

FOREIGN TRADE ZONE

FTZ

How it works, how it benefits business

Foreign Trade Zones provide special customs procedures to U.S. companies engaged in international trade. A Foreign Trade Zone is an area physically located within the United States, but deemed to be outside U.S. Customs territory. Duty-free treatment is given to items that are processed in the City of Palmdale's FTZ and then re-exported.

Advantages for Businesses in a Foreign Trade Zone

Most foreign-made parts, components and merchandise may enter a zone without payment of U.S. Customs duties, fees and certain taxes.

If an imported product that has been admitted to a Foreign Trade Zone is subsequently exported, no U.S. Customs duty is due. If, however, the product is imported into the United States, duties, fees and other taxes (if applicable) are due at the time the merchandise leaves the zone and enters the U.S. Customs territory.

The importer may choose to pay duty at the rate applicable to either the component parts or on the finished product. The importer may choose to pay duty at the rate applicable either to the component parts or on the finished product, which usually is lower and pertains only to the value of the foreign content.

Foreign Trade Zones provide importers, exporters, manufacturers and distributors with opportunities to reduce U.S. Customs duties and to defer payment until the product leaves the zone.

A Foreign Trade Zone also offers benefits such as increased cash flow and reduced actual duty paid on imports and products warehoused, manipulated or manufactured for export.

Part of the Foreign Trade Zone overlaps with a state-designated Enterprise Zone and a Recycling Market Development Zone that offer other incentives and benefits.

An estimated 70 percent of FTZ users nationwide are small businesses. This provision is especially useful to firms that import components in order to manufacture finished products for export, according to the U.S. Department of Commerce.

There is no time limit on goods stored inside an FTZ. Certain foreign and domestic merchandise might be exempt from state and local inventory taxes. This allows firms to minimize their costs while products are waiting to be shipped.

A variety of activities can be conducted in a zone, including assembling, packaging, destroying, storing, cleaning, exhibiting, repacking, distributing, sorting, grading, testing, labeling, repairing, combining with foreign or domestic content, or processing. Manufacturing and processing requires specific FTZ Board approval.



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FTZ: Business Advantages

Duty Deferral: Customs duty and federal excise tax are paid only when merchandise is transferred from an FTZ to the customs territory of the United States, or transferred to Canada or Mexico.

Duty Elimination: Goods may be imported into, and then exported from, a zone without the payment of duties and excise taxes, except to certain countries subject to trade agreements. Goods may also be imported and destroyed in a zone without the payment of duty and excise taxes.

Inverted Tariff Relief: Inverted tariff relief occurs when imported parts are dutiable at higher rates than the finished product into which they are incorporated. The duty rate on imported materials can be less if the material is incorporated into an assembled product.

Tax Exemption: Merchandise imported into the United States and held in a zone for the purpose of storage, sale, repackaging, assembly and some other purposes is exempt from state and local ad valorem taxes.

Storage: Merchandise may remain in a zone indefinitely, whether or not subject to duty.

Export: Merchandise brought into the United States for warehousing, temporary importation and exportation may be transferred to a foreign trade zone from customs territory.

Security and insurance: Customs security requirements and federal criminal sanctions deter theft, resulting in lower insurance costs and fewer incidents of loss.

- Foreign Trade Zones Board, Import Administration