



# Main Differences between Legal Residence and Tax Residence in the Republic of Panama.

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It is commonly assumed that upon obtaining the legal residence in the Republic of Panama, the foreigner automatically obtains the tax residence. However, although it seems that tax residence is the direct consequence of obtaining residency to be established in Panama, in practice, to obtain a Tax Residence Certificate (the “TRC”), other factors and conditions must be assessed, in addition to the resident status, as to determine the feasibility of issuing the TRC by the Panamanian Tax Administration.

We have prepared a summary of what characterizes each concept, and how at Deloitte we can assist you in determining and/or obtaining both, your legal residence and, obtaining the TRC.

## The Legal Residence in The Republic of Panama

Legal residence is the condition that a foreigner adopts to reside in a country for a specific period of time, in accordance with the immigration laws of each country. In Panama, Decree **Law No. 3 of 2008**, which creates the National Immigration Service (in Spanish,

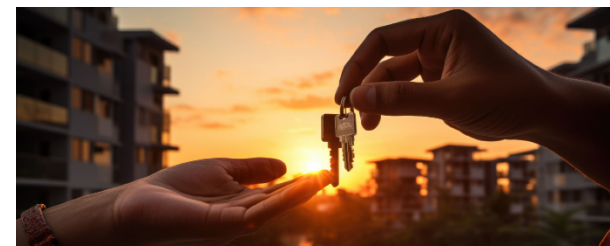
the “Servicio Nacional de Migración”), and Executive **Decree No. 320** of the same year, establish the requirements and procedures to obtain temporary or permanent residence to reside in Panama.

According to the regulations above described, there are the following immigration categories in Panama:

- Non-resident
- Temporary resident
- Permanent resident

Residencies are granted for different reasons, including:

- For work purposes
- Due to special policies (International Company Executive, Multinational Company Headquarters)
- For educational reasons
- For religious reasons
- For humanitarian reasons
- For economic reasons (opening fixed-term deposits, investment in real estate)



- For retirement
- For family reunification
- Married to a national

It is important to mention that residency applications must be submitted through an attorney in Panama, whose requirements vary depending on the type of visa or permit.

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## Tax Residency in Panama

Tax Residence determines the jurisdiction in which the person, whether natural or legal, must pay taxes on their income.

In Panama, according to **article 762-N** of the Tax Code (in Spanish “Código Fiscal”), natural persons can acquire tax residence by remaining in the country for more than 183 days, whether consecutive or alternate, in a fiscal year or in the immediately preceding year; and in case of not complying with the above, the tax residence may be acquired by establishing your permanent residence in Panama, which, at a regulatory level, is précised with requirements that the applicant must evidence, such as:

1. That the person has at their disposal a house, apartment or room in the territory of the Republic of Panama, as s permanent housing. However, it is considered insufficient by the authorities to have that home as “available”, whether through ownership or lease, therefore a “personal link” with the same is required.

2. That the person has its center of economic interests in the territory of the Republic of Panama, which relates it to the housing that is available to them.
3. That the person has their center of family or vital interests in the territory of the Republic of Panama, which relates the same to the housing that is available to them.

In order for the person to be able to demonstrate in other jurisdictions that they possess a tax residence in Panama, they must evidence that meet the conditions previously described and request a TRC, issued by the Panamanian Tax Administration from, as the latter is the main document to prove formally that a person is a tax resident in a country.

TRC are commonly requested to avoid double taxation, which generally occurs when a person, whether natural or legal, must comply with the payment of taxes in their country of origin, but also, also in the country where they normally reside or operate, generating their income.

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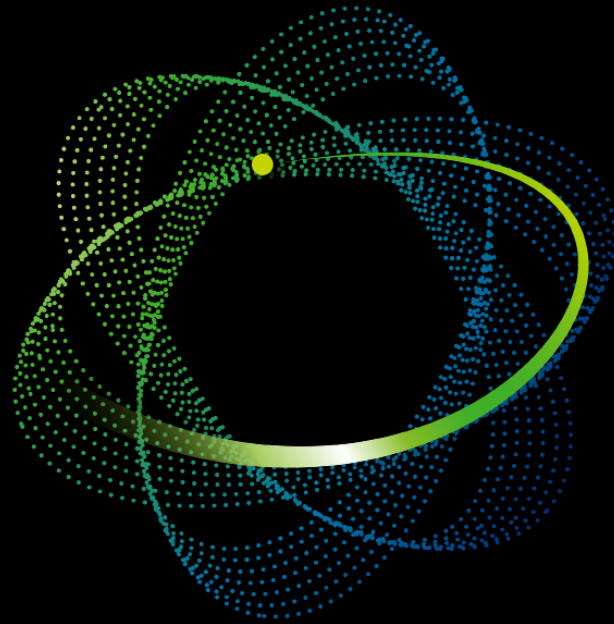
In addition to the conditions described above, it is important to specify that, the Republic of Panama, maintains a network of 17 treaties to Avoid Double Taxation signed with the following countries: Mexico, Barbados, Qatar, Spain, Luxembourg, Netherlands, Singapore, France, Italy, Korea, Portugal, Ireland, Czech Republic, United Arab Emirates, United Kingdom, Israel and Vietnam. Therefore, if some of these agreements apply, the conditions and rules to follow to request the TRC will be those established by one of these international agreements, in contrast with the general rules established in **article 762-N**, of the Panamanian Tax Code.

At Deloitte, we count with a multidisciplinary team that can assist you with the procedures for obtaining s legal residence in Panama, as well as in the analysis and application for tax residence certificates before the Panamanian Tax Administration.

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