Foreign Trade Zones: How to Use them in Texas
Update Q3-4 of 2018

The U.S. Foreign-Trade Zones (FTZ or Zone) program was created by the FTZ Act of 1934, in order to "expedite and encourage foreign commerce" in the United States. For a number of years, the program was largely ignored, and by 1970, there were only seven FTZ's in the country. With the dramatic increase in import volumes and a better understanding of the advantages of the FTZ program, Zones have become much more popular. Today there are 292 FTZ's within the nation.

By definition, an FTZ is a government-designated site where foreign and domestic materials remain in a kind of international commerce limbo. While the goods remain in the Zone, the materials may be stored, manipulated, mixed with domestic and/or foreign materials, used in assembly or manufacturing processes, or exhibited for sale without triggering the payment of U.S. Customs and Border Protection (CBP) duties and excise taxes.

Imports may flow directly into the Zone and be held there indefinitely duty free. Duty is assessed only when those goods are shipped out of the Zone and into the United States marketplace. This specific benefit; of paying duty only when goods leave the zone factory or warehouse used to be a "minor benefit". However, in this age of Trade Wars, trade protectionism etc., additional duties are becoming a huge issue. **For manufacturers, for retailers, for all of us here in America, serious costs (25%+) added to our purchases is a reality. The FTZ program is the ONLY program available today, to everyone, that provides "duty-stress insurance" to commercial operations of companies.** In the State of Texas there is an additional state defined tax benefit further detailed in the section below.

- ***Weekly Entry*** was added to the FTZ benefits stream in the year 2000, by the Trade and Development Act. This benefit allows the importer to file a consolidated entry to CBP instead of the regular "entry per Bill of Lading" that normally occurs in shipping. By reducing the number of CBP entries, huge economies of scale can lower an importer's internal paperwork processing costs and reduce the fees paid to CBP for each entry. This fee reduction can be $200,000, $300,000 up to $1 Million of savings annually for a large box, Distribution Center (DC) operator. The cost savings are so significant that the FTZ program is now being used by 45 of the top 100 importers in the U.S.

- ***Direct Delivery*** is a CBP procedure, only allowed in an FTZ. This benefit gives the users/tenant the ability to "Sign for" CBP upon receipt of goods that normally have to go to another location for signature, BEFORE the goods can be delivered to the DC. With Direct Delivery, the importers can cut out 1 – 2 days of inbound time on their receipt of goods. This is being proved out every day by Huffy Bikes, Black and Decker, Sketchers, and others importers who have announced publicly that they are receiving improved supply chain velocity within their FTZ facility.

- Specifically, in **Texas,** and within only 3 other states, there is an **inventory tax benefit** tied to the merchandise (inventory inside an approved and activated zone site) stored inside the Zone, that all other inventory (not real property, machinery and equipment) normally pays. The FTZ "exemption" under

Texas and Federal Law allows for any inventory "either imported or to-be-exported" and held in Zone on January 1st of every year is **exempt from inventory ad-valorem tax**. Therefore, Qualified Zone users, tenants, and Zone Operators who locate inside an approved FTZ site, and activate the site, receive a discount equal to 3% (+/-) of the 100% value of their merchandise on "tax day" every year---it has no end date; it goes on in perpetuity. This savings represents from $0.74 per foot (annual) savings to over $1.90 per foot over a competing building, all other things being equal!

FTZs can offer a number of benefits to importers, including:

- ***Eliminating delays in customs clearance***. This is particularly important in this time of unprecedented longer supply chains, port security and continued port congestion.

- ***Eliminating duty drawback.*** Goods that are imported and stored in an FTZ may be re-exported without ever incurring duties. This eliminates the need to file for duty drawback refunds, a lengthy procedure that ties up funds.

- ***Avoiding duty on waste or scrap.*** If for some reason goods in the Zone must be destroyed or returned, no duties will be charged.

- ***Providing relief from inverted tariffs.*** There are instances where companies are actually penalized for manufacturing at home (here in the USA). When the duty on raw materials is higher than that on the finished product, an importer of finished goods has an advantage over the U.S. producer. If the manufacturing takes place in an FTZ, however, the owner pays duty on his end products as they are shipped, thus leveling the playing field. Examples are appliances, solar equipment, pharmaceuticals, chemicals, autos, machinery, pumps and many other industry groups that use the FTZ program to lower parts-tariffs by making the finished product in the Zone.

- ***Big savings in processing fees.*** The 2000 Trade and Development Act contained a provision that provided for "weekly entry" procedures in all FTZs. This may not seem like a big deal, but companies located outside the Zones pay a 0.3464 percent (value of merchandise) fee for every shipment processed by CBP. The minimum fee is $25, and maximum (which applies to any shipment valued at $140,000 or above) is $485, regardless of the amount of duty paid.

  Example: Suppose a company located in an FTZ received 20 shipments, each with a value of only $150,000, every week. At $500 each, (the new 2018 rate) the processing fees outside the zone would be $10,000 weekly or $520,200 annually (half a million dollars!). Within the Zone, however, these same 20 receipts would be processed as a single shipment for a total fee of $500 per week. Savings [$520,200 – ($500 x 52) or $26,000/year] = $494,000 per year!

- ***Texas state tax benefits***. As stated above, any operator, user, zone tenant, in an approved and activated site is allowed to eliminate their "annual inventory taxes" completely (*caveat….some jurisdictions only allow a partial exemption, but this is on a case-by-case basis). The simple formula for Tax

  Example savings in Texas is this:
  Total Value Inventory (qualifying i.e., imported or domestic for export) is exempt.

  So for example, January 1, 2019 inventory value is $37,500,000 x 3% (the average Texas tax rate; which is 2.7% to 4.25%) is <u>$1,125,000 total tax saved every year the site is Activated!</u>