Foreign Trade Zone

How it works and understanding the benefits.

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& Maria Delle Fave
June 19, 2014
Tariff Act of 1789 – July 4, 1789 – Authorized the collection of duties on imported goods.

The 5th Act of the new congress - July 31st, 1789 - Established the Customs service and ports of entry.

For nearly 125 years from establishment, revenues from Customs funded the entire federal government.

Customs funded the entire government and paid for the nation’s early growth and infrastructure.
- purchased Louisiana, Oregon, Florida and Alaska
- funded national roads and transcontinental railroad
- built lighthouses
- funded U.S. military and naval academies
- funded the city of Washington

By 1835 the NATIONAL DEBT was ZERO
Basics of Imports

- Imported merchandise is assigned a **tariff number**.
- Duty rate (tax) is paid. The **duty rate** can be based on the value and/or specific unit of measure multiplied by a specific rate (e.g. 4% or 4% + .10/kg.).
- **Merchandise processing fee** (MPF) (.3464%) is applied per shipment with a maximum $485 per shipment.
- **Harbor maintenance fee** (HMF) .125% of the value.
- For Cargo Release, an import **Entry** (CBPF3461) and 10 Customs business days later an **Entry Summary** (CBPF7501) with duties and fees paid.
<table>
<thead>
<tr>
<th>POLYS OF VIN ACETATE; OTHE</th>
<th>3905.99.8000</th>
<th>682</th>
<th>600 KG</th>
<th>25788</th>
<th>c3700</th>
<th>5.3000%</th>
<th>1,366.76</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise Processing Fee</td>
<td>0.2100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waterways Fee (HMF)</td>
<td>0.1250%</td>
<td></td>
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Other Fee Summary for Block 39

| Merchandise Processing Fee | 499 | 54.15 | $ 25,788 |
| Waterways Fee (HMF)       | 501 | 32.24 | $ 86.39 |

CBP USE ONLY

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>REASON CODE</td>
<td>C. Ascertained Tax</td>
<td>38. Tax</td>
<td>0.00</td>
</tr>
<tr>
<td>D. Ascertained Other</td>
<td>39. Other</td>
<td>86.39</td>
<td></td>
</tr>
<tr>
<td>E. Ascertained Total</td>
<td>40. Total</td>
<td>1,453.15</td>
<td></td>
</tr>
</tbody>
</table>

36. DECLARATION OF IMPORTER OF RECORD (OWNER OR PURCHASER) OR AUTHORIZED AGENT

I Declare that I am the X Importer of Record and that the actual owner, purchaser, or consignee for CBP purposes is as shown above, OR Owner
History of the Foreign-Trade Zone Program?

- Established by Congress under the FTZ Act of 1934
  - H.R. 9322: “to provide for the establishment, operation, and maintenance of FTZs in ports of entry of the United States, to expedite and encourage foreign commerce.”

- Purpose is to “expedite and encourage foreign commerce”

- Designed to:
  - Encourage International Trade
    - Stimulate trade of foreign imported goods not only for export, but also for domestic consumption after combining with domestic goods.
    - By deferring payment of duties until goods imported for distribution are entered into the commerce of the US
  - Create and maintain US-based economic activity (e.g. US-based employment, investment and value-added activity).

- A Trade program, not a Customs Program
What is a Foreign Trade Zone (FTZ)?

- An approved designated location, physically secured and marked (signs), for Customs purposes it is **NOT** in the Commerce of the United States
- A public utility privately managed/operated under the supervision of Customs, the Grantee (local Economic Development) and the FTZ Board in Washington, D.C.
Types of Sites

- Magnet site - intended to attract multiple potential FTZ operators/users
- Usage-Driven Site - designated to meet a specific operator/user’s present need for FTZ designation; usage-driven sites cannot be used by another entity
- Service Area – area where usage-driven or magnet sites can be established under ASF rules
- Sunset Provision - Magnet sites have a rolling five (5) year sunset provision during which at least a portion of the magnet site must be activated, while a usage-driven site must demonstrate actual zone activity within three (3) years or lose zone status
Alternative Site Framework

- Warehousing
- Production
  - Scope & Authority
- Include Suppliers
- Facilities
  - Include “off-site” facilities
  - Include overflow warehouses
  - Include finished goods facilities
- Local tax issues
Alternative Site Framework

- Is the facility in an ASF service area?
  - Subzone
  - Usage-driven site

- Production Involved?
  - New modification procedure = 4 months
  - Can expedite with letter from Customs

- If objection to new modification procedure then a full Application is required
What can be done to merchandise while in a FTZ?

- Stored
- Tested
- Cleaned
- Relabeled
- Repacked
- Repaired
- Assembled
- Manipulated
- Mixed
- Processed
- Manufactured
- Displayed
- Destroyed
- Re-exported
Samples of Kitting in a FTZ

- Liquor/Glasses/ Cradle
- Cosmetics
- Napkins/Rings
- Computers
- Home Theatre Kits
- Tool Kits
- Cell Phones

- Pen Set
- Audio Rack System
- Surgical Pack
- Clothing Set
- Dinnerware Set
- Glassware Set
FTZ High Level Benefits

- Imported merchandise can be admitted into the FTZ without paying duties and excise tax until physical removal from the Zone into U.S.A. domestic market.

- If merchandise is exported, duties are never paid and must be shipped under Customs supervision, In Bond.
FTZ Benefits

1. **Time Value of Money** - Customs duties and merchandise processing fee are paid only when merchandise enters the commerce of U.S.A.

2. **Inverted Tariff** benefit on Manufactured Goods allows importer to lock the lower duty rate of the raw materials OR the finished product when withdrawing the finished product.

3. **Exports** of FTZ merchandise avoids all duties and merchandise processing fees on exports.

4. **Weekly Entry** – Merchandise Processing Fee payments may be reduced through consolidated paperwork.

5. **US-based operating margins are enhanced** – enabling US-based companies to better compete in both domestic and export markets.

6. **Scrap, Waste and Obsolete** imports duty rate applied on reduced value.
FTZ Benefits

7. **Overseas Production** an importer would owe duties on labor, overhead and profit charged by a supplier. When manufacturing in a FTZ only owe duties on foreign components (bicycles are a good example).

8. **Quality Control** in a FTZ allow the inspections without entering the commerce of USA therefore, the importation of only those goods that meet specification are duty paid.

9. **Title Transfer** within a FTZ allows possible State Tax Savings for the supplier.

10. **Hold Merchandise** not allowed to be imported into U.S.A. (e.g. country of origin marking issues, etc.).
Each imported product must be assigned a Zone Status when merchandise is admitted into FTZ which drives the duty rate to be applied to merchandise upon withdrawal from the FTZ.

- **Non-Privileged Foreign NPF** - duty rate of finished product and/or what every is withdrawn from the FTZ
- **Privileged Foreign PF** - lock duty rate of admitted merchandise
- **Domestic** - made in USA or duties paid merchandise
- **Zone Restricted ZR** - only exported or destroyed
## Manufacturing Zone Status Sample

<table>
<thead>
<tr>
<th>Bill of Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frame 3.9% PF</td>
</tr>
<tr>
<td>Spokes 15% NPF</td>
</tr>
<tr>
<td>Brakes 0% PF</td>
</tr>
<tr>
<td>Seat 8% PF</td>
</tr>
<tr>
<td>MFG. Bicycle 11%</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Bill of Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frame 3.9% NPF</td>
</tr>
<tr>
<td>Saddle/seat 0% NPF</td>
</tr>
<tr>
<td>Crank Gears 10% NPF</td>
</tr>
<tr>
<td>Disc Brakes 10% NPF</td>
</tr>
<tr>
<td>Wheel Rims 5% NPF</td>
</tr>
<tr>
<td>MFG. Motorcycle 0%</td>
</tr>
</tbody>
</table>
FTZ Import Flow

- P.O. w/supplier
- Shipment booked
- Invoice created
- Waybill created
- ISF reported to CBP
- CBP7512 In-bond to FTZ Facility
- CBP214 Admission into FTZ
- CBP3461 Estimate
- CBP7501 Weekly Entry
- CBPF7512 Export T&E
### Manufacturing FTZ

#### Inverted Duty Saving Example

<table>
<thead>
<tr>
<th>NO FTZ</th>
<th>FTZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>✦ 10,000 Motorcycles manufactured per year.</td>
<td>✦ Value of foreign components used in production of motorcycles</td>
</tr>
<tr>
<td>✦ Value of foreign components used in production of motorcycles (10,000 sets of motorcycle disc brakes@ $1K each) = $20,000,000</td>
<td>✦ $20,000,000</td>
</tr>
<tr>
<td>✦ Multiply by the foreign component Duty Rate 10%</td>
<td>✦ Multiply by the <em>finished</em> manufactured motorcycle Duty Rate 0%</td>
</tr>
<tr>
<td>✦ = DUTY EXPENSE $2,000,000</td>
<td>✦ = DUTY EXPENSE $0</td>
</tr>
</tbody>
</table>

**FTZ INVERTED DUTY SAVINGS $2,000,000**
Inverted Tariff – Motorcycle Manufacturing FTZ

Admission - Disc Brakes
10% duty rate

Withdrawal - Motorcycle 0% duty rate
**Merchandise Process Fee Savings (MPF)**

**Example**

<table>
<thead>
<tr>
<th><strong>NO FTZ</strong></th>
<th><strong>FTZ</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>✦ 10 shipments per week</td>
<td>✦ 10 shipments per week</td>
</tr>
<tr>
<td>✦ 520 shipments of merchandise valued at $250,000 each</td>
<td>✦ 520 shipments of merchandise valued at $250,000 admitted into FTZ</td>
</tr>
<tr>
<td>✦ $485 MPF per shipment ($250,000 x .3464% = $866 max. of $485/shipment)</td>
<td>✦ MPF paid upon withdrawn using WEEKLY ENTRY FILING process (7 days of withdrawal on 1 import entry) (52 weeks X $485)</td>
</tr>
<tr>
<td>✦ Total MPF due $252,200</td>
<td>✦ Total MPF due $25,220</td>
</tr>
</tbody>
</table>

($252,200 - $25,220 = ) **FTZ MPF SAVINGS $226,980**
FTZ Weekly Entry Example
Merchandise Processing Fee Savings of $226,980

Annual MPF with NO FTZ
520 shipments = $252,200

Total MPF with NO FTZ
$4,850/weekly

$250K
$250K
$250K
$250K
$250K
$250K
$250K
Scrap, Waste and Obsolete Duty Savings Example

**NO FTZ**
- Annual imports of foreign merchandise destroyed value $30,000
- Multiply by the Duty Rate of 4.9%
- = DUTY EXPENSE $1,470

**FTZ**
- Annual imports of foreign merchandise destroyed (scrap value $1 over 52 weeks) $52
- Multiply by the Duty Rate of 4.9%
- = DUTY EXPENSE $2.55

($1,470 - $2.55 = ) FZ SCRAP SAVINGS $1,467.45
FTZ Requirements

- Operator is responsible for the **safekeeping of merchandise** and a recordkeeping system maintaining **inventory control** with back up documentation as proof (5 years).

- Operator is responsible for **understanding and complying** with the Rules and Regulations of Customs and participating government agencies.
Procedure for FTZ Activation

- **Application**
  - Written application to U.S. Customs and Border Protection Port Director with a description of zone site and operation to be conducted therein and general statement of merchandise to be admitted
  - Background check for key employees

- **Supporting Documents**
  - Application Fee/Activation Fee
  - Site plan of area approved by the FTZ Board
  - FTZ Procedure Manual describing inventory controls
  - Written concurrence of the Grantee & Customs
FTZ Activation Requirements…before operations begins

- Customs Port Director must review and approve security, procedures and inventory control.
- Operator needs an FTZ Bond and is liable for any discrepancies.
- Shipments move In Bond (CPBF7512) under Customs Supervision to (imports) and from (exports) Rochester.
- Filing a Yearly Blanket CBPF216 for manipulation, manufacture, exhibition or destruction.
FTZ Board Application Fees

- General Purpose Zone $3,200
- Special Purpose Sub Zone $4,000 - $6,500
- Expansion for an existing Zone $1,600
- ASF $0
WARNING YOU ARE ENTERING A FOREIGN TRADE ZONE
ALL VEHICLES, CONTAINERS, TRAILERS, INDIVIDUALS, AND MERCHANDISE ARE SUBJECT TO SEARCH AND SEIZURE BY DESIGNATED OFFICERS OF THE UNITED STATES TREASURY. WHOEVER MALICIOUSLY ENTERS WITH INTENT TO REMOVE THEREFROM ANY MERCHANDISE, OR UNLAWFULLY REMOVES MERCHANDISE FROM U.S. CUSTOMS AND BORDER PROTECTION’S CUSTODY OR CONTROL SHALL BE GUILTY OF A FEDERAL CRIME AND FINED NOT MORE THAN $250,000 OR IMPRISONED NOT MORE THAN 10 YEARS, OR BOTH. (18 U.S.C. 549)
After your FTZ Application is Approved

- Customs will need to activate your site.
- Each import shipment will need admission into the FTZ, CBP214.
- Withdrawals:
  - Domestic – on your Weekly Entry CBP3461/CBP7501
  - Export – must be shipped out In Bond CBP7512.
**FTZ.....How do I get started?????**

- Understand your source of supply, BOM’s and cost of importing and calculate potential savings.
- Contact U.S. Customs and Border Protection Port Director, Charles Giunta (585) 263-6293

**Resources that can help:**
- View National Association of FTZ’s Website: [www.naftz.org](http://www.naftz.org)
- View the Foreign Trade Zone Board’s Website: [http://ia.ita.doc.gov](http://ia.ita.doc.gov)