

**Intergovernmental Group of Experts on
E-commerce and the Digital Economy**
Fourth session

14-16 October 2020
Geneva

Contribution by

Global Express Association (GEA)

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



**PROPOSAL ON TAX / DUTY
COLLECTION ON IMPORTED LOW
VALUE SHIPMENTS**

Collecting taxes and duties on ever increasing low-value e-commerce imports can be a challenge for Governments. Calculating complicated taxes and duties can discourage smaller traders from exporting globally.

But there are good examples of how this can be done in a simple way that benefits governments, traders - particularly micro, small and medium sized enterprises - and carriers, too. They should inform international policy. They would help boost trade.

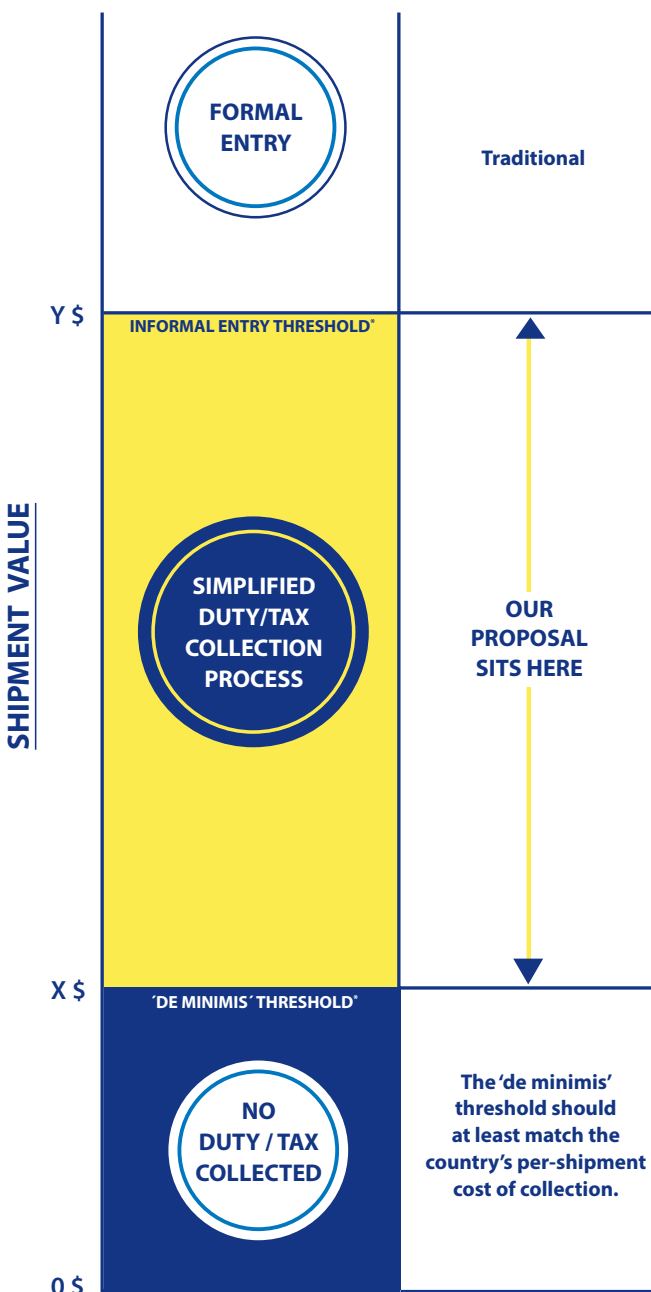
This document proposes solutions based on an extensive analysis of existing best practices, carried out by the leading express delivery carriers.

Foreword

The digital economy has enabled businesses no matter how large or small and no matter where they are located to access the global market. E-commerce is bringing new actors to the stage and supporting growth in international trade never seen before.

E-commerce has opened the door to international trade for millions of Micro, Small and Medium-Sized Enterprises (MSMEs). However, evolution always brings challenges as well, and the trick is how to address that challenge in a way that maximizes the benefits for all. In many countries, the rules governing the border clearance of small packages have not yet adapted to the evolution of e-commerce. More specifically, low-value shipments (LVS) individually sent directly to end consumers by manufacturers or online retailers are treated in much the same way as high-value formal shipments, which are generally larger and transported in bulk between two business entities.

WHERE DOES THIS PROPOSAL SIT?



MSMEs now have the opportunity to expand their businesses by selling directly to customers via the internet. Yet, complex rules around border processes (e.g. complex customs declarations and other forms for relatively simple imports) are creating a barrier to international markets. MSMEs just don't have the financial or human resources to meet these complex requirements. This is particularly true where taxes and duties are concerned for LVS shipments. First, countries may have not set a commercially viable 'de minimis' threshold – the value under which shipments can enter a market duty- and tax-free. Secondly, above the de minimis threshold, an "informal" clearance threshold needs to exist, whereby duties and/or taxes are collected but the clearance process is simplified. Absent that, calculating and remitting applicable destination taxes and duties on all these low-value shipments often require very skilled staff and in some cases tax representatives in the country where the shipment is destined. One can therefore see why it's difficult, even discouraging, for MSME's – who generally trade in the low value shipment category - to participate alongside very large multinationals.

On the one hand, the COVID-19 pandemic has confirmed the importance of e-commerce as physical storefronts are forced to close. On the other, its economic consequences will force many governments to seek additional sources of revenue. This should not result in the abolition of existing de minimis thresholds. Instead, revenue collection on shipments within the LVS band should be adapted in a way that reduces the cost of collection for governments and provides streamlined processes that enable MSMEs the potential opportunity for growth in trade.

Now more than ever, we should look to maximize our efforts to find simple and efficient processes that facilitate diverse participation in cross-border trade and internet-enabled commerce. While the de minimis threshold for duty- and tax-free shipments is a critical component to building a strong MSME sector in international trade, the key for governments is to establish efficient and streamlined collection mechanisms for low-value shipments where tax and duty are applicable. The following pages outline a new approach by the GEA which provides for an efficient means of calculating, collecting and remitting duties and taxes in order for all parties to reap maximum benefits.

The Global Express Association represents the three leading express delivery carriers: DHL, FedEx and UPS.

* The two thresholds (de minimis, under which no duty or tax is collected, and informal entry, under which the simplified collection process applies) would be for each country to set depending on their individual circumstances.

Policy Proposal

Low-value shipments are just that, low value.

Consequently, the revenue collected on each low value shipment is also... low. But complex import procedures are costly – also for the authority that runs them. The cost of the collection procedure can exceed the revenue levied on a shipment, which results in a net loss for the revenue authority. It follows that revenue collection on low value shipments should be simplified, so as to make it less costly and more efficient.

We believe the widespread adoption of simplified revenue collection procedures for low-value shipments would boost trade, especially by MSMEs.

Trade policy principles

Given those trade-boosting effects, the WTO's Joint Statement Initiative on E-Commerce (the JSI) offers the perfect opportunity to explore the challenges of making revenue collection efficient and effective and create the platform from which all actors, including MSMEs, can reap the benefits of e-commerce.

Members of the JSI could agree to review their countries' *'simplified entry procedures'* and modernize them with a particular focus on the methods used to collect revenue

on shipments that fall between the 'de minimis' threshold and a certain "informal/simplified entry" threshold (see graphic). While the operational details can be worked out in specialized international forums, such as the WCO or the OECD, the WTO is the place where the policy should be set. Accordingly, our first recommendation would be for JSI participants to consider a series of **principles**¹ that such procedures should meet, in particular:

A Series of Principles

1.
Keeping a de minimis threshold (under which no taxes and duties are levied) that at least matches the country's per-shipment cost of collection²

a.

Avoids discrimination between foreign and domestic retailers as far as thresholds are concerned.

b.

Is simple, low-cost, and easy to implement for governments, merchants of all sizes and carriers.

c.

As far as domestic taxes are concerned, aligns, to the extent possible, the collection and remittance process on imports with the domestic process. Consumption tax collection must be non-discriminatory, with collection and remittance away from the border.

d.

Makes sure that border formalities focus only on health, safety and security.

2.
For shipments over the de minimis threshold and under a commercially meaningful value (simplified entry threshold), countries should introduce a collection system that:

¹We respectfully suggest possible language in Annex 2

²As per the Trade Facilitation Agreement, some categories of goods can be excluded from the 'de minimis' threshold. Authorities retain the right to examine, detain, seize, confiscate or refuse entry of shipments under the threshold.

In detail: a collection model with three options

After analyzing existing models world-wide, and also drawing from the OECD's guidance³ we would like to propose a simplified collection model for low value-shipments that is built around some common elements but also contemplates three different options. It is not one-size-fits-all.

Nor should the three options identified in the model be viewed as alternatives to each other. They are rather meant to adapt to a country's particular situation, such as its tax laws, stage of development, trade and fiscal policy, etc. while all still delivering the benefits of simplified duty and tax capture.

1. The simplest option: a combined flat rate

Some countries have chosen to implement a flat-rate import charge, set at a reasonable level, that replaces all duties and taxes.

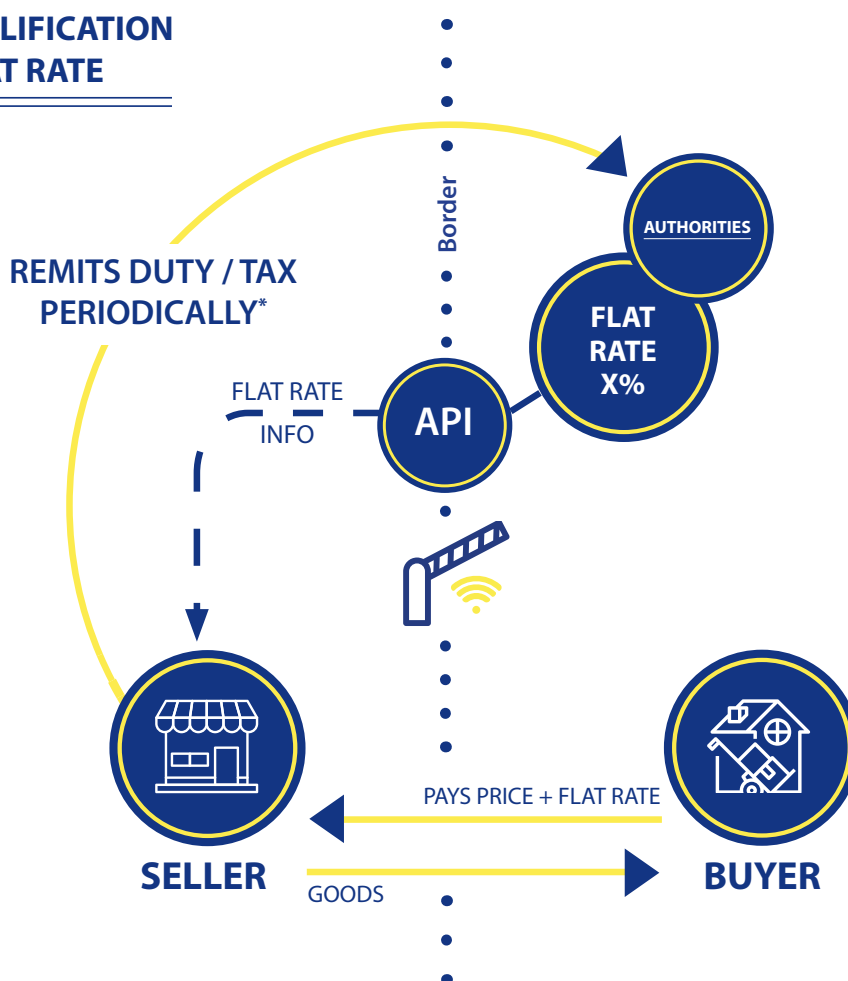
This has the benefit of simplicity and predictability. Information on the rate can be provided through an "Application Programming Interface" (API), (see 'What is an API?' on page 8) making collection at origin from the foreign vendor very easy.

It does not, however, assure parity of treatment between foreign and national vendors, although it can minimise any existing gaps. This may also need to be checked against existing GATT duty schedules, to make sure that they contemplate this possibility for goods under the threshold value.

COMMON ELEMENTS OF THE MODEL

- A de minimis threshold, under which no taxes or duties are collected. It should at least match the cost of collection per-shipment.
- A commercially meaningful value threshold under which simplified processes would apply.
- The two thresholds (de minimis, under which no duty or tax is collected, and informal entry, under which the simplified collection process applies) would be for each country to define depending on their individual circumstances.
- An off-the-shelf technological solution such as an "Application Programming Interface" (API), (see 'What is an API?' on page 8) used to retrieve the tax or duty information for shipments within this low- value threshold. To the obvious benefit of MSMEs, this would enable foreign vendors to automatically plug-in destination tax and/or duty rates at origin and remit them to the corresponding destination government.

OPTION 1 - SIMPLIFICATION THROUGH A FLAT RATE



³ <http://www.oecd.org/tax/consumption/mechanisms-for-the-effective-collection-of-vat-gst.htm>

*Either directly or through an intermediary

2. An option for countries whose primary charges at the border are customs duties

Such countries ought to set a commercially meaningful value threshold for duties under which a *simplified classification and duty rate system* applies.

They ought to adopt a simplified duty structure for such imports, based on a system of a few 'buckets' (groups of classification headings) that allows the vendor to classify goods simply and easily (i.e., without resorting to a customs broker) and apply the relevant duty at origin.

The up-to-date duty structure would be made available electronically through an API (see 'What is an API?' Box on page 8).

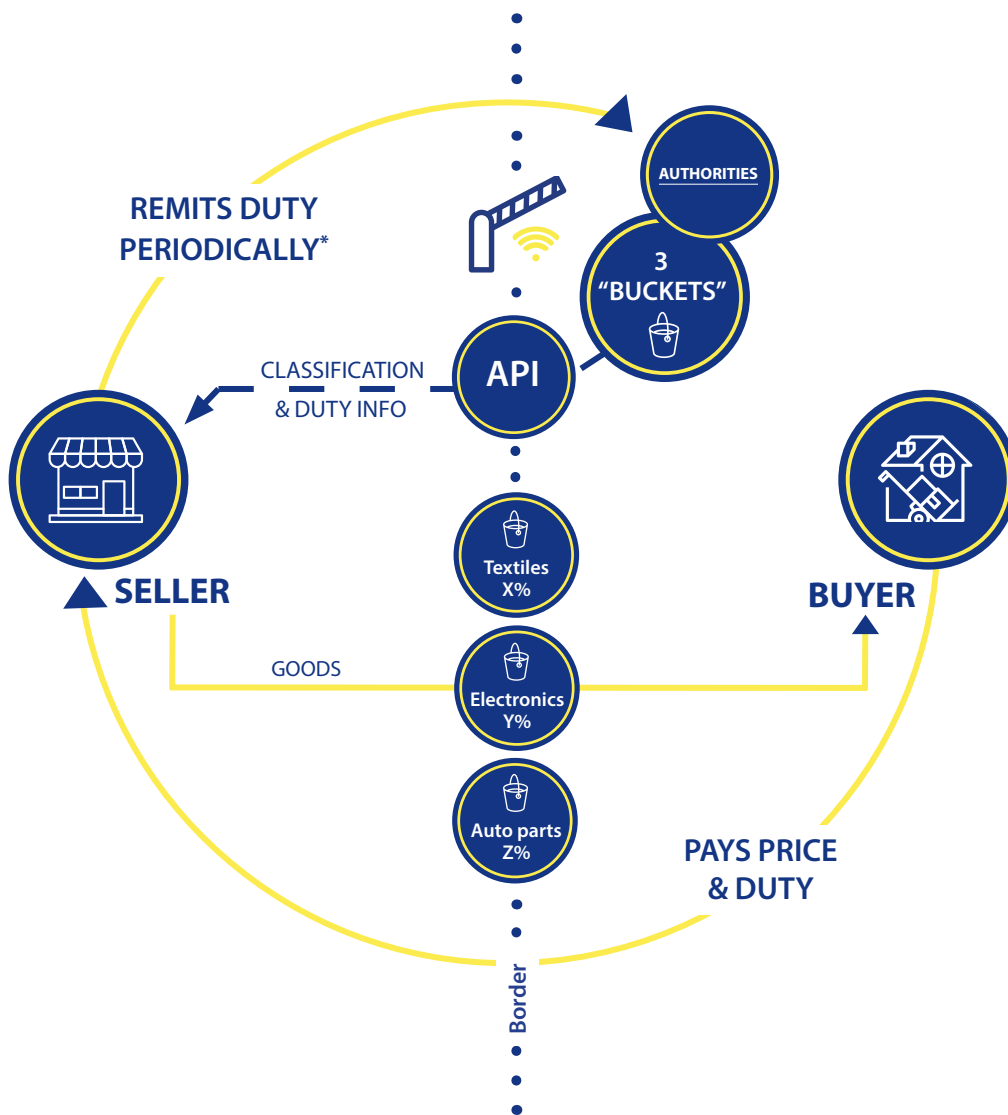
Since 2012, Canada has operated such a system⁴ (the GHS or Generic Harmonised System) for shipments under 500 Canadian dollars. Shipments falling below this value threshold are classified according to a short list of descriptions, grouped under three 'dummy' HS codes (or 'buckets') which replace the nearly 5,400 HS codes used to classify goods above that value. Each 'bucket' is then

assigned a rate depending on whether the goods are imported from a country having a Free Trade Agreement with Canada or not. The full list is reproduced in Annex 1.

This way a \$50 garment could be classified simply as 'textiles' (code HS 9825100000 on the Canadian list) instead of debating with Customs if it falls under, say, "HS 61.04 -Women's or girls' suits, ensembles, suit-type jackets, blazers, dresses, skirts, divided overalls, breeches and shorts (other than swimwear) knitted or crochet"; or a different HS category with a different duty rate.

The establishment of this solution enables the foreign vendor to easily calculate the duties and offer customers a landed cost at the point of sale. The operator will continually review commonly used commodity descriptions and determine which applicable "bucket" the items falls into and add them to the category. Classification mistakes are virtually eliminated, making implementation easier for both vendors and government authorities and making it easier for the latter to forecast revenue.

OPTION 2 – SIMPLIFIED DUTY COLLECTION



Classification categories are mere examples to illustrate the model

⁴Canada also applies federal and provincial tax. Many duty rates are set at 0%.

*Either directly or through an intermediary

International standard classification list for low value shipments

This model would benefit from an international, standard simplified classification list, possibly based on the Canadian example (see Annex 1). This would make it possible to develop a standard API with standard classification headings for all participating countries. It would also make it easier to provide capacity-building assistance to governments who want to implement such a system.

Countries would be free to decide how to group the headings into any number of 'buckets' depending on their rate structure; the duty rates for each 'bucket'; and the value threshold under which this simplified system applies.

We recommend that the World Customs Organisation start a discussion with a view to setting an international customs standard and take the Canadian GHS classification system as a starting point.

The use of a simplified classification and 'dummy' HS codes list would not detract from Customs' ability to target shipments for, say, illicit goods or IPR violations. Customs can apply parameters other than the HS code to target for such shipments (e.g. consignor/consignee pairs, specific addresses, specific goods descriptions, etc). These parameters are perceived to be more efficient for targeting than an HS code (fraudsters are unlikely to use an accurate code to describe an illicit shipment).⁵

ANNEX 1

Canadian General Harmonised System 2012



	MFN RATE	FTA RATE
BUCKET 1 - HS 982515100000 Bedding / Linen / Towels / Curtains / Clothing / Apparel (excluding religious & saris) Footwear & parts thereof (including skates) / Textiles	20%	FREE
BUCKET 2 - HS 9825200000 Auto Parts (excluding engine / ignition) / Beauty aids / Cosmetics / Toiletries / Wax Travel Sets / Bicycles / Tricycles / Brushes / Candy / Chocolate, Snack Foods / CD/ DVD's (prerecorded music) / Ceramics / Cleaning / Polishing / Lubricating products / Clock / Coffee / Tea Makers / Cookware / Kitchenware / Tableware / Golf Clubs / Balls / Handbags / Wallets / Hats / Instruments for writing / drawing / painting / Jewelry (Finished/Imitation) / Leather & goods thereof / Luggage / Miscellaneous goods not elsewhere specified / Musical Instruments (Guitars, Keyboards, Drums etc.) / Plastic Articles, NES / Saris / Sports Equipment (excluding downhill skis / rackets / hockey sticks / football) / Textile floor coverings / Tools, hand held (not powered) / Umbrellas / Walking sticks / Whips / Crops	8%	FREE
BUCKET 3 - HS 9825300000 Auto parts for engine / ignition / Bicycle parts / Cameras & parts / accessories thereof CD / DVD's (blanks / unrecorded) / Computers / Laptops & parts / accessories thereof / Downhill skis / Hockey sticks / Racquets / Football equipment / Electrical apparatus (Switchers / Plugs / Sockets etc.) Exercise Bicycles / Stair climbers & parts thereof / Eyewear (Sunglasses etc.) / Machinery parts, NES / Microscopes / Motorcycle parts Musical Instrument parts & accessories / Novelty / Festive items / Phones - Tele / Cell Head / Ear / Micro / Power tools (hand held) / Precious gems / metal findings / Printed Matter (Printed art / Books / Brochures etc.) / Safety Headgear / Software / Toys / Cards / Handicrafts / Hobby crafts / Video game consoles & Electronic games / Video / Digital cameras / Watches & Watch / Clock parts & accessories	FREE	FREE

⁵ For more information on this issue, please refer to GEA's paper on 'Advance Cargo Information and Risk Management' (Geneva, 2020), available on www.global-express.org.

3. And an option for countries with a focus on consumption taxes such as GST or VAT

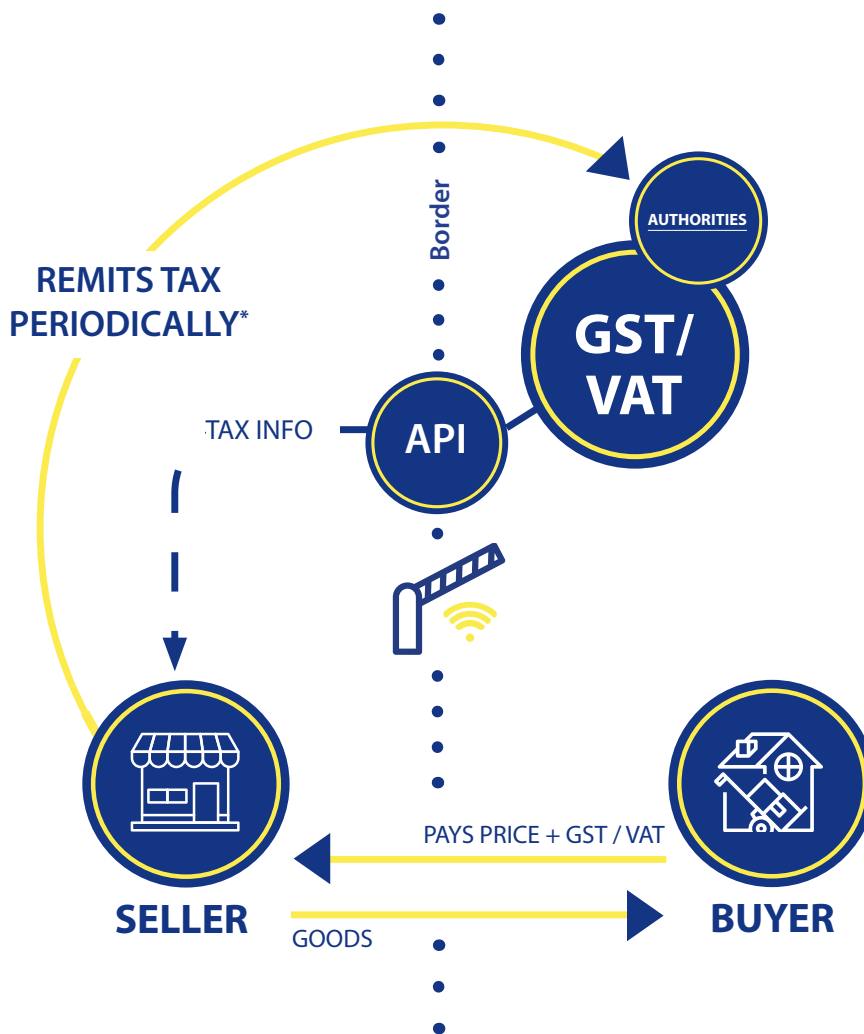
Such countries should set a commercially meaningful de minimis threshold for duties, that is, a value under which no duties are collected. This means that customs formalities at the border deal only with security and safety risk management, and no formal declaration is necessary.

These countries should also allow for a very simple registration process for foreign vendors, without requiring a fiscal representative in the country. Vendors should communicate this registration number to the carrier bringing the goods physically into the country, which in turn would communicate it to customs on importation of the goods.

A single, flat tax rate, set at a reasonable level, works best as it is simple to administer and avoids mistakes. Where that is not contemplated or possible, an up-to-date tax-rate schedule should be made available through an API. This would allow foreign vendors to levy the tax as part of the sales process at the origin of the shipment. It would also give the end consumer a landed cost at the point of sale. Australia has run such a system successfully since July 2018. New Zealand introduced it in 2019. We believe this to be the most efficient system in the long run.

Where a country applies both duties and consumption taxes, the elements of options 2 and 3 can be combined into the API.

OPTION 3 - SIMPLIFIED VAT/GST COLLECTION



The GEA would welcome the opportunity to discuss this proposal and the benefits it provides to governments and global e-commerce traders.

Geneva, September 2020

*Either directly or through an intermediary

ANNEX 2

GEA respectfully invites all participants in the Joint Statement Initiative on E-commerce to consider the following text:

Each [party][member] [shall]:

1. Provide, to the extent possible, for a de minimis shipment value or dutiable amount for which customs duties and taxes will not be collected, aside from certain prescribed goods.
2. Adopt simplified procedure for collecting duties/and or tax.

Such revenue collection models [shall][should] meet the following principles:

- a. They shall not be discriminatory in terms of thresholds between domestic and non-domestic retailers.
- b. They shall be simple, low-cost, and easy to implement for governments, merchants of all sizes and carriers, all with a view to minimizing the costs incurred by traders.
- c. To the extent possible, such processes shall match the domestic collection and remittance process, that is, collection shall take place away from the border on a periodic basis.
- d. Any border formalities shall focus only on health, safety and security.

Art 7.8.3 of the Trade Facilitation Agreement provides that Members retain the right to examine, detain, seize, confiscate, and refuse entry of goods.

WHAT IS AN API?

API stands for **Application Programming Interface**. Basically, an API is a messenger. It is a widely used pre-programmed piece of software that acts as an intermediary between two computers, servers or databases.

In essence, an API delivers a user request to a system and sends the system's response back to a user. For instance, if you click "add to cart" at your end of the website, an API tells the site you added a product to your cart; the website puts the product in your cart; and API tells you that the cart is updated.

For the purpose of this proposal, the API will connect the vendor's website / check-out cart to the official tax and duty information database of the destination country. This way the destination country's taxes and / or duties will be calculated automatically at the point of sale based on the price paid.