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Tariff loophole has closed; how will it affect shoppers?

A FedEx driver retrieves boxes from the back of his truck on April 29 in New York. Small shipments transported by express carriers, such as UPS and FedEx, are now subject to whatever tariffs apply to the items and their country of origin. DESEAN MCCLINTON-HOLLAND — THE NEW YORK TIMES

BY PETER EAVIS

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For many years, American shoppers have been able to buy inexpensive foreign items without paying tariffs and completing complicated customs paperwork.

No more.

On Friday, President Donald Trump closed the loophole that gave rise to that popular flow of goods, known as the de minimis exemption. He said it had allowed fentanyl to be smuggled into the United States and had given foreign businesses an unfair advantage against American companies. Some Democrats supported the repeal of the exemption for the same reasons.

The exemption ended in May for small shipments from mainland China and Hong Kong, and now it has closed for goods from the rest of the world.

Closing the loophole has already roiled supply chains. Many foreign post offices recently suspended shipments to the United States as they grappled with the new rules. Foreign businesses that rely on postal networks currently have no way of getting goods to the United States and now fear for their future.

"It is a stark shift from the way that business has been done for quite a while," said Ryan Tanner, senior director of compliance at Flexport, a supply chain company.

Here's what you need to know about the changing rules>> When the exemption was in place, a consumer in the United States could receive a foreign shipment valued at $800 or lower without paying tariffs and filling out customs paperwork that detailed the goods. These advantages helped spur an increase in de minimis shipments. Last year, there were over 1.36 billion such shipments, nearly 4 million a day, up from around 139 million in 2015, according to Customs and Border Protection.

Now, tariffs are imposed on those shipments. They could range from 10% of the value of the goods to 30% or more, depending on where they were sent from. In many cases, sellers will pass on the cost of the tariffs to the consumer in the form of higher prices.

"Ultimately, these are taxes, and they have to be paid," said Clark Packard, a research fellow at the Cato Institute, a research organization that generally favors free trade.

But those who opposed the exemption say companies abused it by classifying goods as de minimis when the companies should have gone through normal import channels and paid tariffs.

Peter Navarro, Trump's senior counselor for trade and manufacturing, said Thursday that ending the loophole would "add up to $10 billion a year in tariff revenues to our Treasury, create thousands of jobs and defend against billions of dollars more lost in counterfeiting, piracy and intellectual property theft."

Since the exemption was eliminated for goods from mainland China and Hong Kong, Customs and Border Protection has collected $492 million in duties on shipments from those places that would have previously been tariff-free, a senior administration official said Thursday.

How much do I have to pay in taxes for my package?>> It depends on how a shipment is sent.

If it is transported by an express carrier — think UPS or FedEx — it is subject to whatever tariffs apply to the item and the country from which it was shipped. Express carriers can calculate and pay the duties, and the recipient may have to do very little.

But if a package is sent via a foreign post office to the U.S. Postal Service — often a much cheaper method — the situation is, at least for a while, more complicated.

The duty on postal network shipments is calculated by applying just one class of tariff — those imposed under the International Emergency Economic Powers Act. Those rates vary by country.

For six months, it is possible to pay a flat fee between $80 and $200, instead of the tariff rate, on postal network shipments. After that, the tariff approach will apply.

Will foreign post offices ship to me?>> In many cases, no.

That's because Trump made a disruptive change when ending de minimis.

He ordered that Customs and Border Protection no longer assess the duty owed on packages sent over the international postal network.

Now, foreign post offices have to do that calculation and pay the duties to U.S. customs, or employ a third party to do those tasks. But it could take a long time for the post offices to set up such abilities. In the meantime, they have suspended sending packages to the United States.

"Foreign post offices need to get their act together when it comes to monitoring and policing the use of international mail for smuggling and tariff-evasion purposes," Navarro said Thursday.

Has ending the loophole for Chinese goods reduced trade?>> Yes, but it's hard to tell by how much.

Customs and Border Protection did not provide data showing how many packages entered the United States after the removal of the exemption for goods from China, the largest source of de minimis shipments.

But the number of packages containing inexpensive goods has most likely fallen.

FedEx and UPS both reported this year that ending the exemption had caused a drop in volumes between China and the United States.

The move in May prompted American shoppers to slash their spending at Shein and Temu, e-commerce companies that sell large amounts of Chinese-made goods, according to an analysis of credit and debit card transactions by Consumer Edge, a company that tracks consumer data.

Will this affect U.S.-based companies?>> That's unclear.

Many American businesses never used the exemption when importing goods, because the value of the goods exceeded $800. But some smaller businesses imported items under the loophole and sold them to U.S. customers, often from platforms like Etsy and eBay.

Etsy recently said in its financial statements that eliminating de minimis could harm its business.

Is anything still exempt from tariffs?>> Yes, letters that don't contain merchandise and bona fide gifts valued at $100 or less are exempt.