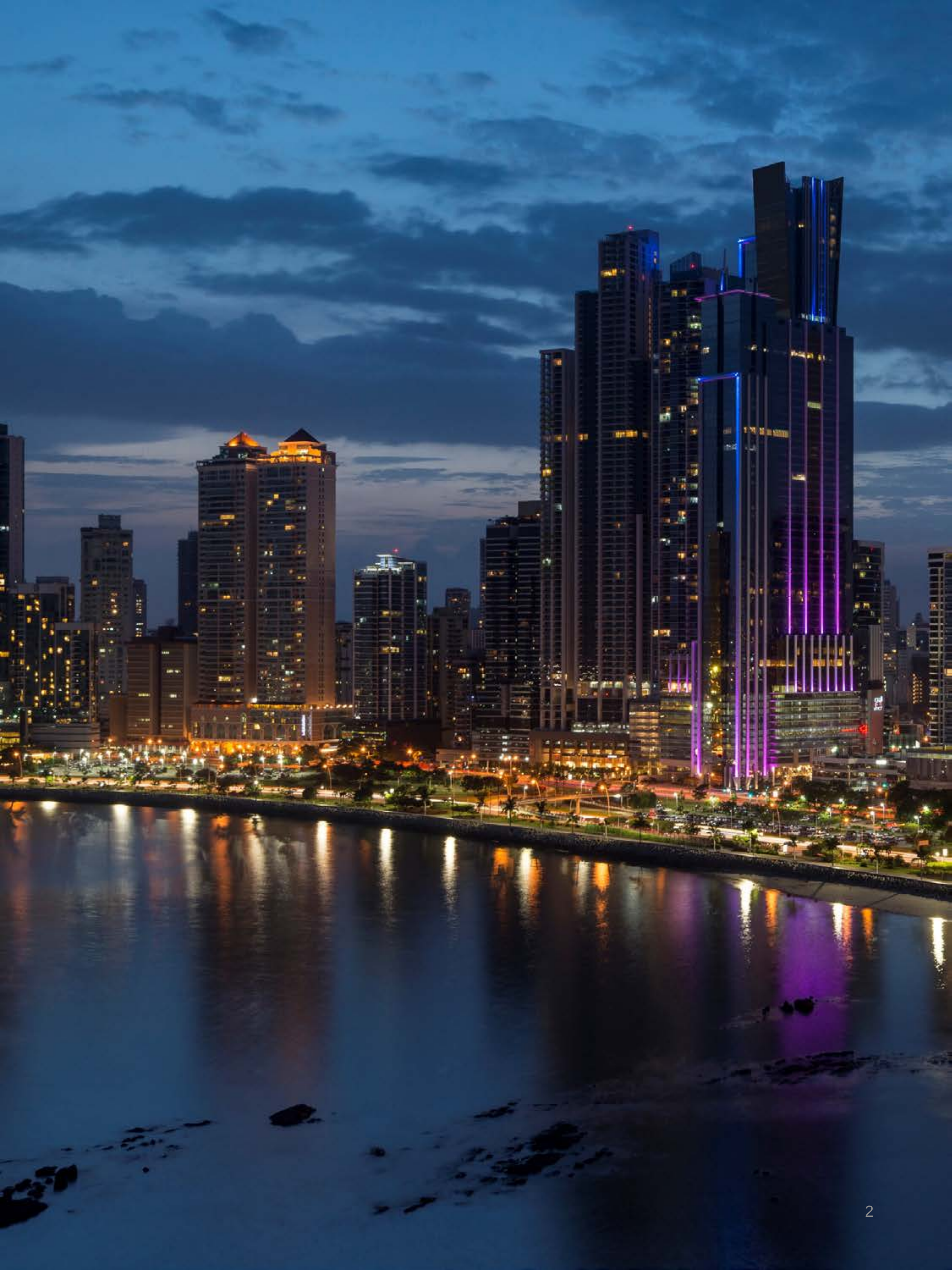
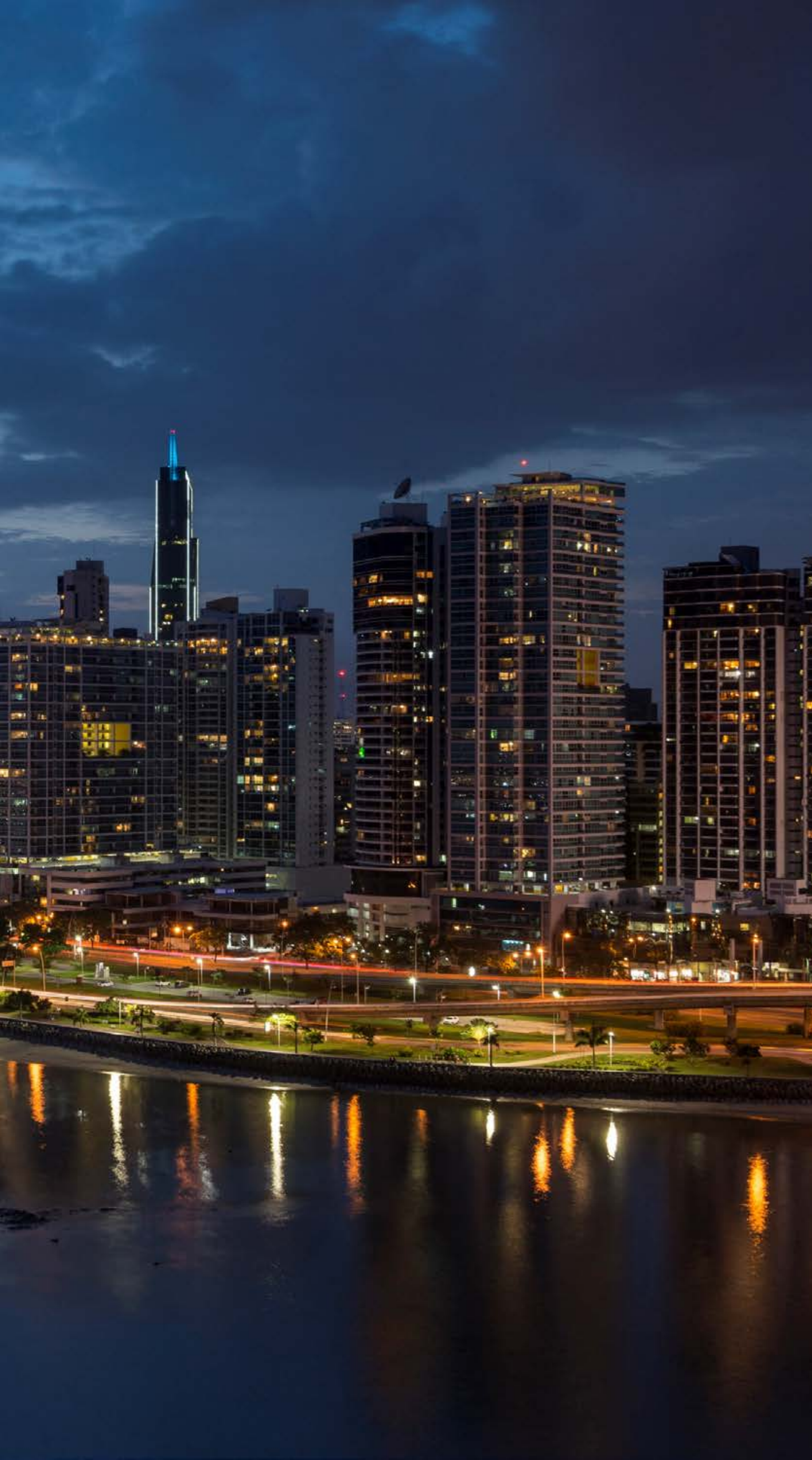
Panama

Investment Guide





Panama

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General Information

General Information

The Republic of Panama is widely known for being an heterogenous and multiethnic country; with the Panama Canal traversing the Isthmus; important commercial and financial infrastructures; and with a tourism sector emerging rapidly.

Geography and climate

The Republic of Panama, located between the Republic of Costa Rica and the Republic of Colombia, is at the heart and pulse of the Americas. Panama connects Central America with South America, opening the doors and frontiers for the improvement of business culture, enrichment of the world trade and the merge of individuals from different countries.

Being a true crossroads, it is only 80 kilometers wide at its narrowest point. Its Caribbean Sea coastline extends 1,287.7 kilometers and its Pacific coastline is 1,700.6 kilometers long. The isthmus has a land mass of 75,517 square kilometers. Panama has a tropical climate throughout the year, with two seasons: windy season, from January through April, and rainy season, from May through December. The temperature at sea level averages 27°C to 33°C during the day (80°F to 85°F); however, the temperature is typically cooler and more pleasant at night.

Population and languages

Growing at an annual rate of 1.5 percent, Panama has an estimated population of over 4.1 million inhabitants; 40 percent of its total population lives in Panama City, located on the Pacific coast of the isthmus.

The official language of Panama is Spanish. However, English is widely spoken as a second language and a business language, particularly in the main cities of Panama and Colon. Minority groups speak Arabic, Chinese, French, Greek, Hebrew, Hindi and Italian, amongst others. The literacy rate is approximately 95 percent, and the unemployment rate is 6 percent, according to the Office of the Comptroller General's statistics.

Currency

Panama's official currency is the "Balboa" (B/.) or the Panamanian Balboa (PAB), which has the same value as the US dollar. The US dollar is legal tender throughout the country and circulates along the Panamanian coins since 1903, even when its legalization was done in 1904, by virtue of the signature of the Monetary Agreement with the United States. Panama does not have a central bank, like most countries do.

Economy

International rating agency Moody´s gave Panama a BAA2 rating in 2017 and a BAA1 rating in 2019, reflecting a steady and positive perspective of Panamanian economy. Panama's economy is heavily service-oriented, with more than 70 percent of the Gross Domestic Product and 50 percent of the nation's employment being attributable to this sector.

Overview of the Legal System

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All domestic and foreign businesses have equal rights under the Panamanian Constitution and must fulfill the same basic requirements to organize and carry out business activities in Panama. However, there are restrictions for foreign companies operating retail trade activities as well as certain professional practices. Individuals may engage in business activities under their own names or through legal entities.

Type of legal entities for businesses

The following are the different types of legal entities that may be formed, based on Panamanian civil and commercial laws. A foreign entity may also re-domicile in Panama or open a Panamanian branch.

i. Partnerships
ii. Joint Ventures
iii. Corporations

Overview of the Legal System

Procedures and permits to start a business

Operation notice

To engage in commercial or industrial activities, all corporations, partnerships, or individuals must obtain a permit, called “Operation Notice” (in Spanish, “Aviso de Operación). The application for and granting of the Operation Notice is done through PanamaEmprende’s electronic system (www.panamaemprende.com), of the Ministry of Commerce and Industries. Law No. 5 of 2007 regulates this matter.

Accounting requirements and financial statements

All companies and businessmen are required by law to keep accounting records indicating clearly and accurately the commercial operations, assets, liabilities and equity. These records must reflect the amounts and nature of the commercial transactions and must be prepared following the International Financial Reporting Standards (IFRS).

All companies and businessmen are required to maintain a general journal and a ledger. Commercial entities must also keep a resolutions book and a register of shares and shareholders.

Moreover, every company and businessmen are required to prepare and maintain available for competent authorities in their offices or premises, their financial statements reflecting correctly and truthfully the results of their annual or fraction operations.

Legal entity anual franchise duty

Every registered corporation, either national or foreign, must pay to the Treasury an annual fee of US$300.00. Private Interest Foundation are also subject to an annual fee US$350.00 for the first year, and US$400.00 for subsequent years.

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Other requirements

Regulated activities are subject to special legislation enacted per industry. In this sense, banks and fiduciary companies are subject to a licensing system regulated and supervised by the Superintendence of Banks. Insurance companies, including insurance brokers, reinsurance companies, reinsurance brokers, captive insurance companies and insurance administrators, are also required to obtain prior authorization by the Superintendence of Insurance and Reinsurance of Panama.

Stockbrokers are subject to a licensing system under the control of the Superintendence of the Securities Market.

Visas and work permits

Foreign individuals planning to work for a local company will require a work permit from the Ministry of Labor and Employment Development. Under Panamanian immigration law, there are different types of visas that authorize a foreigner to either visit or reside in Panama, as long as the immigrant meets the requirements established in Decree Law No. 3 of 2008 (and subsequent amendments and regulations).

Visas

Decree Law 3, which supersedes Decree Law No. 16 of 1960, entered into force on August 27, 2008 and establishes four categories of foreigners: (i) non-residents; (ii) temporary residents; (iii) permanent residents; and (iv) foreigners under protection of the Republic of Panama.

Temporary residents may enter the country for employment purposes, special political reasons and other matters (e.g., education, cultural, religious, humanitarian and family reasons). This category of foreigners and their dependents are allowed to reside with a one-year permit renewable for up to six years.

Moreover, permanent residents are those foreigners that enter the country for economic and investment reasons, special political reasons, demographic matters, international agreements and other subcategories of foreigners whose main purpose is relocating to Panama on a permanent basis. Initially, a renewable two-year permit is granted.

The most common visas for business people are immigrant visas, temporary visas and the temporary visa for special visitors. An immigrant visa is recommended for foreigners who intend to reside permanently in Panama while working or doing business

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Work permits

Foreigners wishing to work in Panama must obtain authorization, in the form of a work permit, from the Ministry of Labor and Employment Development. Some relevant aspects of the work permits are:

- Work permits are valid for one year and may be renewed.
- Firms employing foreign personnel must maintain a certain proportion between local and foreign workers.
- Local personnel are defined as Panamanians, foreigners married to Panamanians, and foreign employees with at least 10 years of legal residency in Panama.
- Employers can hire up to 10 percent of foreign employees from the total number of administrative workers, and up to 15 percent in the case of specialized or technical personnel.
- Corporations established in Panama exclusively to supervise operations or transactions carried out abroad are exempt from these ratio requirements.

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Characteristics of the labor legislation

The Labor Code states that labor contracts must be in writing and the employer, employee and labor authorities must each have a copy; otherwise, any facts or circumstances alleged by an employee will be presumed to be true, unless the employer can prove otherwise beyond a reasonable doubt.

Labor contract

The contract may be for an indefinite or a definite period of time, or for a specific project. A definite period contract becomes indefinite, if the employee: (1) continues working after the definite period expires; (2) continues working after the specific project for which the employee was hired is completed; or, (3) when successive contracts for a definite period or contracts for a specific project are negotiated.

Employees cannot waive their rights when entering a contract, nor can these rights be diminished.

Salaries and minimum wages

Salaries can be fixed by unit of time (month, fortnight, week, day or hour), task, or by a specific job. Salaries include any money, gratuities, bonuses, premiums, commissions, profit sharing, and any other income or benefit employees receive as payment for their work such as representation expenses and in-kind salary.

Employees must be paid at least twice a month

The government reviews and establishes the minimum wage rates every two years, based on the hourly wage, economic activity, company size and region.

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Social security system

The social security system in Panama replaces many of the employee benefits normally provided by private insurance in other countries. An overview of the system follows:

- Management of the social security system is provided by the Social Security Administration Agency (“Caja de Seguro Social”).
- It not only provides retirement benefits, but also health, dental, maternity, disability, and death benefits.
- All employees working for the government, individuals or enterprises operating in the national territory, including foreign nationals, are subject to the mandatory social security system.
- The social security system grants benefit to the insured and his/her dependents.

Overview of Tax System

Overview of Tax System

Panama's tax system is territorial, different from the worldwide taxation principle widely used in other countries. This means that income from local operations is subject to income tax, whereas foreign-sourced income is tax exempt, as well as the income expressly exempt from income tax as provided in the Tax Code and special legislation.

According to the territoriality principle, income produced in Panama, or considered to be Panamanian-sourced, is taxable regardless the place where the contracts are signed, from where the amounts are paid, or the place of domicile or nationality of the parties involved. Thus, given how the Panamanian tax system is structured as a governing set of laws, residents and non-residents are taxed solely Panamanian-source income.

Sources of income

Our territoriality principle divides the income accrued by individuals or legal entities by their source: i.e. local, foreign and exempt income. General provisions regarding sources of income are set out in the Tax Code and more specific provisions can be found in Executive Decree No. 170 of 1993.

Taxpayers and Taxable Income

Section 694 of the Tax Code defines a taxpayer as: "the individual or legal entity, either Panamanian or foreigner, that receives taxable income subject to income tax." Regulations have also added trusts (in Spanish, fideicomisos), joint ventures and any other legal entity receiving assessable income as taxpayers.

Taxable income is defined as income produced, from any source, within the Panamanian territory, regardless of the place where the income is received. Deviating from the territoriality principle, Panamanian tax laws also consider as taxable income any income that, even when derived from acts or services rendered abroad, benefits individuals or legal entities residing in Panama and relates to the generation and continuance of their Panamanian-source income.

Fiscal year

Generally, the normal taxation year for all taxpayers begins on January 1 and ends on December 31. However, an application may be filed with the tax authorities to change a taxation year to a special period that covers a total of 12 consecutive months.

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Corporate tax income

A corporation's taxable income is the balance that results after deducting applicable costs and expenses from gross income. The costs and expenses required to carry on a business and generate taxable income in Panama are deductible, provided that they are adequately documented and, since 2010, that they do not exceed the maximum deductible costs and expenses formula.

Tax rates

As of January 1, 2014, the general corporate income tax rate is 25 percent. However, companies in which the state is a shareholder, or has a stake of more than forty percent (40%) of shares, will continue to be taxed at the rate of thirty percent (30%), as established prior to the 2010 amendment to the Panamanian Tax Code.

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Alternative method for calculating income tax

Companies with gross income above one million five hundred dollars (US$1,500,000.00), are required to pay the income tax resulting from the greater between the alternative method (known in Spanish as “Cálculo Alterno de Impuesto sobre la Renta”, or “CAIR”), or the traditional method.

In this sense, the tax will be determined applying the general rate of 25% to sum greater between:

- The net taxable income, calculated under the traditional method; or
- The net taxable income that arises after applying 4.67 percent to the total taxable income, resulting in an effective tax rate of 1.4 percent.

It should be noted that the total of taxable income, for the purposes of the alternate method (CAIR), is the amount resulting from deducting the exempt income and foreign source income from total income, without deducting any costs or expenses incurred, except from those expressly provided by law.

Withholding tax on dividends

Companies distributing dividends from earnings must withhold ten percent (10%) from said amounts, which result from Panamanian-source income, and five percent (5%) when related to foreign or exempt sources of income.

This tax must be withheld by the company distributing the dividends and must be remitted to the tax authorities within the ten (10) days following the date on which the distribution was authorized.

Complementary withholding tax on dividends

If total period earnings are not distributed, or the total period earnings distributed are less than forty percent (40%) of net income, a complementary tax must be withheld over 40% of the net income, after taxes, as an advance on dividend tax, resulting in an effective rate of four percent (4%) over the total net income after taxes. The other six percent (6%) will be paid when such dividends or profits are actually distributed.

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Withholding tax on reittances

Any income perceived by an entity domiciled abroad, considered to be of national source, hence, is subject to the withholding of income tax as long as the provided service has an incidence in the national source income or in the preservation of said source, and that said payments are considered as deductible expenses for the entity located in Panama.

Rates

Where the payment is made to non-resident entities, the resident entity is required to withhold the income tax at a regular rate on the fifty percent (50%) of the sums remitted.

Income tax for individuals

All individuals in Panama, including citizens, residents and non-residents, are taxed only on Panamanian-source income as defined in the Tax Code and Income Tax Regulations.

Based on the tax provisions, income in the form of cash, in kind, or in value arising from personal services performed under an employment relationship, the practice of a profession or trade, and all types of services rendered, carried out or exercised within the territory of Panama are subject to income tax.

Tax residency

All individuals who prove that they remained in the country for more than one hundred eighty three (183) days in a calendar year or the prior year, either continuously or non-continuously, or who have a permanent residence and recognize this as the center of their vital economic or family interests, are considered as residents for tax purposes, regardless of their immigration status.

Residents for tax purposes are subject to income tax on their wages and other forms of income according to the regular progressive tax rates explained below.

Rates

Individuals obtaining taxable income are subject to progressive tax rates according to their annual income, as follows:

- The first US$11,000.00 are exempt from income tax.
- Income perceived between US$11,000.00 and up to US$50,000.00 is taxable at a rate of 15%.
- For the last category, amounts are taxed at a fixed rate of US$5,850.00 for the firsts US$50,000.00 perceived, and any excess of income thereof is taxed at a rate of 25%.

Overview of Tax System

Tax Compliance

In the case of wages and salaries and other remuneration received under an employment relationship, the employer is responsible for withholding the income tax according to the progressive tax rates explained above.

Individuals with only one employer or only one salary as their source of the income are not obliged to file an annual income tax return.

Individuals with other taxable income not subject to withholding at the source or those with more than one employer are obliged to file an annual income tax return by March 15 following the end of the tax year. A one-month filing extension can be requested. The payment deadline is March 31 following the end of the tax year, with no extension allowed.

Late payments will trigger interest of approximately 1% monthly as well as a 10% surcharge on the tax payable. Late filing is subject to a fine of US$100.00.

Non-Resident Individual Income taxation

Non-resident taxpayers are those individuals who remained outside of the country for a period of one hundred eighty-three (183) consecutive or non-consecutive days in a calendar year. Non-resident employees are subject to income tax at a flat rate of 15% on their gross income (wages and salaries), plus the education tax of 2.75%.

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Capital gain tax

Capital gains are considered taxable income, except those arising from the sale of shares/securities registered on the Securities Market Superintendence (SMV for its Spanish acronym) or issued by the Panamanian government and traded in a recognized stock exchange.

Sale of shares

Capital gains derived from the sale of either shares or securities, which are not within the exempted provisions, are taxed at a ten percent (10%) fixed rate. However, the buyer or transferee must withhold an amount equivalent to five percent (5%) in advance and remit such amount to the tax authorities within ten (10) business days, following the date of payment of the transaction. The seller or transferor can consider the 5% advance as the definitive tax.

Tax on the Transfer of Tangible Personal Property and the Provision of Services (ITBMS)

ITBMS is an indirect tax applicable to the transfer of movable property (including imports) and to the services rendered within the Panamanian territory. It works as a value-added tax (VAT) and is a major source of revenue for the Panamanian government, along with income taxes and import duties.

Transactions subject to ITBMS include:

- The transfer of movable goods to a recipient granting ownership or proprietary rights over the goods.
- The provision of services rendered within the Panamanian territory, with or without deliverables, which generally include the leasing of movable and immovable goods, entertainment events, domestic and international air passenger transportation, etc.
- The importing of tangible goods or merchandise, regardless of their destination.

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Tax base and rates

The tax base will be different according to the transaction taking place, but in general the tax base will be the net sale price of the good or service. For the transfer of goods, ITBMS will be applicable to every transfer until the good reaches its final destination. The reimbursement of expenses is not subject to ITBMS tax.

ITBMS RATES			
0%	7% Regular rate	10%	15%
Medicine Food Books	Goods Services	Alcoholic beverages Accommodations & Lodging	Tobacco products

Taxpayers and Non-taxpayers

Individuals or entities that import taxable goods, transfer movable goods or provide services to or within the Panamanian territory are liable for collection from the end-consumer and for payment of this tax. Because of Panama's territoriality principle, non-residents will also be subject to charge ITBMS tax on their services rendered locally and to remit the tax accordingly to the National Treasury.

Individuals or entities that have not generated during the previous year an average monthly gross income of less than US$3,000 and an annual income of less than US$36,000 will not be considered as taxpayers for the next year, following a proper assessment by the tax authorities.

Filling requirements

The ITBMS tax collected shall be remitted to the tax authorities by filing Form 430 monthly before the 15th of each month. Individuals providing professional services are permitted to file their return and remit the ITBMS tax on a quarterly basis.

Overview of Tax System

Tax property and transfer tax

Real Estate Tax (IBI)

The real estate tax is a direct tax which consists in taxing real estate located within the Republic of Panama. The tax base depends on the total value of the real estate, plus all improvements. Real estate transactions at prices above the appraised value automatically increase the value of such properties for tax purposes.

A recent reform of the real estate tax included a progressive/combined tax rate divided in two groups: (i) real estate intended to be used as primary household or family estate; and (ii) other real estate (i.e. commercials, industrials, and other residential property).

The real estate tax shall be paid in three instalments: the first no later than April 30th, the second on August 31th, and the last one on December 31th. The new bill gives the taxpayer the opportunity to have a ten per cent discount in the scenario that the tax is paid in the first two months of the year. This applies to both individuals and companies.

The fixed rate, for the purposes of property tax, is as follows:

- Property under the primary householding status for tax purposes:

Tax Base	Tax Rate	Amount to be paid
\$0 - \$120,000	0.00%	US\$0
\$120,000 - \$700,000	0.50%	US\$0 on the first US\$120,000, with excess amounts being taxed at the rate of 0.50%, up to \$700,000.
Amounts exceeding \$700,000	0.70%	US\$4,900 on the first US\$700,000, with excess amounts being taxed at a rate of 0.70%

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- Other type of property:

Tax Base	Tax Rate	Amount to be paid
$0- $30,000	0.00%	US$0
$30-000- $250,000	0.60%	US$0 on the first US$30,000, with excess amounts being taxed at a rate of 0.60%.
$250,000- $500,000	0.80%	US$150 on the first US$250,000, with excess amounts being taxed at a rate of 0.80% up to $500,000.
Amounts exceeding 500,000	1.00%	US$4,000 on the first US$500,000, with excess amounts being taxed at 1%.

The following property is exempt from the property tax:

1. Government real estate and real estate owned by municipalities and municipal associations.
2. Autonomous and semi-autonomous government real estate.
3. Real estate intended to be used for religious purposes.
4. Real estate intended to be used for charity or social assistance, or by non-profit organizations.
5. Real estate exempted according to international treaties or agreements in which the Republic of Panama has been a party to and approved by law.
6. Real estate with a value below US$120,000.00 (Family Tax Patrimony and Primary Household).
7. Other Real estate with a value below US$30,000.00.
8. Real estate belonging to social organizations, which are non-profit operations.
9. Real estate intended for agricultural activities and whose value does not exceed US$350.000.00.
10. Individuals or companies that offer private education services. They can deduct their real estate tax to zero, by offering permanent scholarships to Panamanian students. Private hospitals also have this option.
11. Real estate intended to be for public use.
12. Real estate belonging to persons with a disability. Such real estate must be the person´s primary place of residence.
13. Real estate that consists of land and/or improvements, according to what is established in the special laws for the corresponding term.

Overview of Tax System

Tax on the Transfer of Real Estate (ITBI)

The two (2) percent tax levied on the transfer of real estate is based on the following (whichever is the higher):

- The sale price stated in the official deed; or
- The deemed updated cadastral value.

The deemed updated cadastral value is calculated on the registered land value, plus the value of the improvements made to the property adding an amount equivalent to five percent (5%) of the property value, plus improvements, for each calendar year between the acquisition date and the selling date.

Exemptions:

- The initial sale of a residential property is exempt from this tax if the buyer uses the property as a personal place of residence and if the sale takes place within two years after obtaining an official occupancy permit;
- Exemptions exist for donations made to the State and to relatives within the first degree of consanguinity (parents to children or children to parents) as well as between spouses.
- Real estate transferred to trusts.
- False declarations on the transfer value of the real estate property will be considered as fraud by the tax authorities, for both the seller and the buyer, and both can be subject to stiff penalties.

The two percent ITBI tax is deductible from income tax, but only for real estate companies or individuals on the ordinary course of business (having sold more than ten properties).

Capital gain taxes

If the taxpayer's ordinary course of business does not include purchasing and selling real estate properties, the capital gains tax on real estate transfers will be applied at a rate of 10%. The seller has the obligation to pay a 3% advance on the 10%, which is equivalent to the capital gain.

Nevertheless, the taxpayer can opt to pay 3% of the total transfer value. When the 3% advance is greater than the amount resulting from application of the 10% capital gain tax, the taxpayer can obtain the excess amount in return.

Overview of Tax System

Other relevant taxes

Excise Tax (ISC for its Spanish acronym)

A ISC is basically an excise tax on the importing of specific goods (such as luxury vehicles, motorcycles, jewelry, and firearms), alcoholic beverages/liquors and all tobacco derivatives (cigarettes and cigars) or on the initial transfer or sale by local manufacturers of these products (such as sodas, wines, and beers). The ITBMS (VAT) is excluded from the tax base for ISC purposes.

The following goods and services are subject to this tax:

- Automobiles with a CIF value of over US$8,000.00 (some exceptions apply);
- Outboard motors larger than 150cc, yachts, sail boats, ships and recreational or sports watercraft, jet-skies, vessels and aircraft for non-commercial use, as well as helicopters;
- Jewelry and firearms;
- Cable and satellite television services;
- Mobile telephone service, including prepaid mobile phone service;
- Prizes won in slot machines operated by private enterprises specializing in gambling; and
- Taxpayers manufacturing or importing such products or the individual or company that provides the afore-mentioned services.

Taxpayers must charge the tax and remit the sums collected to the National Treasury within the first 15 days following the end of the filing period and within 3 days after the customs declaration has been filed, in the case of imports.

The tax base is the price agreed upon for the goods or services. In the case of imports, the tax base is the CIF value plus all import duties.

Operation Notice tax

This annual tax is calculated over the capital of the company at a rate of two percent (2%) from a minimum amount of US$100.00, 100 up to a maximum of US$60,000.00, for those companies requiring an Operation Notice to engage in commercial and industrial activities in Panama.

Individuals or companies established in the Colon Free Zone, or any other free zone or free trade zone, are not required to obtain an Operation Notice. However, these individuals and companies are subject to the Operation Notice tax at a reduced rate of 0.5% of net assets, from a minimum of US$100 to a maximum of US$50,000.

Overview of Tax System

Education Insurance Tax

- Both employees and employers must pay an education tax. Employers must deduct 1.25 percent from their employees' salaries and pay an additional 1.50 percent.
- Self-employed individuals must pay the total 2.75 percent of their annual income subject to income tax.
- Non-resident taxpayers performing services in Panama are also subject to the tax.
- This tax is deductible from taxable income for both employees and employers.
- Withholdings are paid on a monthly basis to the Social Security Administration, together with social security contributions and income tax.

Stamp tax

- In Panama, official or stamped paper costs eight US dollars (US$8) per page and it must be used for administrative petitions, certificates, and notarized documents.
- Commercial papers and documents, such as contracts, cheques and other negotiable documents must pay a stamp tax.
- The amount of stamp tax depends on the value of the document, and on whether the document is a cheque, negotiable instrument, landing permit, bill of lading, or any other document.
- Contracts and documents must be taxed at a rate of ten cents (US$0.10) for each US$100 or fraction thereof, of the value stated in the document.
- Receipts of money, bills of sale and services and legal recourse are exempt.
- Taxpayers can also pay this tax every month, quarter, or semester by filling out a form.

Import duties

- All imports are subject to import duties unless specifically excluded by law or through incentive contracts with the government.
- Import duties must be paid within three working days from the day that the import documents are presented.
- Rates vary according to the local availability of items and tariffs applied in each case.
- The tax base is defined as the cost, plus insurance and freight (CIF) charged to the importer.
- In the case of goods imported by air, or when the CIF value is unknown, the same amount is determined by adding 15 percent to the freight on board (FOB) value.
- Sworn import declarations are processed through customs brokers.
- The Executive Branch (through the Council of Cabinet) grants the authorization to increase or decrease import duties.

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Tax on Insurance Premiums

- All insurance operations in Panama are subject to a tax levied on the issuance of insurance policies.
- The tax is payable by the insurer, while the taxpayer is the person subscribing the policy.
- The tax is levied at two (2) percent of the premium for all insurance sold in the Republic of Panama covering local risks.
- An additional tax of five (5) percent is applicable to fire insurance premiums, whose total tax percentage is seven (7) percent, five (5) percent of which is assigned to fire departments in Panama.

FECI

- Applicable to local personal and commercial loans, exceeding five thousand dollars (US$5,000.00), granted only by banks and financial institutions, are subject to a withholding of one percent (1%) rate.

Municipal taxes

- These taxes are based on the type of activity and the gross income amount or the sales volume.
- May be assessed by municipalities, among other taxes, on automobile licenses, buildings and improvements, sidewalks, streets and municipal land.
- Most commercial and industrial activities are subject to municipal taxes, from small businesses and workshops to power-generating companies.

Overview of Tax System

Other tax compliance regulations

Transfer pricing

Rules on transfer pricing in Panama are applicable to all transactions between Panamanian entities and related parties abroad, regardless of the jurisdiction here the related party is established, as long as the transaction has an incidence in the incomes, costs and expenses of the Panamanian company.

Those transactions between related parties located in a free zone, special economic area or special regime, are subject also subject to the transfer pricing rules.

Transfer pricing obligations include:

- **Transfer pricing study:**

  The taxpayer required to present a Transfer Pricing Return, must have a Transfer Pricing Study containing all the necessary information required to assess and document the transactions with its related parties. This study must be filled, only at the request of the Directorate General of Revenue, between the forty-five (45) days, counted from the date said request was notified.

- **Declaration:**

  Annual return on the transactions between related parties; must be filled between the six months after the closing of the fiscal year.

- **Master File:**

  Tax payers subject to transfer pricing rules are required to keep general information on the organization structure, legal information and operative information of the group it belongs, relevant changes and identification of the individuals among the group making transactions with the tax payer.

  The tax payer should also maintain information regarding the policy the group established for transfer pricing purposes.

  This information should be presented to the Directorate General of Revenue, if required.

- **Country by Country Report:**

  This is an obligation for the Head Quarter of the multinational group, if the consolidated income of the group in a fiscal period, is above € 750MM, resident for tax purposes in Panama.

  This report must be presented between the twelve (12) months following the closing of the fiscal period in “XML Schema” format.

Overview of Tax System

Information exchange and double taxation treaties

Panama's income tax treaty network expanded quickly as it was aiming to comply with the OECD´s peer review process in order to be removed from their black list of tax havens. Until April 2020, Panama had in force a total of seventeen (17) double taxation treaties different countries. Likewise, these instruments allow the Tax Administrations involved to face international tax evasion and facilitate the exchange of information between contracting countries.

Panama´s tax treaty network in force offers the following reduced tax rates:

Countries	Dividends	Interests	Royalties	Servicies
Barbados	5%-7.5%	0 - 7.5%	0 - 7.5%	0 - 7.5%
Czech Republic	10%	0 - 10%	10%	0%
France	5%-10%	0 - 5%	0 - 5%	0%
Ireland	5%	0 - 5%	5%	0%
Korea	5%-10%	0 - 5%	3% - 10%	0%
Luxembourg	5%-10%	0 - 5%	5%	0 - 5%
Mexico	5%-10%	0 - 10%	10%	0 – 12.5%
Netherlands	0%-10%	0 - 5%	5%	0%
Portugal	10%	0 - 10%	10%	0 – 10%
Qatar	0%-6%	0 - 6%	6%	0%
Singapur	4%-5%	0 - 5%	0 -5%	0%
Spain	0%- 5%-10%	0- 5%	5%	0-7.5%
United Arab Emirates	5%	0 - 5%	5%	0%
United Kingdom	0%-10%	0 - 5%	5%	0%
Italy	5%-10%	0% - 5% - 10%	10%	0% - 10%
Israel	5%-10%	0-12.5%	12.5%	0%
Vietnam	5%-7%-10%	10%	10%	7.5%

Overview of Tax System

In addition to double taxation treaties, Panama has also signed several exchange of information agreements with the United States of America, the Faroe Islands, Finland, Iceland, Canada, Norway, Sweden, Denmark, and Greenland.

Available tax incentives and special business areas

Panama has several special regimes that provide incentives for the establishment of companies. Among the most important are:

Area Panama-Pacifico (APP)

Through a government agency created for the Panama-Pacifico Area (Agencia Panama-Pacifico) and a private Developer (London & Regional), the APP was developed in order to offer real estate opportunities under the aegis of Law 41 (2004), which creates and regulates this special area.

The APP is a tax-free area with a special customs system. Its purpose is to increase trade in goods, services and capital, promoting investment and employment. It is located in the former Howard Base of the US Air Force. UU., on the Pacific coast of Panama (west of the Panama Canal).

Unlike the CFZ, which is mainly involved in import and export operations, the APP has a broad scope of business, and Law 41 of 2004 states that individuals or entities that set up operations in the APP will be allowed to carry out all types of activities as long as these are not expressly prohibited by law.

As established in article 58 of the APP Law, this is an area free of direct and indirect taxes, contributions, fees, rights and national levies for the Developer, Operator and Users (understand any natural or legal person registered in the APP), for any activity, business, service, operation or transaction that they carry out.

The following taxes are excluded from the general exemption:

- ISR
- ISR on remittances for commissions, royalties, payments for technical assistance services or any other concept.
- Dividend tax and complementary tax
- ISR for remittances abroad
- Import taxes and ITBMS
- Property tax (Applies as of January 1, 2030).
- Operation Notice Tax.

Overview of Tax System

However, the APP Law establishes a series of incentive activities that will enjoy the general exemption, as well as the taxes listed above, except for:

- ISR (A reduced rate applies to office management services activities, exclusively.)
- Operation Notice Tax (A reduced rate applies.)
- Property tax (Applies as of the date detailed above)
- Dividend and complementary tax (Apply to certain incentivized activities).

Colon Free Zone (CFZ)

Since its creation in 1948, the Colon Free Zone (CFZ) has been a segregated free trade area for wholesale operations. Currently more than 3,000 companies operate in this area, with the most important activity being product re-exports.

The Colon Free Zone is located at the Caribbean entrance to the Panama Canal and approximately an hour and a half by highway from the airport and one hour from Panama City.

It is the largest free zone in the Americas and the second largest in the world, as well as the first container distribution center in Latin America, offering the world a unique place for international commerce and becoming the leading free zone in the hemisphere and one of the largest and most important global logistics centers. Also, the CFZ is an institution with ISO 9001-2008 certification.

Goods (except firearms or petroleum products) may be imported, stored, modified, repackaged, and re-exported without being subject to any customs regulations, and those goods entering the CFZ are exempt from import duties. A surveillance service fee is charged by customs authorities for the custody of exported goods. The fee charged varies depending on the exported goods

To operate from the Colon Free Zone, companies must obtain authorization from the CFZ Administration (an autonomous government institution). This means that no business license (notice of operation) is required. However, an "operating key," which is the number that identifies a company in the Colon Free Zone and that allows it to carry out its operations according to its stated commercial activities.

Companies do not need to comply with any minimum investment requirements.

Overview of Tax System

Permitted activities in the Colon Free Zone (CFZ)

- Import;
- Export;
- Re-export;
- Manufacturing;
- Sale, commercialization and distribution;
- Refining and processing of goods;
- Operations, transactions, negotiations or incidental activities appropriate to the establishment and operation of international free trade zones.
- The provision of services relating to aviation and airport operations, including the transportation, handling and warehousing of cargo in general;
- Construction of ports, docks, boatyards, ports or places of loading and unloading;

Tax treatment:

- Exempt from income tax in relation to the export activities carried out.
- 25% income tax on the importation of product into national tax territory.
- 5% tax on dividends (reduced rate).
- Exempt from ITBMS in relation to the export activities carried out and logistics services.
- Exempt from municipal taxes.
- 0.5% Operation Notice tax (reduced rate).

Free Trade Zones (FTZ)

The FTZs are free zones for the establishment and development of industrial, commercial and service enterprises.

Any individual or legal entity willing to register with the Registry of Companies established in the FTZ must be duly authorized to operate and carry out the permitted activities within the FTZ. In other words, a company can only be established within a free trade zone by means of a User License duly granted by the FTZ National Commission of the Ministry of Commerce.

Only the following activities can be carried out within the FTZ: services, manufacturing, assembly, logistic services, high tech services, the processing of finished or semi-finished goods, scientific research centers, environmental services, specialized centers for the provision of healthcare services, centers of higher learning, general services to users within the Free Trade Zone. Import and export activities not subject to value-added processes are expressly prohibited.

The tax incentives granted to companies established in the FTZ are applicable to external operations only (export operations), which cover the transfer of all types of merchandise or goods and the provision of services to any natural or legal entity located abroad or established within a special free trade area.

Contrarily, activities destined for the local Panamanian market (secondary customs territory) will be subject to income tax and ITBMS, as well as import taxes.

Overview of Tax System

Headquarters of Multinational Enterprises (HME) or SEM

Law 41 adopted on August 24, 2007 created a special system for the establishment and operation of Headquarters of Multinational Enterprises, or SEMs as per the acronym in Spanish. Law 41 aims to attract multinational corporations to set up offices in Panama for the purpose of providing intra-group services to head offices, affiliates, subsidiaries, or associated companies located abroad.

It is important to mention that SEM licensed companies can only carry out the following activities and services:

a. Direction and/or management for geographical operations (in a specific area or globally) of a company within the group of companies: strategic planning, business development, management of personnel training, management of operations and/or logistics;
b. Logistics and/or storage of components or parts of manufacturing products;
c. Technical assistance not only for the companies of the EG but also for the clients for products and services of the EG;
d. Financial management, including treasury to EG;
e. Accounting of the EG;
f. Preparing blueprints that form part of the design and/or construction that constitute the ordinary course typical of the business activity of the head office company or any of its subsidiaries;
g. Processing electronic data of any activity including consolidations for the EG operations and network operations;
h. Advice, coordination and follow-up for EG goods and services, marketing and advertising;
i. Support for operations and research, as well as EG goods and services development;
j. Other analogous services previously approved by the Cabinet Counsel according to Law 41.

Companies that have an SEM License will enjoy the following incentives:

- 5% income tax (reduced rate).
- 2.5% remittance tax (reduced rate).
- Exemption of ITBMS, except for those services provided to related entities located in Panama.
- Exemption of tax on dividends and complementary, as well as the tax to branches.
- Exemption from the Operation Notice tax.

Accounting Regulations

Accounting Regulations

Applicable regulations

- All companies operating in Panama are required by law to maintain accounting records according to generally accepted accounting principles in the Republic of Panama, i.e. International Financial Reporting Standards (IFRS), or NIIF as per the abbreviation in Spanish.
- The following records are required for corporations operating in Panama: a general journal, a general ledger, a minute book, and a stock register (shareholders registry). Only two books are mandatory for merchants: a general journal and a general ledger.
- All accounting records must be maintained in Spanish.
- Accounting records, supporting documents and correspondence must be kept in Panama, as long as the operations are carried on locally. They must be up to date and ready to be inspected by authorities at any time.
- According to the Commercial Code, endorsement by a certified public accountant is required when capital exceeds US$100,000 or the sales volume is over US$50,000.
- For companies engaged exclusively in offshore operations, the legal and accounting records must be maintained with the resident agent or this person has to be informed of the location of those documents.
- When the accounting records are maintained via technological or electronic means, specific certification from a certified public accountant is required.
- Accounting records must be prepared according to the accrual basis of accounting in accordance with International Financial Accounting Standards (IFAS), with few exceptions.
- Banking institutions are authorized to maintain their accounting records in accordance with either IFRS or US GAAP.

Accounting Regulations

Financial statement requirements

For all companies operating in the Republic of Panama, tax regulations require that taxpayers maintain the financial statements available to the General Directorate of Revenue, if requested, and certified by an authorized public accountant in accordance with the regulations of Audit generally accepted in Panama.

Although not mandatory, the financial statements can be registered in the Public Registry of Panama.

Banks, insurance companies and reinsurance companies, as well as for companies registered in the Superintendence of the Securities Market and those companies that operate in a free zone, are obliged to maintain audited financial statements. The financial statements of these entities must be certified annually by independent external auditors.

Financial System

Financial System

Generalities

Decree-Law 9 of 1998, which amended the banking system established by Cabinet Decree 238 of 1970 and created the Panamanian Superintendency of Banks (Superintendencia de Bancos de Panamá - SBP for its acronym in Spanish), was updated and modified by Decree-Law 2 of February 22, 2008, later amalgamated by means of Executive Decree 52 of April 30, 2008, in order to comply with international regulatory standards and to make the banking sector more competitive.

For more than 40 years, Panama has quickly grown as an international banking center. The country has eighty-eight (88) banks, of which forty-eight (48) are under a general license, twenty-seven (27) are under an international license, and thirteen (13) are representation offices. Seventeen (17) of these institutions are Panamanian-owned banks, as well as two (2) governmental institutions (owned by the State).

Structure and supervision of the banking and securities system

The Panamanian Superintendency of Banks

The SBP is the entity responsible for overseeing the banking system, including the prevention of money laundering in the banking system and the financing of terrorism. The entity is also entrusted with the protection of consumer rights.

The SBP is an independent institution but is subject to supervision by the General Comptroller of the Republic of Panama (Contraloría General de República de Panamá). The SBP is integrated by the Superintendent and five members of the Board of Directors, which are chosen by the Executive Branch.

The following are some of the SBP's responsibilities:

- Authorize and issue licenses to engage in banking activities;
- Determine, at an administrative level, the interpretation and scope of legal banking provisions;
- Periodically set forth the legal reserves and the percentage of liquidity applicable to banks;
- Carry out inspections of banks, so as to determine their financial situation and compliance with regulatory provisions;
- Intervene, when necessary, in the affairs of banks, appointing a trustee who will assume the administration thereof; and
- Sanction any breach of banking regulations.
- Foreign supervisory entities may request information and carry out inspections of branches and subsidiaries of foreign banks in Panama, in which they exercise consolidated supervision. Information that is obtained in this manner is kept strictly confidential and cannot be disclosed without prior authorization from the SBP.

Financial System

Superintendency of the Securities Market

Law 67 of 2011 creates the Superintendency of the Securities Market (Superintendencia del Mercado de Valores – SMV for its acronym in Spanish). In addition, the unified text of Decree-Law 1 of 1999 regulates the securities market in the Republic of Panama.

As indicated in the unified text of Decree-Law 1, the SMV is an autonomous governmental institution, with its own patrimony and administrative independence. The SMV is composed of the Superintendent, who acts as the legal representative of the institution and is in charge of its management and of a Board of Directors, which acts as its ultimate consultative, regulatory and policy-making body.

The Superintendent and the Board of Directors must comply with standards in order to avoid conflicts of interests and unethical practices. Decisions made by the SMV may only be contested for reconsideration and appealed before the Board of Directors, within a period of 5 days following the date of its notification.

Law-Decree 1 regulates the following areas, among others:

- Investment fund managers;
- Investment advisors;
- Securities brokerage firms;
- Forex (FX) trading;
- Credit rating agencies;
- Pension funds;
- Investment corporations (mutual funds); and
- Self-regulated organizations.

Financial System

Requirements for the operation of financial and banking entities

Bank Activities

Licenses to Engage in Banking Activities

Except for official Panamanian banks, no individual or entity can engage in banking activities without prior authorization from the SBP.

The SBP issues three (3) types of licenses depending on the intended activities of the banking institution:

- General license: issued to banks organized under the laws of the Republic of Panama and authorized branches of foreign banks to engage in local and offshore banking activities, as well as in other activities, as authorized by the SBP;
- International license: issued to banks organized under Panamanian laws and authorized branches of foreign banks to conduct, from an office established in Panama, transactions that are completed or carried out outside Panama, and to engage in other authorized activities;
- Representation license: issued to foreign banks for the establishment of a representation office in Panama, and to engage in other authorized activities.

There are no restrictions on the type of services that can be offered, as long as they are within the scope of normal banking business practices.

In addition, banks are obliged to pay annually a Regulation and Supervision Fee, which will depend on the type of license:

- General license: Thirty thousand US dollars (US$30,000.00), plus thirty-five US dollars (US$35.00) per million, or fraction of a million, of the assets of the bank, up to a cap of one hundred thousand US dollars (US$100,000.00).
- International license: Fifteen thousand US dollars (US$15,000.00).
- Representation license: Five thousand US dollars (US$5,000.00).

Financial System

Capital Requirements

Every bank doing business in Panama, under a general license, must meet the minimum requirement of ten million US dollars (US$10,000,000.00) of paid-in or assigned capital established by the SBP.

Banks engaged exclusively in offshore business (banks with an international license) must deposit two-hundred fifty thousand US dollars (US$250,000.00) in the National Bank of Panama and have a minimum paid-in capital of three million US dollars (US$3,000,000.00), to guarantee the proper fulfillment of their obligations under the banking license.

Licensed banks (either general or international license) cannot reduce capital from the minimum amounts set out above. The SBP must authorize any reduction to capital.

Liquidity Reserve Requirement

Every bank holding a general and international license (the latter if the SPB is its original supervisor) must maintain a legal reserve of cash assets not exceeding 35 percent of its gross local deposits (excluding deposits from related entities).

Financial System

Bank Tax

Aside from any income tax or any other tax obligations for banks, there is an annual bank tax which will depend on their assets and type of license:

General License	Tax per annum
Up to US$100 million in total assets	US$75,000
More than US$100 million up to US$200 million in total assets	US$125,000
Over US$200 million up to US$300 million in total assets	US$175.000
Over US$300 million up to US$400 million in total assets	US$250,000
Over US$400 million up to US$500 million in total assets	US$375,000
Over US$500 million up to US$750 million in total assets	US$450,000
Over US$750 million up to US$1,000.00 million in total assets	US$500,000
Over US$1,000 million up to US$2,000 million in total assets	US$700,000
Over US$2,000 million in total assets	US$1,000,000

During its first year of operations, banks with a general license will pay fifty percent (50%) of the annual tax.

International License	US$75,000
Development and micro-finance banks	US$30,000

Financial System

Securities Management Activities

Brokerage entities must comply with the following regulations:

- All equity of the brokerage entity must be issued in a nominative form and the holder must be declared to the SMV;
- Change of ownership must be authorized in advance by the SMV;
- Banks with an international license may obtain a license from the SMV, in order to address, from their office, securities-related transactions, including those registered with the SMV;
- Earnings from transactions processed in Panama, sold between effective owners from abroad and completed overseas, will not be considered as income earned within the Panamanian territory for income tax purposes;
- The bookkeeping, records and financial statements of these entities must meet the requirements and regulations issued by the SMV;
- Transactions for registered securities that are traded outside a stock exchange must be reported to the SMV as well as to investors;
- Brokerage entities must keep all assets of their investors in investment accounts, according to the regulations of the SMV;
- The SMV will regulate confidentiality, ethical standards, conflicts of interest and investment advice;
- The SMV, in order to comply with Law-Decree 1, may request the appointment of a compliance officer for each brokerage entity;
- Brokerage entities and brokers must obtain a license from the SMV, in order to perform any type of securities transaction in the country.

Law-Decree 1 establishes the following rules concerning stocks, bonds, shares and any other securities:

- Each public offering or sale must be registered with the SMV;

- Any offering or sale to individuals living in Panama will be considered as an offering within the country, whether it has been made from Panama or from abroad;

- Public offerings or sales in Panama, to investors living abroad, are to be regarded as public offerings not made within the country;

- Offers exempted from registration with the SMV include: (1) offerings made or guaranteed by the State, (2) private placements, (3) offerings made through institutional investors, (4) corporate transfers and (5) offerings or sales made exclusively to employees of the issuer;

- The law decree also regulates both the securities exchange seat, and the administrator involved in any securities exchange activity.

Financial System

Tax Incentives

- No income tax, dividends or complementary tax is imposed on gains or losses resulting from the transfer of securities issued by the State.
- Gains and losses on the transfer of securities registered with the SMV may not be taxed if such transfer is made:
  - through a stock exchange or another organized market; or as the result of a corporate merger, consolidation or reorganization,
  - as long as the shareholder receives only other shares from the surviving or affiliated corporation.
- Income derived from shares registered with the SMV will be taxed at a five percent (5%) standard rate; the entity paying said interest must withhold the total amount. The income will not be considered for taxation purposes and there is no obligation to include it in the annual income tax return.
- No stamp duty is required for shares registered with the SMV, or any other document related to contracts, subscriptions, sale, payment, transfers or exchanges of these type of assets.
- Capital gains derived from a non-exempt transfer of securities shall be taxed at a ten percent (10%) fixed rate. Nonetheless, in these transactions the transferee or purchaser must withhold a five percent (5%) advance on capital gains, from the total value of the transaction. The general rule on capital gains tax is applicable to this transaction (please refer to Chapter 4).

Capital Requirements

Stock exchanges must have paid-in capital of no less than one million US dollars (US$1,000,000), free of encumbrances and the confidentiality of their operations must be assured. Also, stock exchanges must post a report of all transactions, stock exchanges, prices, volumes and any other statistical data of interest to investors and the general public at the end of each day.

Audited Financial Statements

Audited financial statements prepared by an independent public accountant must be submitted to the SMV at the end of each fiscal year.

Financial System

Requisitos de Capital

Las bolsas de valores deben tener un capital pagado de no menos de un millón de dólares estadounidenses (US $1,000,000), libre de gravámenes y se debe garantizar la confidencialidad de sus operaciones. Además, las bolsas de valores deben publicar un informe de todas las transacciones, intercambio/transferencia de valores, precios, volúmenes y cualquier otra información estadística de interés para los inversores y el público en general, al final de cada día.

Estados Financieros Auditados

Los estados financieros auditados preparados por un contador público autorizado, independiente, deben presentarse a la SMV al final de cada año fiscal.

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