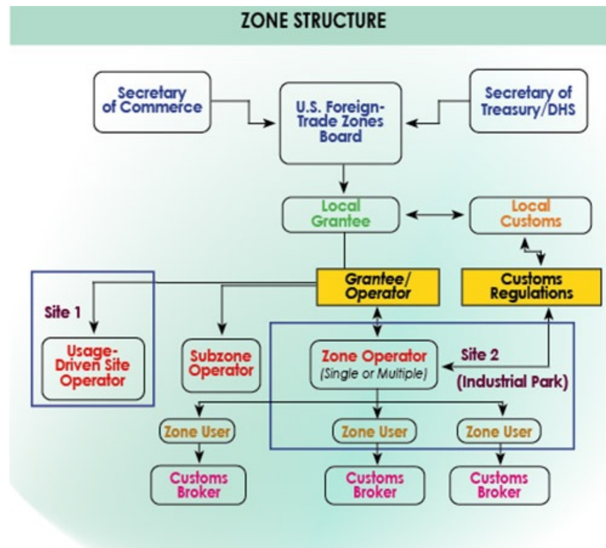
Foreign-Trade Zones: The Best, Zero-Cost Incentive for Your Business

FTZs can bring in millions of dollars in additional profits and cost very little to maintain relative to the investment.

Curtis Spencer, President, IMS Worldwide, Inc.

Even though the FTZ program was created in 1934, its relevance today is huge. After the year 2002, when Customs allowed for weekly entry (which greatly increased the demand for zones in warehouse and fulfillment centers), the FTZ program entered an even more lucrative incentive profile.



This profile is enhanced by the fact that over the last five years the U.S. government has decided to manipulate global trade that results in imports into the U.S. by increasing duty rates by a factor of 10. Prior to the Trump administration, the average duty rate in America for most imported goods was 2 percent. After the Trump years, and furthered by the Biden administration, the average duty rate right now for over $4 trillion worth of consumer products and retail goods is standing at around 20 percent. When I say $4 trillion, I'm talking about the sales price you and I pay as American buyers.

Therefore, for companies that must work in the global environment, which is most of our retail brands and our consumer products, and the many parts and suppliers used in manufacturing, the FTZ is now essential. It's not that everyone has decided to use an FTZ yet, but the rationale for FTZ use has increased by 1,000 percent! Never in the history of the zone program have the FTZ benefits become more of an incentive for relocating, expanding, and helping current businesses compete in the marketplace.

FTZ Benefits

So, what are the benefits of a foreign-trade zone? How are they used by companies to provide additional profits and create PPVs? It's very simple in principle, but it has nuances and details just like any other tax incentive that you would use.

The first and most important component of whether an FTZ works for a particular company is the evaluation of your level of imports. You can't have foreign-trade zones benefit (savings) unless a company is importing something. So, the first and most important component of your analysis has to be whether or not you have imports. These can be direct imports or indirect imports, i.e., your firm is the importer of record, or you buy from someone who you know gets the product from imports. Once you determine your import level, then the benefit streams are as follows:

- Duty elimination (from scrap or exports)
- Duty reduction (through the inverted tariff process, only allowed in FTZs)
- Duty deferral (payment of very high duties only when the goods leave the zone, i.e., after they are sold)
- Drastic reduction of merchandise processing fees (MPFs) (see accompanying illustration)

See the full article at https://www.areadevelopment.com/businessglobalization/q2-2022/foreign-trade-zones-zero-cost-incentive-for-your-business.shtml