Panama

Capital city:
Panama City

Aera:
78,200 km^2

Population:
3,300,000

Language:
Spanish

Political system:
Presidential republic

GDP/capita 2015:
USD 11,036

Currency:
Panamean Balboa (PAB)

ISO Code:
PAN

Telephone code:
+507

National day:
3 November

Panama

1. TAXES LEVIED ON INDIVIDUALS

1.1 Taxes levied on residents

Art. 700 – Tax Code (Amended by Law 8, dated March 15, 2010)

Net Income Bracket (USD)	Rate
From 0.00 to 11,000	0%
From 11,001 to 50,000	15%
From 50,001 and over	25%

Income tax levied on individuals is divided into three brackets.

The first goes from 0.00 to 11,000 of taxable income. This bracket, which is for individuals with a basic wage, is not liable to income tax.

The second bracket goes from 11,001 to 50,000 of taxable income. Individuals falling within this second bracket pay 15% on the excess amount above 11,000 and up to 50,000; in other words the benefit of exoneration of the first 11,000 is maintained for this bracket.

The third bracket, which is for individuals with higher purchasing power, is taxed at 25% on the excess amount above 50,000, maintaining the benefit of exoneration of the first 11,000 and the rate of 15% on the amount between 11,001 and 50,000; in other words individuals in this bracket pay tax at a combination of rates.

Foreign residents: Foreigners who reside 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 levied on nonresidents

Individuals who are not residents in Panama and who generate income in the country will be subject to withholding tax at source based on the same table as for resident individuals, but with the difference that they will be taxed on 50% of the income generated. This tax shall be paid within 10 days of payment being made to the nonresident individual.

1.3 Estimates (presumed income)

When declaring their income, individuals must give an estimate of their taxable income for the year following the one they are declaring, i.e. the current year. This estimate may not be less than the declared year. The estimated tax will be paid in three installments (June, September and December) and these payments will be used as credits towards the income tax that is finally assessed the following year.

1.4 Capital Gains

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

The transfer of shares from a Panamanian entity that obtains Panama-source income requires the buyer to withhold 5% of the purchase price for the tax authorities within a period of 10 days. This is considered an advance payment of the seller's capital gains tax. The seller can declare this 5% as the total capital gains tax or, if the amount exceeds the normal rate of 10% of the real gain, the seller may claim a tax credit for the amount exceeded when filing the annual tax return. A Panamanian entity whose sole income is obtained from non-Panamanian sources (outside Panama) is exempt from capital gains tax.

The transfer of shares from a Panamanian entity that are registered with the National Securities Commission through an authorized stock exchange is exempt from paying capital gains tax even if the entity obtains gross Panama-source income. Therefore, by selling shares through a stock exchange, the transfer is exempt from capital gains tax. The merger and reorganization of Panamanian entities registered with the National Securities Commission and also with the stock exchange involved in the transfer of shares are also exempt from capital gains tax if they comply with certain specific requirements. Takeover bids, as defined by the securities regulations, are not exempt and the buyer must withhold 5% of the total purchase price as capital gains tax.

The Real Property Transfer Tax, also known as the Capital Gains Tax or 10% tax, is none other than the Income Tax that all taxpayers who have obtained gains from the sale of a real property have to pay. The legal basis for this tax is included in Article 701 of the Tax Code, specifically in paragraph (a) of the same.

Two kinds of taxpayers are liable for this tax:

"Ordinary Business Taxpayers" (Contribuyentes con Giro Ordinario), those that, in the ordinary course of business, engage in the buying or selling of real property or conduct any other kind conveyance of property on a payment basis; and

“Non-ordinary Business Taxpayers” (Contribuyentes con Giro No Ordinario).

These are all other taxpayers who sell real estate on an occasional basis.

There are two types of real property in the case of “Ordinary Business Taxpayers”:

- Sale of new housing and commercial premises (first sale). The following progressive rate is applied to the total value of the transfer or cadastral value, whichever is greater. Value of the new home:
- up to B/.35,000.00, a rate of 0.5%; more than B/.35,000.00 and up to B/.80,000.00, a rate of 1.5%; and more than B/.80,000.00, a rate of 2.5%; new commercial premises, 4.5%.
- Sale of not new housing and commercial premises: These transactions are subject to established general rules and, consequently, they pay income tax at the general rate established in Articles 699 or 700 of the Tax Code.

“Non-ordinary Business Taxpayers”: The tax base for these taxpayers is Taxable Income. Taxable Income is defined as follows: TI = RSV - [BC + CE], where TI = Taxable Income = Capital Gains; RSV = Real Sale Value; BC = Basic Cost of the Property = Cadastral Value or Book Value, whichever is the lower in the case of land, and of improvements, if applicable. CE = Conveyance Expenses = notary, registrar and lawyers’ expenses, sales commissions, realtors’ commissions, etc.

1.5 Types of shares

According to Panamanian company legislation (Law 32 on Corporations), corporations have the power to create, issue and subscribe different types of shares. Any individual or company can hold shares in a company with no restrictions as regards their legal residence or nationality.

The most usual types of shares are bearer shares and registered shares.

Registered Shares

Registered shares are those that contain detailed information about the holder of the shares. The personal information requested in these shares, such as the full name and actual street address of the new holder, for example, will be stored in the company’s share register without it being necessary to subsequently report this information to the Public Registry of Panama. These shares allow the issuer to interact directly with the shareholder to provide him with information regarding upcoming meetings or news having to do with the company.

Bearer Shares

Bearer shares are freely tradable shares that demonstrate an equity interest in the company merely by their possession. Neither the full name of the owner of the shares nor the owner's address has to appear on them; the owner of these shares will be determined merely by possession of the certificate. In this way, not only is the confidentiality and anonymity of their transfer respected, but transferring them is an extremely simply operation.

"Law 47 of 2013 has laid down new measures with regard to bearer shares issued by companies already existing in Panama and those that are to be founded in the future."

This new law, which went into force on 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 handed over to an authorized custodian, which shall be designated by the shareholder within 20 days from approval of the issuing of these shares so as to keep a record of the end beneficiary. In the case of bearer shares issued prior to the entry into force of this new law, the owners have a period of three years' maximum in which to hand over the bearer share certificates to a custodian, providing full information identifying the owner of the shares by means of a sworn statement.

1.6 Filing Returns and Payments

In the case of individuals, tax returns are filed between January 1 and March 15, with a maximum extension of 30 days to April 15. Failure to file within that period carries a single fine of USD 100.00.

2. Taxes levied on juridical persons or companies

2.1 Types of Company

Panama offers different types of companies for businessmen to conduct their business in a context of considerable financial, political, and juridical stability. Protected by Panama's Code of Commerce, Panamanian commercial companies have become an extremely attractive option for those wishing to protect their equity and increase their profits. Here we will focus on five types of company, which are the most usual and most used in Panama:

Corporation

Corporations are formed by two or more people who are of age but do not have to be Panamanian and/or be domiciled in the Republic of Panama. Corporations may engage in any kind of legal activity. Setting up a corporation may be used by individuals or companies to protect their assets, diversify their investments, and considerably reduce their taxes, given the protection afforded by the Bank Secrecy Act, which offers confidentiality for bank transactions conducted through a Panamanian company.

Limited Liability General Partnership

A Limited Liability General Partnership is a business association that divides up its registered capital into quotas having the same or different value, limiting the liability of its partners in accordance with the capital subscribed by each. A minimum of two individuals, who are of age, or a company of any nationality and having any place of residence is required to set up such a partnership. The name of the partners and the capital contributed by each shall be filed with Panama's Public Registry.

Offshore Company

Offshore Companies in Panama are tax instruments par excellence, as they have a variety of functions and benefits.

They are usually used for tax planning, but where they can be most beneficial is in commercial and economic management for facilitating the trading of goods and services and also as a means of protecting assets.

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

Now then, Panamanian offshore companies can also take the form of a limited liability or any other kind of company, provided they do not conduct or carry out local activities in Panama, since the principle of territoriality in Panama's Tax Code exonerates their income or gains obtained exclusively outside Panamanian territory, but not those obtained locally.

Limited Liability Sole Proprietorship

The main characteristic of a Limited Liability Sole Partnership is that it has just one member. This is a juridical instrument that is extremely useful for people who wish to start up a small-scale business without putting their personal equity at risk. The person transfers part of his equity to this entity, limiting the liability of the business to the amount of the assets transferred. In this way, the risk of compromising personal equity in doing business is considerably reduced as, if the business incurs debts or liabilities, only the assets that have been agreed will be used to meet them, without affecting the personal assets of the person who founded it. The company's equity may consist of moveable property, real property or money. The person, of any nationality or having any country of residence, can use his own name as the name of the company or choose another name followed by the letters LTDA (limited) or EIRL (limited liability sole proprietorship).

Non-commercial Partnership

A Non-commercial Partnership is formed by two or more individuals, never companies. As happens in other countries, tax legislation grants special benefits or exemptions to non-commercial partnerships. For example, a non-commercial partnership does not pay taxes on dividends and, if all the profits are paid to its partners, then the partnership, as such, does not pay taxes, only its partners; nor does it pay the operations notice tax or business licenses or what in other parts of the world is called assets tax; nor does it have to pay the annual company tax and it is exempt from paying municipal taxes.

However, non-commercial partnerships do not have the prerogatives enjoyed by companies that do limit the liability of their partners or shareholders. Only individuals or natural persons can be partners in non-commercial partnerships. Partners in non-commercial partnerships are personally, universally and unlimitedly liable for the partnership's debts. Each partner's creditors can request the embargo and auction of that partner's share in the partnership assets. All the partners of a non-commercial partnership (unless otherwise agreed) are deemed "proxies" of the same by law. All the partners must assume their share of the partnership's losses and undertake to be jointly liable for the partnership's debts.

From the "asset protection" standpoint, having a non-commercial partnership is risky in view of the fact that the partnership's assets and the partners' assets can be attached to meet partnership and individual liabilities.

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

2.2 Taxes levied on Resident Companies

Art. 699 – Tax Code (amended by Law 8, dated March 15, 2010)

Net Income Bracket (USD)	Rate
From 0.00 to 1,500,000	25.00%
From 1,500,000 and over	4.67%
	of taxable income (when this is more than 25% of profits)
Companies in which the State has a holding of 40% or more	30.00%

The traditional method of calculating income tax is to simply multiply net taxable income by the tax rate of 25%. Companies with taxable income of more than $1.5 million use a different method of calculation. Their rate is either the one obtained by the traditional method of calculation or the one obtained by multiplying taxable income by 4.67%, whichever is the higher.

2.3 Taxes levied on Nonresident Companies

Juridical Persons that are not resident in Panama and that generate income in the country will have tax withheld at source based on the same table as for Panamanian companies, but with the difference that this withholding tax will be levied on 50% of income generated. This tax shall be paid within 10 days of the payment having been made to the nonresident person.

2.4 Definition of Related Party

Parties are deemed to be related when a company takes part directly or indirectly in the administration, control or capital of another or when a person or group of persons takes part directly or indirectly in the administration, control or capital of said persons.

2.5 Dividends

There is a 10% tax on dividends issued by entities that have a permit to operate a commercial business and have Panama-source income. The dividend tax is only 5% if the income comes from foreign sources, is export-related or comes under other laws that grant exemption from paying the tax. Companies located in the free trade zones pay 5% on all revenues. The entity that issues 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 those dividends.

2.6 Capital Gains

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

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The transfer of shares from a Panamanian entity that are registered with the National Securities Commission through an authorized stock exchange is exempt from paying capital gains tax even if the entity obtains gross Panama-source income. Therefore, by selling shares through a stock exchange, the transfer is exempt from capital gains tax. The merger and reorganization of Panamanian entities registered with the National Securities Commission and also with the stock exchange involved in the transfer of shares are also exempt from capital gains tax if they comply with certain specific requirements.

2.7 Filing Returns and Payment

In the case of Juridical Persons or Companies, tax returns are filed between January 1 and March 30, with a maximum extension of 30 days to April 30. Failure to file within that period carries a single fine of USD 500.00.

The dates for payment of taxes are spread out during the year as follows:

Tax	Payment Date
Income Tax (for the tax period)	March 31
Income Tax (estimated)	June 30, September 30, December 31
Business License (Operations Notice Tax)	March 31
Complementary Tax	June 30

3. Value Added Tax (VAT) or Goods and Services Transfer Tax (ITBMS)

The ITBMS is equivalent to Value Added Tax or sales tax in other countries. This tax applies to imported goods, products sold or services provided in Panama. The importer, seller or service provider pays this tax, which is why the majority simply add this tax on to the price so that it is paid by the consumer.

3.1 Tax Rate

On July 1, 2010, the ITBMS went up from 5% to 7%. Some of the highest rates are for the sale of alcoholic beverages (10%), tobacco products (15%), and specific services, such as accommodation services (10%). Exemptions from this tax include transactions conducted in free trade zones, generation and distribution of electricity, and the transportation of cargo and passengers by sea, land or air.

3.2 Filing Returns and Payment

ITBMS Returns must be filed and paid monthly within the first 15 days of the month following the month for which the return was filed.

4. Social Security Contributions

Employers and employees pay social security taxes when the employee is paid. At the moment, employers pay 12.2% and employees pay 9.75%.

Employers are under the obligation to withhold a percentage from each employee’s paycheck for income tax and social security tax. Failure to withhold these amounts and pay them into the Social Security Fund will give rise to surcharges, fines and even criminal charges. There is also an occupational hazard premium that is paid to the Social Security Fund for perceived hazards involved in the job, which is paid by the employer.

5. Other taxes

Stamp duty may apply based on the value of certain documents, such as contracts. Banks in Panama and some financial institutions pay an annual tax based on the type of institution or total assets. There is a 5% tax levied on the issuing of specific insurance policies.

Regulated industries, such as free and subscription television, telecommunications, generation of electricity, banks, and insurance and reinsurance companies, pay an annual regulating fee called tasa (charge), up to a limit permitted by law.

Business License or Operations Notice Tax

All persons and entities engaged in commercial activities in the Republic of Panama must obtain a business operations permit (Operations Notice), which is issued by the Ministry of Commerce and Industry. The annual tax for the permit is equal to 2% of the net value of the company up to a maximum of $60,000. Companies established in special economic zones or development zones inside free trade zones pay a rate of 1% up to a maximum of $50,000.