

Technology | Explainer

What's the De Minimis Tariff Loophole That Trump Has Closed?



Logos for PDD Holdings Inc.'s Temu and Shein. *Photographer: Raul Ariano/Bloomberg*

By [Brendan Murray](#) and [Samson Ellis](#)

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A Latin term that used to be little-known outside the world of customs brokers has become the stuff of headlines. That's thanks to a decision by US President Donald Trump to close a tariff loophole for “de minimis” merchandise from mainland China and Hong Kong from May 2.

The phrase – which loosely translates as “too small to matter” – refers to small packages that are shipped directly to consumers from abroad, usually bypassing warehouses and distribution hubs. Qualifying as de minimis has, until now, come with a huge perk: no customs declarations and no tariffs. While each de minimis package is small, they've been shipped in massive quantities to the US by online discount marketplaces such as Shein and Temu.

De minimis packages from places other than mainland China and Hong Kong are poised to lose their tariff exemption too once a system to “expeditiously process and collect” the duties is in place, according to an executive order issued by Trump.

What is the US de minimis exemption?

For a package to qualify for the US de minimis exemption it must have a retail value of no more than \$800 – which is high compared with other countries. It’s about \$40 in Canada, for instance, and around \$150 in the euro area. The administration of President Barack Obama raised it to that level from \$200 in 2016.

The exemption dates back to 1938, when Congress tweaked tariff rules to waive duties in order to avoid unnecessary expense for little reward, or, as one former Treasury official put it, “spending a dollar to collect 50 cents.” The exemption started at \$1, where it stayed for decades before rising to \$5 in 1990, \$200 in 1993 and then jumping to \$800 in 2015.

China, for its part, generally waives duties of up to about \$7 on packages, while shipments from e-commerce companies are only subject to duties if they’re worth around \$700 or more, provided they meet certain conditions.



Logos for PDD Holdings Inc.'s Temu and Shein. *Photographer: Raul Ariano/Bloomberg*

How are such packages from China and Hong Kong now taxed?

Packages from China and Hong Kong worth up to \$800 are now either taxed at a rate of 120% of their value or face a flat fee. The fee starts at \$100 and is set to increase to \$200 on June 1. The details are contained in the most recent executive order on the matter, issued April 9.

What effect has the US de minimis loophole had?

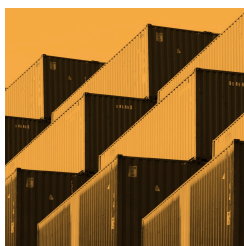
With the threshold as high as it is in the US, around 4 million small packages claiming de minimis exemptions crossed into the US every day in 2024. These parcels often went unchecked before being transferred to a truck for delivery directly to the consumer's doorstep.

This has, until now, helped Americans access lots of cheap merchandise sold by e-commerce retailers in China, such as Temu and Shein. But it's also strained global supply chains, raised air cargo costs and swamped border enforcement efforts.

What's more, the packages are thought to be one of the ways illegal drugs such as fentanyl have been smuggled into America and how other goods have entered the US in violation of rules against imports from regions known for human-rights abuses. The administration of President Joe Biden was well on its way to cracking down on de minimis abuses before he lost his reelection bid in November, so Trump's decision to eliminate the exemption wasn't a complete surprise.

How much trade has the de minimis rule affected?

Quite a bit in both volume and value, with both rising exponentially. Such packages used to be confined to t-shirts and small electronics, but they expanded to include bigger-ticket items such as electric bikes retailing for \$799.



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According to a White House fact sheet in 2024, the number of individual shipments to the US claiming de minimis exemptions exceeded more than 1 billion a year, up from around 140 million a decade earlier. While China officially reported about \$23 billion worth of small parcel exports to the US last year, Nomura Holdings Inc. estimates as much as \$46 billion of US-bound packages came from the country. There's a discrepancy because with so many parcels, it's hard to count all of them in official statistics.

That's a lot of stuff either way. But it's a small fraction of the value of total US goods imports, which last year surpassed \$5.3 trillion. Consequently, the suspension of the de minimis exemption isn't expected to have a major effect on the US economy.

What do the new rules mean for US consumers?

The end of the de minimis exemption for imports from mainland China and Hong Kong doesn't mean Americans can't order small packages from those places. But now the goods are being channeled through customs and are incurring levies, with the costs passed on, at least to some extent, to consumers.

E-commerce deliveries from China are also likely to become slower. The added costs will make air cargo – already a very expensive way to ship freight – a potentially unprofitable mode of transportation for low-cost goods. So, rather than fly on a plane and take a couple of days to arrive, a package might take a three-week journey on a container ship from China to the US West Coast.

Which companies will be most affected by the change?

Low-cost online retailers such as Temu, Shein and Alibaba's AliExpress have used the de minimis exemption for years to expand in the US – a trend that was supercharged by the Covid-era boom in e-commerce.

Shein pioneered the model of targeting cost-conscious Americans with \$2 blouses and \$10 shirts during the pandemic. Temu jumped in around 2022 with its “Shop Like a Billionaire” catchphrase.

Cross-border e-commerce was a lifesaver for many Chinese factories running on wafer-thin profit margins as spending by domestic shoppers

plunged during the Covid crisis and never really recovered. With the loophole closed, there may be “serious shipping delays and a wave of factory closures within three months,” according to Andy Guo, an online retailer of electronics products and founder of Waimaojia, a media platform for the cross-border e-commerce industry.

In response to the closing of the exemption, Temu announced that it was recruiting merchants in the US with the aim of selling to consumers there only goods produced in America for the foreseeable future. The company said it intends to keep prices for Americans unchanged.

The Reference Shelf

- Keep up to date with Trump’s tariffs and their impact with Bloomberg’s tariff tracker.
- A Big Take explores the wild world of Temu.
- Read an explainer on what Trump is trying to achieve with his tariffs.

(Updates with Temu announcement that it aims to sell US customers only goods produced in the US)

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