

SPECIAL REGIMES



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COLON FREE TRADE ZONE IN PANAMA

Overview

The Colon Free Zone (CFZ) has been a segregated free trade region for wholesale enterprises since it was established in 1948. Currently, more than 3,000 businesses are active in this sector, with product re-exports being the most significant activity.

The Colon Free Zone is situated near the Caribbean end of the Panama Canal, about an hour's drive from Panama City and the airport, respectively.

Panama is considered as an attractive place for investments thanks to its special regimes. Such zones have established laws and regulations allowing local and foreign investors to establish companies enjoying unique fiscal, migratory and labor incentives.

The Colon Free Zone is the main distribution center of the Western hemisphere. For this reason, warehouses, port and traffic systems for all types of merchandise are constantly being built and modernized, keeping abreast of modern technology and always ready to offer a wide range of excellent services and a great variety of products.

The zone is highly connected to multimodal platforms. There are four container seaports in Colon, and one in Panama City on the Pacific Ocean which are interconnected by a modern railroad network providing maritime connectivity to the global market. This multimodal platform is interconnected with a road network of highways and corridors between both metropolitan cities.

In addition to being the first container distribution center in Latin America, it is the largest free zone in the Americas and the second largest in the world. By providing the world with a distinctive location for international trade, it has grown to be the leading free zone in the hemisphere and one of the biggest and most significant global logistics hubs. The CFTZ is a facility that has earned ISO 9001-2008 accreditation.

Any goods entering the CFZ are exempt from import duties and may be imported, stored, modified, repackaged, and re-exported without being subject to any customs rules (with the exception of firearms or petroleum products). Customs officials collect a fee for the monitoring service in exchange for keeping track of exported goods. The cost is determined by the exporting items.

Permitted activities

- 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.

Fiscal benefits of the Colon Free Zone

- Exempt from income tax in relation to the export activities carried out.
- Exempt from taxes on earnings from re exports
- 25% income tax on the importation of products 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).
- Tax exemption on capital investment
- Tax exemption on profit from operations abroad

Registration types

Companies must get permission from the CFZ Administration in order to operate out of the Colon Free Zone (an autonomous government institution). This indicates that there is no need for a business license or notice of operation. However, a corporation in the Colon Free Zone must have a “operational key,” which is a number that identifies it and permits it to conduct business as usual. Companies do not need to comply with any minimum investment requirements.

The operating Key will be granted depending on your registration type, such as:

- Operation code: Register as an individual entity and lease a warehouse from a third party, Allows you to import, export and re-export. This registration has the highest operational costs.
- Represented Entity Code: Entity established in the Republic of Panama authorized by the CFTZ, that does not have physical presence in the CFTZ, who register for the sole purpose of importing, exporting, and re-exporting through the CFTZ. Through this registration, you would operate under an operational entity in the CFTZ, who will handle your operations as your representative.
- Special Represented Entity Code: Foreign Entity not established in Panama authorized by the CFTZ, that does not have physical presence in the CFTZ, who register for the sole purpose of re-exporting through the CFTZ. Through this registration, you would operate under an operational entity in the CFTZ, who will handle your operations as your representative.

PANAMA PACIFICO

Overview

The Panama Pacifico Area (APP) is one of the Special Regimes Zones that offers multiple unique benefits including attractive tax incentives, import duty exemptions, along with world-class infrastructure, labor and immigration solutions for businesses and investors.

The APP was designed to provide real estate opportunities under the auspices of Law 41 (2004), which establishes and governs this unique territory, through a government agency created for the Panama-Pacifico Area (Agencia Panama-Pacifico) and a private Developer (London & Regional).

The APP has a unique customs system and is a tax-free zone. Its goal is to boost commerce in commodities, services, and capital while encouraging employment and investment. It is situated on the former US Air Force Howard Base in Panama, on the Pacific coast (west of the Panama Canal).

It is strategically located at the southern entrance to the Panama Canal. This special regime area has direct access to the Pan American Highway, connecting Panama to Central and North America, and just fifteen minutes from downtown Panama City, forty-five minutes from Tocumen International Airport, and one hour from the largest container port complex located on the Caribbean Sea.

Panama has 12 pre-established business activities defined by the World Bank; back-office operations; multimodal and logistic services; call centers; high-tech products and process manufacturing; offshore services; digital & data transmission; multinational headquarters; film industry; maintenance, repair and overhaul of airplanes; aviation and airport related services; transfer of goods and services to ships and their passengers; and distribution centers.

Law 41 of 2004 specifies that people or businesses who establish operations in the APP will be allowed to engage in all types of activities as long as these are not expressly forbidden by law. This is in contrast to the CFTZ, which focuses only on import and export operations.

According to article 58 of the APP Law, the Developer, Operator, and Users (defined as any natural or legal person registered in the APP) are exempt from all direct and indirect taxes, contributions, fees, rights, and national levies in this area for any activity, business, service, operation, or transaction that they engage in.

Fiscal benefits in Panama Pacifico

Within Panama Pacifico companies are exempt from the following tax and fiscal charges:

- Income tax
- Sales tax
- Tax on patents
- Tax on remittances or transfers abroad

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

Special Tax Rates that could apply):

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

Migratory benefits in Panama Pacifico

- Immigration benefits are extendable to immediate relatives of employees
- 3 to 5-year visas for investors and laborers
- Tax exemption for imports of domestic belongings up to \$100,000

Greater labor regulation flexibility including:

- Fixed rate for employee overtime and employee day off (25% and 75% of regular rates respectively)
- Flexibility to designate a different day of the rest other than Sunday
- Flexibility to operate on Sunday and official holidays
- Flexibility to hire between 10-15% of foreign staff as a proportion of total staff with increased proportions available for foreign specialist and technicians

FREE TRADE ZONES (LAW 32)

Overview

Law 32 establishes a special, comprehensive, and simplified regime for the establishment and operation of free zones in Panama. It seeks to contribute to the country's development, generate jobs and foreign exchange, and incorporate Panama into the global economy of goods and services, promoting investment and development in various fields (scientific, technological, economic, cultural, educational, and social).

Free Zones: Definition and Types

- Definition: Areas of free enterprise, specifically delimited, where infrastructure, facilities, and services are developed to support companies dedicated to the production of goods, services, high technology, research, etc. (Art. 11).
- Types:
 - Private: Investment comes from natural or legal persons, national or foreign.
 - State-Owned: The sole investor is the State.
 - Mixed: Ownership is shared between the State and investors.

Incentivized Activities

1. **Centro de educación superior (Higher Education Center):** Focuses on high-quality teaching and broad general culture, enabling the formation of professionals in research and human activity, scientific, technical, and cultural services, as well as highly professional and advisory services.
 - **Incentives:** *Potentially eligible* for full exemption from income tax on external operations and operations between themselves (as specified in Art. 33), along with other general free zone benefits. Crucial: These centers primarily target foreign students and generate foreign revenue. Aimed at exportation of academic and higher educative services
2. **Centro de investigación científica (Scientific Research Center):** Specialized in the development of fundamental and applied scientific and technological research activities, involving innovation.
 - **Incentives:** *Potentially eligible* for full exemption from income tax on external operations and operations between themselves (as specified in Art. 33), along with other general free zone benefits. Aimed at performing investigation and research for external parties.
3. **Centro especializado para la prestación de servicios de salud (Specialized Center for the Provision of Health Services):** Establishment where specialized surgeries or outpatient procedures are performed for the health problems of workers in the free zone or nationals or foreigners, in whose procedures surgical techniques or specialized procedures are implemented in which innovative processes are adopted or applied.
 - **Incentives:** *Potentially eligible* for full exemption from income tax on external operations and operations between themselves (as specified in Art. 33), along with other general free zone benefits. Must offer the services to both locals and foreigners
4. **Empresa de alta tecnología (High Technology Company):** Dedicated to the production of high technology that develops goods and services of high

added value, such as hardware, software, supplies and data processing and storage centers (data center) protected by intellectual property standards.

- **Incentives:** *Potentially eligible* for full exemption from income tax on external operations and operations between themselves (as specified in Art. 33), along with other general free zone benefits.
5. **Empresa de ensamblaje (Assembly Company):** Dedicated to the manufacture of finished or semi-finished products, through the process of coupling inputs and semi-finished parts.
 - **Incentives:** *Potentially eligible* for general free zone benefits but *import duties on goods for assembly will still apply if the finished product is sold into the Panamanian market.*
 6. **Empresa de procesamiento de productos terminados o semielaborados (Processing Company):** The one dedicated to receiving finished or semi-finished products, pieces, components, accessories and/or parts, in liquid or solid state to be subjected to some treatment or process of tropicalization, modification, repair, cleaning, quality tests, calibration, homologation, analysis, purification, painting, application of anti-corrosion, packaging, packaging, crushing, recycling and/or all type of manual or mechanical, physical or chemical process that is necessary to make viable the obtaining of a determined well.
 - **Incentives:** *Potentially eligible* for general free zone benefits but *import duties on goods for processing will still apply if the finished product is sold into the Panamanian market.*
 7. **Empresa de servicios (Services Company):** The one dedicated to providing services to users abroad, in other free zones or within the same zone: In the category of services provided abroad, all international services commonly known as offshore transactions are included, which include international marketing and commercialization, insurance, reinsurance, banking, finance, auditing, administration, brokerage, accounting, diamond exchange and other precious stones, consulting and similar. Likewise, all services related to telecommunications and computers for capture, processing, storage and transmission of data, as well as electronic commerce services and organization, management and operation of databases are included. In the category of services provided to users in other free zones or within the same zone, all technical support services, maintenance and repair of equipment, machinery, furniture, buildings, facilities, ships and aircrafts, transportation, handling and storage of cargo, security services, as well as administrative, accounting, consulting and other services that internally are necessary to streamline and efficiently perform the operations of production of goods and services are included. * **Incentives:** *Potentially eligible* for full exemption from income tax on external operations and operations between themselves (as specified in Art. 33), along with other general free zone benefits, as long as the services are provided mainly for users of others free zone or to users abroad
 8. **Empresa de servicios ambientales (Environmental Services Company):** That whose functions are directed to the prevention and control of environmental contamination and to ecological tourism, which contributes to the sustainable development.

- **Incentives:** *Potentially eligible* for full exemption from income tax on external operations and operations between themselves (as specified in Art. 33), along with other general free zone benefits.
- 9. **Empresa de servicios generales (General Services Company):** That dedicated to the provision of personal services to workers or visitors who require this service and that are provided in the free zone, such as restaurants, laundries, pharmacies, beauty salons, gyms, banks and others of analogous nature.
 - **Incentives:** *Potentially eligible* for general free zone benefits, as long as these services are intended only to the employees/visitants in free zone
- 10. **Empresa de servicios logísticos (Logistics Services Company):** That whose only objective is to facilitate that the goods or products arrive to the diverse clients, without it mediates its sale by the one that lends the service, which includes the transport, storage, handling or manipulation of the goods or products, handling of the information and the logistic advice and of foreign trade.
 - **Incentives:** *Potentially eligible* for full exemption from income tax on external operations and operations between themselves (as specified in Art. 33), along with other general free zone benefits.
- 11. **Empresa manufacturera (Manufacturing Company):** Dedicated to the manufacturing of goods, by means of the process of transformation of raw materials and of semi-elaborated products, including those of agricultural, livestock, forest and marine origin.
 - **Incentives:** *Potentially eligible* for general free zone benefits but *import duties on goods for manufacturing will still apply if the finished product is sold into the Panamanian market.*

Tax Regime:

- **General Exemption:** All activities, operations, transactions, procedures, and transfers of movable and immovable property, purchases of equipment and construction materials, raw materials, machinery, tools, accessories, supplies and all goods or services required for their operations, carried out by companies established within free trade zones, will be exempt from all direct and indirect taxes, contributions, rates, rights and national levies. They will also be exempt from the tax on the operating license.
- **Taxes to Pay:**
 - Income tax and transfer tax on local leasing operations
 - Dividend tax at 5% (2% complementary if there is no distribution of profits)
 - Annual tax of 1% of capital (minimum B/.100.00, maximum B/.50,000.00)
 - Selective consumption tax
 - Special Interest Compensation Fund
 - Contributions arising from labor relations
- **ISR Exemption:** Service companies, logistics services, high technology, scientific research, higher education, general services, health services and environmental services are exempt from ISR for their foreign operations and among themselves.

Special Immigration Regime:

- **Investor:** If you invest at least B/.250,000.00, you are entitled to a Permanent Resident Permit.
- **Trusted Personnel, Executive, Expert:** Temporary Resident Permit (valid by contract).
- **Temporary Permits for Special Policies:**
 - Teachers
 - Students
 - Researchers

Special Labor Provisions:

- **Training:** Promoters, operators and companies must establish, with MITRADEL and INADEH, forms of training.
- **Special Department of MITRADEL:** To ensure the improvement of the workforce.
- **Collective Disputes:** The conciliation procedure of the Labor Code applies.
- **Worker Rotation:** The employer may rotate the worker through various production lines.
- **Minimum Wage:** Mandatory, paid in installments no longer than two weeks.
- **Incentives:** Possible incentives (profit sharing, bonuses, etc.), which do not exceed 50% of the basic salary and are exempt from Educational Insurance and the CSS.
- **Considerable Loss of Sales:** Justified cause for terminating the employment relationship, with prior authorization from MITRADEL.
- **Vacation:** The employer determines the time, considering the interests of the company and the employee. Vacation may be divided into two parts.
- **Weekly Rest:** The parties freely determine the day of rest.
- **Overtime:** Overtime is avoided and replaced with new personnel. Overtime will not exceed three hours per day (25% surcharge).

MULTINATIONAL HEADQUARTERS (SEM) IN PANAMA

Overview

Panama is an attractive place for investments. The country has established laws and regulations allowing local and foreign investors to establish companies in segregated special areas with a variety of unique fiscal, migratory and labor incentives with the main objectives of developing different kinds of activities and to promote international trade, manufacturing, and complimentary services.

Such special regimes encourage productive activities in different geographical areas, the generation of new jobs and promote the country's economic growth. The areas known as Special Economic Zones or Free Zones.

Created by Law 41 of 2007, SEMs are companies that operate as a foreign company registered in Panama or as a Panamanian company owned by a transnational company. Its objective is to provide defined services to its headquarters, affiliate, or subsidiary from Panama.

The special system of the multinational Corporation headquarters, popularly known as SEM, provides benefits in tax, labor, customs, and immigration. It grants business greater flexibility and ease of access to the Latin American market of over 400 million people.

Permitted activities

- 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;
- Logistics and/or storage of components or parts of manufacturing products;
- Technical assistance not only for the companies of the FG but also for the clients for products and services of the FG;
- Financial management, including treasury to FG;
- Accounting of the FG;
- 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;
- Processing electronic data of any activity including consolidations for the FG operations and network operations;
- Advice, coordination and follow-up for EG goods and services, marketing and advertising;
- Support for operations and research, as well as FG goods and services development;
- Other analogous services previously approved by the Cabinet Counsel according to Law 41.

Benefits

Some benefits of Multinational Headquarters established in Panama include:

- Complementary and dividend tax exemption

- Exemption from sales tax for services rendered to the corporate group abroad
- Exemption of license tax
- Exemption from income tax and VAT for services provided to the business group outside the country.
- For services provided to entities located in Panama, income tax rates are reduced by 50%
- Foreign personnel of the company with a Multinational Headquarters license that is covered by a Permanent Employment Visa for Multinational Company will not be subject to income taxes if payment is received from abroad, with exemptions extended to social security contribution and education taxes
- 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 from the Operation Notice tax.

Companies can also take advantage of immigration and labor benefits including:

- Flexibility to exceed the 10% limit of foreign workers as a percentage of a company's total workforce
- Permanent residency for permanent staff (after 5 years)
- Visas for full time employees are available for 5 years and are renewable; also extendable to family members
- Short term visas for technicians (3 months, renewable)

Requirements

Requirements to establish Multinational Headquarters in Panama include:

- The capital of the group that owns the SEM must be equal to or greater than US\$200 million
- Maintain a minimum of full-time employees and annual operating expenses appropriate to the nature of the business
- All applications must be submitted to the SEM Licensing Commission

All applications to avail of the MHQ Law are made to the MHQ license commission. If all the requirements are met, the application process is usually complete within 10 to 15-day period.

As well as providing expert advice on the application process, the Ministry of Commerce and industries, via law No.41, operates a one stop window service to speed up the process in order to obtain the MHQ license of Multinational Companies Headquarters and visas for the foreign personnel and their dependents.

EMMA REGIME IN PANAMA

Overview

Law 159 of August 31, 2020, created the Special Regime for the Establishment and Operation of Multinational Companies for the Provision of Services Related to Manufacturing (EMMA), to attract foreign direct investment. "EMMA" establishes a new regime for companies within the same economic group to provide manufacturing-related services from Panama. The law applies exclusively to the operations of Multinational Companies that provide services related to Manufacturing.

An "EMMA" company, per Law 159, is a foreign or national company operating in Panama and offering services as defined by this law to its parent company, subsidiaries, affiliates, or associated companies within the same Business Group. A Multinational Company is defined as a legal entity with a parent company in Panama or another country that conducts significant productive, commercial, financial, or service activities in multiple countries. Companies operating solely in one country but with significant operations in different regions of that country, and which establish a branch, subsidiary, or associated company in Panama for regional commercial transactions, also qualify.

EMMA (Multinational Companies for the Provision of Manufacturing-Related Services) is a special regime created to establish light manufacturing and repackaging logistics centers in Panama. This helps redefine the manufacturing and related services landscape. This regime offers a range of tax benefits, such as a reduced tax rate and tax exemptions. EMMA is designed to attract foreign direct investment and create jobs in Panama.

Sectors/industries that qualify for the EMMA program

The program is open to multinational companies that provide manufacturing-related services in Panama. Manufacturing-related services include:

1. Manufacturing-related services for products, machinery, and equipment, provided to companies within the Business Group.
2. Assembly services for products, machinery, and equipment, provided to companies within the Business Group.
3. Maintenance and repair services for products, machinery, and equipment, provided to companies within the Business Group.
4. Re-manufacturing services for products, machinery, and equipment, provided to companies within the Business Group.
5. Product conditioning services, provided to companies within the Business Group.
6. Product development, research, or innovation services for existing products or processes, provided to companies within the Business Group.
7. Analysis, laboratory, testing, or other services related to manufacturing, provided to companies within the Business Group.
8. Logistics services, including storage, deployment, and distribution centers for components or parts, required for the provision of manufacturing-related services.

9. Any other similar service approved beforehand by the Cabinet Council through a reasoned resolution.

Benefits of "EMMA" Corporations

Tax Exemption Incentives for the Company:

- **Income Tax Exemption:** EMMA corporations are exempt from paying Income Tax in the Republic of Panama for the first five years from their registration.
 - After five years, they will pay 5% Income Tax.
- **Foreign Paid Income Tax Credit:** "EMMA" companies can apply foreign Income Tax paid as a credit against Panamanian Income Tax, for taxable income generated in Panama from providing services to non-residents, and for amounts withheld by Panamanian taxpayers as Income Tax.
 - When applying this tax credit, the "EMMA" company must pay a minimum of 2% of its net taxable income generated in Panama as Income Tax.
- **Dividend Tax Exemption:** "EMMA" companies are exempt from dividend tax, complementary tax, and branch tax, regardless of income source (local, foreign, or exempt).
- **Exemption from Fiscal Equipment:** "EMMA" companies are not required to use fiscal equipment but must document their activities through invoices or equivalent documents for control, registration, accounting, and inspection by the General Directorate of Revenue, such as electronic invoices or other established methods.
- **Exemption from Operation Notice:** "EMMA" companies are not required to obtain an Operation Notice.
- **Exemption from Transfer Tax on Movable Tangible Assets and the Provision of Services:** Services provided by "EMMA" companies are exempt from the Transfer Tax on Movable Tangible Assets and the Provision of Services, as long as they are provided to entities that do not generate taxable income within Panama.
- **Import Tax Exemption:** "EMMA" companies are exempt from all import taxes, fees, charges, or duties on merchandise, products, containers, raw materials, supplies, and spare parts used or required for providing Manufacturing-Related Services. These items cannot be sold, leased, pledged, or auctioned without paying the corresponding taxes, duties, or fees.
- **Introduction of Products into Special Economic Zones:** Products manufactured, processed, assembled, or remanufactured by an "EMMA" company within a special economic area, free zone, or customs control area in Panama can be introduced into the National Fiscal Territory by a company within the business group. Customs duties or taxes are only paid on the value of foreign raw materials and components in the product, based on the corresponding tariff. The value of raw materials, supplies, components, or foreign goods incorporated into the finished product and subject to duty-free treatment or tariff discounts under International Trade Treaties or Agreements will be excluded from customs duty or tax calculations.

Migratory Incentives

- **Temporary "EMMA" Personnel Visa:** Granted to foreign employees providing operational or training services, for two renewable years. Salaries and labor remunerations paid and recognized as personnel expenses by the "EMMA" company are exempt from income tax, social security fees, and educational insurance.
- **"EMMA" Temporary Personnel Dependent Visa:** Available for spouses or partners (in a relationship for at least five years), children under 18 (up to 25 if studying and financially dependent, or with disabilities), and parents residing in Panama under the employee's responsibility. Dependents can work in Panama if they meet the requirements for a work permit.
- **Permanent "EMMA" Personnel Visa:** Allows foreign personnel to work in Panama while employed by the "EMMA" company. Salaries and remunerations are exempt from income tax, social security fees, and educational insurance. Permanent Personnel Dependent Visas are available under the same requirements as Temporary Personnel Dependent Visas. Dependents can work in Panama if they meet work permit requirements.
- **Permanent Residence for "EMMA" Company Personnel:** Foreign personnel who have worked for an "EMMA" company for five years, from the approval of their first Permanent or Temporary Personnel Visa, can apply for permanent residency.

Tax Exemption for "EMMA" Company Personnel: Holders of Permanent or Temporary Personnel Visas are exempt from import taxes on household goods when moving to Panama for the first time. They can also request a one-time total tariff exemption from the National Customs Authority every two years to import a motor vehicle for personal or family use.

Qualification requirements

- The company must be part of a multinational group or company.
- The company must have operations in Panama.
- The company must provide manufacturing-related services.
- The company must meet substance requirements.

License validity period

The EMMA license is valid for a period of 5 years. The company may renew the license for additional periods of 5 years.

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