

# **Convention between the Republic of Panama and the Czech Republic for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.**

January 16, 2014

## ***In brief***

On January 1st, 2014 the Panama – Czech Republic Tax Treaty entered into force.

The effective dates are as follows:

In Panama:

- 1 January 2014: for withholding, income and other taxes;

In the Czech Republic:

- 1 January 2014: for individual tax and legal individual tax.

## ***In detail***

The most relevant articles are the following:

**Article 2 (Taxes covered):** For Panama and the Czech Republic, the taxes covered are: (i) the income tax for individuals, (ii) the tax income for legal persons.

### **Article 4 (Resident)**

The treaty provides scenarios to determine the residence of individuals or companies, for example in the case of Panama:

- (i) Any individual staying for more than 183 days during a calendar year

period and derives taxable income from sources in Panama.

(ii) An individual incorporated or registered in Panama that derives taxable income from sources located there.

(iii) Any local subdivision of the Government.

The Treaty states that for the Czech Republic it would be any person that by reason of their residence, place of incorporation, place of management is liable for income tax

**Article 5 (Permanent establishment):** this article in general follows the definition stated

by the OECD Model, nevertheless the following particularities must be taken into account:

(i) A building site, a construction, assembly or installation project or supervisory activities constitute a permanent establishment only if they last for more than six months.

(ii) the furnishing of services, including consultancy or managerial services, by an enterprise of any State or through employees engaged by the enterprise for such purpose, but only where activities of that nature continue in the territory of the other Contracting State for a period or periods exceeding in the

aggregate six months within any twelve month period.

**Article 10 (Dividends):** the rate applicable would be 10%

For Panama the [local](#) withholding tax rate on dividends is [also](#) 10%, hence the treaty does not provide [any additional](#) benefit for this type of [income](#).

For the Czech Republic ~~will~~ the [local](#) withholding tax rate is either 15% or 35% depending on the [recipient](#) of the dividends, hence the treaty will reduce this rate.

**Article 11 (Interest):** the rates applicable are the following:

(i) 0% if the interest is paid: (1) in connection with the sale on credit of any merchandise or equipment; (2) to the Government, including any political subdivision or local authority thereof, the Central Bank or any financial institution owned or controlled by that Government; (iii) to a resident of the other State in connection with any loan or credit guaranteed by the Government of the other State, including any political subdivision or local authority thereof, the Central Bank or any financial institution owned or controlled by that Government, provided that the loan or credit concerned is granted for a period of not less than four years.

(ii) 5% of the gross amount of the interest if the beneficial owner is a bank that is resident of the other Contracting State or;

(iii) 10% of the gross amount of the interest in all other cases.

For Panama the [local](#) withholding tax rate on interest is 12.5%, therefore a benefit arises when [applying](#) the treaty.

Said benefit will also apply if [the](#) payment is made from [the](#) Czech Republic, since the local withholding tax rate on interests is either 15% or 35% depending of the [recipient](#) of the interest.

**Article 12 (Royalties):** the rate applicable would be 10%.

The term royalties includes: payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including, cinematograph films, any patent, trademark, design or model, plan, secret formulas or process, or for the use of, or the right to use, industrial, commercial, or scientific equipment or for information (know how) concerning industrial, commercial or scientific experience.

For Panama the [local](#) withholding tax rate on interest is 12.5%, therefore a benefit arises when [applying](#) the treaty.

Said benefit will also apply if [the](#) payment is made from [the](#) Czech Republic, since the local withholding tax rate on royalties is either 15% or 35% depending of the [recipient](#) of the royalties.

**Article 13 (Capital Gains):** In this regard, two situations are the most relevant:

(i) Gains derived from the alienation of shares or interests in a company may be taxed in both States.

(ii) If the gain is not covered under the scenarios provided by this article, then it would only be taxed in the resident State.

**Services:** there is not [a](#) specific article for independent services, hence they would be taxable only in the resident state as business profit under Article 7.

**Article 21 (Elimination of Double Taxation):**

In Panama the exemption method would be applicable.

In the Czech Republic the credit method would be applicable.

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