GREATER DES MOINES PARTNERSHIP

FOREIGN-TRADE ZONES

THE FOREIGN-TRADE ZONE (FTZ) PROGRAM was created by the U.S. government to facilitate international trade and increase the global competitiveness of U.S.-based companies. The program, which has existed since the 1930s, continues to thrive and change to better meet the needs of American companies in the global economy.

WHAT IS A FTZ?

A FTZ is an area within the United States, in or near a U.S. Customs port of entry, where foreign and domestic merchandise is considered to be outside the country, or at least, outside of U.S. Customs territory. Certain types of merchandise can be imported into a Zone without going through formal Customs entry procedures or paying import duties. Customs duties and excise taxes are due only at the time of transfer from the FTZ for U.S. consumption. If the merchandise never enters the U.S. commerce, then no duties or taxes are paid on those items.

ACTIVITIES PERMITTED IN A FOREIGN-TRADE ZONE

Merchandise entering a Zone may be assembled, tested, sampled, relabeled, manufactured*, stored, salvaged, processed, repackaged, destroyed, mixed and manipulated.

*The user must receive special approval from the FTZ Board for manufacturing (classified as a subzone, such as Winnebago Industries in Forest City, Iowa).

BUILDING LOCAL PROSPERITY THROUGH GLOBAL BUSINESS

In an expanding global economy, there is increased competition among nations for jobs, industry and capital. The FTZ program was designed to promote American competitiveness by encouraging companies to maintain and expand their operations in the U.S.

The FTZ program encourages U.S. based operations by removing certain disincentives associated with manufacturing in the U.S. The duty on a product manufactured abroad and imported into the U.S. is paid at the rate of the finished product rather than that of the individual parts, materials or components of the product. A U.S.-based company finds itself at a disadvantage vis-à-vis its foreign competitor when it must pay the higher rate on parts, materials or components imported for use in the manufacturing process. The FTZ program corrects this imbalance by treating a product made in a U.S. foreign-trade zone, for purposes of tariff assessment, as if it were produced abroad.

BENEFITS FOR COMMUNITIES

When companies increase their cash flow, save taxes and improve their bottom line by locating their operations in FTZs, communities benefit in several important ways. Economic growth and development are stimulated because jobs are retained and created in the community. The FTZ program impacts indirect employment, as well, because a business location not only creates jobs specific to itself, but also creates opportunities for suppliers and service providers in the community. A FTZ project can be a valuable asset when a community is trying to attract new business investment to its area. Finally, a community with a FTZ may experience an improved infrastructure and expanded tax-base as a result of higher employment and the influx of new businesses. For all of these reasons, more than 200 communities throughout the U.S. support and rely on the benefits that the FTZ program offers public as well as private entities.

BENEFITS FOR BUSINESSES

The FTZ program helps American companies improve their competitive position versus their counterparts abroad. The FTZ program allows U.S.-based companies to defer, reduce or even eliminate Customs duties on products admitted to the zone.

DEFERRAL OF DUTIES

Customs duties are paid only when and if merchandise is transferred into U.S. Customs and Border Protection territory. This benefit equates to a cash flow savings that allows companies to keep critical funds accessible for their operating needs while the merchandise remains in the zone. There is no time limit on the length of time that merchandise can remain in a zone.

REDUCTION OF DUTIES

In a FTZ, with the permission of the Foreign-Trade Zones Board, users are allowed to elect a zone status on merchandise admitted to the zone. This zone status determines the duty rate that will be applied to foreign merchandise if it is eventually entered into U.S. commerce from the FTZ. This process allows users to elect the lower duty rate of that applicable to either the foreign inputs or the finished product manufactured in the zone. If the rate on the foreign inputs admitted to the zone is higher that the rate applied to the finished product, the FTZ user may choose the finished product rate, thereby reducing the amount of duty owed.

ELIMINATION OF DUTIES

No duties are paid on merchandise exported from a FTZ. Therefore, duty is eliminated on foreign merchandise admitted to the zone but eventually exported from the FTZ. Generally, duties are also eliminated for merchandise that is scrapped, wasted, destroyed or consumed in a zone.

ELIMINATION OF DRAWBACK

In some instances, duties previously paid on exported merchandise may be refunded through a process called drawback. The drawback law has become increasingly complex and expensive to administer. Through the use of a FTZ, the need for drawback may be eliminated allowing these funds to remain in the operating capital of the company.

LABOR, OVERHEAD AND PROFIT

In calculating the dutiable value on foreign merchandise removed from a zone, zone users are authorized to exclude zone costs of processing or fabrication, general expenses and profit. Therefore, duties are not owed on labor, overhead and profit attributed to production in a FTZ.

TAXES

By federal statute, tangible personal property imported from outside the U.S. and held in a zone, as well as that produced in the U.S. and held in a zone for exportation, are not subject to State and local ad valorem taxes.

QUOTAS

U.S. quota restrictions do not apply to merchandise admitted to zones, although quotas will apply if and when the merchandise is subsequently entered into U.S. commerce. Merchandise subject to quota, with the permission of the Foreign-Trade Zones Board, may be substantially transformed in a FTZ to a non-quota article that may then be entered into U.S. Customs and Border Protection territory, free of quota restrictions. Quota merchandise may be stored in a FTZ so that when the quota opens, the merchandise may be immediately shipped into U.S. Customs and Border Protection territory.

ZONE-TO-ZONE TRANSFER

An increasing number of firms are making use of the ability to transfer merchandise from one zone to another. Because the merchandise is transported in-bond, duty may be deferred until the product is removed from the final zone for entry into the U.S. Customs and Border Protection territory.

OTHER

Additional benefits, sometimes referred to as intangible benefits, have begun to play a greater role in a company's evaluation of the FTZ program, many companies in FTZs find that their inventory control systems run more efficiently, increasing their competitiveness. FTZ users also find that in meeting their FTZ reporting responsibilities to the U.S. government, they are eligible to take advantage of special Customs procedures suchas direct delivery and weekly entry. These procedures expedite the movement of cargo, thereby supporting just-in-time inventory methodologies.

For more information contact:

Ryan Carroll, Senior Director of Regional Development
Greater Des Moines Partnership
Phone: (515) 286-4998
rcarroll@DSMpartnership.com