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COUNTRY

Doing Business in
Panama

Preface

This guide has been prepared by Baker Tilly Panama, S.A., an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Panama.

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This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be obtained from Baker Tilly Panama, S.A. or any of our independent member firms.

Doing Business in Panama has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Panamanian matters can be obtained from Baker Tilly Panama, S.A.; contact details can be found at the end of this guide.


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1 Fact Sheet

Geography

Location	The southern most country in Central America, Panama is situated on an isthmus connecting North and South America
Area	78,200km ²
Land boundaries	Colombia to the east and Costa Rica to the west
Coastline	The Caribbean Sea to the north and the Pacific Ocean to the south
Climate	Tropical maritime
Terrain	Mainly low land, coastal at sea level, mountains and a short rocky chain to the west
Time zone	GMT -5

People

Population	3.5 million. Panama City and neighbourhoods are home to 1 million
Religion	Although the constitution recognises Catholicism as the religion of the majority, Panama has no official religion
Language	Spanish is the official language. English is widely spoken

Government

Country name	Republic of Panama
Government type	Parliamentary
Capital	Panama City
Administrative divisions	Nine provinces
Political situation	Democratic

Economy

GDP – per capita	US\$9,000
GDP – real growth rate	7.8%
Labour force	1.5 million
Currency	Balboa (B/.) and US Dollar (US\$)

2 Business Entities and Accounting

2.1 General

The Republic of Panama is an attractive jurisdiction for the establishment of off-shore corporations. Among the many advantages of the Panamanian jurisdiction are the competitive costs of incorporation and annual maintenance, the flexibility of the incorporation law and non-taxable income arising out of off-shore business.

Each corporation and private interest foundation is subject to a registration fee, calculated on the amount of its authorised capital.

2.2 Incorporation Options in Panama

- A corporation (Sociedad Anónima – S.A.).
- A limited liability company (Sociedad de Responsabilidad Limitada – S. de R.L.).
- A foreign corporation or branch.
- Multinational company headquarters (Sede de Empresas Multinacionales – SEM).
- A private interest foundation.

2.2.1 Corporation (Sociedad Anónima – S.A.)

Features of a corporation include:

- A flexible capital structure
- A minimum of three directors
- A president, secretary and treasurer must be appointed
- The requirement to have a registered agent, who must be a local lawyer or law firm.

2.2.2 Limited liability company (Sociedad de Responsabilidad Limitada – S. de R.L.)

In limited liability companies:

- There must be a minimum of two members and a maximum of 20. If two members are spouses, the minimum number permitted is three
- The minimum capital requirement is US\$2,000; the maximum is US\$500,000
- The capital must be fully subscribed and at least 50% paid-up.

2.2.3 Foreign corporations and branches

Foreign corporations and branches may engage in business activities and open offices, branches or agencies in Panama provided they submit the following documents for registration in the Public Registry:

- Partnership agreement, articles of association or other incorporation document
- A copy of the latest balance sheet and a statement confirming the part of the capital stock which will be used for business in Panama
- Board resolution authorising the corporation to be registered in Panama and authorising an attorney or law firm to register the documents
- A certificate to verify that the corporation is organised subject to the laws of the country of origin.

Branches of foreign companies are prohibited from engaging in retail business which is reserved solely for Panamanians.

2.2.4 Multinational company headquarters (Sede de Empresas Multinacionales – SEM)

A multinational company can set up a SEM with the sole purpose of servicing its parent and/or affiliate companies. The company can operate as a foreign company registered in Panama or as a Panamanian company owned by its parent.

A SEM must obtain a licence from the Comisión de Sede de Empresas Multinacionales.

2.2.5 Private interest foundation

A private investment foundation is a type of trust that allows the incorporation of an entity which resembles a corporate body. Operationally, it is similar to a trust with the exception that it owns the assets placed in it; its assets cannot be seized by lenders or creditors of its beneficiaries.

While the foundation may, like corporations, carry out business activities and transactions, its primary functionality is to protect family assets or wealth.

2.3 Audit and Accounting Requirements

Panama adopted International Financial Reporting Standards (IFRS) in 2005; full implementation is to be phased in.

Accounting records must be prepared and maintained according to the General Direction of Revenue. There is no obligation for companies to have their financial statements audited.

Regulated companies are required to file annual reports. Non-regulated companies are only required to file their income tax return.

3 Finance and Investment

3.1 Exchange Control

There are no exchange controls in respect of monies received from or remitted abroad. There are also no exchange controls or restrictions on the type of banking or investment accounts that a person or company may open and manage, other than the conditions contained in the banks' policies. There is no government tax imposed on funds received from or remitted abroad.

3.2 Banking

Panama has no central bank and there is no Panamanian paper currency. The local currency (Balboa) is issued only in the form of low denomination coinage. US currency, both paper and coins, circulates freely in Panama and is valued at par with the Balboa.

The Panamanian banking system is stable and is closely regulated and controlled. Approximately 90 banks are registered, of which more than 40 hold general licenses as commercial banks offering the full range of banking services.

State-owned Banco Nacional De Panamá acts as custodian of the banking system's legal reserve and supervises banking activity.

3.3 Securities and Stock Exchange

Any company wishing to make a public offering of securities must register with the National Securities Commission to obtain a license. The process is strict and can be lengthy.

The local stock exchange is the Bolsa de Valores de Panamá.

4 Employment Regulation and Social Security

4.1 Employment

The Labour Code, and supplementary laws and regulations, is the main piece of legislation governing conditions of employment. It covers a comprehensive range of employment protection, contracts, the duties of employer and employee, and the termination of an employment contact.

Employers must apply to the Labour Ministry for permission to employ foreign nationals. The employer is required to demonstrate that they cannot hire a Panamanian to perform the job; all immigration papers must be in order. In general, one foreign employee is permitted for every ten Panamanian workers.

A foreigner married to a Panamanian is permitted to work provided their papers are in order.

4.2 Social Security

The Panamanian social security system provides pensions on retirement, disability and death, as well as various medical benefits. Employer and employee are required to contribute. Rates are expected to rise steadily over the next few years – see Appendix 1.

Employer contributions are also required in respect of the sickness fund, education and workers' compensation.

4.3 Sick Pay

At the start of their employment contact, employees accrue 12 hours of paid sick leave for each 26 days worked, or 144 hours annually. The fund can be accumulated for two continuous years and can be used totally or partially during the third year of service to cover sickness or accidents not covered by social security.

4.4 Paid Annual Leave

Employees accrue 30 days paid holiday for each 11 months worked, at a rate of one day holiday for every 11 days worked.

4.5 Thirteen Month Bonus

Employees are entitled to an annual bonus – the Thirteen Month bonus – equal to one month's salary. This is paid in three instalments at four monthly intervals (on 15 April, 15 August and 15 December).

4.6 Severance and Seniority Payments

An employee on a permanent contract may be entitled to receive severance pay in the case of unfair dismissal. The amount due is based on 3.4 week's salary for each year worked up to ten years, and one week's salary for each additional year worked thereafter.

On termination of a permanent contract, regardless of the reason of termination, the employee has the right to receive a seniority premium based on one week's salary for each year worked.

5 Taxes

5.1 General Principles

Only income generated within Panama is taxable. Detailed rules exist in relation to international transportation and telecommunications companies. Withholding taxes must generally be accounted for in respect of income generated in Panama but paid to an overseas recipient.

The tax year is generally the calendar year, although the General Direction of Revenue may, upon formal request, grant a different fiscal period.

Individuals should file their tax returns by 15 March; companies should file by 31 March. Where a special fiscal period has been granted, the tax return should be filed within three months of the fiscal year-end.

Any further tax payable as a result of an enquiry must be assessed within three years of the original filing date.

5.2 Corporate Taxation

Companies with annual gross revenue in excess of US\$1m must prepare their tax returns using the accruals system and applying IFRS. For 2008 the threshold is US\$500,000; for 2009 it will be US\$250,000. The use of cash accounting is authorised for tax purposes for companies with annual gross revenues up to US\$250,000 and also for partnerships and sole traders.

Income tax is broadly due at the rate of 30% on the higher of (i) net taxable income and (ii) 4.67% of total taxable revenue.

Tax incentives are available to smaller companies.

5.3 Individual Taxation

Individuals with a monthly salary of up to US\$800 are exempt from income tax. For workers earning in excess of this threshold income tax is charged via a withholding process operated by the employer. Income tax is payable at various rates depending on the level of earnings – see Appendix 2.

An individual is entitled to a basic annual deduction; further deductions are allowed for dependents. Mortgage interest up to US\$15,000 on the principal residence and medical expenses and health insurance are deductible.

Income tax returns are required to be completed by individuals receiving taxable income in addition to their employment income.

Pensions received under the social security system or from other government agencies are income tax exempt.

5.4 Other Taxes

5.4.1 Commercial license tax

Corporations are required to obtain a commercial license in order to operate as a business. The fee payable is based on balance sheet value, to a maximum of US\$40,000.

Certain businesses (agriculture, livestock, individual landlords with one property and very small businesses) are not required to be licensed.

5.4.2 Municipal tax

Municipal tax is based on sales volume and the nature of activity and ranges from US\$20 to US\$500.

5.4.3 Property tax

Property tax is based on the registered value of the property and is calculated as follows:

- The first US\$30,000 – tax exempt
- The next US\$20,000 (from US\$30,000 to US\$50,000) – 1.75%
- The next US\$25,000 (from US\$50,000 to US\$75,000) – 1.95%;
- Any excess of US\$75,000 – 2.10%.

There is a 2006 transitory provision, ending December 2007, whereby if a taxpayer submits to the General Direction of Properties a request to change the registered value of a property based on a new appraisal, property tax is levied as follows:

- The first US\$30,000 – tax exempt
- The next US\$20,000 (from US\$30,000 to US\$50,000) – 0.70%
- The next US\$25,000 (from US\$50,000 to US\$75,000) – 0.90%;
- Any excess of US\$75,000 – 1%.

5.4.4 Indirect taxes

Value added tax (Impuesto de Transferencia de Bienes Muebles y Servicios – ITBMS)

ITBMS is payable if gross monthly revenues exceed US\$3,000 (US\$36,000 annually). Certain supplies are exempt.

The general rate is 5%, although the rate applicable to alcoholic beverages is 10% and that for tobacco products is 15%. Returns are required to be filed monthly within 15 days of the month end.

Selective value added tax (Impuesto Selectivo al Consumo – ISC)

In addition to ITBMS, ISC is applied to amongst others, jewellery, expensive cars and motorcycles, mobile phone and cable television services at the rate of 5%.

Tax on property transference (Impuesto de Transferencia de Bienes Inmuebles – ITBI)

ITBI is charged at 2% on selected property transfers.

5.4.5 Customs duties

Duty is payable on all goods imported into Panama.

5.4.6 Stamp tax

All contracts, invoices and receipts used to document business transactions attract stamp tax unless the relevant transaction is subject to value added tax. The applicable rate is B/.10 per B/.100 or fraction thereof.

5.4.7 Capital gains tax

Shares, bonds and securities

A 10% tax is levied on profits arising on the sales of shares, bonds and securities. The purchaser is obliged to withhold and remit to the government 5% of the total sales price. The seller may opt to treat the 5% withheld as the definitive tax due.

Property

A 10% tax is levied on the excess of the selling price over the sum of the basic cost of the property, improvements made and transaction costs. The tax is due at the same time as the ITBI.

Appendix 1

Social Security Rates

	Employer %	Employee %
Actual 2006 and 2007	10.75	7.25
Effective 1 January 2008 until 31 December 2010	11.50	8
Effective 1 January 2011 until 31 December 2012	12	9
Effective 1 January 2012	12.25	9.75

Additional employer contributions to the sickness fund:

Year	Employer %
2008	0.75
2009	0.50
2010	0.25

Appendix 2

Individual Income Tax Rates

Range

Up to B/.9,000	Zero
More than B/.9,000	73% on the excess of B/.9,000 up to B/.10,000
More than B/.10,000	B/.730 for the first B/.10,000 and 16.5% on the excess up to B/.15,000
More than B/.15,000	B/.1,555 for the first B/.15,000 and 19% on the excess up to B/.20,000
More than B/.20,000	B/.2,505 for the first B/.20,000 and 22% on the excess up to B/.30,000
More than B/.30,000	B/.4,705 for the first B/.30,000 and 27% on any excess

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