Excise each accounted for nearly half of the Customs revenue, highlighting the continued importance of these taxes to government finances.

Key factors affecting performance included:

- Increased use of concession codes, particularly Code 034, resulting in an estimated revenue loss exceeding VT 600 million;
- Lower dutiable import volumes and valuation challenges;
- Delays in financial reporting updates affecting reconciliation.

Trade Facilitation and Border Operations.

Customs processed **33,068 import declarations** valued at approximately **VT 72.9 billion (CIF)** and **1,903 export declarations** valued at **VT 20.18 billion (FOB)**, confirming a persistent trade imbalance driven by high demand for fuel, food, vehicles, and construction materials.

Key trade facilitation advancements included:

- Increased automation and digitisation of Customs processes;
- Application of risk management aligned with World Customs Organization standards;
- Progress toward National Single Window implementation following regional workshops supported by the World Bank Group.

Major import partners were Singapore, Australia, and China, while exports were primarily destined for Australia, Kiribati, and the United States, with bank notes, kava, copra, and vessels as key exports.

Enforcement and Border Security.

In 2025, Customs significantly strengthened border enforcement through inter-agency and international cooperation. A major operational success occurred on **28 August 2025**, when joint authorities intercepted **over 450 kilograms of cocaine**, demonstrating enhanced maritime surveillance and intelligence sharing.

Key enforcement achievements included:

- Deployment of new X-ray scanners at Port Vila International Airport and postal facilities.
- Donation of equipment from the Australian Border Force (ABF).
- Launch of the **VeSW Inspection App**, enabling real-time inspection recording and improved risk targeting.
- Participation in regional training programs and intelligence-sharing initiatives.

Customs Valuation and Post-Clearance Audit.

Customs valuation remained a strategic priority, particularly in response to globalization, e-commerce growth, and trade-based money laundering risks. In 2025:

- A **Master Trainer Program (MTP)** was delivered for Customs officers and brokers for the first time in over seven years;
- Customs participated in **Operation Domino II**, focusing on under-valuation and Trade-Based Money Laundering (TBML), with generally positive compliance findings;
- Post-clearance audits increasingly relied on intelligence-led, system-based approaches to address valuation risks linked to transfer pricing and related-party transactions.

Customs Bonded Warehouses.

As at the end of 2025, **22 bonded warehouses** were active and **6 were closed**. Bonded warehouses continue to play a critical role in trade facilitation, tourism support, and revenue control.

Warehouse operations generated **VT 5.03 billion** in revenue, primarily from:

- Import Excise;
- Value Added Tax; and,
- Import Duty.

This system continues to balance business cash-flow needs with effective Customs control over high-risk goods.

Inland Revenue Performance.

Value Added Tax (VAT).

VAT was the strongest revenue performer in 2025, with net collections of approximately **VT 16.27 billion**, reaching **115% of the annual target**. This performance was strongly influenced by:

- Earthquake-related reconstruction activities;
- Increased imports and insurance-related claims;
- Growth in VAT registrations.

A total of **2,462 VAT refunds** were issued during the year, amounting to approximately **VT 2.82 billion**, the highest on record.

Taxpayer Registration.

The Inland Revenue Division registered **19,260 taxpayers** by the end of 2025, reflecting a net increase of 1,452 registrations. Growth was most notable in business licenses and VAT registrations, supported by government stimulus measures and post-disaster economic adjustments.

Compliance, Audit, and Record Keeping.

Inland Revenue intensified compliance efforts during 2025, conducting:

- **263 VAT audits**, identifying discrepancies totalling approximately **VT 278 million**.
- **Over 600 compliance visits** nationwide.

Record-keeping compliance remained generally strong, with **92% of audited businesses** maintaining adequate to excellent records. Lower compliance was mainly observed among smaller businesses, which received targeted education and follow-up assistance.

VAT Filing and Debt Management.

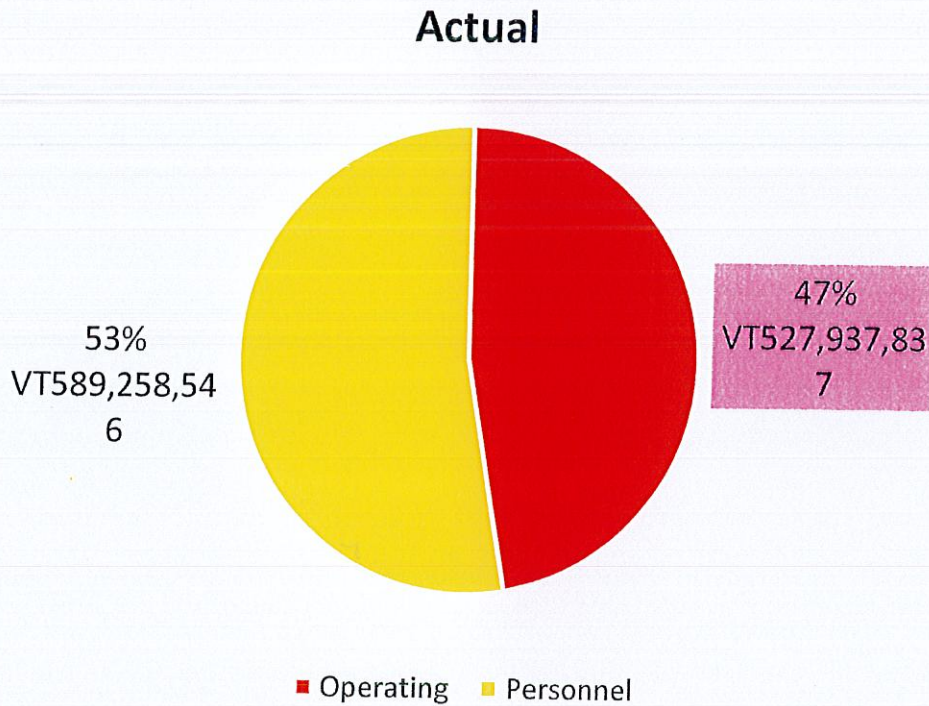
A total of **20,582 VAT returns** were expected in 2025, with an overall filing rate of **87%**. Compliance weakened in the second half of the year, leading to an increase in non-filers.

As at **31 December 2025**, total VAT-related debt stood at approximately **VT 17.5 billion**, including penalties and interest accumulated over many years. Debt growth continued throughout the year, outpacing recoveries, despite collections of approximately **VT 618 million**.

System limitations were identified, particularly in relation to penalties charged after legislative repeals in 2023. These issues are under review to ensure accurate reporting and fair debt management.

Financial Management and Expenditure.

Total departmental expenditure for 2025 was approximately **VT 1.12 billion**, marginally exceeding the approved budget. Personnel costs accounted for just over half of total expenditure, while operating costs remained largely within approved limits. Variances were attributed to operational demands, maintenance requirements, and system upgrades.



Expenditure Composition (Actual, 2025).

The pie chart illustrates the distribution of actual departmental expenditure by expense type in 2025. **Personnel costs accounted for the larger share of total expenditure at 53% (VT 589.3 million)**, reflecting the labour-intensive nature of Customs and Inland Revenue operations. **Operating expenses comprised the remaining 47% (VT 527.9 million)**, covering essential costs such as goods and services, maintenance, utilities, travel, and operational support activities.

Overall, the expenditure profile highlights that more than half of departmental spending was directed toward workforce-related costs, underscoring the importance of human resources in delivering customs, revenue, and compliance functions.

Overall Assessment.

The 2025 financial year demonstrated **strong overall revenue performance**, resilience following natural disasters, and notable progress in border security, trade facilitation, and compliance enforcement. However, challenges remain in:

- Managing revenue foregone through concessions.
- Improving filing compliance and debt recovery.
- Addressing system limitations affecting accuracy and efficiency.

These insights will inform priorities and reforms planned for 2026.

Recommendations.

Based on the performance outcomes, compliance trends, and operational challenges identified during the 2025 financial year, the following recommendations are proposed to strengthen the effectiveness and sustainability of Customs and Inland Revenue:

- 1. Strengthen Domestic VAT Compliance**
Continued focus should be placed on improving domestic VAT compliance through strengthened risk-based audits, enhanced follow-up on non-filers, and targeted interventions for small and informal businesses where compliance risks are concentrated.
- 2. Improve Debt Management and Recovery**
The Department should prioritise reforms to VAT debt management, including system corrections for invalid penalties, improved segmentation of collectible versus uncollectible debt, and early intervention strategies to prevent new arrears from escalating.
- 3. Enhance System Integration and Data Quality**
Further investment is recommended in the integration of Customs and Inland Revenue systems to improve real-time data sharing, reconciliation accuracy, and risk profiling, particularly between import VAT, domestic VAT, and audit functions.
- 4. Modernise Legislative and Administrative Frameworks**
Ongoing review of tax and customs legislation, concessions, and exemptions is recommended to ensure clarity, consistency, and protection of the revenue base while supporting legitimate economic activity.
- 5. Strengthen Capacity and Workforce Development**
Continued investment in staff training, technical specialisation, and leadership development is essential to support modern, intelligence-led compliance and enforcement in an increasingly complex operating environment.
- 6. Deepen Regional and International Cooperation**
The Department should continue to leverage partnerships with regional and international organisations to enhance enforcement capabilities, valuation practices, intelligence sharing, and adoption of international best practices.

Conclusion.

The 2025 financial year was a period of strong overall revenue performance, institutional resilience, and continued reform for Customs and Inland Revenue. Despite operating in a challenging environment shaped by post-disaster recovery, evolving compliance risks, and system constraints, the Department delivered solid outcomes in revenue collection, border security, and trade facilitation.

Value Added Tax exceeded its annual target, reinforcing its role as a cornerstone of government revenue, while Customs operations remained critical to both revenue protection and national security. At the same time, the year highlighted persistent challenges in domestic compliance, debt accumulation, and system limitations that require sustained attention.

The Department's performance in 2025 reflects the dedication of its staff, the strategic guidance of Government, and the valuable support of regional and international partners. Looking ahead, Customs and Inland Revenue remains committed to strengthening compliance, modernising systems, improving service delivery, and supporting the Government's broader fiscal and economic objectives.

This Annual Report is submitted as a transparent and accountable record of performance for 2025 and as a foundation for continued reform and improvement in the years ahead.