How to Implement a Foreign Trade Zone to Mitigate Tariffs

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Tariffs are increasingly becoming a critical issue for businesses large and small, driving up costs and creating new challenges across supply chains.

Although addressing these challenges requires a strategic approach, one simple solution is implementing a Foreign Trade Zone ("FTZ") that provides tax savings and other benefits programs.

Benefits of FTZs

FTZs are secured areas under U.S. Customs and Border Protection ("CBP") supervision that are generally considered outside U.S. Customs territory for purposes of customs duty payments. Therefore, goods entering FTZs are not subject to U.S. customs tariffs until they leave the zone and enter into U.S. customs territory.

As a results, goods shipped to foreign countries from FTZs are exempt from duty payments. Further, there is no time limit on goods stored inside an FTZ, which allows companies to defer paying these duties until the goods formally enter the U.S.

How FTZs Work in Wisconsin

FTZs are regulated by the Foreign-Trade Zone Act ("FTZA") as well as state and municipal laws where they are located. In Wisconsin, property assessment and taxation are completed by the municipality where the commercial property is located. The municipal assessor determines annually what commercial property is subject to tax and the value of the property subject to tax.

Consistent with the FTZA's prohibition on state and local value-based taxation of imported tangible personal property stored or processed in an FTZ, Wisconsin law currently provides for tax exemption of merchant's stock-in-trade.

Weighing the municipality's interest in generating taxable revenue against promoting local businesses with the implementation of an FTZ program, the governing authority must consider the potential impact on local finances when a proposed FTZ designation could result in a reduction to local tax collections. Thus, an applicant must identify the affected local taxes and provide

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documentation that the impacted jurisdictions do not oppose the FTZ designation.

How to Obtain an FTZ Designation

Obtaining an FTZ or subzone designation in the U.S. is a four step process:

1. **Submit a written statement.** An interested small- or medium-sized enterprise (known as the "operator" when granted an FTZ) must submit a written statement of need of services to the FTZ grantee.
2. **Apply with FTZ Board.** Upon the grantee affirming the need for an FTZ, the grantee works with CBP to apply for an FTZ with the FTZ Board ("FTZB") at the U.S. Department of Commerce International Trade Administration. CBP needs to provide their comments on the new site for the application to be complete.
3. **Submit a production application.** If the proposed FTZ involves production activities, the FTZB shall require that the interested company provide additional information by submitting a production application.
4. **Request activation.** Upon approval of FTZ designation by the FTZB, the operator must then request FTZ activation from its local CBP. FTZ procedures cannot begin at the facility until it is activated by CBP.

Benefits Can Be Significant

Undoubtedly there are some costs associated with FTZs, including application fees, assessments, as well as operating fees to maintain the designation. However, the benefits to companies that implement an FTZ program are significant.

It is not only a solution for tax savings, but a business strategy for adapting to an ever-changing international trade environment.

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