



Doing Business Panamá 2026





Preface

Welcome to the edition 2026 of the Doing Business Guide in Panamá, an annual publication prepared by PwC Interamericas. The purpose of this publication is to provide the investors a high-level overview of Central America and the Dominican Republic.

Certainly, like every country, there are challenges, many of which are being addressed as the governments seeks to simplify regulatory frameworks, market-friendly policies, and improve the overall ease of doing business.

This guide only provides an overview of existing opportunities. Credible advice is at the heart of decision-making, so this information should lead to a more detailed and personalized analysis of the local markets, economic environment, political climate and legislative processes that suit your type of investment. If you need more information, the PwC Interamericas team will be delighted to assist you on an individual basis and walk with you on this journey to explore the opportunities for investments in this territory.

Panamá

Since their arrival to the New World, the Spanish conquerors found the sparsely populated region of Panama and dominated by independent chiefdoms whose culture was similar to the most advanced civilizations of the Andean Colombia.



The first Europeans to explore the region were Rodrigo de Bastidas, Juan de la Cosa and Vasco Nunez de Balboa, who arrived in 1501 and explored the Atlantic coastal region. The former Spanish colonies in the region were established in 1510, near the Chagres River. However, the new arrivals faced great resistance from the indigenous tribes, so they were forced to move their colony to a place to the side of the Atrato River.

This colony called Santa Maria de la Antigua del Darien became the first permanent colony on the Isthmus. In 1513, Balboa led an expedition across the isthmus towards the Pacific Ocean, which he conquered in the name of the King of Spain. Spain increased its number of colonies in the region, until the end of the colonial era, the passage across the isthmus served as the largest trade route between Spain and its colonies western South America.

Brief history of Panamá

In 1519 the town of Panama was established (Panama City now) by ancient inhabitants of Santa Maria. The new town quickly became the center of commercial activity in the region and an important part of Spanish mercantile system in the New World. Nombre de Dios, a colony at the mouth of the Chagres River, was connected by a road with Panama and became famous for its fairs. The colony became a village but was destroyed in the late 16th century by the English explorer Sir Francis Drake. After the destruction of Nombre de Dios, the great fairs moved to Portobelo on the Caribbean coast.

The commercial activity growing in Panama and Portobelo attracted an increasing number of English pirates. Panama was destroyed in 1671, but was rebuilt near its original location two years later and for the next 120 years it was the largest settlement in the isthmus. Portobelo did not fare so well. It was destroyed by English pirates in 1739 and rebuilt in 1751, but by then the Spanish trade routes had changed. Instead of anchoring in Portobelo and take the merchandise by land to the western villages, commercial shipping route from Europe took the South Atlantic Ocean, around Cabo de Hornos at the tip of South America and up to the West Coast of South America to anchor in commercial ports in the west. The result of this changes were a large decrease in business income of Portobelo.

After the attack on Portobelo in 1739, Spain ceased Panama under the authority of the Viceroyalty of Nueva Granada. However, in 1821 the colony became

independent from Spain, and was incorporated into the new union of Gran Colombia. In 1830, this union was divided into nations we know today as Venezuela, Ecuador, and Colombia, and authority was granted on by Panama to Colombia. Although Panama was always allowed to choose its own governor after independence from Spain, a new constitution adopted in 1843 gave control of the territory back to Bogota.

Eventually Panama was annexed to Colombia as a state.

In the mid-1800s, Colombia negotiated with private investors in the United States to build a railroad that would run on the Isthmus, and provide a route that would connect the Pacific with the Atlantic Ocean via the Caribbean Sea.

The railroad was widely used during the gold rush of 1849 and inspired the development of plans for the construction of a canal that would cover a similar route, and provide a direct connection between the two oceans. After much deliberation, the Colombian government granted him the rights to build a French company, which started work in 1880.

However, the project failed prematurely, the hot rain forests contributed to the proliferation of mosquito-borne diseases such as malaria and yellow fever, and soon workers became sick.

After the failure of the French project the Colombian government saw the United States as a potential partner in the construction of the canal, however Colombia rejected their proposal in 1902. The

failure of the government for not being able to secure a contract, further encouraged the revolutionary movement that already had prior problems with Colombia. On November 3, 1903 a meeting between revolutionary leaders was held, were they proclaimed the separation of Panama from Colombia, the later sent armed forces to stop the rebellion, but were stopped in Colon on november 5th through a series of negotiations and the pressure of the American troops, assuring the separation of Panama. The canal treaty was signed with the United States on November 18 of the year in question.. This treaty established the installation of a canal zone of 10 miles (16 kilometers) wide, extending about 50 miles (80 kilometers) between Colon and Panama City. Control over this region was ceded to the United States, and this was not well seen by the Panamanian people. Construction began the following year, and in 1914 the Panama Canal was opened.

Following the success of the revolutionary movement to achieve separation of Panama, the new forces in the power instituted a new government. The first Constitution, adopted in 1904, instituted a centralized government headed by a president, who has the authority to appoint and dismiss provincial governors. It also gave permission to the United States to use its military force to intervene in any disturbance that occurs in the new nation, a situation that often occurred during the first quarter century.

The first president of the New Republic was Manuel Amador Guerrero, who was appointed by a

constitutional convention in 1904. During his term as president, Guerrero focused on organizing the new branches of government, the Executive, Legislative, and Judicial, and made important changes in the structure of the presidential cabinet.

During the first three quarters of the 20th century, in Panama there were many political and military coups. Much of the civil dissatisfaction and political destabilization originated from the U.S. presence in Panama and other matters related to the Canal Zone. The original treaty was modified in 1936 by the Hull-Alfaro Treaty, which among other things requested the U.S. to give up its right to intervene militarily in Panama.

In 1940, the newly elected president Arnulfo Arias made a change in the constitution of Panama that extended the presidential term. Arias was a populist leader who led the first coup in Panama in 1931, same that overthrew the government of then president Florencio Arosemena. The presidential term of Arias was also relatively short.

In 1941 he was ousted from the presidency by the national police and replaced by Ricardo Adolfo de la Guardia, who authorized the United States to establish military protection of the canal and the Canal Zone.

Panama's political situation became very unstable after WWII. De La Guardia was removed from office in 1945 by the Legislature and appointed the diplomat Enrique A. Jimenez as Interim President. Arnulfo Arias returned to run for president in 1948 but in the face of electoral fraud by his followers, was defeated

by Domingo Diaz, who died in office the following year. After the death of Diaz, he was succeeded by Daniel Chanis, first vicepresident, who dismisses the commander in chief of the national police and they force him to resign, the second vice president Roberto F. Chiari is placed, this is invalidated by the court, so the police commander Jose A. Ramon decides to recount the votes of 1948, an election that had been claimed before the National Elections Jury, the body responsible for overseeing the electoral process in Panama. This review results in the declaration of Arnulfo Arias as the winner a year after it was made. In 1951, Remon led a coup that overthrew Arias, whom he had previously supported.

The following year he was elected president Remon, to be murdered in 1955 and the following year of 1956 Ernesto De La Guardia was elected president.

The presidential term of De La Guardia had virtually no outstanding event, although the social dissatisfaction that led to a wave of protests in 1958 that resulted in the imposition of martial law. In 1960 Roberto Chiari was elected president, he instituted a program of ambitious social reform regardless of the huge budget deficit and the national debt.

Government control was taken over by a military meeting led by General Omar Torrijos who made a change in the constitution that granted more powers.

Despite the serious financial problems of the country, Torrijos authorized large public works programs, gaining the approval of the people but increasing the Public Debt. In 1977, Panama has suffered economic

decline and the following year began negotiations for new contracts for the control of the Panama Canal.

In 1979 a new treaty became effective authorizing the transfer of control of the canal to Panama in 2000.

After Torrijos tragic death in a plane crash in 1981, control passed to several military commanders before it was taken by Manuel Antonio Noriega in 1982.

In 1988 the United States accused Noriega of drug trafficking charges and imposed severe economic sanctions on the country in an effort to force his resignation. As a result there was an increase in the unemployment rate and declining productivity and sales.

At the end of the 20th century, the political problems continued to plague the Panamanian government. At the end of 1989, Noriega survived an attempted coup by Panamanian soldiers, and on December 15, 1989 was elected to handle the "state of war" with the United States.

In December of 1989 US president George Bush authorized the dispatch of troops to invade Panama in an attempt to capture Noriega. Guillermo Endara, who won the last elections but was unable to sworn in as president at that moment, was quickly sworn in as president on Dec. 20 while U.S. soldiers invaded the headquarters of Noriega in Panama City.

Noriega, who had taken refuge in the Vatican Embassy in the capital, surrendered on January 3rd 1990 and brought to the United States to stand trial on charges of drug trafficking and organized crime. He

was convicted in 1992 and sentenced to 40 years in Florida. In March 1990 the United States formed an aid package to help rebuild the economy of Panama.

The Democratic Revolutionary Party candidate, Ernesto Perez Balladares, won the 1994 elections. Balladares administration worked to heal relations

with the United States and to make economic reforms, including the privatization of several companies. In September 1999, Perez Balladares was replaced as president by the first woman president in Panama, Mireya Moscoso, the widow of Arnulfo Arias. Moscoso promised that once the Canal passed to the Panamanians it would not belong to any political party.

She also promised to restore the economy and ensure the needs of the poor, particularly in rural areas.

On December 31, 1999, control of the canal passed to Panama and all U.S. military personnel was withdrawn. Since then, the Panamanians have managed the Panama Canal efficiently. There have been five elections (2001, 2004, 2009, 2014 and 2019) and during the global economic crisis, Panama has maintained a healthy growth.

Under the Panamanian Administration was completed and inaugurated the expansion of the waterway in 2016, after different vicissitudes, increasing the volume capacity and traffic in the Canal. The referred program consists in the following projects:

Third group of locks was delivered in 2016, and consists of two new locks complex that generates a third traffic rail.

Access to the Pacific Ocean, which consists of the excavation of a 6.1 Km channel through the new Pacific locks in Miraflores.

Improvements in the water provision through the increase of the maximum operative level of Gatun Lake by 45 centimetres, in order to obtain a better water provision in the project.



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Overview of the country



Clima

The climate is tropical, humid and cloudy with a long rainy season (May to December), and short dry season (January to May). The average humidity is 70%.

Population, government, language, currency, and others:

Area	75,517 km ²
Population	4.202 millions (2023 population census)
Population per km2	55.7 inhabitants/ km ²
Population growth	1.3% (2021 vs 2022)
Political system	Representative Democracy
Form of government	Presidential
Language	Spanish
Currency	Panamanian Balboa (PAB) at par value with the US Dollar
Administrative division	(USO) 10 provinces and 3 Indian reserves
Religion	Roman Catholic
Capital city	Panama City

Educación

The illiteracy in the last three years has decreased significantly from 5.5% to 3.7%. Education is free and mandatory for children aged 6 to 15 years. Elementary school has a 6 year duration. According to the 2023 census, the school population amounts to 918,336 students from pre- school to 12th grade, of which 423,036 are elementary school students and 390,985 in middle and high school. Preschool students numbered 104,315 in March 2023. Middle school and high school, have three years duration each one.

The leading higher education institution, the University of Panama, is a public university and was founded in Panama City in 1935.

Political and legal system



Legal framework

The political and legal structure of Panama is composed of three main branches - Legislative, Executive and Judicial - organized as follows:

	Executive	Legislative	Judicial
Exercised by the:	The president.	National Assembly.	Supreme Court of Justice.
Composed of:	The president and the Cabinet Council.	71 deputies.	9 magistrates and 9 alternates.
Elected or appointed by:	The president and Vice-president are elected by direct popular vote for a five-year period.	The Deputies are elected by direct vote every five years.	Are appointed by the president (subject to approval by the National Assembly) for a period of 10 years.

The legal system is based on Napoleonic Code.

Main political organizations

- Democratic Revolutionary Party
Partido Revolucionario Democrático (PRD)
- Democratic Change
Cambio Democratico (CD)
- Panameñista Party
Partido Panameñista
- Realizing Goals
Realizando Metas (RM)

Elections take place every five years. The last presidential elections were held in 2019, the upcoming elections are in May 5, 2024.

As of November 2024, there were more than 1,595,314 Panamanians registered in political parties.

The last presidential elections were held in May 2024, the current presidential term began in July 2024 and will run until June 2029. The next elections will be held on May 6, 2029.

The Economy



Panamá's economy generated an annual growth of over 6% during the period between 1950 and 1981.

However, economic growth stagnated at 1.9% per year during 1977-1987, caused by the result of the second petroleum crisis and debt. During the early years of the 1990s, in Panamá bounces a new recession caused by the U.S. seizure and subsequent military invasion.

In May 1994, the economy continued to grow but at a slower rate during the first half of the 1990s. The main drivers of the economy of Panamá (the Panamá Canal, the Colon Free Zone and the International Banking Center) continued to lose competitiveness in the context of an economy open to the world. The Administration of the president Ernesto Perez responded to this in 1996 with a strong program of economic reforms including the privatization of two ports (Cristobal and Balboa), the enactment of antitrust law, the renegotiation of the foreign debt with commercial banks, privatization of electricity and telephone companies, and banking law reforms. In addition to these economic changes came the recovery of most traditional sectors, with the exception of the construction sector.

Between 1988 and 1998, the economy grew by 5% annually. In December 1999, in accordance with the Panamá Canal Treaty of 1977, the Panamá Canal and all U.S. bases were returned to Panamanian government, comprising 364,000 acres, and its cost is estimated at \$ 4 billion.

Real growth in gross domestic product (GDP) fell to 3.2% in 1999 with the government of Mireya Moscoso

(below 4.4% in 1998) and then to 2.5% in 2000. In 2001, growth is bent beyond, as declining export demand and a dramatic drop in tourism that followed after the terrorist attack on the United States of September 11, 2001 were added to domestic demand declining, which presented Panamá as a preferred destination.

During the Administration of the president Ricardo Martinelli, Panamá began negotiating double taxation treaties with clauses related to information exchange, in order to meet the objectives of the OECD and stay out of the list of non-cooperative countries.

Panamá's economy is based on Panamá Canal operations, tourism, banking, the Colon Free Zone (which is the second largest free trade zone in the world, after Hong Kong), insurance and ship registration, medical, health, and other business.

Panamá has also earned significant revenues through the Canal and Panamanian-flagged ships licensed around the world. Another important but small sector of the economy is agriculture. The main products are: bananas, rice, corn, coffee, sugar, vegetables, meat and shrimp.

Clay, limestone, and salt are the main mineral products and gold, ferrous sand and manganese have been small-scale mining. There are important copper deposits, but untapped, such as Cerro Colorado which is located in the province of Chiriqui. Some deposits of bauxite, phosphates and minimally carbon have been mined, as well as various

other materials exploited, as well as various other construction materials such as stone and gravel. Oil reserves have been found in the Pacific and Atlantic.

Potential growth areas

The Panamá Canal expansion project in Panamá contributed to maintain a stable economic growth and the government has continued with the execution of important projects such as: the construction of the Metro, which is currently in the construction phase of its line 3 and is intended to generate 13 stations in total along its route through the province of Panamá Oeste.

With the decrease in income tax for companies and individuals, which took place in 2010, the government contributed by attracting more private investment.

Another area of potential growth is related to renewable energy generation. Currently, only 5% of the total national energy market corresponds to wind energy and 6% to solar energy.

However, there are currently approximately 33 solar energy projects under development in the country and 5 wind energy projects.

Some of the most relevant future projects are:

- Line 4 (2A) and 5 of the Panamá Metro.
- Extension of Line 3 of the Panamá Metro.
- Development of projects under the Public-Private Partnership (PPP) modality.
- Port of Corozal developed by the Panamá Canal Authority.

- Construction of the Panama-David train
- Panama-Colombia Interconnection Line
- Construction of the Costa Abajo de Colón Highway.

Inflation

Through December 2021, Panama accumulated an inflation rate of

-1.63%

according to figures from the National Institute of Statistics and Census (INEC).

	2021	2022	2023
Nominal GDP (US\$b)	B/.\$ 67,406.70 millions	B/. 76,522.5 \$ millones	B/.\$ 83,382.4 millones
Real GDP growth (%)	18.0%	13.5%	9.0%
Prices and financial indicators			
Exchange rate Ps: US\$ (end- period)	1	1	1
Lending interest rate (avg:%)	6.9%	6.9%	%
Current account (US\$m)			
Trade balance	B/.\$ -6,795.4 millions	B/.\$ -9,886.5 millones	B/.\$ -9,827.8 millones
Goods: Export fob	B/.\$ 3,558.1 millions	B/.\$ 3,604.5 millones	B/.\$ 3,367.5 millones
Goods: imports fob	B/.\$ 10,353.0 millions	B/.\$ 13,491.0 millones	B/.\$ 13,195.3 millones
Current-account balance	B/.\$ -778.8	B/. -3,090.0	B/. 10,501.1
Unemployment			
Unemployment (avg.%)	11.3%	9.9%	7.4%

Source: Instituto Nacional de Estadísticas y Censos, Contraloría General de la República de Panamá., Superintendencia de Bancos de la República de Panamá, Informe Económico y Social del Ministerio de Economía y Finanzas

Doing business in Panamá



Government attitude toward foreign investment

Panamá is open to foreign investment and does not discriminate as to foreign investors even when there are some restrictions for the exercise of retail business. The Strategic Plan 2009-2014 recognized its importance and focused on efforts to attract foreign investment in areas such as logistics service providers, hotels and fruit exporters.

Panamá hasn't issued paper currency, in consequence the U.S. dollar is used as currency. The Balboa is at par value and U.S. dollar equivalent. Therefore, a control authority is not necessary.

There are no registration requirements for capital and the transfer of funds to the country is not taxable.

There are no controls on repatriation of capital or retained earnings different to applicable taxes according to the information described below.

The Government is encouraging foreign investment and working to position Panamá as the primary destination in Latin America for foreign investors. However, the same business channels are open to domestic and foreign investors alike. There are no major restrictions on foreign investment, and investors can repatriate their profits and capital.

Special trading rules, granting migration, labor, and tax incentives for investment and creating the PROINVEX office are among the principal ways Panamá has encouraged foreign investment.

PROINVEX is a "sole office" where every interested investor may obtain in one office all the information

required to achieve a successful investment. Investors can also get updated information on special fiscal regimes such as the Multinational Headquarters (SEM), Panamá Pacific Area (APP), The City of Knowledge, Colon Free Zone (ZLC), Investment Stability Law, and other Free Trade Zones.

The organization of commercial companies and commercial activities is mainly regulated by special laws created for these effects and additionally by the Commercial Code.

Price controls mainly on food, medicines and construction materials are given by the market interaction. In Panamá does not exist a price control authority. We have a government authority in charge of surveillance against antitrust practices.

Up to date there are no restrictions on mergers and acquisitions, neither special restrictions on foreign investment in this regard. Our legislation addresses both the merger with foreign entities as redomiciliation, and is currently permitted under Panamanian law the demerger.

One of the benefits provided in the development of industrial laws is the protection from foreign competition by establishing special rates on some sensitive products. There are imposed rates on all foreign goods entering the country, except those who are exempted by law or special contracts.

Tax rates are based on quantity, weight, size or volume. Rates vary from low to significant protectionist (0% - 33%). In terms of comparability, Panamá applies the Harmonized Tariff System.

Panamá has considered the advantages and disadvantages of requesting admission to the Central American Common Market. Not expected any immediate application for admission as any effective integration by Panamá.

A seven percent (7%) tax is applied on the transfer of goods and services (ITBMS) on all imports except food, medicines and some other products. The documentation related to the payment of import duties and re-export shall be prepared and signed by a local customs broker.

Free trade agreement and other agreements

A Free Trade Agreement (FTA) is a regional or bilateral trade agreement to expand the market of goods and services between countries. Basically, is the elimination or substantial reduction of tariffs on goods between the parties, and agreements on services. This agreement is governed by the rules of the World Trade Organization (WTO) or by mutual agreement between the countries.

Panamá has free trade agreements with Honduras, Costa Rica, El Salvador, Israel, Singapore, Nicaragua, Guatemala, Chile, Peru, Canada; and other trade agreements with the Dominican Republic, Colombia, Trinidad & Tobago and USA.

Foreign investment

Since Panamá's incorporation into the World Trade Organization, domestic commercial protectionism has been decreased.

The government has incorporated into his banking legislation the Basel II recommendations to improve transparency in the Panamanian Banking System and to prevent money laundering.

The negotiation of Free Trade Agreements (FTA) has greatly contributed to the increase of foreign investment in Panama.

The government has incorporated into his banking legislation the Basel II recommendations to improve transparency in the Panamanian Banking System and to prevent money laundering.

Immigration legislation has been modified, improving the monitoring of foreign individuals in the country. The creation of the SEM Regime has been the most successful initiative to attract the establishment of multinationals in Panama.

Destination of foreign investment

According to information provided by the Office of the Comptroller General of the Republic of Panama, in December 2020, foreign direct investment in 2022 was USD 588.7 million, a decrease compared to the 2021 foreign investment of USD 4,320.4 million.

Restrictions on foreign investment

Under the Panamanian Constitution, retail business is restricted for foreigners in Panama.

Establishing Business in Panama

Business structures

The Panamanian law recognizes five different forms of legal entities:

- Corporations or Stock company (Sociedad Anónima)

- Limited Liability Company (Sociedad de Responsabilidad Limitada)
- General partnerships (Sociedad en Nombre Colectivo)
- Ordinary Limited Partnership (Sociedad en Comandita Simple)
- Joint- stock Company (Sociedad en Comandita por Acciones)

These five types of entities can be used for the operation of any type of commercial business. A business can also be operated by a single owner. Most businesses operate as corporations, partnerships or sole proprietor. Although some foreigners living in Panama conduct business in any of the ways described above, foreign businesses, with very few exceptions, exist in the form of corporations.

Branch of a foreign company

Foreign companies may establish branches or agencies in Panama who are intended to start operations within our territory, will need to file with the Public Registry of Panama their registration documents listed below.

Branch and/or permanent establishment

Foreign corporations can establish in Panama branches or agencies for the purpose of starting operations in our territory, which must present documentation (detailed below) for registration with the Panamanian Mercantile Registry.

Panama 's Commercial Code stipulates that foreign corporations "will not be able to perform activities not allowed in their home country".

It is considered that the persons and corporations domiciled abroad has operations in Panama through a permanent establishment when they perform business either directly or by proxy, holding an employee or representative in Panama, in an office or place of business, where the activities are performed totally or partially.

Registration procedure

The registration procedure is established according the Commerce Code and the special rules governing LLC's and Corporations.

As a general rule, a document is drafted by an Attorney at Law appointing subscribers and approving the incorporation bylaws. This procedure allows a local attorney to get the deed ready without the foreign investor coming to Panama and sign. The board and the shareholders can be either nationals or non-nationals, and can be either individuals or entities. The incorporation takes one day and the incorporation of branches may take longer, but no more than three days on average.

Joint-Venture

Joint Venture is a contract between two or more persons (partners) with an interest in one or more specific and transitional business operations, which shall be run by one of them in his name alone and under his personal credit, with responsibility of dividing with the partners the gains or losses in the proportion agreed upon.

Banking system



Central Bank

There is no Central Bank in Panama.

Decree Law 9 of 1998 as amended by Decree Law 2 of 2008, along with the Cabinet Decree No. 238 of July 2, 1970 and Law No. 1, 1999 regulates the banking and created the Superintendence of Banks, which is autonomous from the Central Government. This law establishes three different types of banking licenses as described below:

General:

For banks organized under the laws of Panama and branches of foreign banks that have activities in Panama and internationally.

International:

For banks organized under the laws of Panama and with branches that only practice business abroad.

Representation:

For foreign banks that maintain offices in Panama, but that are not performing banking transactions.

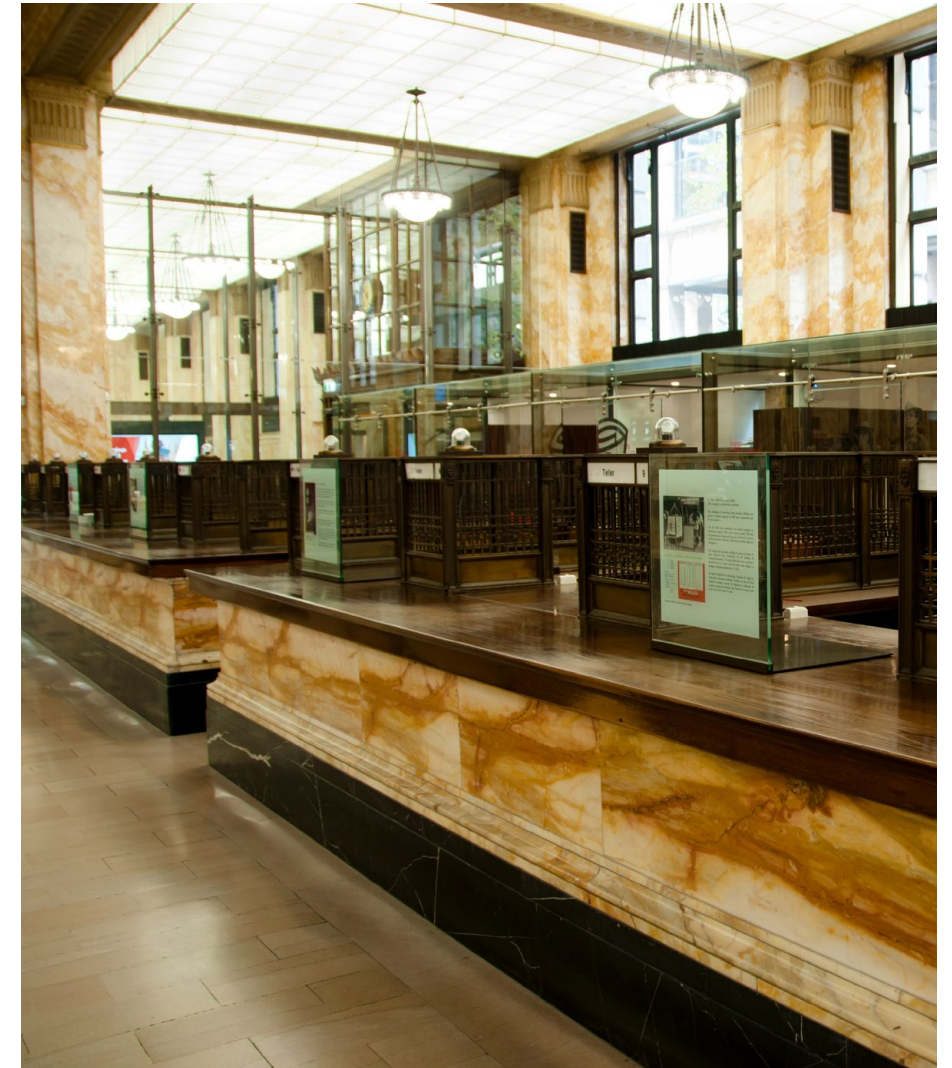
The law provides various reserve and capital requirements and certain other conditions, depending on the type of license.

In Panama there are two national banks, National Bank of Panama (Banco Nacional de Panama) and the other is the Savings Bank (Caja de Ahorros).

Commercial banks

The Superintendence of Banks is the government entity responsible for granting licenses to all the different banks located in Panama. Actually, Panama has one of the largest banking and financial centers of the region including banking institutions with worldwide presence.

The banking system in Panama is well established, composed by 62 authorized banks in Panama, 2 public banks, 38 with general license and 13 with an international license. (Source: www.superbancos.gob.pa)



Labor and social security



Employment Offer

According to the Ministry of Labor (Ministerio de Trabajo y Desarrollo Laboral - MITRADEL), employment statistics are the following:

Población ocupada por actividad económica

	2021	2022	2023
Total	1,744,387	1,846,363	1,938,616
Agriculture and others	202,401	199,950	218,298
Service workers and salespeople in shops and markets	332,359	352,377	379,219
Mining, construction, manufacture.	317,595	342,205	348,662
Artisans and workers in mining, construction, manufacturing, mechanics and related industries	247,666	263,579	277,498
Professional, scientific and technical activities	203,727	213,686	222,618
Operators of fixed installations and machines, assemblers, drivers and operators of mobile machinery	124,741	132,766	136,281
Technicians and mid-level professionals	119,142	131,294	138,525
Office employees	102,985	113,554	128,262
Directors and managers of the public and private sectors and social interest organizations	93,771	96,952	89,253

Source: Ministerio de Trabajo y Desarrollo Laboral (MITRADEL).

There are three different types of employment contracts established by Panamanian law: permanent contracts, defined termination contracts and contracts for defined services.

Panama has a minimum wage system by economic activity, which is adjusted periodically. The minimum wage system is applicable in practice only to non - skilled employees. The effective average wages are substantially higher than the minimum wages, especially in metropolitan areas.

Companies that need to employ foreigners must obtain permission from the Ministry of Labor. Work permits issued to foreigners are valid for one year and may be extended for up to five years.

It is mandatory by law to give employees a day of rest per week as required by law, preferably on Sundays. However, if the type of employment requires to work on Sunday, another day should be given in lieu of it, and Sunday will be paid with an extra charge of 50% per hour. Each employee is entitled to thirty (30) days of paid vacation after eleven (11) months of continuous work.

In Panama is mandatory for the employer to pay a yearly additional month of salary (XIII Month) and shall be paid in three parts (April 15, August 15 and December 15). This salary is calculated based on the total wages received. The XIII Month is subject to social security contributions and income tax.

Labor Law Requirements

Please find below a summary of the most important requirements of the Labor Law.

Wages and salaries

Panama has a minimum wage system by economic activity, which is adjusted periodically. The minimum wage system is applicable in practice only to non - skilled employees. The effective average wages are substantially higher than the minimum wages, especially in metropolitan areas.

Executive Decree No. 1 of January 10, 2024, fixes the minimum wage rates for the entire national territory for the years 2024 and 2025. Below is a table with the

increase in economic activities.

Profit sharing

Companies are not obliged to share the company's profits with the employees.

Christmas bonus

Companies are not required to pay the worker a Christmas bonus.

Complementary Benefits

Housing and children's education are among the most common complementary benefits, which are treated as salary in kind for both calculations: income taxes and social security contributions.

Paid Holidays and Vacations

Every employee has the right of 30 days full-paid for vacations after 11 months of continuous work.

Foreign Personnel

Panama recognizes joint investment with no restrictions. Labor Code is applied equally to Panamanian and foreigners. However, the exercise of retail trade is restricted for foreigners. Most foreign personnel wishing to work in Panama are required to have a work permit and/ or resident visa.

Under the Labor Law, foreign personnel may not exceed 10% of a company's total workforce, and the monthly payroll for foreigner employees, may not exceed 10% of the total company payroll.

In the case of technicians, up to 15% may be foreign personnel.

Under special regimens , foreigners may be able to work in Panama with a special immigration permit not requiring a work permit, granting this individual exemption from income tax and social security contributions.

Social Security

The Social Security is an autonomous government agency that provides retirement due to illness or maternity, age or disability pensions to widows and orphans, funeral assistance and compensation for occupational injuries and death.

Recently, through Law 462 of March 18, 2025, significant reforms were introduced to the social security system, including a gradual increase in employer contributions of 1% per year until 2029, with a cap of 15.25%. Currently, the employee contribution rate is 9.75% and the employer contribution rate is 12.25%.

Accounting and audit requirements



Accounting

The accounting principles accepted in Panama are the International Financial Reporting Standards (IFRS). For the banking sector and for entities supervised by the National Securities Commission, IFRS or US GMP are used upon previous notification to the regulatory entity.

There are three active accounting professional organizations: the Certified Public Accountants Association, the Panamanian Association of Women Accountants and the Panamanian Certified Public Accountants College. The three organizations appointed a Financial Accounting Standard Committee in 1978 to define generally accepted accounting principles in Panama.

A Panamanian company that operates in Panama, although it does not generate Panamanian source income may be subject to reporting obligations and/ or preparation of audited financial statements. Panamanian companies operating in Panama, and companies in free zones and qualified foreign companies operating in the country require the filing of tax returns.

The minimum corporate accounting books required for a Panamanian company are:

- Shareholders Register
- Acts Register
- Journal
- General Ledger

A company doing business in Panama must maintain their accounting records required by law, correspondence, and other supporting documentation in the country. You may request cancellation of the use of manual accounting records and instead ask the authorities the use of magnetic systems. According to the law, these certificates must be issued by a Panamanian CPA.

Statutory audit requirements

There are no requirements for the formal delivery of financial statements to the authorities in Panama. However, the companies listed on the National Securities

Commission, commercial and governmental banks and the insurance and reinsurance companies are required to refer to the regulator. In other cases if the capital of the taxpayer exceeds B/.100,000.00 or the annual sales or gross income exceeds B/. 50,000.00, the annual income tax return must be countersigned by a Panamanian Certified Public Accountant (CPA) and financial statements shall be duly audited by a CPA.

Accounting profession

Licenses for Certified Public Accountants (CPA) are issued by the Ministry of Commerce and Industry. Candidates must have a university degree in accounting.

Electronic Invoicing Requirements

Since 2018, Panama started a Pilot Plan, through which, interested taxpayers could join the Electronic Invoicing System. As of January 1, 2022, all new taxpayers will only be able to use the electronic invoicing system as the only mechanism to document their commercial operations, either through a) the Free Biller, according to the guidelines defined through the website of the General Directorate of Revenue, and b) using any of the Qualified Authorized Providers (PAC).

All taxpayers with gross income of B/.1,000,000.00 or more or who generate 500 invoices or more must use PAC invoicing as an obligation.

As of October 30, 2023, all public entities are required to receive from their suppliers of goods and services, only invoices issued through the Electronic Invoicing System. For the year 2023, a progressive implementation schedule was established in phases for the banking and financial sector, which concluded on August 31, 2023. For companies under Special Tax Regimes, the obligation to use electronic invoices is effective as of June 30, 2023.

As of 2024, the certifications of exception for the use of fiscal equipment expired; therefore, taxpayers that had this type of exception should have switched to electronic invoicing.

Tax system



Our most recent structural reform is Law No. 8 of 2010. It reduces tax rates, raising the overall rate of VAT, and sets the new Tax Tribunal, among other relevant provisions.

Additionally the Law 33 of 2010, adapts the Panamanian tax system, for the application of double taxation treaties and formally recognize the comprehensive legislation of transfer pricing rules included in the OECD regulations.

The main taxes you must pay in Panama are:

- Income Tax
- Corporate Annual Tax
- ITBMS - Tax on Transfer of Goods and Provision of Services (VAT).
- ISC - Excise Tax
- Fuel other Petroleum Derivatives Tax
- Capital Gain Tax
- Dividends Tax and Complementary Tax
- Operation Notice Tax
- Stamp Tax
- Real Estate Tax

Corporate Income Tax

The tax rate is 25%. For companies in which the State owns more than 40% of the shares, the tax rate will remain at 30%. The tax base (amount to which the tax rate will apply) for companies whose taxable income is greater than B/. 1,500,000 will be the greater of one of the following:

- Net taxable income calculated by the traditional method, or
- 4.67% of the gross taxable income (excludes exemptions of non-taxable income and foreign source of income) - this is called the Alternate Calculation of Income Tax Alternative Calculation (“Calculo Alterno de! Impuesto sobre la Renta “ or CAIR).

If the entity’s fiscal year results in a loss due to the alternative calculation or the effective tax rate calculated over the traditional method exceeds the 25% rate, the taxpayer may request from the Tax Authority (General Directorate of Revenues - DGI) the no application of the alternative calculation, in order to be taxed according to the traditional method of calculation.

The DGI has a six- month period to decide on the request, otherwise the petition will be considered granted.

Franchise Tax

Franchise Tax must be paid by all corporations and private interest foundations (PIF). The deadline for payment depends on the date of the entities incorporation. If the company was incorporated during the first six months of the year, the due date for payment will be July 15th of each year. If the company was incorporated during the last six months, the due date will be January 15th of each year.

Non-profit organizations, cooperatives and partnerships are not subject to franchise tax.

Dividend Tax

Companies’ profits are taxed, in addition to the corporate income tax, with a dividend tax of 10%. This tax is reduced to 5% in the cases of entities that operate in a Free Zone, if the income subject to dividends is considered an exempt income or from non-Panamanian source of income.

In cases where entities belong to tax residents in countries which Panama has subscribed to a Double Taxation Treaty (DTT), tax rates over the dividends vary according to what is established in the applicable treaty.

Dividend tax foresee a presumptive annual distribution of 40% of the profits after income tax, and in case it is not executed, requires the tax payment according equivalent to the minimum distribution, which is the Complementary Tax of 4% (10% over the 40% of the profits).

Excise Tax

Is applied to goods, jewelry, automobiles, guns, tobacco, alcoholic beverages, etc.) and services (mobile telephone services or cable TV) that are considered as non -essentials. The tax base is the cost, insurance and freight (CIF) price, plus import duties for imported items and sales price for all the other activities. The tax is applied at only one stage: on the importation of the product or the sale of taxed goods produced in Panama; and for services, it may be applied at the same time when the service is provided, invoiced, completely rendered or upon receipt of advance payments, whichever occurs first.

The Panamanian tax system is regulated by the Tax Code and many other complementary laws that regulate specific matters.

Stamp Tax

Stamp duty is charged at a rate of B/.0.10 per B/ .100.00 (or fraction thereof) only on certain commercial contracts.

Movable goods transfer and provision of services tax (ITBMS)

Is the Panamanian Value Added Tax (VAT). Tax rate is 7% effective from June 30th 2010, according to Law 8, 2010. Alcoholic beverages are taxed at 10% and tobacco and tobacco derivatives are taxed at 15%.

Exports are not taxed and the ITBMS paid to generate exports are subject to a refund . The sale of goods such as medicines, food and certain products for babies are not taxed.

During 2016 was established the legislation related to VAT withholding agents, for taxpayers with income higher than B/ . 5,000,000.00 per year, which is summarized as follows:

1. Invoices issued from November 2015 and on are subject to a withholding of 50% of the VAT, applied by the designated withholding agents.
2. No withholding will be applicable if the beneficiary of the payment is a withholding agent.
3. No withholding will be applicable to suppliers of goods and services, businesses or persons affiliated with entities that manage debit or credit cards that are not VAT taxpayers.
4. The withholding agent should issue certificates for the withholdings performed during the month

to all the taxpayers that have been subject to the withholding.

5. The withholding agent must be designated by the Panama Tax Administration.

To improve the ITBMS collection and reduce the evasion, the Government modified Article 19 of the Executive Decree No.84,2005, establishing the following rules:

Withholding Agents

- A) State agencies, decentralized entities, public enterprises, municipalities and other public sector entities not exempt, making payments or managing State funds (regardless of the amount of the compensation).

Withholding amount: fifty percent (50%) of VAT included in the invoice or equivalent document.

In case of professional services, the withholding will be applied to the one hundred percent (100%) of VAT included in the invoice or equivalent document.

	Professional Services	Others
Invoice	1,000.00	1,000.00
Vat (7%)	70.00	70.00
Total	1,070.00	1,070.00
Withholding	70.00	35.00
Supplier payment	1,000.00	1,035.00

Exclusions: Payments made through petty cash are excluded according to the regulation of the Panama Tax Authority.

- B) Paid or accrued amounts for taxable transactions with individuals or entities incorporated abroad, if these don't have any branch, agency or establishment in Panama:

Withholding amount: will be applied over the total ITBMS caused. In this case, it is considered that in the invoice price includes the ITBMS, therefore a coefficient of 0.065421 should be applied to the total amount in order to obtain the ITBMS applicable.

Invoice	1,000.00
ITBMS (0.065421)	65.42
Total	934.58
Withholding	65.42
Supplier payment	934.58

In this case, the withheld amount will be considered as a tax credit by the withholding agent.

- C) Partnerships and Joint Ventures, as the entities described in the Panama Commerce Code, referred to in Article 7 from the Executive Decree No. 84, 2005.
- D) Those who are or are not taxpayers of ITBMS, and in the immediately preceding fiscal period comply

with the criteria of annual purchase of goods and services equal or over three million balboas (B/.3,000,000.00). The Tax Administration will determine the limits and conditions to lower purchases that are not subject to withholding.

Withholding amount: it will be the fifty percent (50%) of ITBMS included in the invoice or equivalent document submitted by the suppliers.

- E)** Issuers or administrators of debit and credit cards responsible for processing payments to businesses and service providers, at the moment of the payment or deposit into the affiliated establishment's account.

Withholding amount: it will be the fifty percent (50%) of ITBMS caused by taxable sales of goods or services.

Special report: these entities must submit a monthly report to the Tax Authority with the detailed sales performed by commercial establishments or individuals affiliated to the debit and credit cards payment system. The Tax Authorities will determine the guidelines for filing the referred report.

Exclusions: Goods and services Suppliers, or businesses or individuals affiliated with entities that process credit or debit cards that are not considered as ITBMS taxpayers are not included in the scope of these provisions. In these cases it will be necessary to prove the referred condition through an ITBMS non-taxpayer certificate or other certificate which is specified that the activity is not taxable; both certificates should be issued by the Panama Tax Administration.

Other exclusions:

No withholding applies to suppliers of goods, services, businesses or individuals affiliated to entities managing credit or debit cards, if they perform exempt activities of ITBMS.

Companies under special tax regimes that are considered as ITBMS exempt subjects are not allowed to be withholding agents.

No withholding should be made to the source when the operation is performed between withholding agents.



Conditions for the ITBMS withholding

- a) That a total or partial payment has been made or accrued.
- b) That the payment refers to an ITBMS taxable operation.
- c) That the person performing the payment has been designated as withholding agent.
- d) That the beneficiary of the payment is not a state entity or a withholding agent designated by the Tax Authorities.

ITBMS Return

By Resolution 201- 17687 from October 20, 2015, the Form 433 for Withholding ITBMS is created, used for filing and monthly payment of withholdings performed during each period, along with information about the concepts and amounts withheld (Official Gazette No. 27893-B).

Sales Report

As of January 1, 2022, according to Resolution 201-10011 of October 20, 2021, the report of Sales and Services rendered or Form No. 1027, for taxpayers of the Tax on the Transfer of Movable Goods and the Rendering of Services (ITBMS), becomes effective. This report must be filed on a monthly basis by individuals and legal entities with a sworn income tax return and that have received gross income equal or higher than B/.1,000,000 and/or owned as of the same date total assets for an amount equal or higher than

B/.3,000,000, in the previous fiscal period (annual) to the current one.

This report must keep the following information:

- Details of operations made to ITBMS taxpayers.
- Details of the operations arranged with the state
- Details of operations destined to the operation
- Operations with final consumers.

The taxpayers that use the Electronic Invoicing System of Panama are excluded from the presentation of this form since the system by means of the platform E-Tax 2.0 will do it automatically.

Capital Gain Tax

The real estate transactions has a special tax treatment related to the number of transactions performed by the seller, the special rules are described as follows:

1. If the sale and purchase of real estate is not within the ordinary course of business of the taxpayer, income tax will be calculated at a rate of 10% on the taxable income. In order to liquidate the tax, the taxpayer may choose between:
 - a) To file a sworn statement liquidating the total gain arising from the act accompanied by the documents supporting such disbursements duly established by the DGI by means of a motivated resolution, so that after this received, the tax will be paid according to the mentioned rate of 10%;
 - b) To pay in advance 3% using as a basis for its calculation the value of alienation or the

cadastral value of the property, whichever is higher, as an advance payment of income tax.

The taxpayer may choose to consider 3% of the total value of the alienation as the definitive income tax to be paid as gain. When the 3% is greater than the amount resulting from applying 10% of the gain obtained, the excess may be claimed in cash or as a credit.

The capital gain tax will be calculated based on the total price of the transaction or the cadastral value, whichever is the highest, applying the following rates, applicable only for first sale of homes and commercial constructions:

Value of new housing	Rate %
Up to B/.35,000.00	0.50
From B/.35,000.00 up to B/. 80,000.00	1.50
More tha B/.80,000.00	2.50
New commercial constructions	4.50

If the sale is of non-new housing or premises, they are subject to the rates established in articles 699 and 700 of the Tax Code.If at least one of the previous requirements is not met, the general regime would apply. An exemption of the Real Estate Transfer Tax (2%) established on article 1 of Law 106, 1974, applies on the first transfer of the real estate.

Real Estate Tax applies to the value of the land and all registered improvements which are not exempted

In case of the direct or indirect transfer of shares or securities from Panamanian source of income, the income tax is applied as follows:

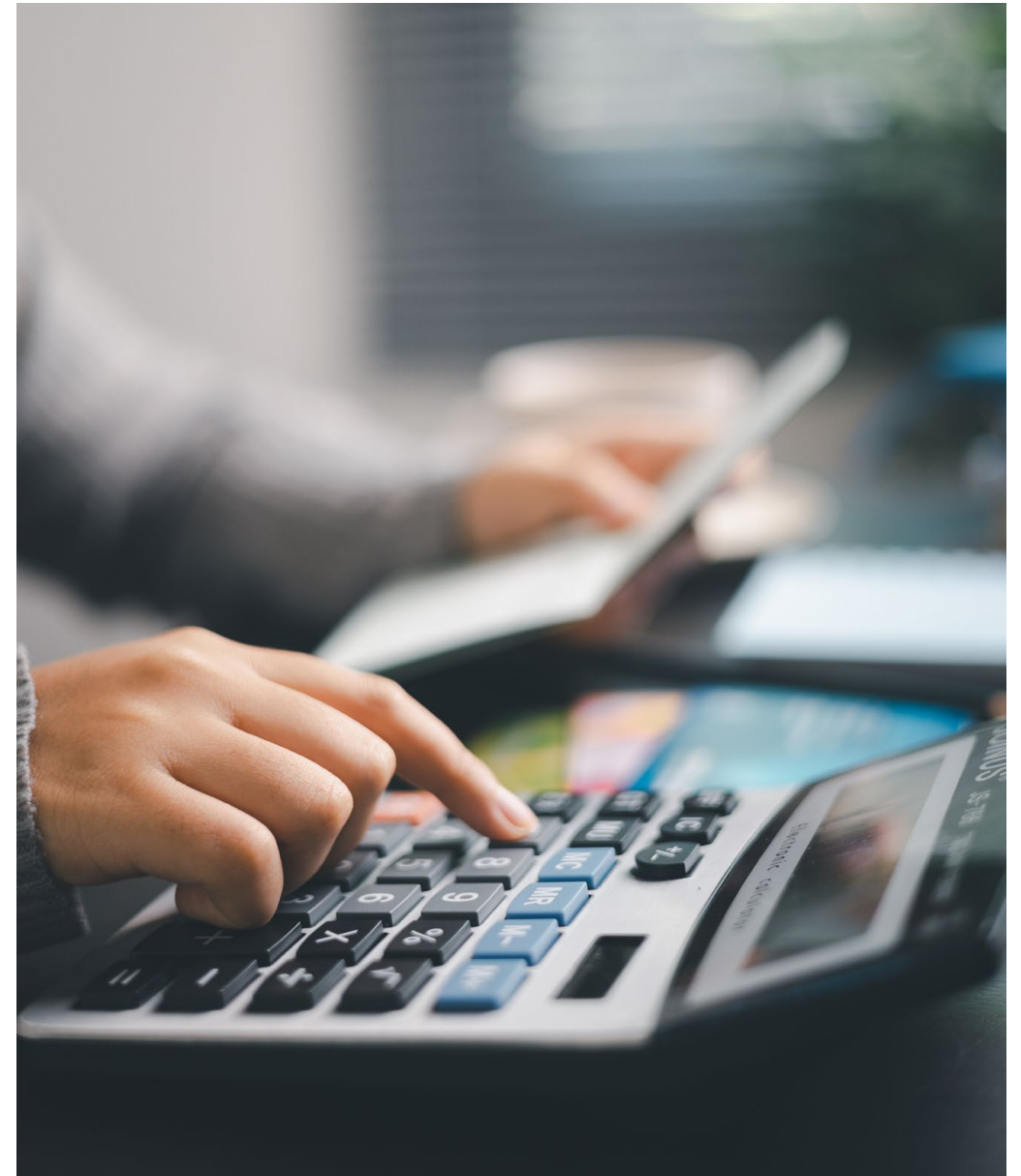
- a) The buyer must withhold a 5% over the total value of the transaction and submit it to the Tax Authority on behalf of the seller within the next 10 days after the transaction is performed.
- b) The seller may accept the withholding as final tax payment.
- c) If the seller didn't accept the withholding as a final tax payment, can apply the 10% rate over the capital gain and applying as a credit the amount of the withholding and file a tax return at the Tax Authority for overdue payments.
- d) In case of movable goods, the capital gain tax will be calculated at a 10% rate over the capital gain.

Real Estate Tax

Real Estate Tax applies to the value of the land and all registered improvements which are not exempted. From January 1st, 2019 is exempted from payment of the property tax, properties which base value, including improvements, does not exceed B/.120,000.00 and become family tax patrimony or main home, stating a new tax rates:

Value	Rate %
Up to B/.120,000.00	Exempt
From B/.120,000.00 up to B/.700,000.00	0.5
Over B/.700,000.00	0.7

Also, from January 1st, 2019 the combined progressive rate for commercial and industrial properties, other residences and land will be the following:



Value	%
Up to B/.30,000.00	Exempt
From B/.30,000.00 up to B/. 250,000.00	0.6
From B/.250,000.00 up to B/.500,000.00	0.8
Over B/.500,000.00	1.0

Corporate Deductions

All expenses necessary to generate income or to preserve the source of income are deductible with some minor limitations.

Ordinary repairs and improvements

These are deductible in a way that does not increase the useful life of assets.

Depreciation

The straight - line method and some accelerated methods are allowed, considering the useful life for movable property of 3 years and for immovable property 30 years.

% Straight – Line	
Category	Maximun years
Buildings	3 1/3
Machinery and equipment	33
Furniture and fixtures	33
Vehicles	33

Investment credit or allowance

Some special investment credits are in effect for electricity generating activities only.

Depletion

Depletion is deductible over the useful life of mine, depending on State Contract methodology.

Insurance premiums

Insurance premiums related with risks associated with taxable activities are deductible. In special cases, it is possible to contract insurance for entities located abroad (special risk).

Bad Debts

The balance sheet allows establishing reserves for bad debts with a limit of 1% of credit sales and a minimum of 10% of accounts receivable at the end of the fiscal year, or direct charge against earnings and losses when an account is declared bad.

The taxpayer can deduct the bad debts by choosing one of the following systems:

Charging annually to taxable income the amount of the account in the fiscal year;

Charging annually one percent (1%) of taxable income for the constitution of a reserve destined to contingencies.

Adopted the reserve system, the taxpayer can change it doing the necessary adjustment so that the imputation to the profit and losses can only be done when the

previously constituted reserve is over and notifying the Tax Authority of the change.

If the taxpayer opted for the system of constituting a reserve to do front to uncollectible, only can be deductible as a provision annual expense equivalent to one percent (1%) of the total credit sales or services performed in each fiscal year. At any moment the balance of the reserve can be more than ten percent (10%) of the balance commercial receivables at the end of the fiscal year.

Donations

Are deductible for the taxpayer the expenses and expenditures of donations in money or in species to:

- Central government entities, autonomous entities, semiautonomous and decentralized entities of the State, as well as municipality and community boards.
- Education or benefit institutions with non-commercial purposes, as long as they are recognized by the government and the Tax Authority. For corporations, deductions are limited to 1% of the annual taxable income, as established in Article 699 of the Tax Code. For individuals, the deduction is limited to B/ . 50,000.00per fiscal year.
- Political parties or candidates for popular election positions. Each taxpayer can deduct, in each fiscal period, up to B/ .10,000.00.
- The amounts paid to entities or associations with no commercial activity, as long as they are properly authorized to receive deductible donations by the Panama Tax Authority.

- Activities related to prevention of sexually transmitted diseases or human immunodeficiency virus (HIV), for the treatment or caring of the affected persons with HIV, up to B/.10,000.00 per fiscal year, according to Law No. 3, 2000. The donation should be received by the Ministry of Health and the taxpayer should prove the donation by a certificate granted by this entity.

Other entities established in the Law.

- When the donations are in species, for new goods, the value will be according to the invoice. In case of used goods, the value will be the acquisition value less accumulated depreciation.
- The donations in the time and exposure in social media and the services granted to individuals or entities mentioned above, are deductible for the value of the service if it was registered, invoiced and declared income by the taxpayer.

Net operating losses

Net operating losses incurred by taxpayers may be deducted from the taxable profits within the next five (5) years at a 20% rent for each year, but limited to 50% of taxable income for each year.

Withholding tax (WHT)

Payments made by taxpayers for certain concepts should apply the following WHT rates:

Recipient	Dividends %	Interest %	Royalties and services %
Foreign entities	5, 10, 20	12.5	12.5

For dividends, the withholding should apply nevertheless that the beneficiary is a foreign or a domiciled entity.

For royalties and services, the withholding tax will be applicable as long as the payment is considered as a deductible expense for corporate income tax purposes. Nevertheless, Law 27 May, 2015, established that companies which are in a loss position, must apply the withholding tax regardless of the fact that the expenses was not considered deductible.

Setup expenses

Expenses arising from initial operations can be amortized over 5 years or charged against profits and losses in the first year.

Interest, service fees and royalties

In the case of royalties and services, withholding applies as long as the payment is considered a deductible expense in the affidavit of income tax. However, by Law 27 of May 4, 2015, companies that are in a loss position are required to make the retention whether the expense is not considered as deductible.

Tax Incentives

Inward Investment

Investment in industries, agroindustry, marine resources transformation, industries dedicated to extracting and transforming raw agricultural and forestry materials may get industrial promotion certificates which allow crediting the investment against taxes such as income tax, but limitation of depreciation of referred assets.

Accelerated depreciation

According to tax law, a taxpayer can apply accelerated depreciation depending on the use of the assets without any authorization from the Tax Authorities, but will be limited to minimum useful life period described by law.

Tourism, industry and agriculture allowances

Tourism development: The Law for Tourism Development grants several incentives

Tax is paid via income tax return, and must be made no longer than 3 months after closing of the corresponding accounting period (with no possible extension).

and tax benefits, such as exemption from import duties on certain tourism service related goods for companies dedicated to tourism, but only for those corporations with a signed tourism agreement with the Tourism Authority. In some special cases, income tax exemptions apply.

Income related to forestry activities is totally exempt from income tax if the final disposition of the plantations derived from property are registered in the Forestry Registry of the Environmental National Authority from 2017 within the next 20 years.

Corporate Tax Compliance

Returns

Tax returns must be filed no later than 90 days after the end of the fiscal year. It is possible to request an extension for the filing, which rarely is denied. The extension for filing is one additional month. Tax authorities can perform audits under two timetables:

- a) If the taxpayer filed the return on time, it can be audited for up to 3 years for income tax and 5 years for VAT.
- b) If the tax return was not filed on time, it can be audited for up to seven years.

Tax Payment

Tax is paid via income tax return, and must be made no longer than 3 months after closing of the corresponding accounting period (with no possible extension).

The tax can be paid in one payment or in three equal payments, in which case the payments should be done up to June 30th (first payment), September 30th (second payment), and December 31st (third payment). In addition, the taxpayer should pay the estimated income tax.

The taxpayer can request to the Tax Authority a special fiscal period of 12 months, different than calendar year, to comply with their tax obligations.



Individual Taxation Summary

Taxable income produced from any source within the territory of Panama, regardless of where it is received, is subject to income tax. Income tax is levied only upon net income derived from operations within Panama, by individuals and corporations, except those considered non taxable or exempt by law, in accordance with the corporate and personal income tax rates.

In this sense, income derived from activities performed outside Panama is not considered taxable, although it may be subject to dividend tax.

The term “resident” refers to a person physically located and generating income in Panama for more than 183 days, continuous or cumulative in the same fiscal year. Likewise, “non- resident” refers to a person located in Panama and generating income for less than 183 continuous days or cumulative in the same fiscal year.

Gross income

Broadly, the entire remuneration for personal services rendered in Panama is subject to income tax. There are two different ways to calculate the income tax. When the person is an employee, the employer is responsible for withholding the corresponding taxes according to progressive rates. When the person is an independent contractor, a person with more than one job or an employee who has different types of income, distinct from this employment, an annual income tax return must be filed.

Panamanian law establishes that when the taxpayer has only one source of income related to his employment; he/she must not file an annual income tax return.

Current deductions/credits

Resident taxpayers will be subject to the normal tax rates on their net income arising from Panamanian sources. Panamanian legislation allows the following personal allowances and deductions to be deducted from resident taxpayer’s taxable income:

- Married couple filing jointly the tax return are entitled to an annual deduction of B/.800.00.

- Interest paid on mortgage loans for home improvements on residences located in Panama up to B/.15,000.00 per year.
- Interest paid for educational loans.
- Medical expenses incurred on the taxpayer’s behalf or for his/her dependents within the Republic of Panama. It will be necessary to prove through invoices or other documentation the expenses incurred, including the hospitalization and medical attention insurance premiums.
- Donations to local educational and charitable institutions authorized by the tax administration to receive such donations up to the amount of B/.50,000.00 per year.
- Education expenses related to dependents under age, up to US\$3,600.00 per dependent, per year. In addition, the deduction could be applied if the taxpayer assume its own education expenses.

Individual Tax Compliance

Returns

If a taxpayer receives income only from employment, he may choose whether or not to file an annual income tax return.

A foreign individual will be required to submit a tax return if he stays in the Republic of Panama for more than 183 days in the fiscal year, if the employee receives as part of compensation benefits in kind or if he/ she is employed by a foreign firm which has a permanent establishment in the Republic of Panama. The tax returns must be filed by March 15th following the end of the fiscal year in which the income is earned.

Tax payment

If tax payment is required, it must be made by March 31st at the latest, in order to avoid interest charges. These payments must be submitted to a specific bank with a special slip indicating that payment of taxes was made. If taxpayers request an extension, it will be granted only for filing and not for payment. Overdue payment will trigger interest charges (11% annual average rate).

Current tax rates

If taxable income is:	Taxes payable will be:
Up to B/. 11,000.00	0%
More than B/.11,000.00 up to B/.50,000.00	15% rate on amounts exceeding B/.11,000.00 up to B/.50,000.00
More than B/.50,000.00	B/. 5,850.00 for the first B/.50,000.00 and an applicable rate of 25% on amounts exceeding B/.50,000.00

Special tax rates for representation allowances

If taxable income is:	Taxes payable will be:
Up to B/.25,000.00	10%
More than B/.25,000.00	B/.2,500.00 for the first B/.25,000.00 and a rate of 15% on amounts exceeding B/.25,000.00.

Transfer Pricing

Transfer Pricing regulations in the Republic of Panama date back to 2010, and has theoretical and technical basis in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (“OECD Guidelines”).

Law 33 of 2010 includes the arm’s length principle. In this sense, operations carried out by taxpayers with their related parties should be determined considering the price or amount that would have been agreed by independent parties under the same circumstances in arm’s length conditions.

Law 33 of 2010 originally established that operations carried out with related parties of countries that have Treaties or Agreements that attempt to avoid Double International Taxation with the Republic of Panama, should be object of the aforementioned Law (this concept was later changed by Law 52 of 2012). Additionally, this Law established the formal requirement for the preparation of a Transfer Pricing Study. However, the taxpayer should only present the Study in

case the Panamanian Tax Authority requires it, within forty five (45) working days, starting the day after the notification.

This Law establishes that Tax Authorities are allowed to fine those taxpayers that fail to present the Transfer Pricing Informative Statement or any required documents before the deadline; fines ranging from B/. 1,000 to B/. 5,000 will be applied for the first time, from B/. 5,000 to B/. 10,000 in case of recurrence and the closure of the establishment for 2 to 15 days in case of non compliance.

Through Law 52 of 2012, the scope of application of the Transfer Pricing obligations is extended to all the transactions carried out with foreign related parties, in case these operations have effect in determining the tax base. At the same time, this Law establishes the obligation of the presentation of an annual Transfer Pricing Informative Statement (“Form 930”) , which should include all the operations carried out with foreign related parties during the fiscal year under analysis. This report should be presented six months after the fiscal year has ended and the amount of the transactions must be informed in Balboas. Failure to submit or late submission of this Form will be penalized with a fine equivalent to 1% of the total sum of operations carried out with foreign related parties. For the calculation of this fine, the gross sum of the operations will be considered, independently of their nature (revenues, costs or expenses). Law 114 of 2013 established that the fine aforementioned will never exceed one million Balboas (B/. 1,000,000).

Executive Decree 958 of 2013 regulates how the operations have to be analyzed by the taxpayer. Due to the practical implementation of the transfer pricing regime, experience has shown that it is necessary to update the same applicable regulations to make the control of taxpayers’ operations with their related parties abroad more efficient and effective, with a view to promoting a relationship of trust between Taxman-Taxpayer. Therefore, Executive Decree No. 390 of October 24, 2016 is published, which regulates Arm’s Length principle. Based on this Decree, the content of the Study is extended, given that the required information of the Group and the taxpayer has become more specific.

This transfer pricing regime will also apply to any operation that a company that holds a Multinational Company Headquarters License performs with related parties

that are established in the Republic of Panama or that are tax residents with other jurisdictions or that are established in the Colon Free Zone, or operating in the Oil Free Zone under Cabinet Decree 36 of 2003, Panama-Pacific Special Economic Area, Headquarters of Multinational Companies, City of Knowledge or in any other free zones or in an area special established or believed in the future. The aforementioned persons are obliged to comply with the provisions of this article regarding operations carried out as of fiscal 2019.

Equally, through Official Gazette No. 28684-B of December 27, 2018, Law No. 69 of December 26, 2018 was enacted, which establishes the method to calculate the income subject to a preferential tax exemption or treatment by transfer or exploitation of intangible assets.

Finally, Executive Decree No. 46 of May 27 establishes the obligation to annually submit the Country-by-Country Report to any Last Parent Company of a Multinational Group that has consolidated revenues of more than seven hundred and fifty million euros (€ 750,000,000) or its equivalent in balboas to the exchange rate as of January 2015 in a fiscal period and which resides for tax purposes in Panama. On the other hand, Executive Decree NO. 46 defines the Last Parent Company as the member entity or belonging to a Multinational Group.

It should be noted that the first Country-by-Country Report will be enforceable with respect to the 2018 fiscal period and must be submitted within twelve (12) months following the closing date of the corresponding fiscal period.

International Taxation

The Republic of Panama, through the reform carried out in 2012, established the rules for the application of double taxation for treaties signed by the Republic of Panama. This reform included the adoption of the terms tax resident, permanent establishment, certificate of Tax Residence and application of benefits of Double Taxation Treaties.

Up to date, Panama has a network of double taxation treaties covering 17 treaties with the following countries: Mexico, Barbados, Qatar, Spain, Luxembourg, the Netherlands, Singapore, France, Italy, Korea, Portugal, Ireland, Czech Republic, United Arab Emirates, United Kingdom, Israel and Vietnam.

In addition to these countries, Panama has negotiated Information Exchange Agreements with the United States, Iceland, Canada, Finland, Sweden, Greenland, the Faroe Islands, Denmark, Japan and Norway.

The use of benefits contained in the Double Taxation Treaties need a previous notification of the use of the treaty benefits submitted at the Tax Authority, which include among other documents the tax residency certificate. The Tax Authority reserves the right to accept the request or perform additional research in the process of acceptance of the use of the benefits.

The BEPS Multilateral Instrument, also known by its acronym in English as “MLI”, came into force on March 1, 2021 in Panama, with which the CDI network is modified with respect to the preamble, the adoption of the Principal Purpose Test or PPT and adjustments to the Mutual Friendly Procedures.

US Foreign Account Tax Compliance Act (FATCA)

Panama signed the Model 1 Intergovernmental Agreement (IGA) for FATCA purposes with the US Treasury in order for Panamanian Banks to subscribe to the terms of FATCA. For this purpose, was created Law 51 of 2016 and Executive Decree 124 of 2017 that complement the IGA and establish the procedures and deadlines for the financial institutions obliged to perform the due diligence and send the reports to the Tax Authority.

In 2016, Panama was committed to automatically exchange information starting 2018, according to the Common Reporting Standards (CRS). Same as the IGA-FATCA, the CRS also includes the automatic information exchange of financial information for tax purposes, based on the agreements signed by the Tax Authority (DGI) and the CMs.

To date, Panama is a signatory of important agreements on information exchange, including the Mutual Administrative Assistance in Tax Matters (MAC) and the Multilateral Competent Authority Agreement (MCAA). At the same time it has adopted a series of internal measures to facilitate the execution of the referred treaties.



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