



TAXES IN AMERICA

2024

6th EDITION

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Panama

-  **Capital city:**
Panama City
-  **Aera:**
78,200 km²
-  **Population:**
4,498,294
-  **Language:**
Spanish
-  **Political system:**
Presidential republic
-  **GDP/capita 2023:**
USD 33,651
-  **Currency:**
Panamean Balboa (PAB)
-  **ISO Code:**
PAN
-  **Telephone code:**
+507
-  **National day:**
3 November



1. Taxes on Individuals

1.1 Taxes for Residents

Art. 700 - Fiscal Code (Amended by Law 8, of March 15, 2010)

Net Income Range (USD)	Rate
From 0.00 to 11,000	0 %
From 11,001 to 50,000	15 %
From 50,001 onwards	25 %

The income tax for individuals is divided into 3 segments.

The first ranges from USD 0.00 to USD 11,000 of taxable income, this segment that characterizes people with basic salaries, does not pay income tax.

The second segment ranges from USD 11,001 to USD 50,000 of taxable income, this second segment pays a rate of 15% on the surplus of USD 11,000 to USD 50,000, that is, the benefit of the exemption of the first USD 11,000 for this segment is maintained.

The third segment that characterizes individuals with a greater purchasing power is taxed at a rate of 25% on the surplus of USD 50,000 and above, maintaining the benefit of exoneration of the first USD 11,000 and the rate of 15% over the range of USD 11,001 up to USD 50,000, i.e., they are taxed in a combined fashion.

Foreign residents

Foreigners residing in Panama for more than 183 days a year and earn some income in Panama will be taxed at the same rate and in the same proportion as nationals.

1.2 Taxes for Non-residents

Individuals not residing in Panama and who generate income within the country, will have a withholding at the source based on the same table for Resident Individuals, but with the variant that will be over 50% of the generated. Said tax must be paid within 10 days after the payment to the non-resident person.

1.3 Estimates (Presumed Income)

Individuals, at the time of declaring their income, must make an estimate of their taxable income for the year following the one declared, that is, the current year, this estimate cannot be less than the declared year. The resulting tax (payable) will be paid in three installments (June, September and December) and these payments will be used as a credit on the income tax that is finally settled the following year.

1.4 Capital Gain

The rate of tax on Capital Gains varies according to the type of property that is transferred. Only properties located in Panama are subject to this tax. The standard rate is 10% of the profit from the sale.

The transfer of shares of a (company) Panamanian entity that earns income from a source in Panama requires the buyer to retain 5% of the purchase price for the fiscal officials within a period of 10 days. This is considered as an advance or advance of the tax on the seller's capital gain. The seller can declare 5% as the total tax on profit or if the amount exceeds the normal rate of 10% of the actual profit, the seller can claim a tax credit for the amount exceeded when making the annual tax return. A Panamanian entity whose single income is obtained from non-Panamanian sources (outside of Panama) is exempt from the capital gain tax.

The transfer of shares of a Panamanian entity that are registered with the National Securities Commission through an authorized Stock Exchange is exempt from paying the Capital Gain tax even if the entity earns income from Panamanian sources. Therefore, when selling shares through a stock exchange, it is exempt from the capital gain tax. The merger and reorganization of Panamanian entities registered with the Securities Commission of Panama and registered in the Stock Exchange involved in the transfer of shares are also exempt from capital gains tax if they meet certain specific requirements. The takeover bids as defined by the securities regulations are not exempt and the buyer must retain 5% of the total purchase price as the Capital Gains tax.

The Real Estate Alienation Tax, also known as Capital Gains Tax or 10%, is not more than the Income Tax that must be paid by every taxpayer who has made a profit by selling real estate. The legal framework of this tax is included in Art. 701 of the Fiscal Code, specifically in literal "a" of said article.

Two types of taxpayers are considered for this tax:

- Ordinary Taxpayers (Those who have sales or any other type of transfer for

- valuable consideration of real estate within the ordinary course of business.)
- Non-Ordinary Taxpayers (All others. Sellers of occasional real estate.)

Two types of real estate are considered for taxpayers with Ordinary Money:

- First sale of homes and new commercial premises. The following Progressive Tariff is applied, on the Total Value of the Alienation or Cadastral Value, whichever is greater. Value of new housing Rate Up to PAB 35,000.00 0.5% of more than PAB 35,000.00 up to PAB 80,000.00 1.5%, of more than PAB 80,000.00 2.5% New Commercial Premises 4.5%
- Sale of Non-New Commercial Homes and Premises. They are subject to the general rules established and consequently will pay the Income Tax at the general rate established in articles 699 or 700 of the Fiscal Code.
- **Taxpayers with Non-Ordinary Money**

The tax base for these taxpayers is the Taxable Income. It is defined as follows: $RG = VRV - [CB + GE]$ Where: $RG = \text{Taxable Income} = \text{Capital Gains}$. $VRV = \text{Real Sale Value}$. $CB = \text{Basic Cost of the Good} = \text{Cadastral Value or Book Value}$, whichever is less of the land and the improvements if it were the case. $GE = \text{Alienation Expenses} = (\text{Notary fees, Registrars, Lawyers, Sales Commissions, Commissions to Real Estate Brokers, etc.})$.

1.5 Types of Shares

According to the Panamanian Legislation on Corporations (Law 32 of public limited companies), Public Limited Companies have the power to create, issue and subscribe different types of shares. Any person, either natural or legal, can own shares of the company without restrictions on their legal residence and nationality.

Among the types of shares used, the most common ones are bearer shares and registered shares.

Registered shares

Registered shares are shares containing detailed information about the holder of the same. The personal data requested in these shares, such as the full name and the current physical address of the new owner, will be stored in the Company's Stock Register without the need for a subsequent report in the Public Registry of Panama. These shares allow the issuer to interact directly with the shareholder to provide information regarding upcoming meetings or news related to the company.

Bearer shares

Bearer shares are freely negotiable shares that demonstrate participation in the company by mere possession. They do not require the registration of the full name or physical address of the owner of the shares but the owner of the same will be determined by the mere possession of the certificate. In this way, not only is the confidentiality and anonymity of this operation respected, but transmission is made extremely simple.

"Act 47 of 2013 has determined new measures with respect to bearer shares issued by existing corporations and close to being incorporated in Panama."

This new regulation, effective as of August 7, 2015, maintains the possibility of issuing bearer shares but establishes new requirements that prevent tax evasion. On the one hand, bearer shares issued after August 6, 2015 must be delivered to an authorized custodian that will be designated by the shareholder within 20 days after the approval of the issuance of these shares in order to preserve a registration of the final beneficiary. In the case of bearer shares issued before the entry into force of this new law, the owners will have a maximum period of three years to deliver the certificates of the bearer shares to an authorized custodian, providing complete information identifying the owner of the shares by means of a sworn declaration.

1.6 Declaration and Payments

The tax returns for individuals are filed from January 1 to March 15 with a maximum extension of 30 days, until April 15, the non-filing in that period carries a single fine of USD 100.00.

The dates of tax payments are distributed throughout the year as follows:

Taxes	Payment date
Income Tax (Of the period)	March 31
Income Tax (Estimated)	June 30, September 30, December 31
Social Security	March 31
Educational insurance	June 30, September 30, December 31

2. Taxes to Legal Entities or Companies

2.1 Types of Companies

Panama offers various types of companies so that entrepreneurs can carry out their business within a framework of great financial, political and legal stability. Protected under the Commercial Code of Panama, Panamanian commercial companies have become an extremely attractive option for those wishing to protect their assets and increase their profits. In this occasion we will focus on five types of companies that are the most common ones in Panama:

Corporation

Corporations are made up of two or more persons of legal age, without having to be Panamanians and/or without having to be domiciled in the Republic of Panama, they may engage in any type of legal activity. The constitution of a corporation can be used by individuals or legal entities to protect their assets, diversify their investments and significantly reduce their taxes being protected by the Banking Secrecy Law that offers confidentiality of banking transactions that are carried out through a Society of Panama.

General Partnership of Limited Liability

A General Partnership of Limited Responsibility is a commercial company that divides the social capital in installments of different or equal value limiting the liability of its partners according to the capital subscribed by each one. For its constitution, a minimum of two individuals or corporations of any nationality or place of residence who is of legal age is required. The name of these partners will be registered in the Public Registry of Panama as well as the capital that each of the partners has contributed.

Offshore Society

Offshore Companies in Panama are the fiscal instruments par excellence because they have different functions and benefits.

They are usually used for tax planning, but their greatest use is in commercial and economic management, to facilitate commercial exchanges of goods and services, as well as means of asset protection.

Panamanian Offshore companies generally adopt the legal form of corporations, which helps to protect the identity of holders, who through the use of unregistered powers and nominal directors, can reinforce the levels of confidentiality of the beneficiary.

However, Panamanian offshore companies can also take the form of limited liability companies and of any other kind, provided that they do not carry out or develop local activities in Panama, since the territoriality principle of the Panamanian tax code would exempt them from income or profits earned exclusively outside Panamanian territory, but not those obtained locally.

Individual Limited Liability Company

The Individual Limited Liability Company is characterized by having a single member, is a very useful legal instrument for people who want to start a small-scale business without putting their personal assets at risk. The person transfers part of their assets to this entity, limiting the responsibility of the business to the amount of assets transferred. In this way, the risk of compromising personal assets when carrying out a business is significantly reduced, since if the latter contracts debts or obligations, only the agreed assets will be returned without affecting the personal assets of its constituent. The assets of the company can be constituted with chattels, real estate or cash. This person, of any nationality or country of residence, can use their own name as the denomination of the company or choose another name that is followed by the acronym LTDA or EIRL.

Non-trading company

Non-trading companies are formed by two or more individuals, never corporations, as in other countries the tax law grants specialties or exemptions to non-trading companies, for example, they do not pay dividend tax and if all the profits are disbursed to its partners, then the per se society does not pay taxes, but only its partners. They also do not pay Notice of Operation or Commercial License or as defined in other latitudes, tax on assets, they are also exempt from the payment of the annual rate of companies and Municipal Taxes.

However, non-trading companies do not have the prerogatives of companies that do limit the liability of their partners or shareholders. Partners of non-trading companies can only be individuals. Partners in non-trading companies are personal, universal and unlimitedly responsible with respect to debts of the society. The creditors of each partner can request the seizure and auction of the part of the latter in the social fund. All members of a non-trading company (unless otherwise agreed) are considered by law "empowered" of the same. All partners must participate in the losses of society, and are jointly obligated with respect social debts.

From the point of view of "asset protection", it is dangerous to have a non-trading company, in view of the fact that the assets of society and the assets of the members can be attacked with respect to social and individual obligations.

Put simply, the insolvency of one or more of the partners can lead to the bankruptcy of non-trading company and vice versa.

2.2 Taxes on Resident Societies

Art. 699 - Fiscal Code (Amended by Law 8, of March 15, 2010)

Net Income Range (USD)	Rate
From 0.00 to 1,500,000	<u>25 %</u>
From 1,500,000 onwards	4.67% of the taxable income (when this value is greater than 25% of the profit)
Companies where the State has 40% or more of participation.	30%

The traditional calculation of income tax is simply to multiply the net taxable income by the 25% tax rate. Companies with a taxable income of more than USD 1.500.000 use a different calculation. Its rate is the highest between the traditional calculation and the multiplication of taxable income by 4.67%.

2.3 Taxes to non-resident companies

Corporations not residing in Panama and generating income within the country, will have a withholding at the source based on the same table for Panamanian Companies, but with the variant that will be over 50% of the generated. Said tax must be paid within 10 days after the payment to the non-resident person.

2.4 Definition of Related Party

Related parties will be considered when a company participates directly or indirectly in the administration, control or capital of the other, or when a person or group of persons directly or indirectly participates in the administration, control or capital of said persons.

2.5 Dividends

There is a 10% tax on dividends made by entities that have a commercial operation permit and have income from Panamanian sources. On the other hand, if the profit comes from a foreign source, the tax is reduced to 5%. The tax on dividends is only 5% if the profits come from foreign sources, it is related to export or other specific laws that exempt from paying the tax.

Companies located in the Free Trade Zones pay 5% for all income. The entity that makes the dividend withholds the tax and pays the tax authorities. There is no income tax on those dividends received. Dividends paid to holders of bearer shares must pay a tax of 20% on dividends.

2.6 Capital Gain

The rate of tax on capital gains varies according to the type of property transferred. Only properties located in Panama are subject to the capital gain tax. The standard rate is 10% of the sale profit.

The Real Estate Alienation Tax, also known as the Capital Gains Tax or 10%, is not more than the Income Tax that every taxpayer earning a profit from the sale of real estate must pay. The legal framework of this tax is included in Art. 701 of the Fiscal Code, specifically in literal "a" of said article.

Two types of taxpayers are considered for this tax:

- Ordinary Taxpayers (Those who have the sale or any other type of transfer for valuable consideration of real estate within the ordinary course of their business.)
- Taxpayers with Non-Ordinary Money (All others. Sellers of occasional real estate.) Two types of real estate are considered for taxpayers With Ordinary Money:
 - First sale of homes and new commercial premises. The following Progressive Tariff is applied, on the Total Value of the Alienation or Cadastral Value, whichever is greater. Value of new housing Rate Up to PAB 35,000.00 0.5% over PAB 35,000.00 up to PAB 80,000.00 1.5% over PAB 80,000.00 2.5% New commercial premises 4.5%
 - Sale of Non-New Commercial Homes and Premises. They are subject to the general rules established and consequently will pay the Income Tax at the general rate established in articles 699 or 700 of the Fiscal Code.

Taxpayers with Non-Ordinary Turnover

The tax base for these taxpayers is Taxable Income. It is defined as follows: $RG = VRV - [CB + GE]$ Where: RG = Taxable Income = Capital Gains. VRV = Real Sale Value. CB = Basic Cost of the Good = Cadastral Value or Book Value, whichever is less of the land and the improvements if it were the case. GE = Alienation Expenses = (Notary fees, Registrars, Lawyers, Sales Commissions, Commissions to Real Estate Brokers, etc.).

Transfer of shares of a Panamanian entity that earns income from a source in Panama requires that the buyer retain 5% of the purchase price for the fiscal officials within a period of 10 days. This is considered as an advance or advance of the tax on the seller's capital gain. The seller can declare 5% as the total tax on profit or if the amount exceeds the normal rate of 10% of the actual profit, the

seller can claim a tax credit for the amount exceeded when making the annual tax return. A Panamanian entity whose single income is earned from non-Panamanian sources (outside of Panama) is exempt from the capital gain tax.

Transfer of shares of a Panamanian entity that are registered with the National Securities Commission through an authorized stock exchange is exempt from paying the capital gain tax even if the entity earns income from Panamanian sources. Therefore, when selling shares through a stock exchange, it is exempt from the capital gain tax. The merger and reorganization of Panamanian entities registered with the Securities Commission of Panama and registered in the stock exchange involved in the transfer of shares are also exempt from capital gains tax if they meet certain specific requirements.

2.7 Declaration and Payments

Tax returns for corporations or companies are presented from 1 January to 30 March with a maximum extension of 30 days, until 30 April, the non-presentation in this period carries a single fine of USD 500.00.

The dates of tax payments are distributed in the year as follows:

Tax	Payment date
Income Tax (Of the period)	31 March
Income Tax (Estimated)	30 June, 30 September, 31 December
Commercial License (Notice of Operation)	31 March
Complementary Tax	30 June

3. Withholding at the source

N/A

4. Value Added Tax (VAT) or Transfer Tax on Goods, Furniture and Services (ITBMS)

The Value Added Tax is known as the "ITBMS" or sales tax in other countries. This tax applies to imported goods, products sold or services rendered in Panama. The importer, seller or service provider pays this tax for which the majority simply adds this tax to be paid by the consumer.

4.1 Rate

As of July 1, 2010, the ITBMS increased from 5% to 7%. Higher rates exist for the sale of alcoholic beverages (10%), tobacco products (15%) and specific services such as housing services (10%). Exemptions to pay this tax include transactions of free commercial zones, electric generation and services of distribution, cargo and transport of passengers by sea, air or land.

4.2 Declaration and Payments

The ITBMS Declaration must be filed and paid monthly within the first 15 days of the following declared month.

5. Contributions to Social Security

Employers and employees pay Social Security taxes when the employee is paid. Currently, employers pay 12.25% and the employee pays 9.75%.

Employers are required to withhold a percentage of each employer's payment for income tax and social security tax. Failure to withhold and make payments to the Social Security Fund will result in surcharges, fines and even criminal actions. There is also a professional risk premium that is paid to the Social Security Fund corresponding to the perceived risk that involves the work, which is withheld from the employer's salary.

6. Commercial License Tax or Operation Notice

All persons and entities engaged in commercial activities within the Republic of Panama must obtain a commercial operation permit (Notice of Operation), which is issued by the Ministry of Commerce and Industry. The annual permit tax equals 2% of the company's net worth with a maximum payment of USD 60,000. Companies established in special economic or development zones within free trade zones pay a rate of 1% with a maximum payment of USD 50,000.

7. Other Taxes

Taxes on stamps can be applied depending on the value of certain documents, such as contracts. Panama's banks and some financial institutions pay an annual tax based on the type of institution or total assets. There is a 5% tax applied to the issuance of specific insurance policies.

Regulated industries, such as free and paid television, telecommunications, power generation, banks, insurance and reinsurance companies, and security companies pay an annual regulatory fee called "Fees", to a limit allowed by law.

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