

Foreign-Trade Zones



Preface

The Arizona Department of Revenue (Department) administers the property tax system in cooperation with the 15 county assessors, among others. One of the administrative duties of the Department is to prepare and maintain publications reflecting standard and statutory appraisal methods and techniques that are used in the identification, classification, valuation, and assessment of property for purposes of ad valorem taxation. The Department regularly updates these publications, consistent with the following three update levels, depending on the perceived need:

Review: Publication conforms to standard style and formatting. Legislative and other citations verified. No changes to content, methodology, policy, or practice.

Revision: Includes applicable Review processes. Publication is newly edited. Nonsubstantive legislative changes incorporated. Addition or deletion of information that does not alter methodology.

Rewrite: Includes applicable Review and Revision processes. Major substantive changes made to any combination of content, methodology, policy, or practice.

This publication is a Rewrite. It supersedes the prior version (2003) of this publication and remains effective until replaced. Additional information may be issued as an addendum to this publication or as a separate publication. Due to the flexibility provided for in statute, deadlines and procedures may vary by county. The Department recommends contacting the county assessor of the county in which a subject property is located for detailed information regarding the deadlines and procedures in that jurisdiction. **The information in this publication is based upon laws and rules in effect at the time of publication. Should any content in this publication conflict with current laws or rules, the latter shall be controlling.**

All comments, inquiries, and suggestions concerning the material in this publication may be submitted to the following:

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This publication can be accessed on the Department website at:

https://azdor.gov/sites/default/files/2023-03/PROPERTY_ForeignTradeZones.pdf.

Authority

Authority to produce this publication is found in Arizona Revised Statutes (A.R.S.) [42-11054\(A\) \(1\) and \(2\)](#). Regarding the weight of authority of this publication, see A.R.S. [42-13051\(B\)\(2\)](#).

Publication Formatting and Style

Publications produced by the Department Property Tax Unit generally follow the rules of citation, format, grammar, punctuation, and related matters found in the following three guides: *Style Manual: An Official Guide to the Form and Style of Federal Government Publications*,¹ *The Chicago Manual of Style*,² and *The Bluebook: A Uniform System of Citation*.³

Changes in Law

Following are notable changes in Arizona law that became effective since the last version of this publication was prepared by the Department, and that may be applicable to the material herein. Although every effort has been made to include all relevant and

¹ United States Government Publishing Office. [Style Manual: An Official Guide to the Form and Style of Federal Government Publications](#), 31st ed. (Washington, DC: U.S. Government Publishing Office, 2016).

² The University of Chicago. [The Chicago Manual of Style](#), 17th ed. (Chicago: University of Chicago Press, 2017).

³ Editors, Columbia Law Review, et al., comps. [The Bluebook: A Uniform System of Citation](#), 21st ed. (Cambridge: Harvard Law Review Association, 2020).

notable changes in law, this section may not be all inclusive. The Department recommends relying on your own research and discretion.

Statutory and Constitutional Changes

The table below has been updated through the 2022 legislative session (the 55th Legislature, 2nd Regular Session).

2017 – Fifty-third Legislature – First Regular Session

Senate Bill 1416: Amended A.R.S. 42-13054

Granted additional statutory depreciation to property in Class Six, Subclasses Two (Foreign-Trade Zones) and Three (Military Reuse Zones), that was acquired during or after tax year 2017 and initially classified in Arizona during or after tax year 2018.

2022 – Fifty-fifth Legislature – Second Regular Session

House Bill 2822: Amended A.R.S. 42-13054

Established a 2.5 percent valuation factor (i.e., eliminates incremental additional statutory depreciation) for certain classes of personal property (including Class Six, Subclasses Two (Foreign-Trade Zones) and Three (Military Reuse Zones)) initially classified in Arizona during or after 2022.

Caselaw Changes

There were no changes in Arizona caselaw that were notable and applicable to the material in this publication since the prior version was published.

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Introduction

The Foreign-Trade Zones Program was established in 1934 by the Foreign-Trade Zones Act (19 United States Code (U.S.C.) [81](#)). The purpose of the Foreign-Trade Zones Program is to encourage foreign commerce in the United States by offering certain benefits to businesses that locate their international operations in a Foreign-Trade Zone (FTZ).⁴ These benefits include delayed or reduced duty payments on foreign merchandise, as well as other savings, including a property tax incentive.⁵ Foreign-Trade Zones are effectively the equivalent of international free trade zones.

In 1978, legislation was passed that allowed Arizona entities to participate in the Foreign-Trade Zones Program and authorized them to apply for the right to establish, operate, and maintain Foreign-Trade Zones and subzones. A.R.S. [44-6501](#). Currently, there are seven designated Foreign-Trade Zones in Arizona, and over 250 Foreign-Trade Zones nationwide.⁶ See [Appendix: Arizona Foreign-Trade Zones](#) below for additional information, including contact details.

The purpose of this publication is to provide assessment personnel and other interested parties with the information and procedures necessary to identify, classify, value, and assess qualifying taxable property in, or adjacent to, a Foreign-Trade Zone in accordance with U.S. and Arizona law.

Administration of the Foreign-Trade Zones Program

The Foreign-Trade Zones Program and its related benefits are administered in cooperation by the U.S. Foreign-Trade Zones Board, U.S. Customs and Border Protection (Customs or CBP), and the county assessor.

⁴ U.S. Department of Commerce, International Trade Administration, U.S. Foreign-Trade Zones, [New Zone \(Grantee\) Applications](#).

⁵ U.S. Department of Commerce, International Trade Administration, U.S. Foreign-Trade Zones, *About FTZs* [hereinafter [FTZ – About](#)]. See A.R.S. [42-12006\(2\)](#) and [42-15006](#).

⁶ U.S. Department of Commerce, International Trade Administration, U.S. Foreign-Trade Zones, [Zone Information](#).

The Foreign-Trade Zones Board is composed of the U.S. Secretary of Commerce and the U.S. Secretary of the Treasury, or their designees.⁷ See 15 Code of Federal Regulations (C.F.R.) [400.1](#) et seq. The Foreign-Trade Zones Board and its staff are responsible for licensing and monitoring Foreign-Trade Zones in the United States and Puerto Rico and for granting authority to local organizations to establish, operate, and maintain zones⁸ or subzones⁹ in their communities.¹⁰ 19 U.S.C. [81b\(a\)](#). These grants of authority¹¹ may be obtained by applying directly to the Foreign-Trade Zones Board. 19 U.S.C. [81f](#) and [81g](#).

U.S. Customs and Border Protection and its staff are responsible for directly overseeing the economic operations that occur within all Foreign-Trade Zones.¹² See 15 C.F.R. [400.41\(a\)](#) and 19 C.F.R. [146.2](#) and [146.3](#). This oversight includes the responsibility to receive and approve activation applications from businesses wishing to operate within zones already designated by the Foreign-Trade Zones Board.¹³ 19 C.F.R. [146.6\(a\)](#).

The county assessor administers the property tax incentive provided under Arizona law, which consists of a reduced assessment ratio for qualifying Foreign-Trade Zone property. See A.R.S. [42-12006\(2\)](#) and [42-15006](#).

The following section describes the relevant administrative interaction with each of these governmental entities, specifically addressing the three applications that are

⁷ U.S. Department of Commerce, International Trade Administration, U.S. Foreign-Trade Zones, *About FTZs – Frequently Asked Questions - Who is on the Foreign-Trade Zones Board?* [hereinafter [FTZ – FAQ](#)].

⁸ “Zone - A foreign-trade zone...established under the provisions of the FTZ Act and regulations. The term also includes subzones, unless the context indicates otherwise.” U.S. Department of Commerce, International Trade Administration, U.S. Foreign-Trade Zones, *About FTZs – Glossary of FTZ Terms - Zone* [hereinafter [FTZ – Glossary](#)].

⁹ “Subzone - A site (or group of sites) established for a specific use.” *Ibid.* - *Subzone*.

¹⁰ U.S. Foreign-Trade Zones Board, *Application for New Foreign-Trade Zone under the Alternative Site Framework (ASF)* (Washington, DC: FTZB 2013), 1 [hereinafter [FTZ – ASF Application](#)].

¹¹ “Grant of Authority - A document issued by the Board that authorizes a zone grantee to establish, operate and maintain a zone, subject to limitations and conditions specified in this part and in 19 C.F.R. part 146. The authority to establish a zone includes the responsibility to manage it.” [FTZ – Glossary](#), *supra* note 8 - *Grant of Authority*. See 15 C.F.R. [400.2\(i\)](#).

¹² [FTZ – About](#), *supra* note 5; [FTZ – FAQ](#), *supra* note 7 - *What is a Foreign-Trade Zone?, Who is on the Foreign-Trade Zones Board? and How is CBP Involved?*

¹³ See [FTZ – About](#), *supra* note 5; [FTZ – FAQ](#), *supra* note 7 - *What is a Foreign-Trade Zone?*

pertinent to a Foreign-Trade Zone: the application for designation, the application for activation, and the application for reclassification.

Designation and Activation of Foreign-Trade Zones

Foreign-Trade Zones are designated by the Foreign-Trade Zones Board (19 U.S.C. [81b\(a\)](#)), and subsequently approved for activation by Customs officials (see 19 C.F.R. [146.6\(a\)](#)).¹⁴ There are separate application processes for the designation and the activation of a Foreign-Trade Zone.

Application for Designation of a Foreign-Trade Zone

The application for designation of a Foreign-Trade Zone is submitted to the Foreign-Trade Zones Board by a state, county, or public organization, such as a port authority or economic development agency. Any organization desiring to apply for designation of a Foreign-Trade Zone must be authorized to do so under state law.¹⁵ See A.R.S. [44-6501](#).

After the application is approved, the Foreign-Trade Zones Board will issue documentation granting authority to the applicant, now zone grantee,¹⁶ to operate within the zone.¹⁷ 19 U.S.C. [81b\(a\)](#) and [81g](#).

There are several considerations related to the application for designation that may be helpful to understand with respect to the assessment of Foreign-Trade Zone property.

Designation Frameworks. A Foreign-Trade Zone may be organized under two distinct frameworks, the Traditional Site Framework or the Alternative Site Framework.¹⁸ Each

¹⁴ [FTZ – About](#), *supra* note 5; [FTZ – FAQ](#), *supra* note 7 - *What is a Foreign-Trade Zone?*

¹⁵ [FTZ – ASF Application](#), *supra* note 10, at 1.

¹⁶ A zone grantee is defined as “a corporation to which the privilege of establishing, operating, and maintaining a foreign-trade zone has been granted.” 19 U.S.C. [81a\(h\)](#). See 15 C.F.R. [400.2\(v\)](#).

¹⁷ Certain uses of Foreign-Trade Zone property are limited or prohibited by federal laws or rules. See, e.g., 15 C.F.R. [400.5](#) (activity detrimental to public interest, health, or safety); 15 C.F.R. [400.47\(a\)](#) (retail trade); 19 U.S.C. [81\(c\)](#) (generally); 19 U.S.C. [81\(o\)\(a\)](#) (residency).

¹⁸ See [Adopted Proposal for Available Alternative Site-Designation and Management Framework](#), 74 Fed. Reg. 1172 (2009); *corrected by* [Correction: Adopted Proposal for Available Alternative Site-Designation and Management Framework](#), 74 Fed. Reg. 3987 (2009); *modified by* [Adopted Adjustments to Alternative Site Framework](#), 75 Fed. Reg. 71069-71070 (2010). U.S. Foreign-Trade Zones Board (FTZB), *Overview for CBP: Alternative Site Framework* (Washington DC: FTZB 2020) [hereinafter [ASF Overview](#)]. See also 15 C.F.R. [400.2\(c\)](#).

framework type is focused on attracting different kinds of Foreign-Trade Zone sites and activities. Regardless of which framework governs a Foreign-Trade Zone, the qualifying property therein is identified, classified, valued, and assessed in the same manner.

Location Limitation. Zone and subzone sites¹⁹ must be located within, or adjacent to, a Customs port of entry. 19 U.S.C. [81b\(a\)](#) and 15 C.F.R. [400.11\(b\)\(1\)](#). For specific distance requirements, refer to 15 C.F.R. [400.11\(b\)\(2\)\(ii\)](#).²⁰

Tax Considerations. When the proposed designation of a Foreign-Trade Zone could result in a reduction of local tax revenue, the application for designation must address the potential impact, as follows:²¹

- Explain the specific local taxes that would be affected;
- Include a letter from the zone grantee containing a certified list of all affected taxing entities;
- Include copies of correspondence from all affected taxing entities indicating concurrence or non-objection to the proposed Foreign-Trade Zone designation (called a Tax Concurrence Letter).²²

Zone Grantee and Zone Operator. The zone grantee may or may not be the actual operator of qualified activity within the zone. See 15 C.F.R. [400.41\(a\)](#). Typically, the zone grantee enters into agreements with other entities, called zone operators,²³ authorizing them to conduct qualified activities.²⁴ See 15 C.F.R. [400.41\(a\)](#).

Application for Activation of a Foreign-Trade Zone

After a zone or subzone is designated by the Foreign-Trade Zones Board, the zone operator must submit an application for activation of the zone to Customs. See 15

¹⁹ “Zone Site (Site) - A physical location of a zone or subzone. A site is composed of one or more generally contiguous parcels of land organized and functioning as an integrated unit, such as all or part of an industrial park or airport facility.” [FTZ – Glossary](#), *supra* note 8 - *Zone Site (Site)*.

²⁰ See also [FTZ – FAQ](#), *supra* note 7 - *Where can a zone be located?*

²¹ U.S. Foreign-Trade Zone Board Staff (FTZB Staff), [Additional Guidance on Addressing Potential Tax Impacts](#) (FTZB Staff 2016); [FTZ – ASF Application](#), *supra* note 10, at 5, 17, 19.

²² Taxing entities may also provide evidence of concurrence by ordinance or resolution.

²³ A zone operator is defined as “a [corporation, partnership, or] person that operates within a zone or subzone under the terms of an agreement with the zone grantee (or third party on behalf of the grantee), with the concurrence of CBP.” 15 C.F.R. [400.2\(w\)](#). See 19 C.F.R. [146.1\(b\)](#).

²⁴ [FTZ – FAQ](#), *supra* note 7 - *What happens after a zone is approved?*

C.F.R. [400.13\(a\)\(3\)](#). The application for activation is prescribed in 19 C.F.R. [146.6\(a\)](#), which states, in part:

The area to be activated may be all or any portion of the zone approved by the Board. The application must include a description of all the zone sites covered by the application, any operation to be conducted therein, and a statement of the general character of the merchandise to be admitted.

There are several considerations related to the application for activation that may be helpful to understand with respect to the assessment of Foreign-Trade Zone property.

Notification. Customs will provide written notification (called an Activation Approval Letter) to the zone operator upon approval of the application for activation. 19 C.F.R. [146.6\(d\)](#).

Reporting. Once a zone or subzone site is activated, the zone operator is responsible to annually file a reconciliation report with Customs. 19 C.F.R. [146.25\(a\)](#). Pursuant to 19 C.F.R. [146.25\(b\)](#),

The report must contain a description of merchandise for each zone lot or unique identifier, zone status, quantity on hand at the beginning of the year, cumulative receipts and transfers (by unit), quantity on hand at the end of the year, and cumulative positive and negative adjustments (by unit) made during the year.

Supporting Documentation. There are several supporting documents that must accompany the application for activation. As prescribed in 19 C.F.R. [146.6\(b\) \(2\) to \(5\)](#), these documents include:

(2) A blueprint of the area approved by the [Foreign-Trade Zones] Board to be activated showing area measurements, including all openings and buildings; and all outlets, inlets, and pipelines to any tank for the storage of liquid or similar product, that portion of the blueprint certified to be correct by the operator of the tank;

(3) A gauge table, when appropriate, showing the capacity, in the appropriate unit, of any tank, certified to be correct by the operator of the tank;

(4) A procedures manual describing the inventory control and recordkeeping system that will be used in the zone, certified by the operator or grantee to meet the requirements of subpart B; and

(5) The written concurrence of the grantee, when the operator applies for activation, in the requested zone activation.

Designated Zone Not Yet Activated. For a certain time period (in some cases months or years), a Foreign-Trade Zone may be authorized and designated by the Foreign-Trade Zones Board, but not yet activated by Customs. In this scenario, any subject property would not be eligible for property tax reclassification until after the application for activation is approved by Customs. See A.R.S. [42-12006\(2\)](#). Note also that “[a]uthority for a zone or a subzone shall lapse unless the zone (in case of subzones, the subzone facility) is activated...and in operation not later than five years from the authorization of the zone or subzone.” 15 C.F.R. [400.13\(a\)\(4\)](#). If the zone site is designated under the Alternative Site Framework, additional sunset provisions apply that automatically remove the site designation if the site is not used for Foreign-Trade Zone purposes within three to five years.²⁵

Application for Reclassification of Foreign-Trade Zone Property

After a Foreign-Trade Zone is designated and the zone or subzone site is activated, certain property located within the zone or subzone is eligible for reclassification. A.R.S. [42-12006\(2\)](#). To receive this benefit, the property owner²⁶ must submit a written request for reclassification of the property to the county assessor. The application should be accompanied by documentation evidencing eligibility for reclassification, including a copy of the Activation Approval Letter from Customs. The assessor may also request what is called a “redline map,” which together with the Activation Approval Letter, provides the assessor with a property address and a description of the specific property that qualifies for reclassification as Foreign-Trade Zone property. Note that the qualifying property may consist of only a part of a parcel or improvement.

²⁵ [Adopted Proposal for Available Alternative Site-Designation and Management Framework](#), 74 Fed. Reg. 1172 (2009); *corrected by* [Correction: Adopted Proposal for Available Alternative Site-Designation and Management Framework](#), 74 Fed. Reg. 3987 (2009); and *modified by* [Adopted Adjustments to Alternative Site Framework](#), 75 Fed. Reg. 71069-71070 (2010). See also [ASF Overview](#), *supra* note 18, slide 5.

²⁶ **Note:** The property owner may or may not be the same entity as the zone grantee or the zone operator.

With this information, the assessor can properly identify the parcel(s), improvement(s), and personal property that qualify as Foreign-Trade Zone property. See A.R.S. [42-13051](#), [42-15052](#), and [42-15053](#).

Identification of Property in a Foreign-Trade Zone

Property that is eligible for reclassification under the Foreign-Trade Zones Program is defined in A.R.S. [42-12006\(2\)](#), which reads, in part:

For the purposes of taxation, class six is established consisting of: ... Real and personal property that is located within the area of a foreign trade zone or subzone established under 19 United States Code sections 81a through 81u and title 44, chapter 18, that is activated for foreign trade zone use by the district director of the United States customs service pursuant to 19 Code of Federal Regulations section 146.6 and that is valued at full cash value.

Upon receiving the application for reclassification, the assessor should consult the Activation Approval Letter and redline map to identify and list the relevant existing and/or new property, and then reclassify the same pursuant to A.R.S. [42-12006\(2\)](#).

Note that a Foreign-Trade Zone can consist of noncontiguous parcels, because zone sites can be located within, or adjacent to, a Customs port of entry. See [Location Limitation](#) above.

The Activation Approval Letter and redline map typically do not identify specific personal property that qualifies as Foreign-Trade Zone property. The assessor should consult with the applicant to identify qualifying personal property and to verify its proper ownership. See A.R.S. [42-15053](#).

Classification of Property in a Foreign-Trade Zone

Pursuant to A.R.S. [42-12006\(2\)](#), Foreign-Trade Zone property is to be classified as property Class Six.²⁷

²⁷ Business personal property that is classified as Foreign-Trade Zone property is not eligible for the property tax exemption defined in A.R.S. [42-11127\(A\)](#). See [Business Personal Property Exemptions](#) below.

Classification Timing

Although the assessor may be otherwise informed of new or existing Foreign-Trade Zone property, the assessor should not reclassify the property until after receiving a written request from the property owner, including copies of the Activation Approval Letter issued by Customs and an accompanying redline map defining the qualifying property.²⁸ See A.R.S. [42-13051](#), [42-15052](#), and [42-15053](#).

The reclassification of qualifying real and personal property should be made effective by the assessor in the valuation year²⁹ following the receipt of an application for reclassification, and should continue only so long as the Foreign-Trade Zone is active. For example, assume a Foreign-Trade Zone is activated by Customs in February of 2023, and an application for reclassification of the subject property is received by the assessor in August of 2023. In this situation, reclassification of the subject property should be made effective in 2024, the relevant valuation year. See A.R.S. [42-11001\(20\)\(a\)](#) and [\(b\)](#).

Note: With reference to the reclassification of vacant land or incomplete improvements as Foreign-Trade Zone property, it is emphasized here that the requirements for reclassification are met when (a) the zone is activated, (b) the subject property is located within the zone, and (c) an application for reclassification is received and approved by the assessor. A.R.S. [42-12006\(2\)](#).

Classification Restriction

Pursuant to A.R.S. [42-12006\(2\)](#), property that is classified as Foreign-Trade Zone property cannot thereafter be classified as Class Six property devoted to the [Healthy Forest Enterprise](#) initiative.³⁰ See A.R.S. [41-1516](#).

²⁸ **Note:** As with other property tax incentives, it is important that the assessor consider any potential impact that the reclassification of property in a Foreign-Trade Zone might have. Such considerations may include the fluctuation of total assessed property value over time as qualifying property of various businesses enters and leaves the program.

²⁹ For real property, the valuation year is the calendar year preceding the year in which the taxes are levied. A.R.S. [42-11001\(20\)\(a\)](#). For personal property, the valuation year is the calendar year in which the taxes are levied. A.R.S. [42-11001\(20\)\(b\)](#). The “year in which the taxes are levied” is known as the tax year. A.R.S. [42-11001\(17\)](#).

³⁰ Property that qualifies for the Healthy Forest Enterprise Program is defined in A.R.S. [42-12006\(6\)](#) as:

Valuation and Assessment of Property in a Foreign-Trade Zone

Market Valuation

Real and personal property that qualifies as Foreign-Trade Zone property should be valued at full cash value using standard appraisal methods and techniques, in the same manner as any other commercially used property. See A.R.S. [42-12006\(2\)](#). See also A.R.S. [42-11001\(6\)](#).

For additional information regarding the valuation of property, refer to the Department publication entitled [Approaches to Value](#).

Limited Property Valuation

The reclassification of property under the Foreign-Trade Zones Program does not constitute a change in use (rather, it constitutes a change in qualifying status) that would require the limited property value to be calculated pursuant to A.R.S. [42-13302\(A\)\(2\)](#).³¹

For additional information regarding limited property value, including sample calculations, refer to the Department publication entitled [Limited Property Value](#).

Assessed Valuation

As property Class Six, real and personal property located in or adjacent to an activated Foreign-Trade Zone should be assessed at five percent of the property's full cash value. A.R.S. [42-15006](#). The five percent assessment ratio is applied to calculate both primary and secondary property taxes. See A.R.S. [42-17152\(B\)](#).

Real and personal property and improvements constructed or installed from and after December 31, 2004 through December 31, 2024 and owned by a qualified business under section 41-1516 and used solely for the purpose of harvesting, transporting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516.

³¹ See [Qasimyar v. Maricopa County](#), 250 Ariz. 580, 585, 483 P.3d 202, 207 (App. 2021) (stating that "property classifications are generally based on (1) a property's use or (2) its qualifying status.") (citations omitted). The court provides the following example of classification based upon qualifying status:

For example, for a home to qualify as "[n]oncommercial historic property" under class six, § 42-12006(1), the homeowner must apply to the Assessor, § 42-12102(A)(1), and the property must be listed in the national register of historic places, § 42-12101(2)(a). Therefore, it is the property's change in *qualifying status* as "historic," not a change in use, that allows reclassification to class six in this scenario.

Ibid. at 589, 211 (emphasis in original).

Mixed-Use Assessment

Foreign-Trade Zone property should be treated in the same manner as any other commercially used property that is subject to mixed-use assessment. Only that portion of the property that meets the definition of Foreign-Trade Zone property found in A.R.S. [42-12006\(2\)](#), and that is identified in the Activation Approval Letter and accompanying redline map, should be classified as property Class Six and receive the benefit of a five percent assessment ratio. Any additional property that is not being used, or any property that is being used for some other commercial purpose, should be classified, valued, and assessed accordingly.

For instructions on determining mixed-use assessment percentages for property subject to multiple uses, refer to the Department publication entitled [Determining Mixed-Use Percentages and Assessment Ratios](#).

Business Personal Property Exemptions

Business personal property is generally subject to property taxation, unless it is specifically exempted. See, e.g., Ariz. Const. Art. IX, sec. [2](#), and A.R.S. [42-11102](#), [42-11125](#), and [42-11128](#). With regard to the assessment of Foreign-Trade Zone property, it may be relevant to consider the value-reduction exemption for business personal property that is defined in state law, as well as the business personal property exemption for inventory, which is prescribed in both federal regulation and state law.

The federal exemption for inventory is found in 15 C.F.R. [400.16](#), which states:

Tangible personal property imported from outside the United States and held in a [foreign-trade] zone for the purpose of storage, sale, exhibition, repackaging, assembly, distribution, sorting, grading, cleaning, mixing, display, manufacturing, or processing, and tangible personal property produced in the United States and held in a zone for exportation, either in its original form or as altered by any of the above processes, shall be exempt from state and local ad valorem taxation.

The inventory exempted by this federal regulation is also subject to exemption under the Arizona State Constitution and related statutes. Ariz. Const. Art. IX, secs. [2\(C\)\(4\)](#) and [13\(1\)](#); A.R.S. [42-11125](#) and [42-11128](#). In addition, Arizona law provides for a

value-reduction exemption that is annually applied against the full cash value of certain business personal property. Ariz. Const. art. IX, sec. [2\(E\)\(2\)](#); A.R.S. [42-11127](#).

With respect to business personal property classified as Foreign-Trade Zone property, the value-reduction exemption would be applicable to items such as machinery and equipment, but would not be applicable to related inventory property, which is separately exempted.

As an example, consider a company producing pasta within a Foreign-Trade Zone, using Foreign-Trade Zone property that also qualifies for exemption. The equipment used to mix and extrude the noodles, and the related office equipment and furniture, would be subject to exemption under the Arizona value-reduction exemption. The semolina flour, finished noodles, and packaging would be subject to both federal and state inventory exemptions.

For additional information, refer to the Department publications entitled [Business Personal Property Manual](#) and [Property Tax Exemptions](#).

Appendix: Arizona Foreign-Trade Zones

Zone No. 60, Nogales, Arizona

Grantee: Nogales-Santa Cruz County Economic Development Foundation
825 North Grand Avenue, Suite 200, Nogales, AZ 85621
Robert (Kip) Martin (520) 287-2110
Fax (520) 287-5201
Website www.nogales.com

Zone No. 75, Phoenix, Arizona

Grantee: City of Phoenix Community & Economic Development Department
200 West Washington Street, 20th Floor, Phoenix, AZ 85003-1611
Denise Yanez (602) 534-2445
Website www.investinphoenix.com

Zone No. 139, Sierra Vista, Arizona

Grantee: Arizona Regional Economic Development Foundation
520 East Bartow, Sierra Vista, AZ 85635
Mignonne Hollis (520) 458-6948
Fax (520) 458-7453
Website www.aredf.org

Zone No. 174, Pima County, Arizona

Grantee: Sun Corridor Inc.
1985 East River Road, Tucson, AZ 85718
Daniela Gallagher (520) 243-1938791-5093
Fax (520) 243-1910
Website www.suncorridorinc.com

Zone No. 219, Yuma, Arizona

Grantee: Greater Yuma Economic Development Corporation
899 E. Plaza Circle, Suite 2, Yuma, AZ 85365
Greg LaVann (928) 782-7774
Fax (520) 344-4677
Website www.greateryuma.org

Zone No. 221, Mesa, Arizona

Grantee: City of Mesa Office of Economic Development
20 East Main Street, Suite 200, Mesa, AZ 85201
William Jabjiniak (480) 644-3561
Fax (480) 644-3458
Website www.selectmesa.com

Zone No. 277, Maricopa County, Arizona

Grantee: Greater Maricopa Foreign-Trade Zone
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