



REPUBLIC OF PANAMA

INVESTMENTS AND TAXES

I. Primary Investment Considerations

A. Currency and Exchange Control

- The official currencies are the Panamanian Balboa (PAB), pegged to the USD, and the US Dollar (USD).
- Foreign Currency Regulations: Banco Nacional de Panamá, the government-owned bank, facilitates USD supply through a 1904 agreement with the US Federal Reserve Bank. Banks face no limitations on importing USD into Panama.

B. Business Structures

- Key Business Structures: The most common forms include the corporation, limited liability company, limited liability partnership, general partnership, joint venture, and foreign branch.
- Company Residency: A company is considered a Panamanian resident if it is formed under the country's laws and is centrally managed and controlled from within Panama. Determining factors for residency involve (i) whether board of directors' meetings impacting company direction occur in Panama and (ii) if business activities supporting other companies originate from a Panamanian headquarters, irrespective of income source.
- Accounting Standards and Financial Reporting: Adoption of IFRS standards is mandatory.

C. Overview of the Tax System

- Taxation Basis: Panama employs a territorial system where taxation applies solely to income sourced within Panama, for residents and non-residents alike. Revenue generated outside or not arising from Panama is exempt.
- Tax Year: The calendar year is generally standard, though businesses can seek approval for a tailored 12-month period.
- Consolidated Returns: Such returns are prohibited; each entity must file independently.
- Rulings: Panama does not issue tax determinations.

II. Corporate Taxation

Tax Rates

- Corporate Tax: The greater of 25% of net taxable earnings or 1.17% of gross taxable revenue. Micro, small, and medium-sized enterprises have tiered rates from 7.5% to 22.5%.
- Branch Tax: Mirrors the corporate tax rate, adding a 10% levy on after-tax income.
- Capital Gains Tax: A flat 10% rate.

- Alternative Minimum Tax (CAIR): The CAIR is generally 1.17% of gross revenue. Taxpayers can petition for non-application of the CAIR given net operational deficits or a higher effective tax rate surpassing the standard 25%. Tax authorities may approve CAIR exemptions for the petitioned period plus three subsequent years. Companies with taxable revenue under USD 1.5 million do not have to compute CAIR.

Taxable Income & Allowable Deductions

- Taxable Earnings: All income derived from business operations in Panama is subject to taxation, excluding expenses specifically and exclusively incurred to produce assessable income or conserve its income source.
- Loss Carryforward: Losses can be carried forward for five years, capped at 20% deduction annually. Total loss deductions are also capped at 50% of taxable earnings each year. Loss carrybacks are disallowed.

Specific Income Types

- Dividend Taxation: Dividends received by a Panamanian entity from another Panamanian entity are tax-exempt. See details under "Withholding Taxes."
- Capital Gains: Gains from security sales face a 10% tax. The buyer withholds 5% of the sale as a tax advance, remitting it to authorities. A tax refund is possible if overpaid. Profits from property transfers are also capital gains. Those from regular business transactions are taxed at the corporate rate; others see a reduced 10% rate. In these instances, 3% of the higher price or assessed value is withheld as an advance.

Anti-Avoidance Rules

- Transfer Pricing: Transactions between related companies must be valued according to the arm's length principle, applying the standards in the OECD guidelines. A transfer pricing study must include a comparative analysis of transactions carried out by independent parties, taking into account the operations, significant economic functions or activities, contractual terms, market characteristics, risks, and commercial and business strategies. After making the comparative analysis, one of the five transfer pricing methods included in Panamanian law must be selected. An annual disclosure statement of related party transactions must be submitted to the tax authorities within six months after the end of the fiscal year. The tax authorities can make adjustments if the arm's length principle is not followed. The transfer pricing regime applies to all transactions between companies established in any FTZ or special economic area and related parties, regardless of whether the related

parties are located abroad or within Panama (including parties established in other FTZs or special economic areas in Panama). The ultimate parent company of a multinational group that has consolidated revenue greater than EUR 750 million in a fiscal period and that is tax resident in Panama is required to submit a country-by-country report annually. Likewise, tax resident entities belonging to a multinational group must notify the General Directorate of Revenue of the identity and tax residence of the reporting entity, as well as the fiscal period used by the multinational group. This notification need only be made once unless the reported information changes. At the request of the General Directorate of Revenue, all taxpayers must submit a master file within 45 business days to the extent that they are economically relevant.

- Interest deduction limitations: There are no interest deduction limitations.
- Controlled foreign companies: There are no controlled foreign company rules.
- Anti-hybrid rules: There are no anti-hybrid rules.
- Economic substance requirements: Certain substance requirements apply for companies that carry out call center activities and provide logistics, as well as multimodal and office administration services in the Panama-Pacific Special Economic Area. In addition, MHQ-licensed companies are required to have an adequate number of employees and operating expenses. See "Incentives" under "Corporate taxation," above.
- Disclosure requirements: See "Transfer pricing," above. For safekeeping purposes, accounting records and supporting documentation of companies that do not conduct business operations within Panama, including legal entities that only act as investment vehicles, must be provided to the entity's Panamanian resident agent within four months following the end of each fiscal year. In the event of the dissolution of a Panama registered entity, accounting records and supporting documentation for the last five years prior to the dissolution must be provided to the agent. Resident agents are obligated to keep updated records of the shareholders and/or beneficial owners of legal entities in which they act as such, with the responsibility of reporting and updating this information on the national system for the registration of beneficial owners adopted by the Superintendence of Non-Financial Subjects. Failure to comply with this obligation is subject to sanctions for both the entity and the resident agent.

III. Individual Taxation

A. Tax Rates

- Individual Income:
 - Up to USD 11,000: 0%
 - USD 11,001-50,000: 15%
 - Over USD 50,000: 25%
 - Note: Varying rates apply to those classified as micro, small, or medium-sized businesses.
- Capital Gains: 10%

B. Determining Residency: Individuals are deemed Panamanian residents if residing in the nation for more than 183 days a year, or if their primary residence is within Panama. Economic and family ties are vital for establishing residency.

C. Taxation Basis: Both residents and non-residents are taxed on revenue within Panama's jurisdiction.

D. Taxable Income: Individuals must pay tax on earnings, wages, gains from trade or agriculture, and returns from investments.

E. Taxation of Non-Residents: Non-resident persons paid by or offering aid to Panamanian inhabitants for fewer than 183 days in a given year are taxed through a standard tax of 15% on overall revenue.

F. Deductions and Allowances: Individuals are entitled to a basic deduction of USD 800 (on a joint tax return) and deductions for: mortgage interest (up to USD 15,000 per year), donations to a nonprofit organization (up to USD 50,000 per year) and political contributions (up to USD 10,000), contributions to individual retirement plans up to USD 15,000 per year that do not exceed 10% of gross income, payments made for medical and hospitalization insurance, and medical expenses incurred in Panama that were not covered by insurance.

G. Foreign Tax Treatment: Since Panama operates under a territorial system, there is no unilateral foreign tax credit. Tax treaties may, however, provide foreign tax relief.

H. Compliance: For individuals, tax year is the calendar year, filing status is joint, for filing and payments, employment income is taxed by withholding.

IV. Value Added Tax (VAT)

Rates

- Standard rate: 7%
- Increased rate: 10%/15%
- Reduced rate: 0%

Taxable transactions: VAT is levied on the invoice value of the sale, lease, or transfer of goods or services, except for intangibles.

Rates: The standard rate is 7%, with special rates of 10% for accommodation and alcohol, and 15% for tobacco. Exemptions apply for food, medicine, medical services, and crude oil.

Registration: Registration is mandatory for businesses with monthly turnover exceeding USD 3,000 or annual turnover of USD 36,000.

Filing and payment: VAT returns must be filed monthly, except for professionals, who may file quarterly returns.

V. Other Taxes

A. Overview: Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: The employer must make social security contributions in an amount equal to 12.25% of the total remuneration of the employee and withhold 9.75% on the employee's behalf and remit it to the authorities. Independent contractors and professionals must contribute 13.5% of their fees.

Payroll tax: In addition to social security contributions (see "Social security contributions," above), the employer must pay educational insurance tax at a rate of 1.5% of an employee's remuneration. The employer also pays workers' compensation insurance premiums at rates ranging from 0.56% to 5.67% of the remuneration (depending on the risks associated with the occupation). Employees must contribute 9.75% of their salary for social security and 1.25% for the educational insurance tax.

Capital duty: There is no capital duty.

Property tax: A real estate tax is levied on Panama-situs real estate, at rates ranging from 0% to 0.7% in the case of properties subject to family patrimony or main residence tax benefits, and rates ranging from 0% to 1% for commercial and industrial real estate, other residences, land, etc.

Transfer tax: Transfers of real property are subject to tax at a rate of 2% of the greater of the value in the deed of transfer or the cadastral value on the date of transfer.

Stamp duty: Stamp duty generally is PAB 0.1 per each PAB 100 or fraction thereof and is applicable on the issuance of certain documents.

Net worth/wealth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other Taxes: Panama imposes a retained earnings tax on companies that do not declare dividends in a particular year (see "Withholding tax," above). An operation notice tax is levied at a rate of 2% of a company's net worth, up to a maximum of USD 60,000. All commercial and industrial businesses must have a notice of operations to engage in business unless they are specifically exempt. Companies that operate in the Colon FTZ or other FTZs, including licensed MHQs and companies operating under special regimes relating to international awards for contractor selection (e.g., the Panama-Pacific Special Economic Area) are not required to obtain a notice of operations. However, companies operating in the Colon FTZ are required to obtain an operation code and companies operating in the Colon FTZ, or other FTZs or special economic areas are subject to an annual notice of operations tax of 0.5% on the capital of the company (with a minimum of USD 100 and a maximum of USD 50,000). Individuals and companies already established or to be established within any of the international FTZs or the Colon FTZ do not need a notice of operations for the sale of wholesale goods to persons or companies located within Panama's customs territory. Municipalities may impose a tax on gross sales in an amount based on the type of activities carried out by a business. A business carrying on more than one business activity may be taxed on each activity. Municipal taxes, which are deductible, generally range from USD 10 to USD 2,000 per month, depending on the economic activity carried out and the gross annual income generated by the activity.

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