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# ALLIANCE FOR eTRADE DEVELOPMENT

## RAISING THE DE MINIMIS THRESHOLD IN BRAZIL

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## RAISING THE DE MINIMIS THRESHOLD IN BRAZIL

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# RAISING THE DE MINIMIS THRESHOLD IN BRAZIL

This paper is the third in a series of policy briefs aimed to promote regulatory reforms that enable Brazilian micro, small-, and medium-sized enterprises (MSMEs) to export using ecommerce, and to support the Brazilian Government's "Trade Facilitation 2.0" initiative. This series is led by the 13-member Alliance for eTrade Development Activity supported by the U.S. Agency for International Development (USAID).

## I. BACKGROUND: ECOMMERCE PRESENTS NEW OPPORTUNITIES ALONG WITH CHALLENGES

The explosive growth of ecommerce has fueled a rise in cross-border trade of low-value shipments as small businesses and individuals are increasingly able to tap international markets for both sales and purchases. Global shipments of parcels exceeded 161 billion in 2022, up from only 103.2 billion in 2019 (an increase of 56 percent).<sup>1</sup>

Coupled with these new opportunities are challenges for both businesses and governments. Customs and finance authorities are faced with an influx of small, low-value packages, for which the cost of revenue collection may outweigh the duties and taxes owed. The high volume of small packages also represents an administrative burden and requires undue time and effort for inspection and processing. For new and small business exporters, the cost of compliance with Customs and trade regulations can be prohibitive. A 2022 survey carried out by UPS found that 50 percent of small businesses in Brazil characterized export taxes and duties as "very challenging," affecting their ability to export.<sup>2</sup> There is also a higher business cost, as trade compliance accounts for a relatively larger margin for lower volume transactions. As small businesses use specialized services like brokers or freight forwarders to make the trade process easier and more streamlined, their margins are further reduced. The Organisation for Economic Co-operation and Development (OECD) found that in the European Union, trade transaction costs were 30-45 percent higher per consignment for firms with fewer than 250 employees than for larger firms.<sup>3</sup>

In Brazil, a growing base of nearly 6.6 million micro-, small-, and medium-sized enterprises (MSMEs) increasingly have the opportunity to export and reach new markets.<sup>4</sup> This not only leads to higher sales and enhanced competitiveness but also provides an incentive to become part of the formal economy. On one hand, online marketplaces have unlocked a world of consumers for Brazilian producers, and on the other, MSMEs are able to source a greater variety of inputs, parts, and packaging at competitive prices. Facilitating trade powered by ecommerce will help these businesses thrive and will also empower a growing set of entrepreneurs around the country that are taking advantage of digital tools to grow and scale.

Increasing opportunities for women-led firms to participate in trade is also a vehicle for addressing gender inequality. According to a recent analysis by the Brazilian Ministry of Development, Industry, Trade, and Services, the data show that Brazilian companies that engage in international trade offer more stable jobs and higher salaries. However, while 29 percent of MSMEs are owned by women, only

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<sup>1</sup> <https://www.statista.com/statistics/1139910/parcel-shipping-volume-worldwide/#>

<sup>2</sup> <https://about.ups.com/content/dam/upsstories/assets/our-stories/customer-first/ups-survey-understands-smbs/SMBResearchFullReport.pdf>

<sup>3</sup> [http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics\\_Study%20on%20customs%20duty%20de%20minimis.pdf](http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics_Study%20on%20customs%20duty%20de%20minimis.pdf)

<sup>4</sup> <https://infocredi360.com.br/noticias/elas-ja-sao-mais-de-10-milhoes-liderando-pequenos-negocios-no-brasil>

14 percent of exporting firms are women-led.<sup>5</sup> Supporting women-led firms' participation in trade also serves to promote their financial resilience, a policy goal of the Brazilian government.<sup>6</sup>

## II. POTENTIAL SOLUTION: DE MINIMIS TREATMENT FOR LOW-RISK, LOW-VALUE SHIPMENTS

In an effort to streamline the processing of low-value shipments, many countries have adopted a de minimis threshold (under which shipments are exempt from import duties and taxes). Shipments valued below de minimis also receive expedited treatment from Customs and other authorities, reducing delivery times. While this is beneficial to smaller-scale traders who deal primarily with low-value packages, empirical studies across many economies show that the government and private sector benefit from increasing the de minimis amount to extend duty-free, tax-free treatment to a greater share of low-value packages. Estimated savings from increasing the de minimis in the United States amount to \$17 million annually; \$4.5 billion annually across 12 members of the Asia-Pacific Economic Cooperation; and in Europe, increasing the de minimis for Value-added Tax was expected to save € 32 million with an insignificant impact on VAT collected. In Australia, authorities determined that removing the de minimis entirely at the request of the domestic retail industry would generate \$1.2 billion in losses.<sup>7</sup> It should also be noted that the de minimis mechanism does not encourage noncompliance. These low-value packages present a negligible risk of illegal or illicit products, which means that spending time to vet and examine them with the same level of scrutiny as larger or higher-risk shipments is not the most efficient use of limited resources.

## III. RAISING DE MINIMIS LEVELS WILL BRING BOTH ECONOMIC AND POLITICAL GAINS FOR THE BRAZILIAN GOVERNMENT AND SMES

Customs and finance authorities may view increasing the de minimis threshold as a losing prospect, fearing the loss of revenue from extending duty-free, tax-free treatment to another segment of shipments. Officials may also anticipate resistance from domestic retailers that are worried about losing out to foreign competitors. They need not worry. As highlighted above, the empirical evidence shows that gains from raising the de minimis threshold far outweigh the losses. The current de minimis threshold in Brazil is \$50 USD. This threshold was set some time ago and due to rising inflation, Brazilian consumers can buy relatively fewer goods under this limit.

There are three primary benefits of a higher de minimis level for Brazilian authorities and businesses:

- **The government saves time, effort, and money on administrative costs.** For low-value items, the cost of collecting duties and taxes is high relative to the expected revenue. This also represents a significant workload as the volume of parcels and low-value shipments have increased precipitously through ecommerce channels. With simplified processing for low-risk, low-value shipments, authorities can focus their efforts on the higher-volume shipments that present the greatest potential risk and generate the highest revenues.
- **Brazilian consumers and companies gain access to a greater variety of goods at lower cost.** A higher de minimis threshold will lower costs for Brazilian consumers and Brazilian businesses buying foreign inputs and components. Critically, this will also save time at the border as taxes are paid in advance and low-risk shipments receive expedited treatment. Lowering time and cost for deliveries increases the competitiveness of Brazilian SMEs and allows for maximum flexibility to source inputs from around the world.

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<sup>5</sup> <https://infocredi360.com.br/noticias/elas-ja-sao-mais-de-10-milhoes-liderando-pequenos-negocios-no-brasil>

<sup>6</sup> [https://www.gov.br/mdic/pt-br/assuntos/comercio-exterior/estatisticas/outras-estatisticas-de-comercio-exterior-1/mulheres\\_comercio\\_exterior\\_uma\\_analise\\_para\\_o\\_brasil.pdf](https://www.gov.br/mdic/pt-br/assuntos/comercio-exterior/estatisticas/outras-estatisticas-de-comercio-exterior-1/mulheres_comercio_exterior_uma_analise_para_o_brasil.pdf)

<sup>7</sup> <https://katusuominen.files.wordpress.com/2017/04/de-minimis-plurilateral-suominen-april-2017.pdf>

- **Price-sensitive small companies benefit from a lower burden for trade compliance.** Trade in lower value goods is highly sensitive to the costs of cross-border trade. Simplifying that process and reducing those costs ensures that the smaller-scale exporters who mostly trade in low-value goods will be more competitive and more easily able to reach new markets, diversifying their customer base and ultimately making them more resilient. Ensuring that Brazilian SMEs have access to the inputs and components they need to increase sales supports the development and diversification of Brazilian manufacturing and allows for increased participation in the global economy by a larger set of firms.

#### IV. HOW FAR SHOULD BRAZIL GO?

But what level of de minimis is sufficient for Brazilian enterprises to maximize the benefits while minimizing potential revenue losses to the Brazilian government? After years of discussion, a provisional measure is now under consideration by Brazilian authorities to raise the de minimis threshold from \$50 USD to \$100 USD. This would be a significant boon to both the Brazilian government and Brazilian businesses, decreasing the administrative burden of cross-border trade and increasing the competitiveness of enterprises buying and selling in foreign markets. A de minimis of \$100 would also bring Brazil more in line with its peers. The worldwide average de minimis is \$224 USD; the average in Latin America is \$128 USD.<sup>8</sup>

A recent study compiled extensive data across 55 countries to estimate the share of shipments in low-value items by value. The study found that the overwhelming majority of shipments – in every country – were valued at \$100 USD or less, with fewer than 20 percent of shipments valued between \$101 and \$1,000 USD.<sup>9</sup> And cross-border shipments valued at less than \$100 from these 55 countries grew staggeringly between 2011 and 2015 – at a rate 30 times the growth of global trade (below three percent annually during the period).<sup>10</sup> This analysis indicates that Brazilian businesses would gain enormous benefits from increasing the de minimis threshold to capture the additional segment of low-value shipments between \$50 and \$100 USD. This would allow small firms and consumers to purchase a wider variety of low-value goods duty free and also ease the administrative burden on Brazilian officials processing these low-risk shipments.

#### V. RECENT DEVELOPMENTS

With the entry into force of the *Remessa Conforme* program in August 2023, Brazil continues to progress down the path toward simplifying and expediting trade in B2C ecommerce. Popular online platforms like AliExpress and Shein have registered with Brazilian authorities so that their buyers only pay ICMS (state-level value-added tax) and are exempt from import duties. But the benefits of *Remessa Conforme* extend beyond duty-free treatment to pre-arrival data sharing with Brazilian authorities. This means taxes are paid in advance and low-risk products are given expedited treatment, facilitating faster deliveries to the final destination in Brazil. This is a critical competitive advantage for Brazil; in 2019, it still took an average of nearly 24 hours to clear products through Brazilian Customs.<sup>11</sup> Expanding the program to include B2B transactions would offer opportunities for even more Brazilian firms to leverage the growth of ecommerce to streamline operations and further increase their competitiveness.

Despite this development, the issue is not settled. The House Finance and Taxation Committee recently agreed to hold a public hearing on a bill (PL 2339/22) that aims to re-introduce the tax on international

<sup>8</sup> Global Express Association.

<sup>9</sup> See <https://katusuominen.files.wordpress.com/2017/04/de-minimis-plurilateral-suominen-april-2017.pdf> for more details on the study.

<sup>10</sup> <https://katusuominen.files.wordpress.com/2017/04/de-minimis-plurilateral-suominen-april-2017.pdf>

<sup>11</sup> <https://www.oecd-ilibrary.org/sites/8ffa0a67-en/index.html?itemId=/content/component/8ffa0a67-en#section-d1e9224>



online purchases. This would have an impact on ecommerce, particularly for Brazilian MSMEs importing parts and materials through the Individual Taxpayer Registration (CPF) of their owners, since the import taxes represent a relatively higher share of costs for lower-value and lower volume shipments. There is no date yet set for the hearing, but the measure only needs approval by the Constitution and Justice Committee to become law.<sup>12</sup>

While the issue of de minimis has generated some debate in Brazil, many of the complaints arise from unscrupulous actors who exploit loopholes in regulations, knowingly under-invoice products, or fail to register products appropriately. These issues should be identified and mitigated, but they are unrelated to the de minimis mechanism. In fact, savings from increasing the de minimis level would enable Brazilian authorities to reallocate those resources toward identifying serious threats, including counterfeit merchandise, illegal drugs, and unsafe food products.

## VI. INTERNATIONAL BENCHMARKS FOR BRAZIL TO CONSIDER

Despite the demonstrated empirical benefits to both the public and private sectors of raising the de minimis threshold, most countries have opted to maintain a constant de minimis rate. Several examples of countries that have recently moved forward with reforms to simplify processing of low-value shipments, including through a higher de minimis threshold, demonstrate the gains of this approach:<sup>13</sup>

- In 2016, the **United States** increased the de minimis threshold from \$200 to \$800 USD. The objective was to benefit the U.S. economy by reducing the administrative burden on the U.S. government for processing low-value packages and decreasing trade transaction costs for the private sector. The Peterson Institute studied the impact of this change, calculating that the customs revenue from low-value items (\$37 million USD) was almost outweighed by the cost of doing the necessary paperwork (\$32 million). When adding the cost savings for the buyers, the gains of a higher de minimis were found to vastly exceed the losses.<sup>14</sup>
- **Canada** retained its de minimis threshold but adopted a simplified classification and duty rate system for shipments under 500 Canadian dollars. The impact on tariff revenues was minimal and the efficiency of processing low-value shipments increased considerably. A 2016 study determined that raising the de minimis from 20 Canadian dollars to 200 Canadian dollars would yield net gains of \$648 million to the Canadian economy.<sup>15</sup>
- In 2018, **Australia** removed the Goods and Service Tax (GST) threshold on imported low-value shipments. Authorities also redesigned the model for collections, which lowers the overall administrative burden and streamlines collection of GST. The Australian Board of Taxation reviewed the impact of the reform in 2021 and declared it a success, finding that it led to increased GST revenue collection while allowing many Australian businesses to receive their low-value shipments faster and at lower cost.<sup>16</sup>
- **New Zealand** followed Australia's model in 2019 and also applied an increased de minimis threshold for low-value goods, from NZ\$ 60 to NZ\$ 1,000. The reform was designed to streamline trade flows and reduce the administrative burden of the Customs authority, and was

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<sup>12</sup> <https://brazilian.report/liveblog/politics-insider/2023/09/16/shein-shopee-tax-compliance-program/>

<sup>13</sup> [http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics\\_Study%20on%20customs%20duty%20de%20minimis.pdf](http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics_Study%20on%20customs%20duty%20de%20minimis.pdf)

<sup>14</sup> <https://katusuominen.files.wordpress.com/2017/04/de-minimis-plurilateral-suominen-april-2017.pdf>

<sup>15</sup> <https://katusuominen.files.wordpress.com/2017/04/de-minimis-plurilateral-suominen-april-2017.pdf>

<sup>16</sup> [http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics\\_Study%20on%20customs%20duty%20de%20minimis.pdf](http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics_Study%20on%20customs%20duty%20de%20minimis.pdf)

expected to facilitate the entry of more than NZ\$ 60,000 of products to New Zealand firms and consumers during the first 12 months after implementation.<sup>17</sup>

These examples highlight the potential for Brazilian authorities to implement reforms in the processing of low-value shipments without losing out on revenues or increasing the risk of illegal or illicit shipments. The United States Customs and Border Protection Agency (CBP) studied the impact of de minimis on flows of fraudulent goods. In 2021, CBP found that just over two out of every 10,000 de minimis shipments were problematic – either abandoned, returned to sender, or seized because they were illegal. The study concluded that de minimis shipments were not a significant contributor to the flow of illicit goods.<sup>18</sup>

## VII. CONCLUSION

Empirical data across a wide range of countries shows that raising the de minimis value from \$50 to \$100 USD has enormous potential to streamline and facilitate trade with the benefits accruing to Brazilian MSMEs and consumers, along with regulatory officials. The time is right to embrace these benefits. Brazil is home to thousands of small online businesses and an ecosystem of products and services supporting their operations. A higher de minimis threshold is a policy tool that can expand market access for this expanding set of growing enterprises. There is also the potential to support more secure, higher-paying jobs and address social inequality by supporting more women-led firms to engage in international trade. Even traditional retailers that may have been skeptical of increased competition from foreign imports in the past may now be interested in a higher de minimis as they explore omnichannel sales strategies from foreign customers. This will also benefit Customs and regulatory officials, lessening the administrative burden on lower-risk shipments and allowing them to focus their efforts on areas of greater risk and higher revenue.

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<sup>17</sup>[http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics\\_Study%20on%20customs%20duty%20de%20minimis.pdf](http://www.euroexpress.org/uploads/ELibrary/Copenhagen%20Economics_Study%20on%20customs%20duty%20de%20minimis.pdf)

<sup>18</sup> [https://www.cbp.gov/sites/default/files/assets/documents/2022-Oct/FY2018-2021\\_De%20Minimis%20Statistics%20update.pdf](https://www.cbp.gov/sites/default/files/assets/documents/2022-Oct/FY2018-2021_De%20Minimis%20Statistics%20update.pdf)



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