



PROPOSAL ON SIMPLIFIED TAX / DUTY COLLECTION ON IMPORTED LOW-VALUE SHIPMENTS

Option 1 – Flat Rate Assessment and Collection System

POSSIBLE PROCESS ASPECTS

FOREWORD

This paper should be read in conjunction with the GEA's "[Proposal on Tax/Duty Collection on Low Value Shipments](#)" (September 2020). This paper advocates the radical simplification of the assessment, collection and remittance of duty and/or tax on such shipments, which are typically generated by e-commerce transactions. It contemplates three possible options to carry out such a policy.

This paper elaborates exclusively on 'Option 1 – A Flat Rate Collection'. This is arguably the simplest one, meant for countries that seek or need the simplest policy instruments.

GEA's two additional proposals, not covered here, are: Option 2 – Simplified Duty Collection; and Option 3 – Simplified VAT/GST Collection, for countries with a focus on consumption taxes.

GEA intends to develop individual technical papers for each of the three options. It has already published a technical paper for Option 2, and will develop one for Option 3 shortly.

Option 1 contemplates a *flat rate collection for low-value imports*. It draws inspiration from the "*WCO Recommendation concerning the application of a flat rate assessment system to goods sent in small consignments to private individuals*", adopted in June 1968 (see Annex). The application of a flat rate system does not deprive the goods of the benefit of duty-free admission under other provisions if all the conditions laid down by those provisions are fulfilled.

All three options suggested by GEA are based on the vendor collect principle, ie that the duty and tax calculation and collection is performed by the overseas vendor selling goods directly to consumers in the importing country. Should a country wish to adopt this flat-rate approach, it will need to follow the principles set out by the WCO Recommendation in addition to the principles associated with the vendor collect approach.

The aim of this paper is to generate a public discourse and trials or pilots of this idea, in order to fine-tune it.

Comments, suggestions and criticism are welcome. Please address them to info@global-express.org.

Geneva, November 2021

PROPOSAL ON SIMPLIFIED TAX / DUTY COLLECTION ON IMPORTED LOW-VALUE SHIPMENTS

Option 1 – Flat Rate Assessment and Collection System

POSSIBLE PROCESS ASPECTS

The proposed duty/tax collection system using a flat rate collection approach is based on the vendor-collect revenue collection model whereby the seller/marketplace/platform in the originating (foreign) country of sale collects the duty/tax applicable in the country of consumption/destination.

1. The seller/marketplace/platform will be required to have a **registration** number recognized by the destination country. This should be achieved through a simple and convenient online registration process in the country of destination. There should be no requirement in particular for micro, small and medium sized sellers to establish a legal or fiscal representation in destination countries as this creates non-tariff barriers.
2. **At the time of the sale**, the seller/marketplace/platform will query the database (see point 2 below) in real-time through an API, identify the applicable rate, apply the applicable exchange rate and calculate the full landed cost to the buyer.
3. The seller/marketplace/platform may/should provide the commercial details about the transaction (commodity description, quantity, price paid, etc.) to the authorities at destination.
4. The seller/marketplace/platform will remit the duties, preferably on a periodic basis, directly to the authorities in the country of destination with reference to the registration number and the transactions.
5. During the import clearance process the loop will be closed by including the registration number of the overseas vendor in the simplified goods declaration applicable for this process. Authorities may also require a commercial invoice to be available which gives access to relevant reference data of the underlying purchase.
6. The compliance and enforcement of this duty collection system should be based on cooperation and information exchange between Customs authorities using mutual administrative assistance arrangements in place

What will governments have to do to establish such a system in their country

Step 1: Determine your criteria:

Where it is necessary to collect duties and taxes, each government would have to determine the criteria that would be applicable to a flat rate assessment and collection system, including:

- a **value threshold** up to which this collection approach will be applicable. For example, the Immediate Release Guidelines define a threshold of 1,000 SDR (approx.. 1,400 USD) for shipments falling under category 3 of the IRG, ie low-value dutiable shipments. The WCO Recommendation of 1968 on a flat rate assessment system suggests a threshold of no less than 60 USD, which converted to the dollar value of 2021 corresponds to a threshold of approximately 470 USD.
- Where countries apply a **de minimis** value below which no duties and/or taxes are applied, this de minimis threshold would represent the lower threshold beyond which the flat rate collection system would be applied.
- Identify the scope and the list of **excluded goods**, e.g. prohibited and restricted items, items subject to excise duties, etc.
- Any **other parameters** that the government requires to be followed in this program.

After this step, a country will have defined the scope of its low-value import simplification process. The next step will be to group the determine the flat rate.

Step 2: Determine your flat rate.

As stipulated by the WCO Recommendation, a flat rate assessment system can simplify and expedite the clearance of goods and, subject to certain conditions, safeguard Members' revenue and economic interests.

A flat rate combines applicable Customs duties and import taxes into one. Given that the flat rate should apply across all commodities, it is therefore necessary to establish an average duty rate to be combined with an average import tax rate. This could lead to a preferential treatment for some commodities with a higher than average Customs duty rate, but also to a disadvantage for those commodities with a lower than average duty rate. In order to avoid issues under WTO obligations (GATT schedules), this system should be optional, leaving the importer the possibility to go through a regular channel should the applied rate be lower than the flat-rate. This does not take into account the extra costs generated by the red-tape involved in regular import channels, which may lead to the overall cost being higher than a flat-rate approach.

The flat rate **should not** be based on the commodity with the highest duty rate as this would present a tariff barrier for the vast majority of B2C shipments.

Example: Customs duties of typical B2C shipments range from 5%-20%, which gives an average of 12,5%. The applicable import tax (GST, VAT or other) is 15%. This leads to a flat rate of $12,5\%+15\%=27,5\%$. Simplicity is of the essence in this approach.

What will be required at the international level to facilitate this flat rate assessment and collection system at the global level?

1. Central duty/tax rate repository

The system would be enhanced by a central database or repository of tax/duty information for imports. Such a global database would be the central reference point for the applicable flat rate as well as the applicable exchange rate. Ideally, it ought to be located at a central point, for example an international organization such as the WTO or WCO and would be supplied with relevant information from the participating governments.

Each participating government would have to make their respective flat rate information publicly available and provide it to said central reference point. The information would have to be kept up to date, be legally valid and reliable. This will ensure that the duty/tax calculation by the vendor will be accurate and reliable for the consumer in the destination country.

2. Advance Programming Interface (API)

Vendors world-wide would access such information through an Advance Programming Interface (API). APIs would 'ping' the database, effectively asking a question. What is the flat rate applicable for imports of this or that commodity into country A? The API would bring back a reply (x%), which would allow the vendor's IT system to automatically calculate a landed cost.

Annex:

CUSTOMS CO-OPERATION
COUNCIL

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**RECOMMENDATION OF THE CUSTOMS CO-OPERATION COUNCIL
CONCERNING THE APPLICATION
OF A FLAT RATE ASSESSMENT SYSTEM TO GOODS
SENT IN SMALL CONSIGNMENTS TO PRIVATE INDIVIDUALS
OR CARRIED IN TRAVELLERS' BAGGAGE
(FLAT RATE ASSESSMENT)
(11th JUNE 1968)**

THE CUSTOMS CO-OPERATION COUNCIL,

CONSIDERING that the assessment of import duties and taxes chargeable on goods sent in small consignments to private individuals or carried in travellers' baggage is a source of problems for Members' Customs Services in view of the number and diversity of such importations, of the need to handle them expeditiously and of the wide range of goods thus imported, usually in limited quantities;

CONSIDERING that, in general, a flat rate assessment system can simplify and expedite the clearance of such goods and, subject to certain conditions, safeguard Members' revenue and economic interests;

HAVING REGARD to the experience gained by Member States who apply such a system and to Resolution (66)43 of the Committee of Ministers of the Council of Europe addressed to the Customs Co-operation Council on this subject;

RECOMMENDS that Members of the Council and members of the United Nations Organization or its specialized agencies, and Customs or Economic Unions, should :

1. apply a system of flat rate assessment to goods sent in small consignments to private individuals or carried in travellers' baggage, provided that such importations are of a noncommercial nature and the aggregate value of the importation does not exceed a figure which, so far as possible, and having regard to national economic circumstances, should not be less than 60 US dollars;
2. determine the flat rate so as to cover all the types of import duties and taxes chargeable;
3. ensure that the formalities relating to flat rate assessment are as simple as possible;

POINTS OUT :

1. that where several consignments are sent at the same time by the same consignor to the same addressee, the aggregate value of the importation shall be taken to be the total value of all those consignments;
2. that the application of a flat rate system shall not deprive the goods of the benefit of duty-free admission under other provisions if all the conditions laid down by those provisions are fulfilled;
3. that a flat rate system may include provision for the addressee or traveller to claim that the goods be charged at their own appropriate rates of import duties and taxes, provided that all the dutiable and taxable goods shall then be so charged;
4. notwithstanding the terms of this Recommendation, Members remain free to withhold its facilities from certain goods;

STRESSES that this Recommendation does not prevent the application of greater facilities which certain Members grant or may grant in future by unilateral provisions or by virtue of bilateral or multilateral agreements;

REQUESTS Members of the Council and members of the United Nations Organization or its specialized agencies, and Customs or Economic Unions which accept this Recommendation to notify the Secretary General of the Council of the date from which they will apply the Recommendation and of the conditions of its application. The Secretary General will transmit this information to the Customs administrations of all Members of the Council. He will also transmit it to the Customs administrations of the members of the United Nations Organization or its specialized agencies and to Customs or Economic Unions which have accepted this Recommendation.
