

Foreign-Trade Zones

What is a Foreign-Trade Zone?

Foreign-Trade Zones (FTZ) are specially designated areas, in or adjacent to a U.S. Customs Port of Entry, which are considered to be outside the Customs Territory of the United States.

Currently, Birmingham, Mobile, Huntsville, Montgomery and Dothan have foreign-trade zones. A number of subzones of the Alabama general purpose zones exist. A description and the benefits of foreign-trade zones follow:

General Purpose Zone:

A general purpose zone is a foreign trade zone in which any number of firms may operate, constrained only by the physical limitations of space in the zone. Foreign and domestic goods may be admitted to a zone for the operations not otherwise prohibited by law.

Merchandise may be stored, exhibited, assembled, processed, destroyed within the zone, or sent into United States Customs Territory subject to the customs duties and excise taxes only at the time they leave the zone.

Non-Contiguous Sites of a General Purpose Zone:

A non-contiguous general purpose zone consists of more than one site based on modal or space requirements. Any general purpose activity by any number of firms may occur at any site, and all operation and control are centrally maintained. An important advantage of a non-contiguous zone site is that only one application must be filed, and once approved, the sites may be activated as needed by approval of the District Director of Customs. This provides flexibility by having sites available immediately, as the need for them arises. The Mallard-Fox Creek Industrial Park and Port in Decatur



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is an example of a Non-Contiguous Site of a General Purpose Zone (Huntsville).

Subzone:

A subzone is a special purpose conditional zone site of a general purpose zone authorized by the Foreign-Trade Zones Board for operations which cannot be accommodated within an existing one. An application for a subzone must be submitted to the Foreign-Trade Zone Board in the same manner as a general purpose zone application would be. A subzone is a single-firm site, normally involving manufacturing, whose operations and control are separate from the general purpose zone; in this sense, it is approved only for a specific activity. An example of this is the Mercedes-Benz manufacturing facility in Vance. Any community or industry may apply for a subzone status. The subzone may be authorized by the FTZ Board if it can be demonstrated that the use may not be accommodated in the existing zone, and that a significant public benefit will result, such as the creation or retention of jobs.

Listed below are a few ways foreign trade zones can save a company money

Duty Exemption On Re-Exports

If merchandise is re-exported after being placed in a foreign-trade zone or shipped to another zone for re-export, no duty is ever paid.

Relief From Inverted Tariffs

Generally, if foreign merchandise is brought into a foreign-trade zone or subzone and manufactured into a product that carries a lower duty rate, the lower rate applies.

FOR EXAMPLE: A Foreign-Trade Zone user imports a motor (which carries a 5.3% duty rate) and uses it in the manufacture of a vacuum cleaner (which has a 1.4% duty rate). When the vacuum cleaner leaves the FTZ and enters the commerce of the U.S., the duty owed on the motor drops from the 5.3% motor rate to the 1.4% vacuum cleaner rate.

Duty Elimination On Waste And Scrap

No duty is charged on most waste and scrap from production in a foreign-trade zone.

No Duty On Rejected Or Defective Parts

Merchandise found to be defective or faulty may be returned to the country of origin for repair or simply destroyed. Whichever choice is made, no duty is paid. Many companies outside of foreign-trade zones pay duty on imported merchandise, find it to be faulty and return it to the country of origin for repair, and then pay duty again when the merchandise reenters the United States. If you are within a foreign-trade zone or a subzone, the "double duty crunch" is never a problem, because your merchandise never enters the commerce of the United States.

Duty Deferral

No duty is ever charged on merchandise while it is in a foreign-trade zone, and there is no limit on the length of time merchandise may be kept in the zone. By deferring the duty, capital is freed for more important needs.

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No Duty On Domestic Content Or Value Added

The “value added” to a product in a foreign-trade zone (including manufacture using domestic parts, cost of labor, overhead, and profit) is not included in its dutiable value when the final product leaves the zone. Final duties are assessed on foreign content only.

Relief From Local Ad Valorem Taxes

Foreign merchandise stored in a foreign-trade zone, or merchandise held in the zone for export, is not subject to any state or local ad valorem taxes.

No Duty On Sales To The U.S. Military Or NASA

No duty is charged on merchandise sold from a Foreign-Trade Zone to the U.S. military or NASA, returned to the country of origin for repair or simply destroyed.

For additional information, see www.foreign-trade-zone.com/

Source: Foreign-Trade Zone Corporation, <http://www.ftzcorp.com/index.php> (January 2010)