



Foreign trade zones

Helping businesses gain a competitive edge

Companies import and export a wide range of materials and finished goods on a daily basis.

Beyond the logistical and supply chain considerations for such movements, companies may incur additional costs for customs duties and fees at time of import. The use of US Foreign Trade Zones (FTZs) can help to mitigate those costs.

With an FTZ, goods may be admitted for storage, manipulation or manufacturing without triggering the payment of customs duty when the goods arrive in the US. Only when the goods are subsequently removed from the FTZ to enter US Commerce may the goods be subject to duties. Goods ultimately removed from the FTZ for re-export avoid duty payment altogether.

Based on the recent Annual Report of the Foreign-Trade Zones Board to the US Congress, there was \$767b in inventory admitted into FTZs, and \$111b in merchandise exported to foreign countries. In addition, the number of people employed in FTZs is sizable. The report noted that over 460,000 people are employed at 3,300 companies utilizing the FTZ program.

As demonstrated by these figures and the anticipated increased growth of international trade, the FTZs program is a strategic tool used by US manufacturers and distributors to reduce customs and supply chain costs, promote US competitiveness and generate additional US jobs.

Use of an FTZ can help:

1. **Generate cash flow savings** – Defer payment of duty and fees on imported products until removed from the zone. Duty includes regular customs duty and punitive duties such as Section 301, Section 232, Antidumping, and Countervailing. Fees include Merchandise Processing Fee (MPF) and Harbor Maintenance Fee.
2. **Eliminate duties** – imported products held in and subsequently exported from an FTZ do not require duty deposit, resulting in permanent avoidance savings.
3. **Provide inverted tariff savings** – Manufacturers of finished products intended for US consumption may elect to pay duty on the value of the imported components, or the finished product, whichever rate is lower, known as inverted tariff savings.
4. **Reduce MPFs** – FTZ users may consolidate all shipments during a week into one weekly customs entry, subject to a single \$528.33 MPF, or \$27,473.16 a year.
5. **Reduce state and local property tax** – Imported inventory held in an FTZ and domestic inventory held in an FTZ for export are both exempt from state and local property taxes. Some states also offer real property tax benefits to companies within an FTZ.
6. **Provide benefits related to production equipment** – Equipment and parts for equipment imported into an FTZ for use in an approved manufacturing activity may also benefit from duty deferral or inverted tariff savings. This can be a valuable benefit for new construction or plant expansions.

If you answer “yes” to any of the following questions, your business could benefit from FTZ

1. Do you import raw materials/components for use in domestic manufacturing?
2. Do you import products and hold them in your warehouse for subsequent distribution to local or international customers?
3. Do you pay a significant amount of MPF?
4. Do you import products subject to punitive duties such as Anti-dumping, Countervailing Duties, Section 301 or Section 232?
5. Are you planning to or are constructing, a new manufacturing plant or expanding an existing plant, and importing materials to be used in assembling the equipment used to produce your goods?



How can Ernst & Young LLP help?

We have a team of professionals with a deep understanding of the rules governing FTZs. We can help your business:

- ▶ Evaluate the potential benefit of an FTZ based on your unique supply chain structure
- ▶ Apply for and establish an FTZ by working with local jurisdictions, the FTZ Board and US Customs
- ▶ Conduct trade operations in a compliant and efficient manner by providing centralized, managed services that help you redeploy key resources, shifting their focus from repetitive, transactional activities to what matters most – creating value for the organization
- ▶ Leverage our EY Trade Connect modular trade technology platform including the FTZ inventory system module
- ▶ Navigate the regulatory and compliance requirements associated with operating an FTZ

Ernst & Young LLP contacts:

Michael Leightman

Partner

michael.leightman@ey.com

+1 713 750 1335

Shane Williams

Managing Director

shane.williams1@ey.com

+1 713 751 5715

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

[Ernst](#) & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US. All Rights Reserved.

© 2021 Ernst & Young, LLP.

All Rights Reserved.

2103-3720414 | ED None.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com