

# Foreign Trade Zone #221

## What is a Foreign Trade Zone?

Foreign or “free” trade zones (FTZ) are secured areas physically located within a country but legally considered to be foreign soil for customs purposes and therefore part of international, not domestic commerce. Their purpose is to attract and promote international trade and commerce by providing a means for importers to reduce or eliminate the payment of import duties.

Although free trade is an ancient concept, foreign trade zones did not develop until the 19<sup>th</sup> century. The success of foreign trade zones in northern Europe, notably the “free port” in Hamburg, stimulated American interest, which culminated in the passage of the Foreign Trade Zone Act of 1934, and the amendment of this Act in 1950. The 1934 Act was designed to promote trade and create jobs. The 1950 amendment authorized manufacturing and exhibition in foreign trade zones. In 1980, the processing costs associated with using US products in a FTZ were excluded from US Customs duty calculations.

Zones are operated as public utilities by states, political subdivisions, or corporations chartered for the purpose and located in or near customs ports of entry at industrial parks or terminal warehouse facilities. Subzones, usually located at a company’s private facility, can be designated when a company is unable to operate effectively at public zone sites. So, an importer may either acquire space in a foreign trade zone or have a part of their existing facility designated as a subzone to receive foreign trade zone benefits.

## Foreign Trade Zone Benefits

- Customs duty and internal revenue tax, if applicable are paid only when merchandise is transferred from a FTZ into the country’s domestic commerce. This can aid a company’s cash flow by spreading the import duty paid over a longer period of time.
- While in a zone, merchandise is not subject to US duty or excise tax. Tangible personal property is generally exempt from state and local *ad valorem* taxes.
- Customs security requirements provide protection against theft.
- Merchandise may remain in a zone indefinitely, whether or not subject to duty. This can be very useful when importing goods subject to a US quota if the annual quota has been closed.
- The zone user who plans to enter merchandise for consumption into the domestic US economy may elect to pay both the duty and taxes on the foreign material placed in the zone or on the article transferred from the zone. The rate of duty and tax and the value of the merchandise may change as a result of manipulation or manufacture in the zone. Therefore the importer may pay the lowest possible duty on the imported merchandise.
- Arizona provides a property tax reduction for companies located in a designated and activated foreign trade zone or subzone. Qualifying companies receive an 80% reduction in real and personal property taxes.