



**Recommendation for the Inclusion of Online Commerce
De Minimis Threshold Reform in Budget 2017**

Submitted by:

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Pitney Bowes Canada Recommendations for the Inclusion of *De Minimis* Threshold Reform in Budget 2017

Summary

Canada's ultra-low \$20 *de minimis* threshold (the maximum dollar-value of goods that come into Canada by mail or express shipment for which Canadians do not have to pay cost-prohibitive duties, taxes, and clearance charges) is hurting middle-class Canadian consumers, and small & medium sized Canadian businesses (SMBs); is costing more to collect than the revenue it generates; is unfair to Canadians living in remote regions; and, is undermining Canada's reputation as a competitive 'free-trading' nation.

Canada should increase its *de minimis* threshold immediately to a reasonable level (\$80-\$120), a level more in-line with its major trading partners, a level that will provide much needed cost-savings to middle-class Canadian consumers, and a level that will remove obstacles to increasing trade, encouraging innovation and creating jobs in Canada.

Pitney Bowes Canada - Submission

What is the De Minimis Issue

Most countries allow their citizens and businesses to acquire low value goods internationally without having to pay cost prohibitive duties, taxes, and clearance costs. Typically, countries establish what is known as the '*de minimis*' threshold level – which is the maximum dollar-value at which goods that can be shipped into a country without incurring additional sales tax, duty charges or lengthy customs hurdles.

Canadian de minimis threshold level pre-dates the internet

Set in the 1980s, the current \$20 Canadian *de minimis* threshold has not been adjusted for inflation or for the realities of online commerce and international trade and is comparable to the rates in Uganda and Ethiopia. By contrast, the recently increased U.S. limit of \$800 USD is more than 40 times higher than the level applied to Canadian buyers.

With a *de minimis* threshold in Canada of only \$20, Canadian consumers and SMBs pay more in import duties and taxes on more of their international purchases and in-puts than in virtually any country in the developed world. By applying duty and taxes on low-value imported goods, the Canadian government has one of the most burdensome policies in the world for SMBs trying to access international supply chains.

Collection Costs Higher Than Revenue Generated

According to a June 2016 report published by the C.D. Howe Institute, an increase to the *de minimis* threshold would yield significant benefits for both consumers and businesses – particularly SMBs – while also being fiscally positive to government, noting that the Canadian government currently spends \$166 million to collect \$39 million in duty and taxes on goods valued between \$20 and \$80. In fact, Christine McDaniel, one of the report’s authors, concluded: “we find that lifting the threshold would have a net economic benefit of up to \$648 million.”

Reducing Red Tape for Business

Canada’s low *de minimis* threshold is a barrier for SMBs in Canada, impacting imported, low-value business inputs as well as purchases returned by foreign buyers. While SMBs can, in theory, reclaim taxes paid on business inputs and amounts assessed on merchandise returns, doing so drives significant administrative costs – often exceeding the amount of duty or tax itself. The CD Howe Institute’s recent report on Canada’s *de minimis* threshold found that of the total of almost \$400 million in economic benefits flowing from an increase in *de minimis* from \$20 to \$80, more than \$100 million of that would benefit Canadian businesses.

Online Shoppers Treated Differently than Cross Border Travelers

Canadians spending over \$20 shopping online outside of Canada are paying the government up to a 30% duty and tax penalty on their purchases while Canadians who can travel across the border are able to buy up to \$200 after just 24 hours and \$800 after 48 hours before being charged duty and tax. Some Canadians have even set up U.S.-based post office boxes and drive across the border so they can buy goods without incurring these unnecessary charges. This lack of a corresponding increase to the *de minimis* threshold puts remote communities and Northern Canadians at a disadvantage.

Canada Post and Growing the Size of the Parcel Market – U.S. and International Commerce

As global merchants work with providers to simplify the cross-border online shopping experience, Canadian buyers are increasingly interested and able to access product options that are not available from domestic retailers.

Unfortunately, while the U.S. and international cross-border ecommerce market is growing significantly, Canadian consumers and Canada Post are limited in their ability to take advantage of this segment of online commerce due to a *de minimis* threshold duty and tax policy that penalizes online cross border purchases as compared to “in person” cross border purchases.

While Canada's *de minimis* threshold level is not set by Canada Post, adjusting the \$20 *de minimis* level to even \$100 would materially increase the parcel volume for Canada Post while giving online consumers across Canada access to a greater variety of goods at affordable prices.

Damaging Canada's reputation as a competitive 'free-trading' nation

A low *de minimis threshold* acts as a barrier to global trade and a corresponding lower number of parcels crossing the border into Canada. Organizations such as the World Trade Organization, the Organization for Economic Co-Operation and Development and the World Customs Organization have recommended countries set a reasonable *de minimis* threshold to facilitate trade and investment. Canada's unusually low *de minimis* threshold inhibits exporters, particularly small and medium sized businesses (SMEs) from gaining access to new markets and being competitive in the global marketplace, and as such hurts Canada's reputation as a sophisticated, modern international trading nation.

Fixing the Problem for Canadian SMBs and Consumers

The solution is fairly simple; by raising Canada's *de minimis* level immediately to a reasonable level (\$80-\$120), the federal government will help ensure Canada's trade policies are in-line with the current era of e-commerce, reduce red tape for small businesses, ensure fairness and provide savings for middle-class Canadian consumers, improve government efficiency and provide a net economic benefit for Canada of up to C\$648 million.

Canada should increase its *de minimis* threshold and to a level that will provide cost-savings to middle-class Canadian consumers and remove obstacles to increasing trade, encouraging innovation and creating jobs in Canada.

Pitney Bowes, The Company

Who We Are

Pitney Bowes is a global technology company with solutions that enable commerce – through customer information management, location intelligence, customer engagement, shipping & mailing and global ecommerce.

More than 1.5 million clients in approximately 100 countries around the world rely on products, solutions and services from Pitney Bowes. Pitney Bowes is one of the original members of the Fortune 500. It employs approximately 16,000 employees worldwide.

Pitney Bowes in Canada

In 1923, Pitney Bowes established a Canadian subsidiary (PB Canada) in Ottawa when the Canadian Post Office approved the postage meter. It continues to be one of three authorized meter manufacturers for Canada Post. PB Canada's head office is located in Mississauga, Ontario.

PB Canada and Canada Post currently serve more than 100,000 shared clients – the majority of which are small and medium sized businesses, but also include many of the largest mailers in Canada. We facilitate tens of thousands of domestic and international parcel shipments to Canadians every day and we help collect more than \$500 million in annual postage revenue for Canada Post.

Pitney Bowes eCommerce

Today, Pitney Bowes offers global eCommerce solutions to help manage the cross-border shopping experience, including website localization and management, currency conversion, fully landed costs and compliance, payment processing and international logistics. We help more than 300 retailers, brand name companies and marketplaces sell to customers in 220 countries and territories using more than 70 currencies and supporting more than 40 payment types.

Pitney Bowes solutions simplify the cross border buying, selling, shipping, customs and duty/tax collection process around the globe. We support marketplaces like eBay and individual retailers like Harrods, Saks 5th Avenue, Neiman Marcus, Ironman, Party City and more.