Law No. 27 of May 4, 2015
Reforming the Tax Code and establishing other provisions

Amendments to the Tax Code

- Paragraph e of Article 694 of the Tax Code. Concept of taxable income to Income Tax.

The obligation is established to withhold tax on remittances abroad in those cases of Panamanian source income, paid or credited to a non-resident natural or juridical person of the Republic of Panama, by public law entities (meaning, Central Government, autonomous, semi-autonomous entities, local governments, state companies or corporations in which the state owns 51% or more of its shares), entities not contributing income tax and/or taxpayers who are in loss.

- Paragraph 2 of Article 706 of the Tax Code. Taxable Income Tax on investment companies registered with the National Commission of Securities.

In cases of investment companies registered in the Superintendency of Securities Market and capturing long-term funds in organized capital markets in order to invest in the development and management of residential, commercial or industrial property in the Republic of Panama, income tax will fall on the holders of participation fees where the distribution policy to these holders is no less than 90% of its **net profit for the fiscal period** and which are registered as such in the Directorate General of Revenues; therefore, the investment company is required to withhold **ten percent (10%) of the amount distributed** as an advance of said tax .

If distribution is not made of not less than ninety percent (90%) of net income during any fiscal period or distributions are made below the established minimum, the company shall be subject to determining taxable income in accordance with Article 699 of the Tax Code.

- Repeal of Paragraph 3 of Article 706 of the Tax Code providing for the deductibility of dividends corresponding to registered preferred shares as deductible interest and of paragraph 2 of Article 733 which established the non-application of tax on dividends in the case of this type of shares.

- Paragraph K of Article 706 of the Tax Code. Withholding on income amounts of any kind produced in Panamanian territory.

The provision in Paragraph e of Article 694 was included again, which referred to the obligation of withholding on payments made abroad by public entities, non-contributing taxpayers of income tax and/or those who are in loss.

- Paragraph 1 of Article 733 of the Tax Code. Accrual of dividends prior to capital reduction.

It is indicated that every capital reduction referred to in Article 1009 of the regulatory instrument in reference, will be made once the company has distributed all retained earnings and settled the corresponding tax on dividends.

Article 1009 refers to net capital at the closing of the respective active fiscal period, meaning as net assets the difference between total assets and total liabilities. It is worth mentioning that according to this same legal provision, sums owed by a branch or subsidiary of a subsidiary company established abroad will not be included in total liabilities.

- The effect of Article 733-A of the Fiscal Code is reestablished. Conditioning of the income tax exemption on payments of dividends, interests, royalties, fees or other similar nature to the possibility of tax accreditation in the country of residence of the beneficiary.

It is established that the beneficiary must convincingly prove by formal opinion of an independent expert on taxation in its country, that recognition of the tax credit would not proceed for the purposes to which the exemption is granted.

In the event that the credit is partial, Panama will exonerate the tax percentage that the other country does not allow to be credited, provided such circumstance as noted above is verified.

This article also applies to branches of foreign companies registered in the country free of income tax, leaving said exemption subject to the non-application in its country of residence. This condition shall also be verified.

- Article 794 of the Tax Code is amended, establishing the obligation for the Public Registry of Panama, in coordination with the Directorate General of Revenue and the National Authority of Land Management to regulate, share, organize and manage their computer databases, in order to ensure the administration of the updated cadastral values.

- Exemption of the Personal Property and Services Transfer Tax (ITBMS) is repealed on imports of goods specified in the Import Tariff specified in paragraph 8, Article 1057-V of the Tax Code.

Amendment to the Code of Mineral Resources

- Article 211-A of the Code of Mineral Resources is incorporated, establishing new rates for royalties to be paid by concessionaires engaged in the extraction of sand, gravel, stone quarry, limestone, clay and coarse in state and private properties.

The aforementioned concessionaires should pay a settlement by monthly tax return on the form provided by the Tax Administration. The amounts paid for royalties may not be transferred in the next marketing stages, but will be deductible in calculating Income Tax.

Amendments to Law No. 109 of 1973 by which the exploration and exploitation of non-metallic minerals used as building, ceramics, refractory and metallurgical materials are regulated.

- Article 16 of Law No. 109 of 1973 is amended. The section referring to the extraction of sand, clay, limestone, quarry stone, coral, gravel and coarse not subject to royalty payments is deleted from the Article.

Amendments to Law No. 45 of 1995 on Selective Tax on the Consumption of Alcoholic Beverages and other provisions.

- Paragraph 5 of Article 1, and paragraphs 12 and 15 of Article 28-A referring to selective tax tariffs are amended on outboard engines with capacity of 150 cc, yachts, sailing boats and motor boats, jet skis, boats, aircraft and helicopters of noncommercial use (10%) and for payment coupons or tickets, records and other documents that contain a payment obligation, resulting from games of chance and betting generating activities carried out in Type A, Type C Full Casinos, Slot Machine Halls, among other assumptions indicated in the law (5%), respectively.

Article 19 of Law No. 52 of 2012 amending the Fiscal Code and other provisions is repealed.

- The establishment is eliminated of provisions on tax legislation prevailing over any other provision or code that directly or indirectly affect or are contrary to taxation.

As of April 1, 2015 an increase is authorized to pensions for early retirement, disability and survivors of disability risk, old age and death, absolute permanent and partial pensions, survivors of occupational risks and pensions in force as at December 31, 2014 and whose amounts are up to B /.1,000.00 per month, excluding reimbursements of pensions for old age, according to the scale shown in the Official Gazette .

Enforcement

This Law shall become effective as of May 5, 2015.

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