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A Trivial Legal Issue with Nontrivial Economic Consequences: Why Raising De Minimis Thresholds Is Important for International Trade

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TRADITIONALLY, IMPORTS OF SMALL-VALUE

items have been too trivial to merit customs consideration. These are considered *de minimis*, an important legal and economic term with Latin roots meaning “about minimal things.”¹ In international trade, the *de minimis* threshold (DMT) is a valuation ceiling. For goods valued below the DMT, no duties are charged, and clearance procedures and data requirements are minimal. Shipments valued above the threshold are subject to duties, taxes, and time-consuming clearance procedures, which are costly and burdensome regulations that impose delays on consumers and businesses.

The cost of compliance and clearance procedures for minimal-value parcels can easily outweigh the tax and duty revenues these shipments generate. If set too low, *de minimis* thresholds can impose nontrivial costs on governments, consumers, and businesses.

Today’s modern global economy brings new meaning and relevance to *de minimis* thresholds. International e-commerce is growing, and largely consists of direct business-to-consumer (B2C) sales and relatively low-value parcels. The estimated value of international e-commerce was \$2.3 trillion in 2017, up from \$1.3 trillion in 2014, and is expected to reach nearly \$4.5 trillion by 2021.²

The DMT in the United States is one of the highest in the world, at \$800, but the DMTs for many US trading partners are still quite low, such as \$20 in Canada and \$50 in Mexico.

A *de minimis* threshold that is too low can be a barrier for international trade, particularly global e-commerce, which is an important growth avenue for small and remote businesses. The following analysis demonstrates that a higher threshold would improve efficiency in customs procedures, lower costs for consumers and businesses, and remove a

barrier for US small businesses in the global marketplace. Higher thresholds should remain a priority when modernizing the North American Free Trade Agreement (NAFTA), receive full consideration in the World Trade Organization's recently announced work program on electronic commerce,³ and be included in all free trade agreements moving forward.

A DMT THAT IS TOO LOW IS COSTLY AND IMPEDES TRADE

The geographic distance between economic agents (buyers and sellers) increases a number of transaction costs: the transport costs of shipping goods, the time cost of shipping, the costs of contracting at a distance, and search costs (i.e., acquiring information about remote economies, buyers, and sellers). The economic effects of distance have been quantified since at least the mid-20th century.⁴

Digital platforms, however, may be able to reduce distance, or at least the economic effects of distance, in international trade. Using a unique dataset on cross-border transactions conducted over eBay, the world's largest online marketplace, Lendle and his coauthors examine the effect of distance on international online trade. The authors find that the effect of distance on trade is 65 percent smaller on eBay than through traditional marketplaces. They argue that technology, namely, online markets and digital platforms, can reduce the economic distance between the buyers and sellers by reducing search costs.⁵

A de minimis threshold that is too low, however, threatens to limit the progress that technology and digital platforms can offer.

To understand the cost of low thresholds, consider a typical parcel that is valued above the de minimis threshold. Customs officials expend resources to assess the parcel's value (for duties and taxes), to ensure the paperwork is complete, and to ensure the taxes and duties are paid (or to send out a notice to the recipient with the corresponding invoice). The consumer incurs brokerage fees, the time costs of delay, and the actual tax and duty. The

business, as the importer, incurs the brokerage fee, the time costs of delay, the cost of administrative tasks such as claiming a tax credit if one applies (e.g., if the import was an intermediate input), and the actual tax and duty.

In principle, the costs of a tax borne by all affected economic agents almost always exceed revenues received for any tax. This principle holds regardless of the size of the transaction because of collection and enforcement costs added to the tax paid. In the case of the de minimis threshold, the costs are excessive and nearly everyone is worse off with the tax (even the government), especially when the value of an item is relatively low.

These costs tend to fall more heavily on small businesses. Smaller firms are more likely to import in small batches, and they have fewer resources than large firms to expend on administrative tasks. They therefore face a disproportionately high cost of compliance with import procedures and low-value parcels.

Studies on the economic effects of raising the de minimis threshold generally find that higher thresholds offer net economic benefits. For instance, Hufbauer and Wong studied the US de minimis threshold in 2011—before the 2016 increase—and found that the loss of tariff revenues and fees was more than offset by the savings to stakeholders in the delivery chain.⁶

A study by International Trade Strategies estimated the effects of raising the de minimis threshold for 12 Asia-Pacific Economic Corporation countries and found net economic benefits from raising the threshold. The European Union has a \$170 threshold for the customs duty and a much lower threshold (\$17–\$25, depending on the country) for the federal value-added tax (VAT).⁷ Hinsta and coauthors found that the VAT threshold for imports should be raised because collection costs incurred by customs officials and the private sector exceeded the revenues collected.⁸

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FEW COUNTRIES MEET THE ICC RECOMMENDATION OF A DE MINIMIS VALUE OF AT LEAST \$200

The International Chamber of Commerce (ICC) recommends establishing a global baseline de minimis value of at least \$200—and ideally \$1,000—in order to “generate economic benefits by refocusing public revenue collection on more efficient revenue sources.”⁹ The ICC states that setting a meaningful de minimis level will have a positive impact on small and medium-sized enterprises and offer opportunities for increased e-commerce. These guidelines are only a suggestion, however, and countries are free to set their own thresholds.

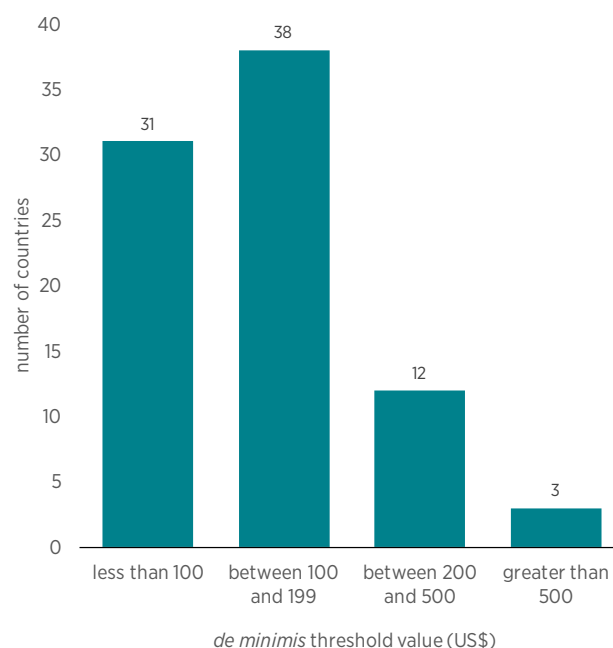
The de minimis thresholds for most US trading partners are well below the \$200 level. The Global Express Association (GEA), a global trade association for the express delivery industry, reports the de minimis value for 84 countries, and figure 1 shows the number of countries with a de minimis threshold less than \$100, between \$100 and \$199, between \$200 and \$500, and greater than \$500. Only 15 countries meet the ICC recommendation of a DMT of at least \$200.¹⁰

The US de minimis threshold increased from \$200 to \$800 in 2016 with the US Trade Facilitation and Trade Enforcement Act of 2015 (which included an amendment to the Tariff Act of 1930). This change took effect in March 2016. The US DMT of \$800 is one of the highest in the world (only Qatar has one higher, with a DMT of \$822).¹¹

EMPIRICAL EVIDENCE FROM CANADA

Canada has one of the world’s lowest de minimis thresholds, at C\$20 (US\$ 16). Customs and shipping experts estimate that the customs administration

Figure 1. De Minimis Threshold Values, by Number of Countries, US\$ 2016



Note: The figure includes the de minimis thresholds for the 84 countries reported by the GEA in 2016 in US dollars.

Source: Overview of De Minimis Value Regimes Open to Express Shipments World Wide (Geneva, Switzerland: Global Express Association, 2016).

cost of the assessment process is US\$38.74 for air and land cargo per parcel and US\$48.19 for sea cargo per parcel for Canada.¹² With duties averaging 2.4 percent for Canada,¹³ on average C\$1.20 is collected for duties; and, with a Goods and Services Tax (GST) of 5 percent, C\$2.50 is collected in taxes. In other words, on a per-parcel basis, the government is spending US\$38–US\$48 (C\$47–C\$60) to collect C\$3.70.

As shown in table 1, Latipov and coauthors find that by keeping the DMT at C\$20 instead of, say, C\$80, the government of Canada is spending C\$166 million to collect C\$39 million (first column, top two rows). Similarly, by keeping the DMT at C\$20 instead

Table 1. Economic Effects of Raising the De Minimis Threshold (DMT) in Canada in C\$ (millions)			
	\$80 DMT	\$100 DMT	\$200 DMT
	GOVERNMENT		
revenue forgone	39	52	117
cost saving	166	190	278
total: government	127	138	161
	CONSUMERS		
duty and tax revenue net effect	37	50	112
brokerage fee net effect	116	137	191
import time net effect	3	3	10
total: consumers	156	190	313
	BUSINESS		
duty revenue net effect	2	2	4
brokerage fee net effect	91	105	143
paperwork time net effect	15	17	24
import time net effect	1	1	2
total: business	108	125	174
total direct economic effects	391	453	648

Note: These numbers reflect the direct economic effects of raising the DMT from \$C20 to C\$80, C\$100, and C\$200.

Source: Olim Latipov, Christine A. McDaniel, and Simon Schropp, "The De Minimis Threshold in International Trade: The Costs of Being Too Low," World Economy 41, no. 1 (2018): 337–56.

of raising it to C\$200, Canada's government is spending C\$278 million to collect C\$117 million (last column, top two rows).¹⁴

The authors examine the direct effects of raising Canada's DMT from C\$20 to a higher level (C\$80, C\$100, and C\$200). They use a unique dataset, including transaction-level data from eBay Canada and data from the GEA. These data allow them to identify the distribution of parcels across various consignment values, and the split between inbound parcels handled by Canada Post and express couriers. The ability to accurately identify the distribution of parcels across consignment values, as well as the split between the postal service and express couriers, is a key component to empirical work in this area.

Their results indicate that increasing the DMT in Canada would have clear benefits for consumers and businesses, particularly small and medium-sized businesses, because the cost savings for smaller

entities are disproportionately large. The effects on the government would be fiscally neutral or positive depending on how the government utilized or redirected the freed-up resources.

For instance, in one scenario, the government realizes the cost savings internally, such as through a redeployment of government priorities or a more efficient allocation of resources (the assessment rate of higher-value parcels does not change). These results are shown in table 1. In another scenario, the freed-up resources are used to increase assessments of the higher-value parcels. Overall, there are net cost savings in each scenario.

The authors considered a range of alternative higher thresholds (summarized in table 1). They found that raising Canada's DMT to just C\$80 would yield C\$391 million in government savings, consumer savings, and business savings.

The results reflect the relative inefficiency of de minimis assessments. Raising the DMT can alleviate these inefficiencies and yield benefits such as cost savings from a reduction in brokerage fees, costly import delays, and administrative costs for government.

CROSS-BORDER E-COMMERCE GROWTH PUTS SPOTLIGHT ON DE MINIMIS

The de minimis threshold is not a new international trade policy issue. Nearly two decades ago, the 1999 Revised Kyoto Convention acknowledged the e-commerce trend of increasing numbers of small consignments, and included a provision on de minimis values.¹⁵

Recent growth in e-commerce, however, has returned de minimis to the spotlight. In the United States, according to Census data, the e-commerce share of retail sales has grown from 4 percent in 2010 to 8.4 percent in 2017.¹⁶ If cars, gasoline, restaurant meals, and other items that people generally do not buy online are excluded, those figures become 9.5 percent for 2010 and 21 percent for 2017. Retail e-commerce sales have grown worldwide and are expected to continue to grow in absolute and relative terms (figure 2).

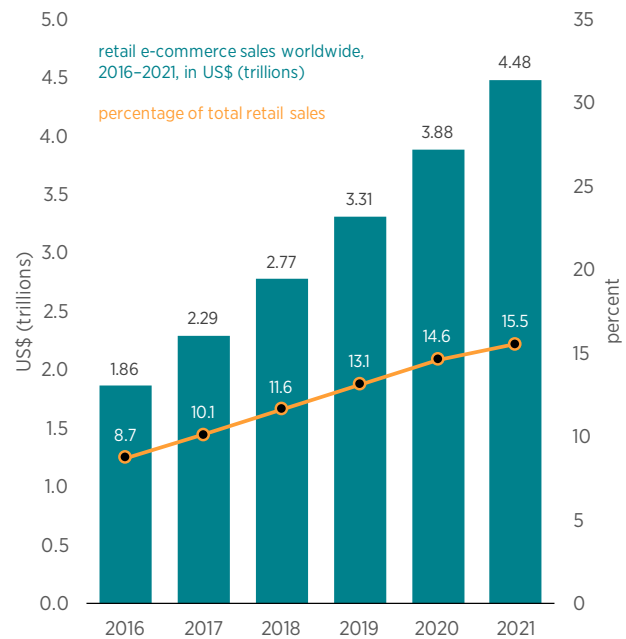
The growth in e-commerce has also increased the issuance of federal and state taxes on sales from remote sellers. The treatment of de minimis imports in terms of sales taxes is discussed in Box 1.

E-commerce can be an important market access tool. PayPal reports that over 65 percent of its US-based merchants engage in international trade, whereas Census data show that, in general, less than 5 percent of US firms export.¹⁷ This striking difference reflects the potential of digital platforms and cross-border e-commerce, particularly for small businesses that may not otherwise reach foreign markets and would be otherwise confined to the ups and downs of their local economies.

CONCLUSION

A too-low de minimis threshold can be a barrier for international trade, particularly global e-commerce,

Figure 2. Retail E-Commerce Sales Worldwide, and Share of Total Retail Sales, 2016–2021



Note: Estimates include products or services ordered using the internet, exclude travel and event tickets.

Source: Corey McNair, Worldwide Retail and Ecommerce Sales: eMarketer's Estimates for 2016–2021 (New York: eMarketer, 2017).

which is an important growth avenue for small and remote businesses. Research suggests that, based on assessment costs alone, many of America's largest trading partners have thresholds that are too low.

Higher thresholds would improve efficiency in customs procedures, lower costs for consumers and businesses, and remove a barrier for US businesses, especially small or remote US businesses, in the global marketplace.

One of America's largest trading partners, Canada, has one of the lowest thresholds in the world, and studies on Canada show that a higher threshold would yield economic benefits for Canadian consumers, businesses, and even the government.

Locking in higher thresholds should remain a priority for trade negotiators as they seek to modernize NAFTA, and should be included in all free trade agreements moving forward.

BOX 1. TREATMENT OF DOMESTIC AND FOREIGN RETAILERS IN TERMS OF SALES TAX

In the United States, there is no federal excise tax except on alcohol, firearms, and tobacco, but most states collect sales tax on the sale of goods and services.

The sales tax on purchases from remote retailers has long been a controversial issue in the United States, and it complicates transactions for US consumers and remote sellers.

The National Conference of State Legislatures and the International Council of Shopping Centers report that uncollected tax from electronic sales has been increasing each year since 2012. They estimate that total uncollected sales and use taxes amounted to \$25.9 billion in 2015.¹⁸

As e-commerce grows as a share of retail purchases, the economic importance of state sales tax is likely to grow as well.

Countries that have a federal sales tax or a VAT either apply the same de minimis to collecting the VAT as they do collecting the duty, or they use a different threshold.

For instance, in the EU, the de minimis threshold for the VAT ranges from \$17 to \$25, depending on the country. The threshold for the customs duty is \$170 across the EU. In Canada, the C\$20 threshold applies to both the GST and the customs duty.

In Australia, as of July 1, 2018, the federal goods and services tax (GST) will apply to all shipments, including de minimis shipments. But there is a small-seller exclusion for businesses with a turnover of less than A\$75,000 (US\$60,000).¹⁹

A simple and transparent tax solution that does not favor domestic retailers over foreign or remote retailers (or vice versa) will help to facilitate global e-commerce for US consumers and businesses.

NOTES

1. The Oxford Dictionary defines de minimis as “too trivial or minor to merit consideration, especially in law.” *De minimis* is a Latin expression meaning “about minimal things,” and is more generally phrased as *de minimis non curat lex* (“the law does not concern itself with trifles”).
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3. World Trade Organization, “WTO, World Economic Forum and eWTP Launch Joint Public-Private Dialogue to Open Up E-Commerce for Small Business,” news release, December 11, 2017, https://www.wto.org/english/news_e/news17_e/ecom_11dec17_e.htm.
4. Anne-Célia Disdier and Keith Head, “The Puzzling Persistence of the Distance Effect on Bilateral Trade,” *Review of Economics and Statistics* 90, no. 1 (2008): 37–48; Henry G. Overman, Stephen Redding, and Anthony J. Venables, “The Economic Geography of Trade, Production, and Income: A Survey of Empirics” in *Handbook of International Trade*, eds. E. Kwan-Choi and J. Harrigan (Oxford, UK: Blackwell Publishing, 2003), 353–87; Xuebing Yang, “The Relative Importance of Distance in Restricting International Trade,” *Applied Economics Letters* 20, no. 17 (2013): 1548–52; Yoto V. Yotov, “A Simple Solution to the Distance Puzzle in International Trade,” *Economics Letters* 117, no. 3 (2012): 794–98.
5. Andreas Lendle, Marcelo Olarreaga, Simon Schropp, and Pierre-Louis Vezina, “There Goes Gravity: eBay and the Death of Distance,” *Economic Journal* 126, no. 591 (2012): 406–41.
6. Gary Clyde Hufbauer and Yee Wong, “Logistics Reform for Low-Value Shipments” (Policy Brief No. PB11-7, Peterson Institute for International Economics, Washington, DC, June 2011).
7. Stephen Holloway and Jeffrey Rae, “De Minimis Thresholds in APEC,” *World Customs Journal* 6, no. 1 (2012): 31–62.
8. J. Hintsa, S. Mohanty, V. Tsikolenko, B. Ivens, A. Leischnig, P. Kähäri, A. P. Hameri, and O. Cadot, *The Import VAT and Duty De Minimis in the European Union – Where Should They Be and What Will Be the Impact?* (Lausanne, Switzerland: Cross-Border Research Association, 2014).
9. The International Chamber of Commerce (ICC) Customs Guidelines define de minimis as a valuation ceiling for goods, including documents and trade samples, below which no duty or tax is charged and clearance procedures, including data requirements, are minimal; United Nations Economic Commission for Europe, “De Minimis,” accessed February 6, 2018, <http://tfig.unece.org/contents/de-minimis.htm>.
10. See also Gonzalez and Jouanjean for background information across several countries. Javier López Gonzalez and Marie-Agnes Jouanjean, *Digital Trade: Developing a Framework for Analysis* (OECD Trade Policy Papers No. 205, OECD Publishing, Paris, 2017).
11. Some countries have higher thresholds but only for certain noncommercial shipments, e.g., Georgia and Azerbaijan; see *Overview of De Minimis Value Regimes Open to Express Shipments World Wide* (Geneva, Switzerland: Global Express Association, 2016).
12. Holloway and Rae, “De Minimis Thresholds in APEC,” 51, table 4.5.
13. The World Bank, “Tariff Rate, Applied, Simple Mean, All Products (%),” accessed February 6, 2018, <https://data.worldbank.org/indicator/TM.TAX.MRCH.SM.AR.ZS?locations=CA>.
14. Olim Latipov, Christine A. McDaniel, and Simon Schropp, “The De Minimis Threshold in International Trade: The Costs of Being Too Low,” *World Economy* 41, no. 1 (2018): 337–56.
15. World Customs Organization, “The Revised Kyoto Convention,” accessed February 6, 2018, http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/conventions/pf_revised_kyoto_conv.aspx.

16. US Census Bureau, “Quarterly Retail E-Commerce Sales: 3rd Quarter 2017,” news release no. CB17-182, November 17, 2017, https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf.
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