International Tax
Panama Highlights 2020

Updated January 2020

Recent developments:

For the latest tax developments relating to Panama, see Deloitte tax@hand.

Investment basics:

Currency – Panamanian Balboa (PAB) and US Dollar (USD)

Foreign exchange control – The state-owned bank, *Banco Nacional de Panamá*, is responsible for supplying USD from the US Federal Reserve Bank under a treaty signed in 1904. There are no restrictions on other banks importing USD into Panama.

Accounting principles/financial statements – IFRS is required. Banks, insurance and reinsurance companies, and companies registered with the National Securities Commission as issuers or that hold a license granted by the Commission are required to file audited financial statements. Companies operating in the Colon Free Trade Zone (FTZ) and other FTZ, and companies in general, are required to maintain (as opposed to file) audited financial statements on their premises.

Principal business entities – These are the corporation, limited liability company, limited liability partnership, general partnership, joint venture, and branch of a foreign corporation.

Corporate taxation:

Rates	
Corporate income tax rate	Greater of 25% on net taxable income or 1.17% on gross taxable income
Branch tax rate	Same as CIT rate plus 10% branch remittance tax
Capital gains tax rate	10% on the gain. Buyer must withhold 5% on the value of the transaction

Residence – A company is resident if it is incorporated under Panamanian law and if the company's central management and control is exercised in Panama.

The following factors are taken into account in determining whether a legal entity is resident in Panama: (i) whether meetings of the board of directors, in which decisions that affect the direction or management of the company are made, are carried out in Panama; and (ii) whether business activities or activities to support other companies are carried out from a headquarters located in Panama, regardless of the source of income.

Basis – Panama operates a territorial tax system, under which residents and nonresidents are taxed only on Panama-source income. Income that does not arise in Panama or is not derived from Panama is not subject to tax in Panama. Branches are taxed in the same way as subsidiaries; however, branches are not subject to complementary or dividend tax since they must pay an annual 10% branch tax.

Taxable income – Taxable income includes all income derived from business activities in Panama, less expenses incurred wholly and exclusively in the production of assessable income or the conservation of its source.

Rate – Tax is assessed at the greater of a 25% rate on net taxable income or a 1.17% rate on gross taxable income; the latter is the alternative minimum tax (CAIR) (see below under "Alternative minimum tax").

Surtax – No

Alternative minimum tax – The CAIR is assessed at a general rate of 1.17% on gross taxable income. A taxpayer can request the CAIR not to be applied when it has net operating losses or where the effective tax rate is higher than the standard 25% rate. The tax authorities have discretion to grant an exemption from the CAIR for the period requested and three subsequent years. Companies whose taxable revenue is less than USD 1.5 million are not required to calculate the CAIR.

Taxation of dividends – Dividends received by a Panamanian resident company from another Panamanian company are not subject to corporate tax (see "Withholding taxes," below).

Capital gains – Capital gains derived from the sale of securities and negotiable instruments are subject to a 10% tax. The purchaser must withhold 5% of the sales price as an advance payment of income tax and remit that amount to the tax authorities. If the 5% withholding tax is greater than the 10% tax on the gain, the seller may request a refund.

Gains derived from the sale or transfer of real property are considered capital gains. If the transaction giving rise to the gain is part of the taxpayer's ordinary business activities, the gain is subject to the corporate tax rate; if the transaction is not part of the taxpayer's ordinary business activities, the gain is tax at a reduced rate of 10%. However, in the latter case, the purchaser must withhold 3% of the higher of the purchase price or the ratable value of the property as an advance payment of tax.

Losses – Losses may be carried forward for five years, with a maximum of 20% of losses deducted per year. However, the deduction of losses may not exceed 50% of taxable income in any year. The carryback of losses is not permitted.

Foreign tax relief – Since Panama operates a territorial tax system, there is no unilateral foreign tax credit. A foreign tax credit may be granted, however, under Panama's tax treaties.

Participation exemption – No, but see "Taxation of dividends," above.

Holding company regime – No

Incentives – Various investment incentives provide lower tax rates or exemptions.

- The Panama-Pacific Special Economic Area regime provides tax exemptions for the following: gains from the sale or transfer of shares of companies established within the area; income from the sale of goods or services to visitors and passengers while in transit to other countries, vessels crossing through the Panama Canal, or aircraft using authorized ports to overseas destinations; aviation and airport services; the manufacture of high-tech products; call center services; import, export, and re-export of goods and other goods, as well as transactions of foreign sales of non-manufactured goods in the area; logistics and multimodal services; and the provision of office administration services.
    - For call center activities and logistics and multimodal services to be exempt from income tax, and for office administration services to be subject to the 5% tax rate, the company must comply with the following requirements: (i) maintain an adequate number of full-time skilled employees; (ii) incur an adequate amount of operating expenses; and (iii) within six months after the close of the fiscal period, submit a report containing (a) a sworn statement with information on activities undertaken to generate income, total operating expenses, number of employees, along with their identity, position, etc.; (b) financial statements; and (c) any other information required by the Panama Pacific Agency.
- In-bond manufacturing companies may import equipment and raw materials on a duty-free basis and subsequently export 100% of production, receiving a tax-free benefit. Such companies do not have to pay VAT on imports.
- Based on the territoriality principle, gains derived from "re-invoicing" operations are deemed not to be derived in Panama, provided the merchandise being re-invoiced does not enter Panamanian territory.
- Licensed multinational headquarters companies (MHQs) are subject to income tax at a rate of 5% on taxable net income derived from incentivized activities (i.e., services provided to nonresident entities within the same multinational group that do not derive Panama-source income). MHQs are exempt from VAT on export services provided to nonresidents that do not generate taxable income in Panama.
- Employment-related expenses incurred by an MHQ are deductible, even when the employees are exempt from income tax on their employment income. Foreign employees working in Panama for an MHQ are exempt from income tax on their wages and other remuneration that is not paid by the MHQ. If foreign employees obtain permanent residence under the visa program for permanent personnel of an MHQ, they will be subject to income tax, social security, and education insurance on employment income, as well as any income paid in kind.
- Incentives are available in the Petroleum FTZ, the Colon FTZ, etc.

Compliance for corporations:

Tax year – The calendar year generally is used, although the taxpayer can request a special 12-month fiscal year in certain cases.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate tax return.

Filing and payment – Companies must file a tax return within 90 days after the end of the fiscal year, although a one-month extension may be obtained upon request. Three advance payments of tax are due in June, September, and December, with a final payment of tax made at the time the annual return is filed. Except for companies operating in FTZs, corporations with no Panamanian-source income are not required to file an income tax return.

Penalties – Interest and surcharges are levied on late payments. Penalties may be imposed for late filing of the annual income tax return.

Rulings – No

Other - Resident legal entities that do not carry out operations within Panama ("offshore companies") must maintain accounting records and supporting documentation for at least five years from (i) the last day of the calendar year during which the transactions covered in the accounting records took place; or (ii) the last day of the calendar year in which the legal entity ceases operations.

Accounting records and documentation must be retained in the office of the resident agent of the offshore entity, or in any other place determined by the entity's management, subject to certain notification requirements. If the accounting records and supporting documentation are held outside Panama, the legal entity will be required to provide the necessary documentation to its resident agent within 15 business days of a request from the Panamanian tax authorities. Penalties apply for failure to comply and may include the forced resignation or removal of the resident agent.

Individual taxation:

Rates

Individual income tax rate	Taxable income	Rate
	Up to USD 11,000	0%
	USD 11,001 – 50,000	15%
	Over USD 50,000	25%
Capital gains tax rate	10%	

Residence – Individuals are resident in Panama if they are in the country for more than 183 days in a calendar year or have established permanent residence in Panama. The center of economic and family interests is a relevant factor in determining residence status.

Basis – Residents and nonresidents are taxed on their Panama-source income.

Taxable income – Individuals are taxed on wages and salaries, income from the carrying on of a commercial, or an agricultural business and investment income.

Rates – The first USD 11,000 is exempt; a 15% rate applies to income from USD 11,000 up to USD 50,000; and the rate is 25% on income exceeding USD 50,000. Nonresident individuals hired or otherwise rendering services to Panamanian residents for periods of less than 183 days in a calendar year are subject to withholding tax at source at a rate of 15% of their gross income.

Capital gains – Capital gains derived from the sale of securities and negotiable instruments are subject to a 10% tax. The purchaser must withhold 5% of the sales price as an advance payment of income tax and remit that amount to the tax authorities.

Gains from the sale or transfer of real property are considered capital gains. If the transaction giving rise to the gain is part of the taxpayer's ordinary business activities, the gain is subject to the corporate tax rate; if the transaction is not part of the taxpayer's ordinary business activities, the gain is taxed at a reduced rate of 10%. However, in the latter case, the purchaser must withhold 3% of the higher of the purchase price or the ratable value of the property as an advance payment of tax.

Deductions and allowances – Individuals are entitled to a basic deduction of USD 800 (on a joint tax return) and deductions for the following: mortgage interest (up to USD 15,000 per year); donations to a nonprofit organization (up to USD 50,000 per year) and political contributions (up to USD 10,000); individual contributions to individual retirement plans up to USD 15,000 per year that do not exceed 10%

of gross income; payments made for medical and hospitalization insurance; and medical expenses incurred in Panama that were not covered by insurance.

Foreign tax relief – Since Panama operates a territorial tax system, there is no unilateral foreign tax credit. A foreign tax credit may be granted, however, under Panama's tax treaties.

Compliance for individuals:

Tax year – Calendar year

Filing status – Joint tax returns are permitted.

Filing and payment – Employment income is taxed by withholding. Individuals with only one salary as their source of income are not required to file an income tax return. Individuals with more than one salary or who derive other taxable income not subject to income tax withholding must file a tax return.

Individuals who are required to file a return must do so by 15 March following the end of the tax year, but this deadline may be extended by one month upon request.

Penalties – Interest and surcharges are charged on the late filing and late payment of tax.

Rulings – No

Withholding tax:

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	5%/10%/20%	5%/10%/20%	5%/10%/20%	5%/10%/20%
Interest	0%	0%	12.5%	12.5%
Royalties	0%	0%	12.5%	12.5%
Fees for technical services	0%	0%	12.5%	12.5%

Dividends – Companies holding a "notice of operations" or otherwise carrying out business in Panama must withhold tax at a rate of 10% on dividends distributed out of domestic profits (20% in the case of bearer shares) and 5% on dividends distributed out of foreign-source profits or export profits. Companies located within Panama's FTZs must withhold a 5% tax on distributions; however, some activities performed in the Panama-Pacific Special Economic Area are exempt from dividend withholding tax.

The subsequent distribution of dividends will not be taxed if tax already has been withheld at the 10% or 5% rate.

If a corporation does not declare dividends in a particular year, it must pay a retained earnings tax of 10% (20% in the case of bearer shares) of 40% of its after-tax income.

A 2% retained earnings tax is withheld on profits distributed by a company established in an FTZ or related to foreign-source income taxed at the 5% rate.

A 10% dividend tax (20% in the case of bearer shares) is withheld on all loans or advances granted by a company to its shareholders, regardless of the income source. The withholding tax rate applicable to the distribution of dividends from real estate investment companies is 10%.

Under its domestic law, Panama can apply "retaliatory" measures against jurisdictions that discriminate against Panama economically or commercially. One of the measures is the imposition of a higher rate of withholding tax where dividends are paid to an individual or legal entity resident in a jurisdiction that discriminates against Panama, in which case the withholding tax rate is increased to 20% or 40% of the gross amount.

Interest – Interest paid to a nonresident is subject to a 12.5% withholding tax (50% of the interest is subject to the general 25% corporate tax rate).

Royalties – Royalties paid to a nonresident are subject to a 12.5% withholding tax (50% of the general 25% rate) if the payment is necessary for the generation of Panamanian source income and if the expense has been considered deductible in Panama.

Fees for technical services – Fees for technical services paid to a nonresident are subject to a 12.5% withholding tax (50% of the general 25% rate) if the service is necessary for the generation of Panamanian source income and if the expense has been considered deductible in Panama.

Branch remittance tax – A branch of a foreign corporation must pay 10% of its after-tax income as a dividend tax, in addition to the corporate income tax.

Other – All Panamanian-source income paid to nonresident entities or individuals or accrued by government entities, companies owned 51% or more by the Panamanian government, "noncontributing" entities (i.e., entities not subject to income tax), and taxpayers incurring losses, is taxable and subject to withholding tax.

Based on the law that allows Panama to apply retaliatory measures against jurisdictions that discriminate against Panama, interest, royalties, commissions, fees, or other types of income generated in Panama and paid to individuals or legal entities resident in a jurisdiction that discriminates against Panama will be subject to a withholding tax at the standard individual or corporate tax rate on the entire payment (i.e., the lower effective rates of withholding tax will not apply).

Anti-avoidance rules:

Transfer pricing – Transactions between related companies must be valued according to the arm's length principle, applying the standards in the OECD guidelines.

A transfer pricing study must include a comparative analysis of transactions carried out by independent parties, taking into account the operations, significant economic functions or activities, contractual terms, market characteristics, risks, and commercial and business strategies. After making the comparative analysis, one of the five transfer pricing methods included in Panamanian law must be selected.

An annual disclosure statement of related party transactions must be submitted to the tax authorities within six months after the end of the fiscal year.

The tax authorities can make adjustments if the arm's length principle is not followed.

The transfer pricing regime applies to all transactions between companies established in any FTZ or special economic area and related parties, regardless of whether the related parties are located abroad or within Panama (including parties established in other FTZ or special economic area in Panama).

The ultimate parent company of a multinational group that has consolidated revenue greater than EUR 750 million in a fiscal period and that is tax resident in Panama is required to submit a country-by-country report annually. Likewise, tax resident entities belonging to a multinational group must notify the General Directorate of Revenue of the identity and tax residence of the reporting entity, as well as the fiscal period used by the multinational group. This notification need only be made once unless the reported information changes.

Economic substance requirements – Certain substance requirements are required for companies that carry out call center activities and provide logistics, as well as multimodal and office administration services in the Panama-Pacific Special Economic Area. In addition, MHQ-licensed companies are required to have an adequate number of employees and operating expenses. See "Incentives" above.

Disclosure requirements – See "Transfer pricing," above.

Panama does not have rules limiting interest deductions, or rules regarding controlled foreign companies, hybrids, exit tax, or general anti-avoidance.

Value added tax:

Rates	
Standard rate	7%/10%/15%
Reduced rate	0%

Taxable transactions – VAT is levied on the invoice value of the sale, lease, or transfer of goods or services, except for intangibles.

Rates – The standard rate is 7%, with special rates of 10% for accommodations and alcohol and 15% for tobacco. Exemptions apply for food, medicine, medical services, and crude oil.

Registration – Registration is mandatory for businesses with monthly turnover exceeding USD 3,000 or annual turnover of USD 36,000.

Filing and payment – VAT returns must be filed monthly, except for professionals who may file quarterly returns.

Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

Social security contributions – The employer must make social security contributions in an amount equal to 13.5% of the total remuneration of the employee and withhold 9.75% on the employee's behalf and remit it to the authorities. Independent contractors and professionals must contribute 13.5% of their fees.

Payroll tax – In addition to social security contributions (see "Social security contributions," above), the employer must pay educational insurance tax at a rate of 1.5% of an employee's remuneration. The employer also pays workers' compensation insurance premiums at rates ranging from 0.56% to 5.67% of the remuneration (depending on the risks associated with the occupation).

Capital duty – No

Real property tax – A real estate tax is levied on Panamanian-situs real property, at rates ranging from 0% to 0.7% in the case of real property subject to family wealth or main residence benefits, and rates ranging from 0% to 1% for commercial and industrial real estate, other residences, land, etc.

Transfer tax – Transfers of real property are subject to tax at a rate of 2% of the greater of the value in the deed of transfer or the cadastral value on the date of transfer.

Stamp duty – Stamp duty generally is PAB 0.10 per each PAB 100.00 or fraction thereof and is applicable to the issuance of certain documents.

Net wealth/worth tax – No

Inheritance/estate tax – No

Other – Panama imposes a retained earnings tax on companies that do not declare dividends in a particular year (see "Withholding tax," above).

An Operation Notice tax is levied at a rate of 2% of a company's net worth, up to a maximum of USD 60,000.

All commercial and industrial businesses must have a notice of operations to engage in business unless they are specifically exempt. Companies that operate in the Colon FTZ or other FTZ, including licensed MHQs and companies operating under special regimes relating to international awards for contractor selection (e.g., the Panama-Pacific Special Economic Area) are not required to obtain a notice of operations. However, companies operating in the Colon FTZ are required to obtain an Operation Code and companies operating in the Colon FTZ or other FTZ or special economic area are subject to an annual notice of operations tax of 0.5% on the capital of the company (a minimum of USD 100 and a maximum of USD 50,000).

Individuals and companies already established or to be established within any of the international FTZs or the Colon FTZ do not need a notice of operations for the sale of wholesale goods to persons or companies located within Panama's customs territory.

Municipalities may impose a tax on gross sales in an amount based on the type of activities carried out by a business. A business carrying on more than one business activity may be taxed on each activity. Municipal taxes, which are deductible, generally range from USD 10 to USD 2,000 per month, depending on the economic activity carried out and the gross annual income generated by the activity.

Tax treaties: Panama signed the OECD multilateral instrument (MLI) on 28 January 2018.

Tax authorities: Ministry of Economy and Finance, Revenue General Office, Cadastral General Office, Customs General Office

Contact:

Rubén Irigoyen
(jonpacheco@deloitte.com)

Yaremis Pérez
(yaremisperez@deloitte.com)

Jonathan Pacheco
(jonpacheco@deloitte.com)