

Import value *de minimis* level in selected economies as cause of undervaluation of imported goods

Steven Pope , Cezary Sowiński and Ives Taelman

Abstract

Undervaluation of goods imported by any country is a phenomenon observed daily by those involved in international trade. However, the reasons that goods exported from certain countries are accompanied by invoices showing deliberately lowered values that do not reflect the true value of the goods are not yet fully understood. It has been suggested that a willingness to avoid duties and taxes by those involved in foreign trade may be the sole reason for this behaviour. Undervaluation practices may also be caused by a misfit of existing regulations of some national economies, especially levels of import value *de minimis* levels and other types of trade facilitation measures. Using three hypotheses, this paper investigates whether a link exists between the European Union (EU) import duty and VAT *de minimis* levels and deliberate undervaluation below that threshold. Although the research was unable to prove a direct correlation between certain taxes and undervaluation, it indicates the need for greater understanding and cooperation between business and Customs to better ensure compliance with changing international trade regulations.

Background

Undervaluation of goods imported by any country is a phenomenon observed daily by those involved in international trade. However, the reasons that goods exported from certain countries are accompanied by invoices showing deliberately lowered values that do not reflect the true value of the goods are not yet fully understood. Obviously, there might exist various explanations of that behaviour, one of them being a sole willingness to avoid duties and taxes by those involved in foreign trade. Nonetheless, the undervaluation practices might also be caused by a misfit of existing regulations of given national economies (especially levels of import value *de minimis* levels and other types of trade facilitating measures) with the developing global economy. Therefore, this paper investigates whether there exists a link between the European Union (EU) import duty and VAT *de minimis* level and deliberate undervaluation below the *de minimis* threshold. Using samples derived from DHL Express operating systems, the paper focuses on known undervalued shipments coming into the EU from the Asia Pacific region with the aim of assessing whether EU import value *de minimis* level influences decisions of foreign traders to undervalue goods shipped to the EU.

The results of the research do not confirm the link's existence. They show that there exists a general trend to undervalue every commodity shipped to the EU, no matter what its country of destination, recipient or transaction value. The extent of undervaluation (degree of undervaluation) shows no correlation with the value to be declared to Customs. The analysis of the data gathered for this paper leads to the observation that no link exists between the duty and import tax *de minimis* level for the EU and the undervaluation

