

JURISDICTION OVERVIEW





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REPUBLIC OF PANAMA – Jurisdiction Overview

General Overview

Currency

The "Balboa" (B/.) or Panamanian Balboa (PAB), the national currency of Panama, is equal in value to the US dollar. Because Panama signed the Monetary Agreement with the United States in 1903, the US dollar has been accepted as legal tender across the nation and circulates alongside Panamanian coins ever since. Like other nations, Panama does not have a central bank.

Economy

In 2017, 2019, and 2021 the international rating agency Moody's assigned ratings of BAA2, BAA1 and Baa2, respectively, to Panama, indicating a consistent and optimistic outlook for the country's economy. More than 70% of Panama's GDP and 50% of its labor force may be attributed to the service industry, which also accounts for the majority of the country's employment.

Legal System

According to the Panamanian Constitution, both domestic and international enterprises have an equal right to incorporate and conduct business operations in Panama and are subject to the same fundamental conditions. However, there are limitations on both some professional practices and foreign businesses engaging in retail sales. People may conduct business under their own names or through legitimate businesses.

Types of Legal Entities

The following are the main types of legal entities that may be formed, based on Panamanian civil and commercial laws:

- Partnerships (S. de R.L.)
- Corporations (S.A.)
- Private Interest Foundations (F.I.P.)
- Trust (Fideicomiso)
- Non-Profit Organization (Asociación o Organización sin Fines de Lucro)
- Registered Foreign Entity: A foreign entity may also re-domicile in Panama or open a Panamanian branch

Basic Procedures for to set-up an operating business

Business License

- All corporations, partnerships, or individuals must get a "Business License" (Aviso de Operación) permit before engaging in commercial or industrial activity. The Ministry of Commerce and Industries' electronic system, PanamaEmprende (www.panamaemprende.com), is used to submit applications and grant Operation Notices (as regulated by Law No. 5 of 2007).



Accounting requirements and financial statements

- Accounting records identifying the commercial activities, assets, liabilities, and equity, which must represent the quantities and nature of commercial transactions and must be prepared in accordance with International Financial Reporting Standards for all businesses and people (doing business) (IFRS).
- A general diary and a ledger must be kept on file at all times by organizations and individuals conducting business. A resolutions book and a register of shares and shareholders are also required to be maintained by commercial enterprises.
- All Commercial Entities and Individuals (doing business) are obligated to create and keep their financial accounts, accurately and truthfully representing the results of their yearly or periodic operations, available for relevant authorities in their offices or premises.

Legal Entity Renewals and Franchise Tax

- Every registered corporation, whether domestic or international, is required to pay a \$300.00 yearly fee to the Treasury. Private Interest Foundations must pay an annual fee of US\$350.00 the first year and US\$400.00 the following years.

Additional requirements

- Regulated activities are governed by specific laws adopted for each industry. In this regard, the Superintendence of Banks' licensing system, regulates banks and fiduciary businesses; the Superintendence of Insurance and Reinsurance of Panama Regulates insurance firms, insurance brokers, reinsurance companies, reinsurance brokers, captive insurance companies, and insurance administrators; Superintendence of the Securities Market regulates stockbrokers and securities.

Visas and Work Permits

To be able to live and work in Panamá for an extended period while abiding by the nation's immigration and labor rules, foreign nationals who wish to do so must apply for resident status and a work visa. Various

Visa possibilities are available from Panama, and they rely on your country, employment situation, future ambitions, and investment. The following programs are amongst the most popular residency programs:

- FNV (Friendly Nations Visa)
- QIV (Qualified Investor Visa)
- RPV (Retiree Pensioner Visa)
- SSV (Self Solvency Visa)
- PIRV (Private Interest Retiree Visa)
- RV (Reforestation Visa)
- Employment Subject Visas
 - 10%
 - 15%
 - Professional



- SEM
- FNV (via work contract)

Labor Legislation/Regulation Overview

According to the Labor Code, all employment agreements must be in writing with copies for the employer, employee, and labor authorities; otherwise, any information provided by the employee will be assumed to be accurate until and until the employer can establish otherwise beyond a reasonable doubt.

Employee Rights and Employer Obligations include:

- Employee Ledger, Longevity and Liquidation rights
- Social Security
- Vacations,
- Sick Days,
- 13th Month of Salary,
- Maternity Leave
- Overtime
- Minimum Salary Labor Contract

The contract may be for an unspecified or predetermined amount of time, or it may be for a particular project. A definite period contract turns into an indefinite one if the employee does any of the following: (1) works past the end of the definite period; (2) works past the completion of the specific project for which they were hired; or (3) negotiates additional definite period or specific project contracts. When signing a contract, employees cannot compromise their rights or waive them.

Salaries and Minimum Wages

Salary may be set by task, position, or unit of time (month, fortnight, week, day, or hour). Salaries comprise any monetary compensation that employees receive for their labor, as well as any tips, premiums, commissions, profit sharing, and other benefits including in-kind compensation and travel expenses. Every two years, the government evaluates and sets the minimum wage rates depending on the hourly rate, economic activity, company size, and location. Salaries must be paid twice a month, on the 15th and the 30th, in accordance with the Labor Code.

Social Security System

Many of the employee perks often offered by private insurance in other nations are replaced by Panama's social security system. The System is organized as follows:

- The Social Security Administration Agency ("Caja de Seguro Social") oversees the social security system.
- The social security system offers health, dental, maternity, disability, and death benefits to the insured and his or her dependents.
- All employees working for the government, as well as individuals or businesses operating on national territory, including foreign nationals, are subject to the mandatory social security system.



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Financial System

The Panamanian Superintendency of Banks (Superintendencia de Bancos de Panamá, or SBP for short) was established by Decree-Law 9 of 1998, which amended the banking system put in place by Cabinet Decree 238 of 1970. Decree-Law 2 of February 22, 2008, which was later amalgamated by Executive Decree 52 of April 30, 2008, updated, and modified the law in order to conform to international regulatory standards and to increase the competitiveness of the banking industry.

For more than 40 years, Panama has quickly grown as an international banking center. The country has sixty-five (65) banks, of which forty (40) are under a general license, fifteen (15) are under an international license, and ten (10) are representation offices, 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.

Generalities and functions of the SBP:

- 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.
- In Panama, branches and subsidiaries of foreign banks that are under the consolidated supervision of foreign supervisory authorities are subject to information requests and inspections. Information received in this way is kept absolutely private and cannot be shared without the SBP's prior approval.



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Superintendency of the Securities Market (Superintendencia del Mercado de Valores – SMV)

The Superintendency of the Securities Market was established under Law 67 of 2011. Additionally, the Republic of Panama's securities market is governed by the unified text (Texto Único) of Decree-Law 1 of 1999.

The SMV is an independent government organization with its own patrimony and administrative independence, as stated in the unified text of Decree-Law 1. The SMV is made up of the Superintendent, who serves as the institution's legal representative and oversees managing it, and a Board of Directors, which serves as its top advisory, governing, and policy-making body.

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.

Requirements for the operation of financial and banking entities

Bank Activities -Licenses to Engage in Banking Activities

No individual or entity can engage in banking activities without prior authorization from the SBP, with the exception of official Panamanian banks.

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

- General license: given to banks incorporated under Panamanian law, allowing foreign bank branches to conduct local and offshore banking operations as well as other activities approved by the SBP;
- International license: granted to banks incorporated under Panamanian law and approved branches of international banks to conduct transactions that are completed or carried out outside of Panama from an office established in Panama as well as to engage in other authorized activities.
- Representation license: given to international banks for opening a branch office and engaging in other permitted operations in Panama.
- As long as the services fall inside the purview of typical banking business operations, there are no restrictions on the kinds of services that can be provided.

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).



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- International license: Fifteen thousand US dollars (US\$15,000.00).
- Representation license: Five thousand US dollars (US\$5,000.00).

Capital Requirements

Every bank operating in Panama with a general license is required to adhere to the SBP's minimum paid-in or allocated capital requirement of ten million US dollars (US\$10,000,000.00). To ensure proper performance of their obligations under the banking license, banks exclusively engaged in offshore business (banks with an international license) are required to deposit 250 000 US dollars (US\$250 000.00) with the National Bank of Panama and maintain a minimum paid-in capital of 3 000 000 US dollars (US\$3 000 000.00). 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 with a general and international license (the latter in cases where the SPB is the bank's first supervisor) is required to keep a legal reserve of cash assets that cannot be greater than 35% of its gross local deposits (excluding deposits from related entities).

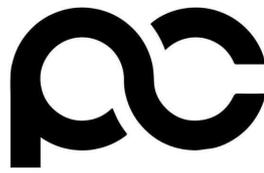
Securities Management Activities

Brokerage entities must comply with the following regulations:

- The holder of each share of equity issued by the brokerage business must be disclosed to the SMV
- Banks with an international license may apply for a license from the SMV to conduct securities-related transactions, including those registered with the SMV, from their office;
- Banks with an international license may apply for a license from the SMV to conduct securities-related transactions, including those registered with the SMV, from their office;
- For income tax purposes, earnings from transactions handled in Panama between parties with effective ownership based outside and finished abroad shall not be regarded as earnings made on Panamanian soil;
- Brokerage entities must maintain all investor assets in investment accounts in accordance with SMV regulations, and the SMV will regulate confidentiality, ethical standards, and conflicts of interest.
- The SMV will regulate transactions for registered securities that are traded outside of a stock exchange and transactions for registered securities that are traded inside a stock exchange. The SMV, in order to comply with Law-Decree 1, may request the appointment of a compliance officer for each brokerage entity;
- To conduct any kind of securities transaction in Panama, brokerage companies and brokers need to be licensed by the SMV.

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

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



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- Any offering or sale to residents of Panama, whether made from Panama or abroad, is to be regarded as a public offering not made within the country;
- Public offerings or sales in Panama to foreign investors are to be regarded as public offerings not made within the country;
- Offers made by the State or backed by the government are exempt from registration with the SMV.

Tax Incentives

- Income tax, dividends or complementary tax on gains or losses resulting from the transfer of securities issued by the State will not be taxed;
- 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;
 - when a company merges, consolidates, or is reorganized, so long as the shareholder only obtains shares from the surviving or related company.
- The entity paying the interest must deduct the whole amount from any income earned from shares registered with the SMV, which is taxed at a regular rate of 5%. There is no requirement to include the income in the yearly income tax return, nor will it be taken into account for taxes purposes.
- Shares registered with the SMV are exempt from stamp duty, as are any other documents pertaining to contracts, subscriptions, sales, payments, transfers, or swaps of these kinds of assets.
- The tax rate on capital gains resulting from a transfer of securities that is not exempt is fixed at 10%. However, in some transactions, the transferee or purchaser is required to deduct a five percent (5%) advance on capital gains from the transaction's total value. This transaction is subject to the general capital gains tax regulation.

Capital Requirements

Stock exchanges are required to have paid-in capital of at least \$1,000,000 USD, be free of encumbrances, and guarantee the secrecy of their business dealings. Additionally, at the conclusion of each day, stock exchanges are required to publish a report of all transactions, stock exchanges, prices, volumes, and any other statistical information of interest to investors and the general public.

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.

Tax Legislation Overview

In contrast to the widely adopted worldwide taxation format in other nations, Panama's tax structure is territorial. This indicates that money derived from domestic operations is subject to income tax ("ISR"), whilst income derived from foreign sources is exempt from taxation. This also applies to income that is



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specifically exempt from income tax under the Tax Code and other special legislation.

The territoriality concept states that revenue earned in Panama or seen as coming from Panama is subject to taxation, regardless of the location of the contracts' signing, the source of the money received, or the nationality or residence of the parties. Residents and non-residents are therefore only subject to taxation on income with Panamanian sources due to the way the country's tax system is set up as a governing body of laws.

Sources of Income

According to our territoriality principle, revenue earned by people or legal entities is divided into three categories: local, foreign, and exempt income, as established by provisions in The Tax Code and Executive Decree No. 170 of 1993.

Tax Obligated Subjects and Taxable Income

A taxpayer is defined as "the individual or legal entity, either Panamanian or foreign, that receives taxable income subject to income tax" per Section 694 of the Tax Code. The definition of taxpayer has been expanded by regulations to include trusts (fideicomisos in Spanish), partnerships, and any other type of business earning assessable income.

Income that is created on Panamanian territory from any source, regardless of where it is received, is considered taxable income. By breaking with the territoriality principle, Panamanian tax laws also count as taxable income any income that, even when derived from overseas acts or services, benefits people or legal entities residing in Panama and is connected to the creation and maintenance of their income that has a Panamanian source.

Fiscal Year

The typical fiscal year for all taxpayers generally runs from January 1 to December 31. However, a request to switch a tax year to a special term that spans a total of 12 consecutive months may be made to the tax authorities.

Corporate Income Tax

The remaining amount after subtracting relevant fees and deductions from gross income is a corporation's taxable income. The costs and expenses necessary to operate a business in Panama and produce taxable income are deductible as long as they are properly documented and does not exceed the maximum deductibility formula.

Tax Rates

- The standard corporate income tax rate is set at 25%. The rate of taxation for businesses where the state owns more than forty percent (40%) of the



company's shares will nevertheless remain at thirty percent (30%), as it was before the 2010 change to the Panamanian Tax Code.

Alternative method for calculating income tax

Companies with a gross revenue of more than US\$1,500,000.00 are required to pay the greater of the income tax resulting from the standard technique or the alternative method, known in Spanish as "Cálculo Alternativo de Impuesto sobre la Renta," or "CAIR."

In this sense, the tax will be calculated by applying the general rate of 25% to the greater of the following amounts:

- The net taxable income calculated using the traditional method; or
- The net taxable income that results from applying 4.67 percent to the total taxable income, giving rise to an effective tax rate of 1.4 percent.

For the purposes of the alternate method (CAIR), the total of taxable income is the sum obtained by subtracting the exempt income and foreign source income from total income, without deducting any charges or expenses paid, other than those specifically allowed by law.

Withholding tax on dividends

Companies that distribute dividends from earnings are required to deduct 10% from amounts that come from Panamanian sources of revenue and 5% from amounts that come from foreign or exempt sources of income. This tax must be withheld by the business that distributes the dividends and paid to the tax authorities within ten (10) days of the distribution's authorization date.

Complementary withholding tax on dividends

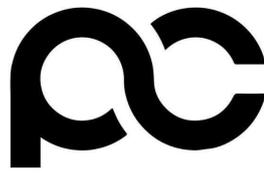
A complementary tax must be withheld over 40% of the net income, after taxes, as an advance on dividend tax if total period earnings are not distributed or if the total period earnings distributed are less than 40%

of net income. This results in an effective rate of 4% over the total net income, after taxes. When these dividends or profits are divided, the remaining six percent (6%) will be paid.

Withholding tax on remittances

Any income that a foreign-domiciled entity views as coming from a domestic source must be withheld as income tax as long as the offered service affects the national source income or helps to preserve that source and the related payments are seen as allowable expenses by the entity in Panama. In cases where payments are made to non-resident entities, the resident entity must withhold income tax at the standard rate on fifty percent (50%) of the funds transferred.

Income tax for individuals



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Only income Panamanian-sourced, as defined by the Tax Code and Income Tax Regulations, is subject to taxation in Panama for all individuals, including citizens, residents, and non-residents. According to tax laws, all income in the form of money, kind, or value, derived from personal services rendered under an employment relationship, the practice of a profession or trade, and any other types of services provided, carried out, or exercised within the territory of Panama are subject to income tax.

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%.

Tax residency

Independent of their immigration status, all people are regarded as residents for tax purposes if they can demonstrate that they were present for more than one hundred eighty-three (183) days during a calendar year or the year before, whether continuously or intermittently, or if they have a permanent residence and acknowledge it as the center of their vital economic or family interests. Residents are also liable for income tax on their wages and other forms of income.

Tax Compliance

- The employer is responsible for deducting income tax on wages, salaries, and other compensation received within an employment relationship using the previously mentioned progressive tax rates.
- Individuals with other taxable income not subject to withholding at the source or those with more than one employer are required to file an annual income tax return by March 15 after the end of the tax year.
- Individuals with only one employer or only one salary as their source of income are not required to file an annual income tax return.
- You can ask for a one-month filing extension. The payment deadline is March 31 after the end of the tax year, no payment extensions are permitted.
- Late payments will trigger interest of around 1% of the due amount, per month as well as a 10% surcharge on the payable amount. Late filing will incur a fine of US\$100.00.

Non-Resident Individual Income taxation

Non-resident taxpayers are those who were absent from the country for a minimum of 183 days in a calendar year, whether they were consecutive or not. Employees who are non-residents are subject to income tax at a flat rate of 15% on their gross income (wages and salaries), plus a 2.75 percent education tax.

Capital gains tax

Capital gains are taxable income, with the exception of those resulting from the sale of securities or shares issued by entities, those issued by the Panamanian government and traded on a recognized stock exchange, or those registered on the Securities Market Superintendence (SMV for short), all of which are excluded under the Tax Code.

Sale of shares

If they fall outside of the exempted provisions, capital gains from the sale of shares or securities are subject to a fixed tax rate of 10%. However, the buyer or transferee is required to retain a sum equal to 5% in advance and remit the funds to the tax authorities within ten (10) business days of the transaction's payment date. The 5 percent advance can be considered as the definitive tax by the seller or transferor.

Tax on the Transfer of Tangible Personal Property and the Provision of Services (Impuesto de Transferencia de Bienes Muebles y Servicios ITBMS) - VAT

ITBMS is an indirect tax that is levied on the sale of movable goods (including imports) and services provided on Panamanian soil. Along with income taxes and import fees, it functions as a value-added tax (VAT) and is a significant source of income for the Panamanian government.

Transactions subject to ITBMS include:

- The granting of ownership or proprietary rights over movable goods to a receiver.
- The rendering of services within Panamanian territory, with or without deliverables, which ordinarily comprise renting out movable and immovable property, attending entertainment events, transporting passengers domestically and internationally by air, etc.
- Importing tangible products, regardless of where they are going.

Tax base and rates:

Although the tax base will vary depending on the transaction being carried out, it is typically the net sale price of the good or service. ITBMS will be applicable for all transfers of commodities up until they arrive at their intended location. The ITBMS tax is not applied to the reimbursement of expenses.

Specific ITBMS rates:

- Medicine, Food and Books
 - 0%
- Goods and Services
 - 7%
- Alcoholic beverages, accommodations, and lodging
 - 10%
- Tobacco Products
 - 15%



Taxpayers and Non-taxpayers (ITBMS-VAT)

This tax must be collected from end consumers and paid by those that import taxable items, transfer movable goods, or perform services to or within Panamanian territory. Non-residents will likewise be required to pay ITBMS tax on services provided locally and to pay the tax in accordance with the law to the National Treasury subject to Panama's territoriality principle. Following a proper assessment by the tax authorities, people or businesses that did not produce an average monthly gross income of less than US\$3,000 and an annual income of less than US\$36,000 during the previous year would not be regarded as taxpayers for the following year.

Filing requirements

By submitting Form 430 on or before the 15th of each month, the ITBMS tax collected must be paid to the tax authorities. Professional service providers are allowed to submit their return and the ITBMS tax on a quarterly basis.

Excise Tax (Impuesto Selectivo del Consumo - ISC)

The ISC is essentially an excise tax on the importation of certain items, including alcoholic beverages, liquors, and all tobacco derivatives (cigars and cigarettes), as well as on the original transfer or sale of these products by local manufacturers (such as sodas, wines, and beers). For ISC purposes, the ITBMS (VAT) is not included in the tax base.

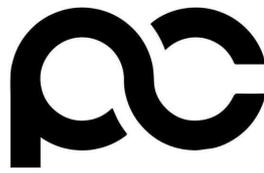
The following goods and services are subject to ISC tax:

- 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;

Taxpayers are required to collect this tax and remit it to the National Treasury within the first 15 days after the filing deadline and, in the case of imports, within three days of filing the customs declaration. The agreed-upon price for the goods or services serves as the tax base. The CIF value plus any import duties constitutes the tax base for imports.

Business License tax

For businesses that require a Business License to conduct commercial and industrial activities in Panama, this annual tax is computed over the capital of the company at a rate of two percent (2%) from a minimum amount of US\$100.00 up to a maximum amount of US\$60,000.00. A Business License will not be required for people or businesses based in the Colon Free Zone or any other free zone or



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free trade zones in Panama. Nevertheless, the Business License tax is levied against these people and businesses at a reduced rate of 0.5 percent of net assets, with a minimum of US\$100 and a maximum of US\$50,000.

Education Insurance Tax

- Employers and employees are both required to pay an education tax. Employers are required to take 1.25 percent from employee salary and add 1.50 percent on top of that.
- Self-employed people are required to pay the full 2.75 percent of their taxable income each year.
- The tax also applies to non-resident taxpayers providing services in Panama.
- Both employers and employees can deduct this tax from their taxable income.
- Along with social security contributions and income tax, withholdings are paid on a monthly basis to the Social Security Administration.

Stamp tax (Timbre)

- Official or stamped paper must be used for administrative petitions, certificates, and notarized papers in Panama and costs eight dollars (US\$8) per page.
- A stamp tax must be paid on all commercial papers and documents, including contracts, checks, and other negotiable papers.
- The tax amount varies according to the document's worth and whether it is a bill of lading, landing permit, check, or other type of document.
- Every US\$100, or fraction thereof, of the value mentioned in contracts and documents must be taxed at a rate of ten cents (US\$0.010).
- Money receipts, bills of sale for goods and services, and legal action are all excluded.
- Every month, every quarter, or every semester, taxpayers can pay this tax by completing a form.

Import duties

- Unless specifically exempted by law or by incentive agreements with the government, all imports are subject to import tariffs.
- Within three working days of the day the import documents are provided, import duties must be paid.
- Rates change based on the local availability of the goods and any applicable levies.
- The cost plus insurance and freight (CIF) billed to the importer is the tax basis.

When determining the same amount for products imported through air or when the CIF value is unknown, the freight on board (FOB) value is increased by 15%.

Customs brokers handle the processing of sworn import declarations.

The Executive sets changes to import duty rates.

Tax on Insurance Premiums

- A levy on the issuance of insurance policies applies to all insurance operations in Panama.



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- The taxpayer is the one who subscribes to the policy, while the insurer is responsible for paying the tax.
- All insurance offered in the Republic of Panama that covers regional risks is subject to a tax that is calculated as two percent (2%) of the premium.
- Fire insurance premiums are subject to an additional tax of five percent (5%); the overall tax rate is seven percent (7%) with five percent (5%) going to Panama's fire departments.

FECI (Interest Compensation Subsidy Tax)

- Local personal and business loans over five thousand dollars (\$5,000.00) that are made exclusively by banks and other financial institutions are subject to a one percent (1%) withholding charge.

Municipal taxes

- Municipal taxes apply to the majority of commercial and industrial activity, including small businesses, workshops, and power plants.
- These taxes are determined by the activity type, gross revenue, or sales volume.
- Municipalities may impose taxes on things like vehicle licenses, buildings, improvements, sidewalks, streets, and municipal land.

Property Tax and Property Transfer Tax

Real Estate Tax (Impuesto de Bien Inmueble)

Real estate located inside the Republic of Panama is subject to the real estate tax, which is a direct tax. The worth of the real estate as a whole, including any renovations, determines the tax base. Registered property values are automatically increased for tax purposes by real estate transactions at prices above the appraised or registered value. The real estate tax shall be paid in three instalments: the first no later than April 30th, the second on August 31st, and the last one on December 31st.

A recent reform of the real estate tax establishes a progressive/combined tax rate, structured the following way:

- Real estate intended to be used as primary household or family estate (Vivienda Principal -VP- y Patrimonio Familiar Tributario -PFT-) and:
- Other real estate (i.e., commercials, industrials, and other residential property).

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

Property under the primary householding status for tax purposes:

- Tax base of 0.00USD to 120,000.00USD
 - Rate: 0%
 - Amount to be paid: 0.00USD
- Tax base 120,000.00USD to 700,000.00USD
 - Rate: 0.5%
 - Amount to be paid: 0.00USD on the first 120,000.00USD, with excess amounts being taxed at the rate of 0.50%, up to \$700,000.



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- Tax base exceeding 700,000.00USD
 - Rate: 0.7%
 - Amount to be paid: 4,900.00USD on the first 700,000.00USD, with excess amounts being taxed at a rate of 0.70%

Note: Rate is bracketed and progressively taxed. This means that the rates apply as the brackets are reached, for the bracket, consequently. The tax base would be the total property value (property + improvements).

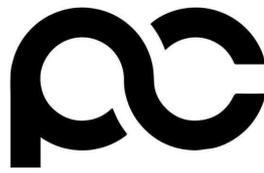
Other types of properties:

- Tax base of 0.00USD to 30,000.00USD
 - Rate: 0%
 - Amount to be paid: 0.00USD
- Tax base 30,000.00USD to 250,000.00USD
 - Rate: 0.6%
 - Amount to be paid: 0.00USD on the first 30,000.00USD, with excess amounts being taxed at a rate of 0.60%.
- Tax base 250,000.00USD to 500,000.00USD
 - Rate: 0.8%
 - Amount to be paid: 150.00USD on the first 250,000.00USD, with excess amounts being taxed at a rate of 0.80% up to 500,000.00USD.
- Tax base exceeding 500,000.00USD
 - Rate: 1.0%
 - Amount to be paid: 4,000.00USD on the first 500,000.00USD, with excess amounts being taxed at 1%.

Note: Rate is bracketed and progressively taxed. This means that the rates apply as the brackets are reached, for the bracket, consequently.

The following properties are exempted from property taxes:

- Government real estate and real estate owned by municipalities and municipal associations.
- Autonomous and semi-autonomous government real estate.
- Real estate intended to be used for religious purposes.
- Real estate intended to be used for charity or social assistance, or by non-profit organizations.
- Real estate exempted according to international treaties or agreements in which the Republic of Panama has been a party to and approved by law.
- Real estate with a value below US\$120,000.00 (Family Tax Patrimony and Primary Household).
- Other Real estate with a value below US\$30,000.00.
- Real estate belonging to social organizations, which are non-profit operations.
- Real estate intended for agricultural activities and whose value does not exceed US\$350,000.00.
- 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.
- Real estate intended to be for public use.
- Real estate belonging to persons with a disability. Such real estate must be the person's primary place of residence.



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- Real estate that consists of land and/or improvements, according to what is established in the special laws for the corresponding term.

Tax on the Transfer of Real Estate (Impuesto de Transferencia de Bien Inmueble - ITBI)

The two (2) percent tax applied on the transfer of real estate is based on the following (whichever is the highest): The sale price or the cadastral value.

The cadastral value is calculated on the registered land value. The cadastral value is subject to automatic longevity increases in value equivalent to five percent (5%) of the property value, plus improvements, for each calendar year between the date of acquisition and the date of sale.

Exemptions:

- If the buyer uses the property as a personal residence and the sale occurs within two years of obtaining a legal occupancy permit, the initial sale of a residential property is exempt from this tax.
- gifts made to the state, to first-degree relatives (parents to children or children to parents), and to spouses are exempted of this tax
- real estate transfers into trusts are exempted of this tax.

Note: The tax authorities will regard false statements on the transfer value of the real estate property as fraud, and both the seller and the buyer may face harsh penalties.

Only real estate businesses or people engaged in the regular course of business (those who have sold more than 10 properties - Giro Ordinario) are exempt from the two percent ITBI tax.

Capital gain taxes on Real Estate Sales

The capital gains tax on real estate transfers will be taxed at a rate of 10% if buying and selling real estate properties are not part of the taxpayer's regular course of business. The seller is obligated to pay a 3

percent advance on the 10%, or the 10% definitively. The tax base is the difference between the sale price and the basic property cost and transaction cost

However, the taxpayer also has the option of paying 3% of the whole transfer value. The taxpayer is entitled to receive the excess amount in return when the 3% advance is higher than the sum that would have been obtained after applying the 10% capital gains tax.

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 blacklist of tax havens. Until April 2020, Panama had in force a total of eighteen (18) double taxation treaties different countries. Likewise, these instruments allow the Tax



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Administrations involved to face international tax evasion and facilitate the exchange of information between contracting countries. Panama also complies with CRS and has a list of 64 reportable nations.

Double Taxation Agreements:

Barbados	South Korea	U.A.E.	Ireland
Israel	Italy	Luxemburg	Netherlands
Portugal	Qatar	Great Britain	Check Republic
Singapore	Strasbourg	Spain	France
Mexico	Vietnam		

Available tax incentives, special regimens, and special business areas

Panama has several special regimes that provide incentives for the establishment of companies. The most attractive ones are the following:

Area Panama-Pacifico (APP)

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).

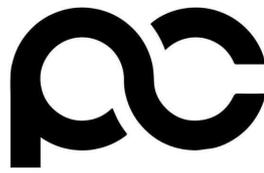
Law 41 of 2004 specifies that people or businesses who establish operations in the APP will be allowed to engage in all types of activities as long as these are not expressly forbidden by law. This is in contrast to the CFTZ, which focuses only on import and export operations.

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.

The following taxes are excluded from the general exemption:

- Dividend tax and complementary tax
- ISR (Income Tax) 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.

The APP Law establishes a series of incentive activities that will allow partial taxation of the following:



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- 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 (Apply to certain incentivized activities).

Colon Free Trade Zone (CFTZ)

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.

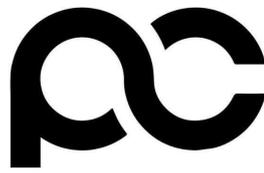
The Colon Free Zone is situated near the Caribbean end of the Panama Canal, about an hour's drive from Panama City and the airport, respectively.

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 reexported 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.

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 an "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, as detailed bellow:

- Operation code:
 - Register as an individual entity and lease a warehouse from a third party, such as MIT Logistics. Allows you to import, export and re-export. This registration has the highest operational costs: Yearly renewal fee 4,900.00USD (registration yearly fee and operational code yearly fee) and registration fee (one-time fee) is 5,560.00USD in concept of warranty deposit.
- 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



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under an operational entity in the CFTZ, who will handle your operations as your representative. Registration cost is 2,500.00USD, and 2,500.00USD yearly renewals after the first year. Specifics:

- Must be a Panamanian Entity
 - Can import, export and re-export
 - No physical presence in CFTZ
 - Not allowed to do retail
 - Re-export a minimum of 60% of the goods imported
 - Allowed to have an office in CFTZ no bigger than 20m2, exclusively for administrative purposes
- 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. Registration cost is 2,500.00USD, and 2,500.00USD yearly renewals after the first year. Specifics:
 - Foreign Entity
 - Can only re-export
 - No physical presence in CFTZ
 - Not allowed to do retail
 - Re-export a 100% of the goods brought to Panama
 - Allowed to have an office in CFTZ no bigger than 20m2, exclusively for administrative purposes.

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;

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 (VAT) 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 creation and growth of businesses in the industrial, commercial, and service sectors. Anyone or any legal entity that wishes to register with the FTZ's Registry of Companies must have the proper authorization to operate and engage in the permissible activities there. In other words, only through the proper issuance of a User License by the FTZ National Commission of the Ministry of Commerce, may a company be founded within a free trade zone.

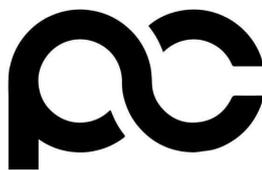
The FTZ can only be used for the following types of activities: services, manufacturing, assembly, logistic services, high-tech services, the processing of finished or semi-finished goods, scientific research centers, environmental services, specialized centers for the delivery of healthcare services, higher education institutions, and general services to users within the Free Trade Zone. Activities involving import and export that do not involve value-added processing are specifically forbidden.

Only external operations (export operations), which include the transfer of any kind of goods or merchandise as well as the provision of services to any natural or legal entity situated abroad or established within a specific free trade area, are eligible for the tax incentives provided to businesses established in the FTZ. On the other hand, activities intended for the Panamanian market at large (secondary customs territory) will be subject to import taxes, ITBMS, and income tax.

Headquarters of Multinational Enterprises (SEM)

A specific system for the establishment and management of Headquarters of Multinational Enterprises, or SEMs as the abbreviation in Spanish, was formed by Law 41, which was adopted on August 24, 2007. In order to provide intra-group services to head offices, affiliates, subsidiaries, or affiliated entities situated abroad, Law 41 attempts to entice multinational corporations to open offices in Panama. SEM licensed companies can only carry out the following activities and services:

- 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 EG but also for the clients for products and services of the EG;
- Financial management, including treasury to EG;
- Accounting of the EG;
- 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 EG operations and network operations;
- Advice, coordination, and follow-up for EG goods and services, marketing and advertising;



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- Support for operations and research, as well as EG goods and services development;
- Other analogous services previously approved by the Cabinet Counsel according to Law 41.

SEM tax 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

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.
- Panamanian companies operating outside of Panama are also required to maintain accounting records according to generally accepted accounting principles in the Republic of Panama, which they will need to provide to their resident agents, in original or copy, every year on April 30th at the latest. The agent has to be informed of the location of these documents.
- Businesses operating in Panama must maintain a general journal, general ledger, minute book, and stock register (shareholders registry). For traders, just two books are required: a general diary 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 Law 280 of December 30th, 2021, endorsement by a certified public accountant is required for municipal and national rent declaration when the brute declared amount exceeds US\$11,000.
- 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.

Financial Statement Requirements

Tax laws mandate that all businesses doing business in the Republic of Panama keep their financial statements on file, available to the General Directorate of Revenue upon request, and verified by a licensed public accountant in



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compliance with Panama's widely accepted auditing standards. The financial statements may be registered with the Panamanian Public Registry, while it is not required.

The maintenance of audited financial accounts is required for banks, insurance and reinsurance firms, firms registered with the Superintendence of the Securities Market, and firms operating in free zones. Each year, independent external auditors are required to certify the financial statements of these businesses.