Case Studies on Revenue Collection Approaches

I. Revenue Collection Case Study
Low Value Imported Goods\(^1\) Australia

1. Introduction / General Overview

General description of the model

Australia legislated and implemented a Vendor Collection Model to collect Goods and Services Tax (GST) on low value imported goods from 1 July 2018. This model was chosen as it was expected to improve tax neutrality between imported and domestically retailed low value goods, and because it was expected to have minimal impact on consumers importing goods\(^2\). The Vendor Collection Model places the onus on overseas sellers to apply, collect and remit GST. This model has low administration costs but ensuring compliance can be difficult with businesses operating in foreign jurisdictions.

Australia also considered alternatives to the vendor collection model for low value imported goods, but subsequently dismissed these. The Australian Government’s independent research and advisory body, the Productivity Commission, agreed that the Vendor Collection Model was the most appropriate for the Australian environment. The model was adapted from how GST has been collected on offshore supplies of services and digital products to Australian consumers. This model requires overseas sellers, online marketplaces and redeliverers to charge, collect and remit GST on low value imported good sales made to Australian consumers. As a tax initiative, the Australian Taxation Office (ATO) manages this measure.

The Australian model does not charge GST at the point of importation, however it applies GST at the point of sale on all low value imported goods (excluding alcohol and tobacco products). Alcohol and tobacco products are dealt with separately and are not referenced in this case study.

Some businesses are exempt from charging GST on low value goods. When the:

- business sells less than AUD 75,000 worth of taxable supplies (including low value goods) to Australian consumers per year;
- overseas business only makes business to business sales; and
- business is registered, they will not have to charge GST on their business sales if the purchaser provides their Australian Business Number (ABN) and notification of their GST registration.

Alternate Collection Models

Australia investigated alternates to the legislated model. These models included:

- **Transporter-based collection model** whereby the delivery agent collects the GST from the importer and remits the GST. This model places the liability for assessment

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\(^1\) Low Value Imported Goods referred to as imported goods with a value of AUD 1,000 or less

and collection of GST on entities. With the delivery agents operating within Australia’s legal jurisdiction rather than overseas, and the likelihood of compliance and collection rates being higher than through the legislated model, the administrative cost and compliance burden did not result in this being a feasible model.

- **Traditional or border collection model** is currently used within Australia to collect GST, customs duties and other indirect taxes on imports valued above AUD 1,000. The practicality of applying the same collection model on low valued imported goods would result in administrative and compliance costs significantly outweighing the revenue collected.

- **Financial intermediary collection model** would place the legal liability for GST collection on entities within Australia’s jurisdiction. Current payment systems do not collect sufficient information to assess a GST liability.

Australia’s Productivity Commission concluded that the vendor collection model was the most appropriate model to collect GST for Australian conditions.

**Statistics**

Statistics are not available for this measure, noting GST on low value imported goods was introduced in Australia on 1 July 2018.

**Legal Framework**

GST is a component of Australian tax law administered and managed by the Australian Department of the Treasury, and the ATO. The legislation that authorises the application of GST to low value goods is the *A New Tax System (Goods and Services Tax) Act 1999.* From 1 July 2018, Australian law requires GST to be paid on most low value imported goods that are purchased by Australian consumers from overseas sellers. The law also requires overseas sellers to charge and collect GST on low value goods sales made to Australian consumers, and remit this GST to the ATO.

**De Minimis Threshold**

Australia has reduced the GST threshold to zero, however the De Minimis threshold at the border remains at AUD 1,000 for all other purposes. At the time of this study, there is no plan to adjust the De Minimis threshold for Australia.

**2. Background**

Low value goods imported into Australia were, until July 2018, exempt from GST. This created concerns about a ‘competitive disadvantage for Australian retailers, impaired tax neutrality and led to a loss of revenue’.

To restore balance, the Australian Government conducted extensive research into applying GST more consistently and considered how GST could be collected on low value good imports. The Australian Parliament subsequently passed legislation that extended the GST on low value imported goods sold to Australian consumers from 1 July 2018.

The Productivity Commission examined in 2011 whether the border collection model already in place should be extended to low value imported goods. The Commission concluded that the collection costs would far outweigh any benefits. There was a recommendation that in principle all goods, purchased domestically or imported, should be treated the same, with

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further investigation to be undertaken on cost-effectiveness of levying GST on these low value imported goods.

3. Description of the process

Australia’s Vendor Collection Model places the onus for collecting GST on the supplier of the goods. Figure 1 outlines this process while Figure 2 depicts the GST collection process for low value goods.

**Figure 1: Australia’s Vendor Collection Model**

1. Importer purchases goods on-line from an overseas market. Total value of goods is AUD 1,000 or less
2. GST is collected by Supplier when goods are valued $\leq$ AUD 1K
3. Goods may be inspected by ABF to ensure compliance with SAC declaration. If no further action required from the customs process, goods are sent to Importer.
4. Supplier send goods to Importer and completes self-assessed clearance (SAC) declaration. The Seller also remits GST to the ATO

**Figure 2: GST Collection Point for low value goods**

- Customer in Australia purchases goods from overseas website
- Order placed through Supplier (Merchant, Online Marketplace or Redeliverer)
- Is the value of purchase > AUD 1,000?
  - Yes
    - Supplier collects GST on purchase and provides customer with receipt confirmation
    - Supplier holds GST for future remittance (if required) to ATO
    - Supplier engages with third party delivery service
  - No
    - GST already collected – no further collection of GST from deliverer required
    - Goods are released to customer
4. Benefits and Challenges of the Legislated Model

Benefits of the Legislated Model include:

- collecting GST at the point of sale rather than at the border avoids trade flow disruptions, minimising compliance and administration costs;
- allows border agencies and transporters to focus on protecting the border and delivering consignments; and
- domestic businesses benefit from a level playing field.

Challenges of the Legislated Model include:

- operators have had to make changes to collect additional GST information to identify registered GST suppliers; and
- education of overseas vendors on application, collection and remittance of GST applied to goods.

5. Compliance and Future Developments

This reform was subject to two Government reviews: one by the Australian Senate’s Economics Legislation Committee and one, following passage of the law, by Australia’s Productivity Commission:

- Public review by the Senate Economics Legislation Committee held public hearings and received 34 submissions, including from key marketplaces opposed to the reform. The Committee recommended the bill be passed.

All major platforms and suppliers have registered and are complying with GST requirements for collection and remittance.

Client engagement

To implement a change that affected global entities doing business with customers in Australia required new thinking; the ATO partnered with global accounting firms, transporters, customs brokers and peak bodies. Although the low value goods changes do not require them to collect GST, their position in the supply chain means that they have extensive and trusted relationships with businesses that use their services on a daily basis. The ATO co-hosted a number of webinars for offshore businesses, including a Chinese language presentation with more than 2,000 attendees.

Outline of the ATO compliance approach

The ATO compliance approach embraced the following principles:

- identifying potential GST collectors (including those that do not or only partly sell through online marketplaces) based on third party financial data and customs data, and engaging directly with them;
- developing guidelines to assist understanding of the operation of the new law;
- promoting the simplified registration system for non-residents;
• delivering a comprehensive communications strategy including targeted mail-outs, dedicated web-pages (including in Chinese), international public relations (through an external partner) and direct face-to-face international engagements with business, advisors and transporters;
• providing a moratorium on penalties and interest charges in the first 12 months of operation of the law; and
• implementing a compliance strategy that allows a tax assessment to be made on a reasonable basis (supported by third party transactional data sources and using exchange of information instruments in Tax Treaties).

Summary of compliance actions that can be taken

To ensure compliance, the ATO may:

• identify overseas vendors and the value of their supplies by matching data obtained from the Department of Home Affairs/Australian Border Force with data from other sources;
• register non-resident businesses and issue default assessments;
• use Australia’s international treaties to exchange information and to seek assistance recovering tax debts; and
• exercise other legal options to stop payments leaving Australia.

Further detail about the ATO compliance approach is available at www.ato.gov.au.

6. Additional or Final Comments

The collection of GST on low value imported goods is still in its infancy.

As highlighted in the Productivity Commission Inquiry Report, another comprehensive review of the legislated model is due to be undertaken in 2023, which will consider:

• the performance of the legislated model;
• compliance rates, and if unsustainable, how to improve them; and
• whether or not an alternate collection model, taking into account technological advances and policy developments, may result in a greater benefit to the Commonwealth.

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II. EURASIAN ECONOMIC UNION
MODELS OF REVENUE COLLECTION

1. Introduction/general overview

Two approaches exist for the collection of revenue from taxes and duties in the Eurasian Economic Union (EAEU):

1. Buyer/consumer-based collection;
2. Intermediary-based collection.

These models are generally used irrespective of E-Commerce developments and apply to all imported and exported goods.

They also apply to E-Commerce goods that are mainly transported as postal items or express consignments.

According to the first approach, it is the declarant/buyer/recipient who submits a Customs declaration and remits (pays) the duties and taxes applicable to the imported goods. In cases where a cross-border E-Commerce postal operator or express carrier delivers the goods, it is the buyer who must declare them and remit any duties and taxes (if the value of the goods is higher than the *de minimis* threshold). In this way, every parcel must be individually declared, and any duties and taxes incurred must be individually remitted by the respective buyer.

The second approach provides for the possibility of a Customs representative declaring the goods, calculating (assessing) the relevant duties and taxes where applicable and remitting them to the Customs administration. In the case of cross-border E-Commerce, such operations are performed by intermediaries such as postal operators or express carriers that principally transport cross-border E-Commerce goods.

The intermediary-based collection approach helps to improve the clearance process with particular regard to the declaration of goods and remittance of relevant duties and taxes for cross-border E-Commerce goods, taking into account the large number of parcels transported daily by express carriers and postal operators in respect of which Customs operations must be performed.

In its development of the intermediary-based collection approach with regard to E-Commerce goods, in 2017 and 2018 the Eurasian Economic Commission (EEC) issued several new Decisions, adopted by the Board of the Commission, that provide for new modes (forms) of Customs declaration for express consignments and modes of payment of Customs duties and taxes. These EEC Decisions stipulate that Customs duties and taxes will be paid by express carriers.

Duties and taxes must be paid if the value exceeds the *de minimis* threshold and before release of the goods (there are some variations to the rule for international postal items).
Legal acts

The Customs Code of the EAEU (CC EAEU) provides for the possibility of goods being declared and duties and taxes paid by a declarant or Customs representative. This possibility also relates to express consignments and international postal items.

The CC EAEU lays down a number of facilitation measures for these categories of goods, such as priority treatment for express consignments and international postal items.

The new EEC Decisions referred to above concern the declaration of express consignments for commercial and personal use. They are geared towards the electronic declaration of express consignments (submission of the goods declaration for express consignments by express carriers that also act as the Customs representative of individual buyers/recipients). It is assumed that all necessary data will be submitted mainly in electronic form. This provides for greater possibilities for automated data analysis, increased effectiveness of Customs control due to the electronic form of the declaration, and improved risk assessments.

**De minimis threshold**

There are two types of *de minimis* threshold in the EAEU: *the de minimis threshold for goods for commercial purposes and that for non-commercial (personal) purposes.*

The *de minimis* threshold for goods for commercial purposes is EUR 200 (equivalent of that amount in national currencies), and it is fixed directly in the CC EAEU. If the Customs value is less than EUR 200 (equivalent amount in national currencies), no Customs duties or taxes are payable.

Prior to 2019, the *de minimis* threshold for goods intended for personal use was EUR 1,000 (equivalent amount in national currencies). However, in view of the development of E-Commerce and the enormous volume of low-value shipments, the *de minimis* threshold for goods for personal use was revised in the EAEU and reduced as of 2019.

According to the EEC Council Decisions, as of 1 January 2019 this threshold amounts to EUR 500 (equivalent amount in national currencies).

However, a Eurasian Intergovernmental Council Decision has confirmed that the *de minimis* threshold for goods for personal use must be reduced by 2020 to EUR 200 (equivalent amount in national currencies). Moreover, according to this Decision, national legislation could introduce additional taxation of such goods.

According to the above-mentioned EEC Decision, the national legislation of EAEU members can also set a lower *de minimis* threshold. In some EAEU member-states, the *de minimis* threshold is less than that established by the EEC Council Decision.

2. Background

Prior to the E-Commerce boom, the volume of postal items and express consignments was not so critical because the percentage of commercial goods was low.
The tremendous growth in the volume of cross-border E-Commerce goods has created a number of challenges that conventional modes of declaration and payment have been unable to resolve satisfactorily.

The paper-based declaration of goods and the collection of duties and taxes directly from each individual buyer/recipient are ineffective and involve the manual execution of Customs operations, rendering the use of a comprehensive risk management system impossible.

All these factors required the development of more appropriate modes of Customs declaration that incorporate both facilitation and an effective revenue collection mechanism. Moreover, there was a need to develop a more effective payment mechanism for the assessment and collection of Customs duties and taxes that would not lead to delays in the Customs clearance of cross-border E-Commerce goods.

In order to resolve this issue in the EAEU, a special Working Group was established to support the improvement of Customs operations regarding express consignments and international postal items. The main objective of this working body was to develop modern modes of declaration for such categories of goods, including new approaches for the assessment (calculation) and collection of duties and taxes. Between 2016 and 2018, potential approaches to achieve improvement were widely discussed with Customs authorities and the business community. As a preliminary result of the Working Group, three EEC Decisions were drafted providing for a new mode of Customs declaration for express consignments, as well as a new approach for the assessment and collection of applicable Customs duties and taxes. These Decisions were adopted in the second half of 2018 and will enter into force on 1 July 2019.

3. Description of the process

As of 1 July 2019, an express carrier simultaneously acting as a Customs representative (broker) can submit a simplified Customs declaration for express consignments in electronic form and pay any applicable Customs duties and taxes on behalf of an individual recipient.

A Customs declaration for express consignments can be submitted before the arrival of the goods, in which case it is not necessary for the individual recipient to pay the Customs duties and taxes. The recipient can then reimburse the express carrier for any duties and taxes incurred upon receipt of the express consignments.

If the goods are destined for personal use of the individual recipients, the express carrier can submit a simplified Customs declaration that includes data on up to 500 individual parcels. If the value of the goods exceeds the \textit{de minimis} threshold, Customs calculates (assesses) the Customs duties and taxes by using a special form of payment of applicable Customs duties and taxes that must be paid. Goods can be released once all Customs duties and taxes have been paid.

For goods intended for commercial purposes, all operations, including the calculation (assessment) of applicable Customs duties and taxes, are performed by the express carrier also. The express carrier submits a simplified Customs declaration that includes all information on up to 500 parcels, including the payment of any duties and taxes.
4. Benefits and challenges

The newly developed approach provides for facilitation, efficiency of revenue collection, reduction in the release time of goods and greater predictability of delivery time if duties and taxes need to be collected (paid), as well as more favourable conditions for consumers (buyers/recipient) because there is no requirement to pay duties and taxes directly upon the arrival of the goods (at the border), thereby minimizing any burdens or disruption for consumers.

This approach provides for a transition to an automated system of Customs clearance for express consignments, making it possible to collect Customs duties and taxes without any disruption to trade or delivery delays.

The electronic submission of data provides opportunities for the establishment of a risk management system that has posed a challenge for many years. All information can be entered into the Customs information system, enabling the use of a full range of Customs software tools.

Greater accuracy of data, including specific values, can be ensured as a result of their being provided by well-known players (professional stakeholders) – express carriers that interact with Customs on a daily basis.

Individual buyers/recipient can receive their parcels without any delays, regardless of whether it is necessary for them to remit (pay) Customs duties and taxes themselves at the border.

Financial Intermediaries would not likely have the required information to assist with Customs valuation, etc.

5. Future developments

The next stage is to provide further possibilities for electronic interaction between Customs and postal operators in view of the fact that a significant proportion of E-Commerce goods are transported as international postal items. Therefore, possible ways of improving Customs operations with regard to international postal items need to be considered. The first meeting held to discuss this issue took place in late December 2018 as part of the work of the Working Group established to support the improvement of Customs operations involving express consignments and international postal items.

A further task involves the definition of the most efficient format for interaction between express carriers and Customs. The AEO programme was initially considered to be the most appropriate mechanism for such interaction, as it is an internationally recognized tool. However, this issue is still under consideration.

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III. Brazil’s Revenue Collection
Case Study

1. INTRODUCTION

1.1. General overview of Brazil and Brazilian Customs

Brazil is a country covering an area of 8.5 million km², almost half the size of South America. It is a federation made up of 26 States, the Federal District and 5,570 municipalities. It has a population of over 208 million people who speak Portuguese as the country’s official language.¹

Brazil’s economy has a nominal gross domestic product (GDP) of US$ 1.93 trillion, based on data from the International Monetary Fund (IMF) from October 2018, and is ranked as the 9th largest economy in the world.⁵

The Secretariat of the Federal Revenue of Brazil (RFB) is the Federal Government agency responsible for Customs and domestic tax collection. Revenue collection for E-Commerce represents less than 0.5% of all taxes collected in Brazil and one of the main objectives in this respect, as for other Customs duties and taxes, is to regulate, control and promote trade and development.

Since October 2017, controls on inbound E-Commerce shipments have been carried out in full by a Customs Electronic Declaration System called “Siscomex Remessa” which, among other functions, automatically calculates Customs duties. The same system is used both for the postal operator and express carriers, and the clearance procedure is based on risk management through a risk assessment interface.

Annex A sets out Brazil’s annual statistics for E-Commerce goods, sent as express and postal parcels, dating back to 2013.

¹ Information about Brazil, obtained on 15 January 2019 from: https://cidades.ibge.gov.br/brasil/panorama

⁵ World Economic Outlook, October 2018, IMF Data Mapper, GDP, current prices, billions of U.S. dollars, obtained on 15 January 2019 from: https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEO/JPN/FRA
1.2. Brazil's Revenue Collection Approach

Brazil has decided to adopt an intermediary-based approach, whereby revenue collection and remittance of duties and taxes are carried out on behalf of consumers/importers by express carriers and the postal operator after the goods arrive in Brazil. These companies are then responsible for charging importers/buyers the correct amount of duties and other costs.

These intermediaries are required to transfer these funds to a pre-defined Government account on a regular basis, with these transfers being checked by the Siscomex Remessa Customs Electronic Declaration System. Customs performs random auditing to ensure sound and correct transfer of funds to its account. It is worth noting that in 2019, Customs is working towards implementing an automatic debit system with these intermediaries; this will provide a more reliable and transparent transfer system without the need for intensive audits.

1.2.1. The Intermediaries: Express Carriers and Postal Operator

Express carriers

In order to operate as an express carrier in Brazil, companies need to complete a registration process that includes verification of compliance with Customs requirements and a physical examination of companies' business premises. Following successful completion of this process, authorization is granted by Customs for this specific purpose and for a certain period.

There are two types of authorization: regular and special. With respect to revenue collection, the main difference lies in the timeframe during which the carrier must remit duties/taxes to the Customs Administration:

- Regular authorization: regular express carriers must first collect and remit duties/taxes to the Government account, and only then will Customs clear the parcel and authorize delivery.

- Special authorization: in order to receive special authorization, a company needs to have its own warehouse and be an Authorized Economic Operator (AEO)-certified company. Special express carriers must collect and remit duties/taxes to the Government account within 21 days of pre-clearance by Customs. Parcels receive authorization for delivery after Customs pre-clearance.

Postal operator

Brazil has only one postal operator (Correios) working within the framework of the Universal Postal Union (UPU). Correios is owned and managed by the Federal Government, having been established and regulated by federal law and decrees. With respect to revenue collection, the postal operator works as a special authorized express carrier.
2. LEGAL FRAMEWORK SUPPORTING REVENUE COLLECTION FOR E-COMMERCE

2.1. Background

Since 1966, national legislation on import tax (Articles 31, 32 and 61 of Decreto-lei No. 37 of 18 November 1966) states that the taxpayer is the recipient of an international postal consignment as indicated by the sender and that, in some cases, the transporter and the Customs bonded warehouse are also responsible for payment of the tax. It also states that rules applied to import tax as defined in the legislation may be used for international postal consignments under Customs control, if applicable.

Accordingly, building on the traditional way of controlling imports, and with the understanding that the postal operator and express carriers act like Customs bonded warehouses, transporters and Customs brokers in Brazil, one can conclude that they are, by law, responsible for payment of the applicable duties and taxes. In a country as big as Brazil, with a population of over 208 million, it is easier for Customs to have fewer actors to deal with. This means that Customs interacts with representatives of the postal operator and express carriers, who interact with the recipients, buyers and importers.

Nowadays, the postal operator has its own automated system that it is used to identify and contact consumers/importers and interact with them when goods are submitted for inspection; it also serves as a payment platform to collect taxes and duties. As for express operators that run their own systems, they have their own practices for contacting consumers/importers and collecting taxes and duties, as necessary.

2.2. Legal framework

In Brazil, the "Simplified Duty Regime" (Regime de Tributação Simplificada - RTS) used for postal and express parcels was instituted by a 1980 Law (Decreto-Lei No. 1.804/1980), and an Ordinance of the Ministry of Finance (Portaria MF No. 156/1999 currently in force) regulates the Import Duty Flat Rate, and places some limits and conditions on application of the Simplified Duty Regime. The main goal of this Regime is to simplify the taxation and clearance process for those who wish to pay a higher import tariff rate, in exchange for a faster and much easier clearance process. It is important to mention that goods cleared under the "Simplified Duty Regime" are exempt of paying IPI, the term for "Imposto Sobre Produtos Industrializados", similar to Excise Tax.

The import tariff rate is set at 60% for any product imported through postal and express parcel services, irrespective of the Harmonized System (HS) classification of the goods (as opposed to traditional cargo importations under which each separate HS classification results in a different tariff rate), with tobacco and alcoholic beverages being the exceptions to this rule. The Ministry of Finance issued an ordinance on this tariff rate in 1995 and it has remained unchanged since then.

A Law and a Presidential Decree regulate the postal service in Brazil (Lei No. 6.538/1978 and Decreto No. 1.789/1996), under the UPU Agreement.
The Customs Code is a Presidential Decree (Decreto No. 6.759/2009) based on a Law (Decreto-Lei No. 37/1966) and it consolidates Customs control procedures, including those for postal and express parcels, at a higher level.

A Customs Normative Ruling (Instrução Normativa No. 1.737/2017) is the main, specific and most recent act to regulate the Law and the Ministerial Ordinance, with the procedures being applied to the intermediaries, i.e. both the postal operator and express carriers. This Normative Ruling determines the use of the Siscomex Remessa system for import declarations and how and when duties are collected and remitted. It also covers other procedures regarding the use of the Simplified Duty Regime, including export procedures and limits.

From a more operational and frontline perspective, Customs Ordinances describe in detail the operational procedures that intermediaries, consumers/importers and Customs must follow as part of the day-to-day processes (Portaria Coana No. 81/2017 for express carriers, and Portaria Coana No. 82/2017 for the postal operator).

In addition to Customs import duties, a consumption tax called ICMS (the Brazilian equivalent of VAT) is payable to the destination State for all products imported into Brazil. The procedure for collection and remittance by intermediaries to the State Tax Offices is similar to that for Customs duties, though it is not governed by the Customs System. It is implemented through an Agreement between the intermediaries and the States, with electronic information sent to the States’ own systems. The Agreement was recently reviewed and issued in July 2018 (Convênio ICMS No. 60/2018), in harmonization with the Customs Normative Ruling (Instrução Normativa No. 1.737/2017).

The legislation is in a constant state of evolution. By way of example, the Customs Normative Ruling was recently amended to update the limit for exporting through express and postal channels using a paper declaration; the new limit of US$1,000, compared to the old limit of US$ 10,000, has been in force since January 2019. This change is due to the use of the new unified export system, a Single Window platform, that established the Single Export Declaration (DU-E) which is totally integrated into domestic tax documents and commercial invoices. The DU-E can be used to export goods of any value, but its use is obligatory for goods over US$ 1,000. As the DU-E is essentially an online document for the registration of an export declaration, it is faster to process operations and also more transparent, allowing companies to monitor the progress of their transactions in detail over the Internet, and offering a lot more advantages over paper declarations.

2.3. De minimis threshold

In Brazil, there is an import duties exemption on parcels of value up to US$ 50.00, sent from one person to another person, excluding commercial transactions, and carried by the postal operator. There is no de minimis exemption for imports through express carriers.

There is an ongoing legal discussion regarding the de minimis threshold in Brazil. The legislation set the upper limit as US$ 100.00 and gave the Ministry of Finance (MOF) the competence to further regulate the requirements for exemptions.
subsequent MOF Ordinance limited the exemption to parcels sent from one person to another, excluding E-Commerce purchases and limiting the value to US$ 50.00. There were a number of court rulings against the MOF Ordinance and it was decided that the de minimis threshold should be US$ 100.00, although Customs considers the MOF Ordinance to be binding and its view is that the US$ 50.00 threshold should be followed.

There is an ongoing legislative project put forward by Customs to lower the de minimis threshold to US$ 10, while extending the exemption to express carriers and to goods of any kind within this limit. This proposed threshold is aligned with the reality of the Brazilian tax system, while applying the WCO Guidelines for the Immediate Release of Consignments by Customs⁶ and correcting inconsistencies in the threshold in force.

⁶ WCO Guidelines for the Immediate Release of Consignments by Customs, Version III (June 2018)

Item 9. Category 2 - Low value consignments for which no duties and taxes are collected (de minimis threshold)

Item 9.3. For example, the value of a consignment should be less than SDR (Special Drawing Rights) 50 or the duty and tax less than SDR 3 or the consignment should be both less than SDR 50 in value and the duty less than SDR 3. These de minimis threshold values and/or amounts should be stipulated in national legislation and be applicable to all operators as far as possible.
3. DESCRIPTION OF THE PROCESS

3.1. Introduction

Since October 2017, the clearance processes for postal and express parcels have become very similar, though there are still some differences between them. Because of these differences, both procedures are described separately in this document. The main difference resides in the availability of advance electronic information: although express carriers have advance electronic information, most of the data for postal imports still has to be input manually by the postal service before submitting an electronic declaration via Siscomex Remessa. However, as the postal channel is currently evolving to receive advance electronic data directly from other countries, it is hoped that these differences will disappear over time.

The approach is based on Brazil’s Customs Electronic Declaration System (Siscomex Remessa), designed to receive and process each individual declaration automatically submitted by express carriers and the postal operator. There is usually one declaration for every parcel. The data provided by each declaration allows Customs to run a risk assessment, based on which the goods are either automatically cleared or submitted to further inspection. The express carriers and postal operator are responsible for the collection of duties/taxes based on the calculation by Siscomex Remessa, which monitors each step of the process until clearance, and even afterwards if an adjustment is required.

Examples of the Siscomex Remessa system’s interface, a Customs Import Declaration registered on Siscomex Remessa and the Customs Risk Assessment System interface, called ANIITA, can be seen in Annex B.

3.2. Simplified clearance process for postal shipments

A simplified step-by-step description of the process for clearance and collection of revenue for postal shipments is presented below. For ease of understanding, the flowchart provided in the sequence (Figure 1) illustrates this process.

1. Consumer/importer makes an online purchase. The sender or postal operator sends electronic data, when available;

2. After transportation, when the parcel arrives at the destination warehouse, the postal operator submits it for screening and other procedures;

3. If the parcel is accompanied by advance electronic information, the postal operator sends all the information required for an electronic Customs Import Declaration to Siscomex Remessa, including tax identification information on the importer/consumer. Otherwise, the CN Declaration (Customs Declaration CN 22/23 – Sender’s Declaration) is used to input the data required manually, and then all the information is sent to the Siscomex Remessa system;

4. The Siscomex Remessa system processes the information and, if everything is in accordance with the rules, registers the import declaration for each parcel, calculating the amount of duties due, and sends the confirmation to the postal operator;
5. Customs and other Government agencies, such as health, environment and agriculture agencies, conduct a risk assessment, pre-releasing legitimate goods in the system and referring non-compliant or targeted goods for examination. Final clearance takes place after the Customs duties have been collected. Customs risk assessments are primarily processed via a specific system called ANIITA. Parcels held for examination are either released if no problems are found, or else detained for further processing;

6. The postal operator then scans the parcels and separates the ones for pre-release and the others that require further examination. At this time, parcels without an electronic declaration and lacking some requisite information, for example, are retained for declaration in the future or, if they are not declared, returned to sender prior to payment of the duties;

7. The postal operator then updates the pre-clearance information on its website and gives the importer/customer 30 days to pay the Customs duties due;

8. The consumer/importer makes the payment online, via the postal operator's website. Payment by credit card or bank slip is accepted by the postal operator, The consumer can pay this bank slip with their own account using a bank app or by cash at any bank;

9. Once the postal operator receives confirmation of payment, the parcel is delivered. If confirmation of payment is not received within 30 days, the parcel is returned to sender;

10. The postal operator then has 21 days from the day it receives the payment from the consumer/importer to remit the Customs duties to Siscomex Remessa, after which the import declaration is finally cleared by the system.
Figure 1: flow chart showing Brazil’s simplified postal clearance process
3.3. Simplified clearance process for express shipments

A step-by-step description of the process for clearance of and collection of revenue for express shipments is also presented. The flow chart in figure 2 illustrates this clearance process.

1. Consumer/importer makes an online purchase. The sender sends electronic data to the express carrier, when available, or else the latter generates the data when issuing the air waybill;

2. Before the arrival of parcel at the destination, advance electronic information becomes available, and the express carrier works on the data so it can meet the legal requirement to register a Manifest and a Customs Import Declaration (DIR) on Siscomex Remessa;

3. The Express carrier sends a Manifest, containing basic information on all the parcels on a flight, to Siscomex Remessa. When processed, the electronic list is available for Customs and other Government agencies to conduct pre-arrival risk assessment. The express carrier then sends all the information required for an electronic DIR to Siscomex Remessa, including the Brazilian tax identification information for the consumer/importer;

4. Siscomex Remessa processes the information and, if everything is in accordance with the rules, registers the import declaration for each parcel, calculating the amount of duties due, and sends the confirmation to the express carrier;

5. Customs and other Government agencies, such as health, environment and agriculture agencies, conduct a risk assessment, pre-releasing legitimate goods on the system and referring non-compliant or targeted goods for examination. Final clearance takes place after the Customs duties have been collected. Customs risk assessments are primarily processed via a specific system called ANIITA. Parcels held for examination are either released if no problems are found, or detained for further processing;

6. When the goods arrive at the destination warehouse, the express carrier submits the parcels for screening, and separates the ones for pre-release and the others that require examination. At this time, parcels without a declaration and lacking some requisite information, for example, are retained for declaration in the future or, if they are not declared, returned to sender;

7. After the pre-released parcels is finally scanned and no problems found, the express carrier has 20 days in which to receive payment from the consumer/importer and, depending on the express carrier’s authorization to operate, the duties can be collected according to the following rules:

7.1 Express carrier with regular authorization: Customs duties must be collected and the parcel cleared before delivery. In general, for logistics purposes, the company collects and remits the Customs duties payable to Siscomex Remessa and receives payment from the consumer/importer upon delivery, or even later if they have an agreement in place. Alternatively, the parcel can remain in the
warehouse for up to 20 days awaiting payment by the consumer/importer;

7.2 Express carrier with special authorization: the parcel can be taken out of the warehouse for delivery. Upon delivery, the company receives the Customs duties from the importer/customer, who has 20 days to make the payment, or even later if they have an agreement in place. The company has 21 days from pre-clearance to collect and remit the Customs duties to Siscomex Remessa.

8. Once Siscomex Remessa receives information that the duties have been collected, the parcel is cleared;

9. The express carrier charges the consumer/importer for the duties and other fees and may wait up to 20 days to receive payment before delivering the parcel. If the express carrier has an agreement with the consumer/importer, such as an account charged on a monthly basis, the parcel can be delivered before reimbursement of the duties, although in this case the express carrier is totally responsible for these duties;

10. Once payment is confirmed, as previously described, the parcel is delivered. If the payment is not received within 20 days, the parcel is returned to sender.

It is worth emphasizing that, in the case of express shipments, most parcels are pre-cleared before arrival as they are accompanied by advance electronic data. As the postal operator moves forward in receiving advance electronic data, both processes will become virtually the same, with pre-clearance before arrival and so on. That is the goal for the postal operator.
Figure 2: Flow chart showing Brazil’s simplified express clearance process
The Brazilian experience points out some benefits and challenges for adopting an intermediary-based approach; they are outlined below:

### 4.1. Benefits:

- Carrying out effective risk analysis with reliable advance electronic information on all parcels. Most of the gains are based on this premise.
- More reliable and effective Customs control over inbound and outbound flows of parcels.
- Faster clearance, as the system works as a Single Window for declarations, with Customs and the other Government agencies doing their work at the same time and with no interruptions.
- Improved rates of compliance and revenue collection.
- Enforcement - effective combating of tax fraud and drug smuggling.
- A viable economic solution to increase the number of E-Commerce parcels sent through the post.
- Identification of customers/importers by means of their Brazilian Tax Identification number.
- Customers/importers do not need to contact Customs as all requirements, including payments and submission of documents, are made through the postal operator or through express service companies’ own IT systems.
- Simplification of procedures for consumers/importers, and especially individuals and small and medium-sized enterprises (SMEs) which rely on intermediaries to help them navigate Customs procedures and rules and develop efficient data management systems.
- Customs deals with fewer stakeholders, as any problem with the declaration or revenue collection issues must be addressed to the postal operator and/or express carrier.

### 4.2. Challenges:

- Increasingly processing low-value shipments through the automated system, given their exponential growth, for compliance, revenue collection and control purposes, without interrupting the flow of goods.
- Dealing with a lack of reliable information received by the postal operator, including tax identification information relating to the consumer/importer. This can result in operators completing a Customs Declaration based on flawed information, as the original source of information is unreliable.
- Dealing with high levels of undervaluation and false declarations of goods.
5. LESSONS LEARNT

Before implementing the Customs Electronic Declaration System (Siscomex Remessa) based on an intermediary collection model for all E-Commerce channels, Brazil Customs carried out a pilot project with express carriers over the course of two years. This pilot project also constituted an Electronic Declaration System based on the intermediary collection model and, as a result of its initial success, the Customs Administration decided to initiate a national project in 2012 to incorporate all E-Commerce channels, including the postal service. The national project was designed to improve on the previous pilot project and simplify procedures for all stakeholders during the clearance process.

It was vital to have some of the staff who participated in the pilot project also be involved in the national project, as they had very specific technical knowledge of the system, legislation and procedures. They also knew the system’s advantages and drawbacks that could be either resolved or redesigned more effectively in the new project.

During the early stages of the project, the project flow chart, including the entire clearance process design, was created by bringing together specialists both from Customs and logistics operators (postal operator and express carriers). Due to the Single Window nature of the project, other agencies from the Federal Administration were also invited to contribute to the project during the planning phase. Also, by involving all the stakeholders from the very beginning, Customs enjoyed full cooperation throughout the entire project in all areas, including the IT system, legal framework, training and implementation. Indeed, Customs feels that planning is essential to minimize problems that may subsequently occur during the implementation phases.

Senior officials within Government and the Customs Administration were aware of the exponential growth of E-Commerce parcels and promptly deemed the project to be a high priority by providing adequate political, financial and human resources. Such support was vital to provide the means needed for full implementation of the project.

However, as a result of some changes in Government priorities, Customs has not yet managed to make certain important changes to the high-level legislation requiring Congress approval, although it is awaiting political considerations in this area. Changes to high-level legislation require a great deal of time and support from the highest administrative levels, and this should be one of the main concerns when starting a new project. In addition, support from a high-level administration is required for coordination with other Government entities when establishing new Single Window procedures for the Electronic Declaration System. Not all entities were fully involved in the early stages of the project, yet now many of them are trying to join Siscomex Remessa; however, post-project changes incur higher implementation costs for the Government.
6. COMPLIANCE AND FUTURE DEVELOPMENTS

6.1. The response to implementation

The postal operator and express carriers totally supported the project from the beginning, making the necessary changes and updates to their systems and procedures and cooperating all the way until full implementation. They recognized the advances and benefits that would come with the new system and legislation, bringing flexibility and faster clearance times for parcels. This mutual cooperation for technical exchange is still ongoing and reflected in the continuous improvement of IT systems and procedures.

The consumers/importers took longer to learn about the new procedures and especially how to use the postal website (for duty and tax payments online, for instance). Nevertheless, consumers are generally very fond of the new model, as every interaction now takes place online and the parcel is sent straight to their address, removing the need to go to a post office to pay taxes and duties and collect a parcel. As the process evolves, and thanks to transparent and accurate information about the parcels and the duties payable, the amount of revenue collected from consumers/importers is increasing and fewer parcels are being abandoned due to incorrect information about their importation.

The general feeling is that Customs is now aligned with the global trend of using technology as a motor to drive efficiency and development within public services.

6.2. Approach to compliance

There are penalties for infringements of Brazilian legislation, applicable both to the intermediary (postal operator and/or express carriers) and to the consumer/importer. Customs ensures compliance by intermediaries by having an initial licensing phase for express carriers and by performing audits on the carriers’ procedures from time to time.

The most common infringements by importers under the clearance procedure are undervaluation of goods and inaccurate or false declaration of contents. Customs thwarts this behaviour by performing physical and documentary inspections and issuing financial penalties to importers.

Customs works closely with the postal operator and express carriers day after day by providing training, producing manuals and adjusting legislation and procedures, on a cooperative basis. The intermediaries also inform their customers, through a variety of channels, about the importance of compliance with Customs requirements. In some very special cases, express carriers and the postal operator help Customs combat illicit behaviour by traders.

To assist consumers/importers, Customs continually updates its website with information about procedures and the role of consumers/importers in the clearance process, in order to avoid problems with their import declarations. Also, there is a Customs support team at every port of entry, dedicated to providing support and information to traders, and especially to individuals who consult Customs seeking assistance with their imports.
6.3. How is the success of the approach measured?

The initial project was designed to modernize the clearance procedure for E-Commerce goods by making E-Commerce data available in electronic format for Customs through intermediaries.

The intermediary-based model allows Customs to conduct risk management and enhance controls on goods, with the aim of improving overall compliance levels. The project costs are also justified if the new methodology goes some way to increasing tariff revenue. The following three indicators measure the success of the approach adopted: availability of advance electronic data, enhanced compliance by traders and increase in tariff revenue.

Regarding the availability of electronic data, apart from some goods under de minimis exemptions for postal imports, the vast majority of goods declarations are already submitted electronically through Siscomex Remessa. Customs is now moving towards 100% submission of electronic declarations for postal imports, including parcels under the de minimis regime.

Thanks to the availability of electronic data, Customs is now performing risk analysis for E-Commerce imports. However, compliance levels have not increased as dramatically as initially expected, given that the quality of data contained in postal declarations remains very low. The adoption of the model might not be enough, by itself, to affect compliance and a combination of other tools might be necessary to achieve this objective.

Results are mixed on the revenue side, as there is an upward trend in tariff revenue from express carriers, but a downward trend in revenue from the postal service since 2017. Total tariff revenue has increased from BRL 138 million to BRL 168 million. It should be noted that it may still be too early to measure success regarding tariff revenue, as the new system was only rolled out in October 2017 and underwent an intense period of adjustment in 2018, coupled with the political instability and ongoing judicial discussions regarding the de minimis threshold in Brazil. At any rate, the increased total revenue seems to indicate that the model is highly beneficial to Customs revenue.

6.4. Next steps for the approach

Brazil Customs has evolved from paper-based, gatekeeper-style inspections to a fully digital clearance procedure. This allows Customs to work using risk assessment based on electronic data, targeting cargo posing a risk and facilitating trade in low-risk consignments. Now that Customs has completed the adaptation phase after implementation, some adjustments need to be made to the model.

Most declarations do not contain a detailed or reliable description of goods and their value. Undervaluation and false declarations are still a modus operandi of E-Commerce transactions, because of poor quality of information collected at source (from the consignor/vendor) or even at the request of consumers/importers. In other words, compliance remains an issue to be addressed in this model, and the
intermediaries are not to be blamed as they are not the original source of the information.

There are, however, a few exceptions to the rule. Some E-Commerce vendors have partnerships with logistics operators and express carriers and they act as a blended seller/vendor based-collection model and Intermediary-based collection model. Customs duties and charges are paid on the purchase of the goods; detailed information on the goods is then forwarded to the express carrier, resulting in a reliable import declaration, and the tariff revenue is also remitted to the carrier for subsequent transmission to Customs.

By way of another example, the Brazilian postal operator (Correios) has just launched a service in January 2019, offering a postal address in the United States for goods purchased online through American retailers and then forwarding the goods to Brazil. Correios will charge consumers/importers all the shipping costs, duties, taxes and other fees before forwarding the goods. As it has all the transaction data available, Correios is able to register the import declaration even before the parcel arrives in Brazil. Thanks to the availability of reliable transaction data, imported parcels can be sent directly to consumers after swift clearance and with no unwanted surprises. Moreover, as all duties and taxes have already been collected from consumers/importers, the goods do not require any waiting time for payment collection.

This mixed model is very promising insofar as risk management will be much more efficient once the declared information is reliable. It also minimizes the risk of importers purchasing goods and not paying the taxes when the goods arrive in the country, by ensuring transparent duty payment before the transaction is completed online. However, transitioning to this mixed model poses many challenges because of the large number of E-Commerce players present abroad. The idea is that companies that provide reliable information will be offered advantages, such as lower retention rates and clearance times, so that partnering with Customs is beneficial for both parties.

Looking beyond what is described above, Customs and the postal operator (Correios) are working on a number of other adjustments and updates required to make better use of this approach. A few of these adjustments and updates are described below:

Correios is engaging with postal operators from other countries as well as stakeholders (such as platforms, sellers/vendors and financial intermediaries) to increase the amount of advance electronic data sent, thus ensuring compliance, speed and efficiency in the clearance process for an increasing volume of transactions.

Customs recently reviewed postal procedures and proposed that Correios create a consumer/importer "self-declaration" on its website for payment of duties and other fees, even before the parcel arrives in the country. This option would be available to those wishing to use it. The self-declaration may be comprehensive, containing all the information provided by the consumer/importer or, if advance electronic data is available, the consumer/importer can simply review the information, add any missing information and pay the revenue due for the importation. These alternative means of submitting declarations and paying revenue to the postal operator before the
parcel arrives would help dramatically reduce clearance times and ensure greater accuracy, meaning better descriptions of goods and submission of correct values.

Customs is working with the Government to change the law, in order to resolve the issue of the *de minimis* exemption threshold on US$ 50 shipments and also to make other adjustments required and still pending in the legislation.

The Customs system is being updated with a view to complete integration with the System for checking the taxes/duties collected and remitted. This will contribute to fewer mistakes with revenue collection and automatic refunds in the event of an adjustment. Other requisite improvements are also being made to the System to ensure a better user interface through processes. One example is the possibility of attaching electronic documents to the declaration, such as an invoice and/or other documents required by the authorities, which would eliminate the use of paper during the clearance process.
The main reason for choosing this model was the possibility of starting to work with fully electronic data for the Customs Declaration. By having the postal operator and express carriers handle communication with consumers and provide all the requisite information electronically to Customs and working through partners inside Brazil’s borders, it was possible for Customs to obtain this data without burdening E-Commerce consumers. This is very important because it allows Customs to perform risk management through routine risk assessment, resulting in increased operational efficiency and reduced clearance times compared to the paper-based approach.

The advantages of intermediary-based collection include having the postal operator and express carriers as Customs partners. By having a few contact points working in Brazil, Customs can establish strong communication channels with local partners. Communication and project coordination would be more challenging if working on the basis of seller/vendor-based collection, especially if offices are overseas and given the large number of E-Commerce vendors abroad. Language barriers should also be considered when choosing the model.

Successful implementation of the model depends on a paradigm of partnership between Customs and the postal operator/express carriers. Right off the bat, Customs clearly highlighted the potential benefits of the model to these operators (including reduced clearance times, lower operational costs and enhanced cash flow). Without this coordination, the smooth transition from a paper-based approach to an electronic model would not have been possible and would have created lots of uncertainty for both consumers/importers and carrier companies.

From Brazil’s experience, having a fully electronic declaration platform did not immediately increase compliance by traders (i.e. undervaluation and false declarations are still major issues). Because the intermediaries (postal operator and express carriers) are not the original source of the information, they merely relay to Customs whatever information they receive.

In this connection, Brazil Customs is having a slightly more positive experience with some E-Commerce vendors operating with a blended model between seller/vendor-based collection and intermediary-based collection. These companies collect all Customs charges at the time of purchase and remit the amount to the express carrier. Detailed information about the transaction is fully shared with carriers, resulting in a very reliable cargo declaration (low-risk cargo), which is highly beneficial to Customs objectives and also to consumers. The challenge from now on is to develop this kind of approach, possibly by giving incentives to operators. Further benefits could include a "Fastlane" for trusted partners (resulting in reduced clearance times and a lower operational burden on carriers).
ANNEX A - STATISTICS

The statistics provided in this section are related to postal and express parcels submitted for simplified Customs clearance procedures through the postal operator and express carriers. Although there are no specific statistics for E-Commerce goods, most of these parcels can be considered as resulting from E-Commerce.  

A.1 Annual volume expressed in number of parcels

A.2 Volume cleared within the *de minimis* regime

It is not possible to specify an exact number of parcels cleared, as most of them were cleared without submission of an electronic declaration via Siscomex.

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7 Source of statistics: Customs’ systems, express carriers and postal operator.
Remessa; however, it is estimated that approximately 56 million parcels were cleared under the *de minimis* regime in 2017. In this context, "cleared" means that the parcels were cleared by Customs without charges/duties, taking into consideration the resources available, the low value of the shipments and the high number of parcels to be processed in an appropriate and reasonable time frame.

**A.3 Number of operators involved in the approach**

Brazil has only one postal operator (Correios), a company owned and managed by the Federal Government, and, as of March 2019, has 30 private authorized express carriers. An up-to-date list of express carriers authorized by Customs to operate in Brazil can be obtained via the following link:

A.4 Duties collected from E-Commerce goods

Custom duties collected from express and postal parcels

<table>
<thead>
<tr>
<th>Year</th>
<th>Postal (US$)</th>
<th>Express (US$)</th>
<th>TOTAL (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>59,874,833</td>
<td>74,701,467</td>
<td>134,576,299</td>
</tr>
<tr>
<td>2014</td>
<td>71,523,214</td>
<td>80,472,772</td>
<td>151,995,986</td>
</tr>
<tr>
<td>2015</td>
<td>61,217,509</td>
<td>82,736,264</td>
<td>143,953,773</td>
</tr>
<tr>
<td>2016</td>
<td>59,426,707</td>
<td>76,613,910</td>
<td>136,040,617</td>
</tr>
<tr>
<td>2017</td>
<td>51,364,871</td>
<td>86,937,933</td>
<td>138,302,804</td>
</tr>
<tr>
<td>2018</td>
<td>46,167,513</td>
<td>123,902,251</td>
<td>170,069,764</td>
</tr>
</tbody>
</table>

Duties collected from parcels imported and cleared through simplified procedures
Maximum general limit: US$ 3,000

A.5 Average clearance time for E-Commerce goods

In this context, the average clearance time should be considered as being from the submission of the declaration via Siscomex Remessa, by the postal operator or an express carrier, until the goods are automatically released without inspection procedures by Customs or other Government agencies. In other words, it is the average time for Customs to perform a risk assessment and release the goods into the green channel.

For parcels sent via express carriers, clearance time takes an average of five (5) hours from the time the declaration is submitted to Siscomex Remessa until the parcel is cleared and ready to leave the warehouse. Most of the express parcels can generally be considered to be cleared on the day of arrival.

For parcels sent via the postal operator, clearance time takes between four (4) to eight (8) hours from submission of the declaration by the postal operator via Siscomex Remessa until the parcel is cleared by Customs.
B.1 Customs Declaration System - Siscomex Remessa

The Customs Electronic Declaration System developed by Customs is called Siscomex Remessa. The screen shot below provides an example of the system’s interface:

![Siscomex Remessa interface](image)

*Figure 3: example of a Siscomex Remessa interface*

It should be noted that the interface is used by Customs, other Government agencies and postal or express carrier operators, and not by consumers/importers. All procedures relating to Customs and other Government agencies are done through the Siscomex Remessa interface, and the decisions are communicated to the IT systems of each logistic operator.
B.2 Customs Import Declaration (DIR) registered on Siscomex Remessa

The DIR registered on Siscomex Remessa by the postal operator and express carriers contains the information declared on the parcel, the duties assessed and payable, a log of Customs activities concerning the parcel, and payment information.

![Example of a Customs Import Declaration (DIR) registered on Siscomex Remessa](image)

Figure 4: Example of a Customs Import Declaration (DIR) registered on Siscomex Remessa
B.3 Customs Risk Assessment System - ANIITA

The Customs Risk Assessment System is called ANIITA. Below is an example of the ANIITA interface that officers use for risk assessment:

Figure 5: example of the ANIITA interface that officers use for risk assessment