

Foreign Trade Zones



The purpose of this guideline is to provide County Assessor personnel and other interested entities with the background of the Foreign Trade Zone Program and the statutes associated with the classification of businesses that own property located in a Foreign Trade Zone. It is effective until it is revised, or until rescinded and incorporated into an assessment manual.

Background

The Foreign Trade Zones Act was passed in 1934 under 19 United States Code section 81 as part of the Roosevelt Administration's New Deal to make businesses in the United States more competitive in international commerce with the intent of increasing employment opportunities. Foreign Trade Zones are effectively the U.S. equivalent of international free trade zones.

Each U.S. Customs Port of Entry, by law, is entitled to one Foreign Trade Zone (FTZ) project. However, it is possible for multiple Foreign Trade Zone projects to exist at a single Customs Port of Entry. By December 15, 2001 there were 244 approved General Purpose Zones and 467 approved Special Purpose Subzones in the United States. Arizona currently has seven Foreign Trade Zones located at, or near, the Ports of Entry or at international airports. Page 8 has a list of the seven Foreign Trade Zones currently approved in Arizona along with contact information for each.

The monetary benefits of operating in a Foreign Trade Zone include:

- The deferral of U.S. Custom duties - Merchandise can remain in the zone indefinitely before being transferred into U.S. Customs territory where custom duties must be paid.
- Reduction of U.S. Custom duties - The duty rate on individual parts of a product may be higher than the duty rate on the finished product, or the opposite may be true. The business operator can decide which duty rate to use.
- Elimination of U.S. Custom duties - No duty is paid on foreign merchandise brought into a FTZ. So, no duty is ever paid on merchandise that ends up as scrap, or is wasted, destroyed or consumed in the manufacturing process.

- Elimination of “drawback” - Custom duties are sometimes refunded through a process known as “drawback.” But in the FTZ, the funds are not paid out initially, so they remain a part of the operating capital.
- Labor, overhead and profit - No custom duties are paid on labor, overhead and profit for items produced in the FTZ.
- Taxes - Tangible personal property in an FTZ is exempt from state and local ad valorem taxes by federal law.
- Quotas - Merchandise subject to a quota can be stored in the FTZ until the quota opens on the item, or the item can be transformed into a non-quota item.
- Zone-to-zone transfer - Items can be transferred between FTZ’s and no duty is paid until their final entry into U.S. Customs territory.

Administration

The Foreign Trade Zones Program is administered by the Foreign Trade Zones Board, which is comprised of the U.S. Secretary of the Department of Commerce (DOC) and the Secretary of Treasury, or their designees. Applications are received from a Grantee, usually a state or local government entity, a Port of Entry or airport authority, an economic development agency or a not-for-profit corporation. The application has nine components, requiring extensive research and information, but the most important is a feasibility study which should include discussions on: how the zone would fit into the overall economic development of the community; its potential use by existing and new businesses; sufficiency and stability of operational and financial planning; the suitability of the site and facilities; local and state support of the zone; and the support of those representing businesses affected by the proposed zone.

After the application is received, the application is published in the *Federal Register* and is subject to public notice and comment proceedings. A staff examiner reviews and evaluates the application for statutory and regulatory requirements, along with deciding if the zone would be in the public interest. The whole process usually takes twelve to fifteen months from application to approval.

After approval, the zone must go through the activation process which involves a review of zone procedures, inventory control, recording keeping systems and security, all under the supervision of the Customs Port Director. This process may take an additional one to four months. There is no expiration date on a Foreign Trade Zone, although it can be closed and withdrawn from the program if it is no longer of use. An example is Zone No. 48 in Tucson, which is in the process of being withdrawn as of the date of publication of this guideline.

The application process for a subzone is very similar, except that a specific business or manufacturer, which may or may not be located within the physical boundaries of a Trade Zone, but that is sponsored by the Grantee of the FTZ, is seeking approval for a specific limited use.

Classification

Pursuant to A.R.S. [42-12006](#), real and personal property located within a foreign trade zone, or subzone, established under 19 United States Code section 81 is to be classified as Class 6 property. The property of a qualifying business receives the benefit of having a five percent assessment ratio applied to the limited and secondary property values in the Valuation Year following the year in which they become authorized by the DOC. For real property, the Valuation Year is the calendar year preceding the year in which the taxes are levied. For personal property, the Valuation Year is the calendar year in which the taxes are levied.

The business owner is responsible for providing the Assessor with a copy of the non-transferable Grant of Authority authorizing the establishment of a Foreign Trade Zone. The Assessor must then verify that the parcel locations and improvements fall within the Zone. However, a General Purpose FTZ can consist of noncontiguous parcels because the sole requirement is that the parcel be located within sixty miles, or ninety minutes driving time, from the outer limits of the Customs Port of Entry. The Department recommends that Assessors use the distance criteria, since driving time can vary. If a property qualifies for the Foreign Trade Zone classification status, the five percent

assessment ratio of Legal Class 6, subclass 4 must be applied to the values of both the real and personal property.

The property's classification may be changed only after the Assessor has received a written request from the qualifying property owner. Personal property classified as Foreign Trade Zone property is not eligible to receive the additional depreciation prescribed in A.R.S. [42-13054](#), or the property tax exemption prescribed in A.R.S. [42-11127](#).

The Assessor must list all taxable property on the certified tax roll presented to the Board of Supervisors on or before December 20 of each year. The Assessor's certified roll is used by the Board of Supervisors to produce an "abstract" that reflects the assessed valuations, by each taxing jurisdiction, of all taxable property in the county. The primary purpose of the abstract is to give the taxing authorities the total assessed valuation of all property in their jurisdictions for budgeting and tax rate setting purposes.

It is very important that the Assessors classify all qualifying Foreign Trade Zone properties correctly, due to the impact that the reduced assessment ratio and reduced tax revenue may have on taxing jurisdictions and any special taxing districts (especially on many small school and fire districts). If the Assessor changes the status of a property from Legal Class 1 (with a twenty-five percent assessment ratio) to Legal Class 6, subclass 4 (with a five percent assessment ratio) after the time that the abstract is produced, the shortfall in tax revenues could drastically impact school and fire districts in smaller taxing jurisdictions if the qualifying Foreign Trade Zone property is a major taxpayer in that jurisdiction.

Foreign Trade Zone properties should be treated in the same manner as any other commercially used property when one with a "mixed-use" is encountered. Only the portion of the property qualifying for Foreign Trade Zone status should be classified as Legal Class 6, subclass 4 and receive the benefit of the five percent assessment ratio. Any additional land of a business that is not being utilized, or any property that is being

used for some other commercial venture, should be classified, valued and assessed accordingly.

Valuation

Standard appraisal methods and techniques should be used to arrive at the market value for Foreign Trade Zone properties, in the same manner as any other commercially used property.

Arizona Revised Statutes (Full text)

TITLE 44

A.R.S. [44-6501](#). Authorization to apply for foreign trade zone

The state of Arizona and any county, city or town within the state or a public or private corporation or any combination thereof may apply to the foreign trade zones board, United States department of commerce, for the right to establish, operate and maintain a foreign trade zone and subzones and may acquire land for the purposes of this section. For the purposes of this section, such foreign trade zone or subzone may be incorporated outside the boundaries of a municipality or be made up of areas from adjoining counties.

TITLE 42

A.R.S. [42-11001](#). Definitions

In chapters 11 through 19 of this title, unless the context otherwise requires:

1. "Assessed valuation" means the value derived by applying the applicable percentage prescribed by chapter 15, article 1 of this title to the full cash value or limited property value of the property, as applicable.
2. "Board" or "state board" means the state board of equalization.
3. "County board" means the county board of supervisors sitting as the county board of equalization.
4. "Current usage" means the use to which property is put at the time of valuation by the assessor or the department.
5. "Full cash value" for property tax purposes means the value determined as prescribed by statute. If no statutory method is prescribed, full cash value is synonymous with market value which means the estimate of value that is derived annually by using standard appraisal methods and techniques. Full cash value is the basis for assessing, fixing, determining and levying secondary property taxes.
6. "Limited property value" means the value determined pursuant to section 42-13301. Limited property value is the basis for:
 - a) Computing levy limitations for counties, cities, towns and community college districts.
 - b) Assessing, fixing, determining and levying primary property taxes.
7. "Person" means a natural person, individual, proprietor, proprietorship, company, corporation, organization, association, joint venture, partner, partnership, trust,

estate, limited liability company, the federal or state government, a political subdivision of a state or any other legal entity or combination of entities that owns, controls or has possession of real or personal property.

8. "Personal property" includes property of every kind, both tangible and intangible, not included in the term real estate.
9. "Primary property taxes" means all ad valorem taxes except for secondary property taxes.
10. "Producing mine" or "mining claim" means a mine or mining claim from which coal or any other mineral or mineral substance, except for clay, sand, gravel, building stone or a mineral or mineral substance that is normally processed into artificial stone, has been extracted for commercial purposes at any time during a period of one year before the first Monday in January of the valuation year.
11. "Real estate" includes the ownership of, claim to, possession of or right of possession to lands or patented mines.
12. "Roll" means the assessment and tax roll.
13. "Secondary property taxes" means:
 - a) Ad valorem taxes or special property assessments that are used to pay the principal of and the interest and redemption charges on bonded indebtedness or other lawful long-term obligations that are issued or incurred for a specific capital purpose by a municipality, county or taxing district.
 - b) Ad valorem taxes or assessments levied by or for special taxing districts and assessment districts other than school districts and community college districts.
 - c) Amounts levied pursuant to an election to exceed a budget, expenditure or tax limitation.
14. "Valuation" means the full cash value or limited property value, whichever applies, found for use on the roll.
15. "**Valuation date**", for the purposes of **real property** and property valued by the department, means **January 1 of the year preceding the year in which taxes are levied.**
16. "**Valuation year**" means:
 - a) **For real property** and property valued by the department the **calendar year preceding the year** in which the taxes are levied.
 - b) For **personal property** the **calendar year** in which the taxes are levied.

A.R.S. [42-15053](#). Duty to report personal property; confidentiality

- A. **On or before February 1 of each year**, the assessor shall mail a form, notice or demand to each person who owns or has charge or control of taxable personal property in the state. **Each person shall prepare and deliver to the assessor a correct report of property on or before April 1 of each year**, except for property that is not required to be reported as provided by subsection C of this section. On written request and for good cause shown, the assessor may extend for up to thirty days the time for filing the report.
- B. The duty to report taxable property pursuant to this section applies regardless of whether the person or entity that owns or has charge or control of the personal property also owns real property in the county with a value of two hundred dollars or more.
- C. The assessor shall not require a report of:
1. The breed, number, age or location of livestock on hand from individuals, corporations, partnerships or any other business if the livestock is exempt from taxation pursuant to article IX, section 13, Constitution of Arizona.
 2. The personal property that is class two (P) property used for agricultural purposes or that is class one, subclasses 8 through 11 and 13 property used in a trade or business that is exempt from taxation pursuant to article IX, section 2, subsection (6), Constitution of Arizona.
- D. Every assessment made against property subject to taxation is valid whether or not the form, notice or demand was sent or received.
- E. The department shall prescribe in detail the contents of property reports including the specific wording to be used by county assessors and the method of reporting property. The report shall not include any question that is not germane to the valuation function.
- F. A report that is furnished under this section:
1. Is not open to public inspection, but the report may be used as evidence in any prosecution brought under section 42-15055.
 2. May be subject to audit. On completing an audit or on discovering property that has not been reported, any property that was found to have escaped taxation is liable for the amount of taxes due determined under chapter 16, article 6 of this title, plus a penalty equal to ten per cent of that amount. The county treasurer shall credit monies received as penalties under this paragraph to the county general fund.

A.R.S. [42-15153](#). Completion and delivery of property lists and assessment roll; use of lists by administrative appeals bodies

- A. **On or before December 20 of each year**, the county assessor shall complete the assessment roll and **attach the assessor's certificate to the roll** with a cross-index of all property listed in the roll, showing the ownership of the property and all assessment lists from which the roll was compiled.
- B. The assessor **shall** deliver the lists and certified roll to the clerk of the board of supervisors who shall file them in the clerk's office.
- C. The **county** board of equalization and the state board of equalization may use the lists for any lawful purpose.

A.R.S. [42-15155](#). Abstract of assessment roll; contents; distribution

- A. On or before January 20 of each year, the clerk of the board of supervisors shall make an abstract of the roll containing the valuations by taxing jurisdictions of all property in the county including:
 - 1. The **total personal property tax roll** as provided by section [42-17053](#).
 - 2. Such **other** information as prescribed by the department.
- B. The clerk shall file one copy of the abstract in the office of the board of supervisors and shall transmit additional copies to the state or county board of equalization, as appropriate, and to the department.

A.R.S. [42-19006](#). Notice of valuation

- A. **On or before August 30** the assessor shall mail a notice of valuation, in the form prescribed by the department, to either:
 - 1. The **owner of the personal property**, if known.
 - 2. The person in whose possession it is found at the time of valuation.
- B. The **owner** or person in possession of the property may petition the assessor for review pursuant to section [42-19051](#).

ARIZONA FOREIGN TRADE ZONES**Zone No. 48, Tucson, Arizona**

Grantee: Papago-Tucson FTZ Corporation
7800 S. Nogales Hwy, Tucson, AZ 85706
Cecelia Nunez (520) 746-3692
Fax (520) 741-2868

Zone No. 60, Nogales, Arizona

Grantee: Nogales-Santa Cruz County Economic Development Foundation, Inc.
1790 North Mastick Way, Suite E, Nogales, AZ 85621
Susan Morales (520) 377-2055
Fax (520) 377-2054

Zone No. 75, Phoenix, Arizona

Grantee: City of Phoenix Community & Economic Development Department
200 West Washington Street, 20th Floor, Phoenix, AZ 85003-1611
Robert Wojtan (602) 262-5040
Fax (602) 495-5097

Zone No. 139, Sierra Vista, Arizona

Grantee: Sierra Vista Economic Development Foundation, Inc.
P.O. Box 2380, Sierra Vista, AZ 85636
Barry Albrecht (520) 458-6948
Fax (520) 458-7453

Zone No. 174, Pima County, Arizona

Grantee: City of Tucson Office of Economic Development
P.O. Box 27210, Tucson, AZ 85726-7210
Kendall Bert (520) 791-5093
Fax (520) 791-5413

Zone No. 219, Yuma, Arizona

Grantee: Yuma County Airport Authority, Inc.
2191 East 32nd Street, Yuma, AZ 85365
Sam C. Pegram (928) 726-5882 x213
Fax (520) 344-4677

Zone No. 221, Mesa, Arizona

Grantee: City of Mesa
20 East Main Street, Suite 750
P.O. Box 1466, Mesa, AZ 85211-1466
Tom Reyes (480) 644-3854
Fax (480) 644-3458