

Panama quickly reverses proposed move to worldwide tax regime

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In a remarkable about-face, Panama's government quickly moved to repeal legislation that had been added late to an unrelated, non-tax bill approved on 28 December 2013 by the National Assembly that would have replaced Panama's territorial tax system with a worldwide regime. For prior coverage, see [Panama to implement worldwide principle of taxation?](#)

Law 120, which would have introduced a worldwide tax regime, was repealed with retroactive effect by the National Assembly on 8 January 2014. President Ricardo Martinelli's government was forced to take steps to repeal Law 120 after stakeholders, who became aware of the law only after its enactment, made their displeasure loud and clear.

Articles 2 and 3 of Law 120 amended article 694 of Panama's Fiscal Code by imposing Panamanian tax on taxable income produced "from whatever source, within or outside the territory of the Republic of Panama, no matter in what place it is received." The law made some exceptions to worldwide taxation, including to free trade zones, but it would have had a significant effect on the offshore holdings of Panama's wealthiest families, as well as on holding companies – particularly from neighbouring Colombia – that have set up in Panama to take advantage of its heretofore business-friendly tax structure.

The amendments, which were attached to an unrelated bill on the Baru free trade zone, were approved by the National Assembly on 28 December and signed into law by Martinelli on 30 December. The law ostensibly took effect on 30 December and would have applied to the 2013 fiscal year. The measure went largely unnoticed until the law was published in the official gazette on 30 December.

Immediate negative reactions spurred the government to promise to repeal it. In a 31 December tweet, Martinelli acknowledged that there had been much "misinformation" about fiscal territoriality. He said the government would clarify things during the first week of January.

On 2 January, Minister of the Presidency Roberto Henríquez tweeted that the law would be repealed. The government announced that day that the Cabinet had approved a resolution authorising Minister of Economy and Finance Frank de Lima to present a bill to the National Assembly to repeal, with retroactive effect to 30 December, articles 2 and 3 of Law 120, thereby restoring the territorial tax regime of article 694.

The bill was presented to the National Assembly on 6 January and approved on 8 January on the third reading by a vote of 45 to 2, with 0 abstentions. The bill will now be signed by Martinelli and will take effect when published in the official gazette.

(This is an edited version of the full Tax Analysts' article with comments from other third party advisors removed.)

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