

# Foreign Trade Zone of Central Texas, Inc.

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Building a better  
working world

# Presenters

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# U.S. Foreign Trade Zones – A Federal Incentive Program

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- ▶ The Foreign-Trade Zones Act of 1934 encourages employment and capital investment in the US by offering business involved in international trade flexible application of US Customs rules
- ▶ Although physically located within the U.S., FTZs are treated as outside U.S. Customs territory. Customs treatment is equalized with off-shore business.

# Program objectives

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- ▶ Help facilitate and expedite international trade.
- ▶ Help firms conduct international trade-related operations in competition with foreign facilities.
- ▶ Help attract offshore activity and encourage retention of domestic activity.
- ▶ Assist state/local economic development efforts.
- ▶ Help create and maintain employment opportunities

# Foreign Trade Zones – Benefits to users

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- ▶ No duty on imports until they leave the FTZ for a domestic destination
- ▶ No duty on items brought into FTZ and exported, as these items never enter Customs territory
- ▶ Manufacturing FTZs can elect the lower of component part or finished product duty rate
- ▶ No state and local personal property tax on imported inventory or domestic inventory held for export
- ▶ Other logistical and process savings



# Foreign Trade Zones Program

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- ▶ \$730 billion in goods moved through U.S. FTZs in 2012
  - ▶ Aerospace equipment
  - ▶ Agricultural products
  - ▶ Automotive goods
  - ▶ Computer equipment
  - ▶ Manufactured consumers goods
  - ▶ Pharmaceutical products
  - ▶ Petroleum products
  
- ▶ Total 2012 employment approximately 370,000 people



# Foreign Trade Zones– regulatory scheme

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- ▶ FTZ Board
  - ▶ Interagency Board (Commerce and Treasury, with staff provided by Commerce)
  - ▶ Approves FTZ locations and boundaries and authorizes specific manufacturing activity allowed in FTZs
- ▶ Grantee
  - ▶ Holds a “grant of authority” to manage a FTZ for a defined region.
  - ▶ Often a public entity or quasi-public entity, or a non-profit corporation established specifically to hold the grant
- ▶ US Customs and Border Protection
  - ▶ Authorizes a business to “activate” the FTZ
  - ▶ Provides oversight and ensures compliance

# Foreign Trade Zone No. 183

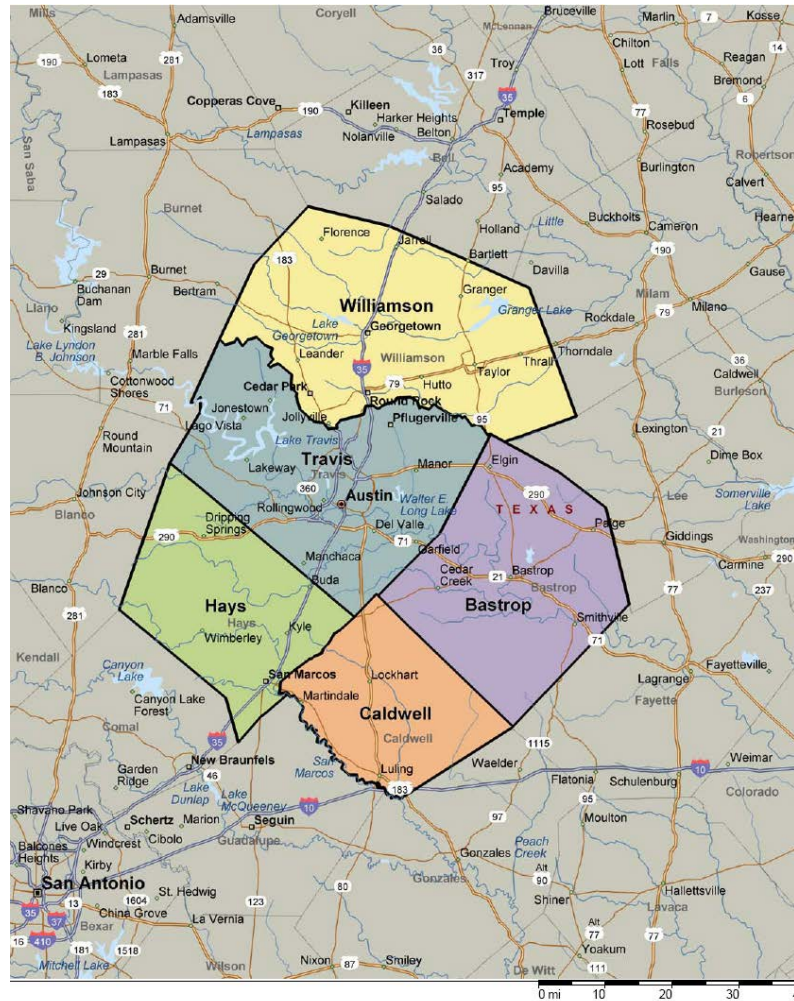
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- ▶ Established in 1991 to capitalize on the growth in the high tech industry in the Austin area
- ▶ Grantee is Foreign Trade Zone of Central Texas, Inc (“FTZCTI”) a non profit corporation established by the cities and chambers of commerce in Austin, Georgetown, Round Rock and San Marcos. Board of Directors are appointed by the cities and the local chamber of commerce.
- ▶ Approved into the new Alternative Site Framework program in 2012, allowing for expedited and low cost access to the program for area business.



# Foreign Trade Zone No. 183

ASF applies to FTZ activity within a designated five county service area:  
***Bastrop, Caldwell, Hays, Travis, Williamson***



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# Steps for approving geography under ASF

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- ▶ Business asks FTZCTI for designation
- ▶ FTZCTI confirms local government support (County, City, School District), and provides other taxing authorities with notice and opportunity to comment
- ▶ FTZCTI evaluates eligibility, and if met, requests Customs approval of geography (not operations)
- ▶ FTZCTI submits simplified application to FTZ Board
- ▶ FTZ Board approval within 30 days

# Tax considerations for local governments

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- ▶ The exemption is federal law. Local governments do not approve the exemptions.
- ▶ The Foreign-Trade Zones Board approves applications it finds are “in the public interest.” Tax impact, and views of public officials, are part of the assessment.
- ▶ To use the ASF expedited process, Board expects no local opposition to the application.
- ▶ This is demonstrated by including with the application support (or “non-opposition”) letters from the impacted City, County, and School District, and a statement from the grantee that others have been notified and provided opportunity to comment.

# Tax considerations for local governments

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- ▶ Different from, but significant overlap with, the Texas Freeport Exemption;
  - ▶ FTZ Exemption: imports and exports
  - ▶ Freeport Exemption: property leaving Texas within 175 days
  - ▶ In Freeport areas, biggest incremental FTZ Exemption benefit is usually imported inventory sold to Texas customers.
- ▶ Texas School Finance Impact
  - ▶ School districts have two primary sources of revenue, property taxes and state funding
  - ▶ FTZ property (like Freeport property) is not counted for Texas school finance rules
  - ▶ State of Texas largely holds school districts harmless from FTZ tax loss, with some exceptions

# Completing the process

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- ▶ Operating agreement with the grantee
- ▶ Production authority
  - ▶ Manufacturing, assembling, kitting
  - ▶ Separate approval needed
  - ▶ New regulation make simpler and easier
- ▶ Activation with Customs
  - ▶ Inventory control and recordkeeping
  - ▶ Facility security
  - ▶ Background checks on key personnel
  - ▶ FTZ operator's bond



# Questions?



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